Impact of Information Technology on Profitability of Commercial Banks of Pakistan

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Abstract

Information technology has emerged as the core of the banking business, and the financial sector is the center of any growing economy. The impact of globalization, competitiveness, and development in the banking business by its suppliers to supply their services necessitates an awareness of how many components of consumption patterns affect customer experience and customer delivery of services. In this regard, this work considered a critical literature analysis of previous studies with the goal of investigating the impact of information technology on the profitability of commercial banks in Pakistan. A quantitative approach has been used in order to collect the data using both Primary and Secondary Analysis. Secondary Analysis consist of IT expenses and its Profitability of 5 different Banks in Pakistan. The data was further analyzed and statistically studied with the help of SPSS (Statistical Package for Social Sciences) frequency table, diagram, hierarchy and chart are incorporated for better understanding of the result. The results showed that there was a significant relationship of IT with Banks Performance.

Keywords: Information Technology, Banking sector, Profitability, Financial Sector.

Impact of Information Technology on the Profitability of Commercial Banks in Pakistan.

The monetary sector of every nation serves as a stimulus for productive work in order to assure development and growth. The Pakistani banking industry is without a question the much more significant in the country's systems of government, as it provides the essential oil that maintains the economy's engine going and serves as a motor for socioeconomic development.

The relationship between technical innovation and progress and protracted productivity expansion has now been widely recognized. It is crucial for emerging economy like Pakistan to establish strong foundations for expanding their ability to consume & produce technologies and information in the context of an international knowledge economic growth is driven by the rapid rate of technological development.

The industry of financial services has experienced stiff competition as a result of globalization. The banking firms typically perform at their peak levels as a result of this pressure. Companies must have the ability to react quickly to unique products of frequently changing market if they want to compete effectively. Well how much rising customer's expectations is a significant concern. Particularly, the commercial banking sector has undergone a thorough transformation. The local branch used to be the representation of retail banking. Customers' accessibility to the bank's financial products was typically restricted to the times when the office was available, as well as the bank's activities and offerings were relatively limited in number. As the primary location for customers to do most of their monetary operations, the local branch served as the bank's main point of contact (Ehikhamenor, 2003).

Nonetheless, there is not enough study on the effects of IT on Banks' efficiency (Furst et al., 2002) did a thorough investigation to see if there was a link between providing digital transactions and bank’s profit. IT was among the main factors that affected banks' cash flow during the course of the study. According to Haq (2005) Banks' survival is reliant on their capacity to gain economies of scale in minimizing informational asymmetries among lenders and savers. One of the main challenges confronting the financial sector present is really how IT has enabled banks to maintain scale savings while transforming from traditional physical financial services into internet banking.

Literature review:

Among the most, is indeed the crucial aspects of study is review of literature. It evaluates preliminary studies, the job of other scientists, firm findings, papers, etc. that are intrinsically related to the ground. The review of the literature which are broken up in to components, connected to others. The influence of information technology on bank’s profitability on theis covered in the review of the literature that follows.

Efficiency in information management (IM) or telecommunication had also long been a topic of discussion in academic and business world. IT financing has surged to 25 times what that was 3decades ago, according to data from as well as the National Revenue Item Acct Labor statistics.

Productivity growth did not go up throughout this time. The rate of growth of employment levels fell from just a peak of 2.68%/year in the 1960s drop of 1.03% in the early nineties. The "Information technology efficiency dilemma" refers to this occurrence. According to Shepard, between 25 and 30 percent of industrial prosperity is attributed to digital technologies. It increases output, lowers expenses, decreases inventory, and streamlines online shopping. Information from 1960s Department Of labor of indicate that the overall that economic output annual growth fell 2.68% in 1.26% in 1980s, but it rebounded 1.46% in 1990s up 1998. This suggests was sluggish 1990s, there's many indications of a resurgence. However, there is little proof that IT is to blame for the current reverse in productivity gains. Providing a precise approach for measuring IT productive capacity seems to be the only way to demonstrate that it significantly improves productive capacity.

Although significant studies have been done there at company or socioeconomic stages, the writer has still not come across many academic papers that examine a given industry. Whereas prior research examined IT efficiency in the industrial business using information from the 1980s, this article examines IT efficiency in the financial sector and use more contemporary data. This research looked at, (Shu& Strassmann, 2005) Utilize a private set of data acquired by 12 US institutions. The IT statistics was understood to encompass from bank CIOs as part of management services analyzing their IT performance. Author used the IT expenditures of a bank's central organizations as a realistic estimate for IT expenditure since this information is not publicly disclosed. The information is more reliable than data gathered through phone or telegraph questionnaires.

This is a significant departure from past IT performance file a report on1980s data. Despite several studies demonstrating high IT effectiveness, the dilemma cannot be resolved without the need for a favorable future in the hospitality industry. Although 1980 statistics do not demonstrate high IT production in the financial business, this research suggests that information technology is the sole factor with a significant marginal value, and its profitability is significantly higher.

IT infrastructure, communications systems, as well as programming are all part of IT. As a result, extending IT like have resulted in tremendous shifts in economic processes, structure of society, and organizations.

The paper proposes an IT assuming dilution that assesses the proportion of information technology in the intake of areas of the economy by employing the Tunisian country's economic Input-Output Ratio (IOT). The creation of an IT indices seeks to address the incapacity of exposure data to replicate true IT connectivity inside the business. This information is also especially incapable of reproducing the diversity of IT growth across areas of the economy.

(Kallal et al., 2021) had devised a new approach for evaluating the effects of IT proliferation over several areas of the Tunisian sector. The effort is the creation of an index that use the IOT. The writer next presented the topic about whether Tunisia gets greater information technology access.

Considering the Tunisian president's initiatives to encourage the use and spread of information technology, it remains in its adolescence. The poor utilization can be attributed to an inadequate training, the large price of IT learning, a shortage of resources, and an insufficient infrastructure. The lower value of IT spread in emerging nations, in contrast hand, has a detrimental effect on economic growth. Poor efficiency, underinvestment, limited commerce of IT items and services, as well as a negligible input to employment generation account for the majority of all this effect. In respect of IT adoption & spread, developing nations remain far after prosperous nations.

The research that started the construction of model of endogenous growth in the 1980s of (Romer, 1993) and (Lucas, 1988), has prompted a lot of academic evidence into the organic elements that influence wealth creation. A common refrain in such research is the notion that human money creation serves as the "primary engine of economic growth." (Lucas, 1993). Ever since mid-1990s, the IT revolution has spread swiftly throughout countries, transforming the way individuals interact, study, and enjoy. (Vu, 2011) via both conceptual and empirical analyses, investigates the premise of IT saturation has a favorable impact on the economy's growth. The report offers three conceptual justifications for establishing this conclusion. The proof of IT's significance as a source for growth suggests several policy consequences. To begin, all governments must place a greater superior productivity on expanding IT adoption as a key growth driver. Such development must not only concentrate on upgrading IT infrastructure and lowering IT expenses, as well as enhancing the long-term benefits of ICT adoption on development. According to the findings from this study, the negligible effect of IT saturation is greater if it is low, particularly again for smartphone and the Internet. Moreover, as mentioned by (Wong, 2002), The difference in IT adoption strength between nations is greater than the difference in level of income. As a result, getting to grips on IT saturation must be a key goal for just any nation seeking to advance industrial prosperity.

The worldwide Technology sector is massive and continuously expanding. Technology investment is especially important in today's globalized economy, in which the total production of computer peripherals, optoelectronics, and circuit boards has overtaken that of the auto industry as such biggest construction sector. The study is estimated by means about an international relation collective production system that connects Economic production to both IT and non-IT sources utilizing information

from 36 countries during 1985 to 1993. The study examines significant concerns which can only be handled with available data, and it supplements previous research on technology and performance.

IT's "production conundrum" is obviously a global phenomenon (Dewan & Kraemer, 1998), Despite that, the majority of past studies on the topic has been limited to information onlyfrom the biggest companies. (Dewan & Kraemer, 2000) is capable of extending proof of good IT results to a diverse group of wealthy economies, including the U.S. Depending on the state of industrial prosperity, the findings have varying political consequences for IT expenditures.

The findings for industrialized nations are in line with the theory that all these nations have indeed erected a matured inventory of conventional property to sustain business growth, and hence the total output of additional non-IT investment capital is modest. In comparison, the data show that there is a lot of space for profitable IT expenditure to reap considerable margin gains. It's indeed important to note, though, that perhaps the anticipated profits represent not only IT big investments, but also additional aspects that are associated with IT expenditure.

Corporations keep investing massive sums of money in machines and related technology, probably with the expectation of a large reward. Nonetheless, a number of research studies provide mixed information concerning whether these potential advantages have realized (Brynjolfsson, 1993). The concept of manufacturing technique has now been widely utilized since over 60 years to assess the efficiency of diverse business resources including such equipment, labor, and Capital investments (Beach & Berndt, 1993). This has lately been applied to evaluate IT expenditures. According to the idea, enterprises have a mechanism for changing input data to product, which is expressed by a production system.

As (Porter, 1985) had stressed that enterprises never make permanent barrier earnings in a market place with unrestricted access since this would stimulate more businesses to participate and decrease prices. However, an immensely lucrative chance may exist in the near term, medium to long term retained earnings will be insufficient to cover the expense of equipment and reward the proprietors for any distinctive contributions to manufacturing (– for example, managerial skills) that it gives. As a result, if a company has exclusive access to the information technology, that business might be able to earn more from such expertise. There isn't any evidence to suggest that a company that spends less (or even less) on information technology than its rivals will still have better pay. Rather, all companies will employ the quantity of technology they believe is ideal in stability, but nobody will acquire an advantage in terms of competition. This would be congruent with (Clemons, 1991) claim that information technology has evolved into a "crucial source," but not a source of competitive edge.

Equally important, (Hitt & Brynjolfsson, 1996) divided the topic of IT worth in 3 directions: the impact of technology on production, profitability of a company, and income effect. The exploratory study proved that the value of IT, as with any dimensional item, might seem differently based on the perspective point selected. Whereas the author made the discovery that IT may boost efficiency and producer surplus without necessarily resulting in barrier corporate profitability, study also revealed that there was no obvious contradiction in the premise that information technology could produce worth yet destroying earnings.

Research Methodology:

All elements must include the fundamental ideas outlined in this chapter. The researcher has used the scientific method to collect the data and information. In the research methodology the researcher had used such techniques that helped in data collection, presentation, tabulation and analytical techniques to be used in the literature review.

Problem Statement:

Human resource is a valuable as well as efficient resource asset which is far from remaining stagnant. Every person is a decision maker, a continuous thinker, as well as a component of a team in addition to being a docile employee. Every enhancement in employment conditions that increases folk's ability to gain knowledge, training efficiency, and effective communication substantially expands the pool of available intellectual capital and improves utilization of IT. Therefore, these kinds of changes ought to have a favorable influence on the country's expansion. Quah (2002), asserts also that Information And technology (IT) boom is driving improvements in skills of the workforce, customer awareness, and a greater rate of education in general by placing an emphasis on supply rather than demand. It stimulates the economy one manner or the other" by promoting increased process which allows and increasing labor efficiency (Quah, 2002, p. 22).

E - banking in Pakistan has emerged as a key tool for gaining improved efficacy, direct management, productivity gains. reduced costs through substituting paper-based labor-intensive procedures to process automation, that results significant. Nonetheless, experimentalists had also generated slight evidence of such implied modifications to yet. Nonetheless, latest empirical evidence indicates that e - banking profitability, has less independent influence on however this research could alter just like Web utilization expands.

Over several decades, the attendant of technical creation has been a metamorphosis in the functional dimension of banks. Information technology has caused a paradigm shift in banking operations, with banks embracing information

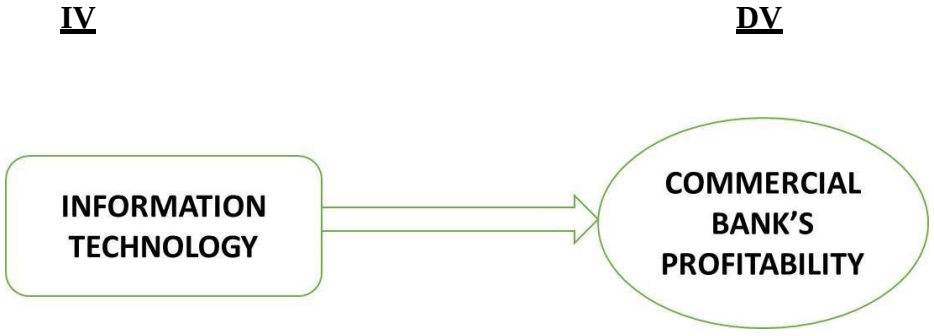
technology to improve the effective and expanded delivery of a wide range of value-added products and services. However, the fact that e-banking is rapidly gaining acceptability in the Pakistani banking sector does not necessarily imply improved bank performance, nor does the obvious use of the internet as a delivery channel make it economically practical, productive, or profitable. To the best of the experimenter's knowledge, there is little empirical evidence on the effect of electronic banking on the profitability of Pakistan's marketable banks. This research attempted to address questionnaire being exploratory disparity through completing a questionnaire Could e - banking have an impact on Pakistan's profit in banking market?

The financial sector, that serves as a mechanism for adjusting cash flow possible route for growth of the economy, dominates the Pakistani banking markets. As just a result, within in the effectiveness of billing system scheme and, naturally, how simple it is for transfers to be completed are crucial to its efficient operation and cashflow. To help the digital payment system reach the projected dynamism, more reserves were introduced. The achievement and bank profitability of retail banks are anticipated to improve as the financial services industry in Pakistan to adopt e - banking.

Hypothesis:

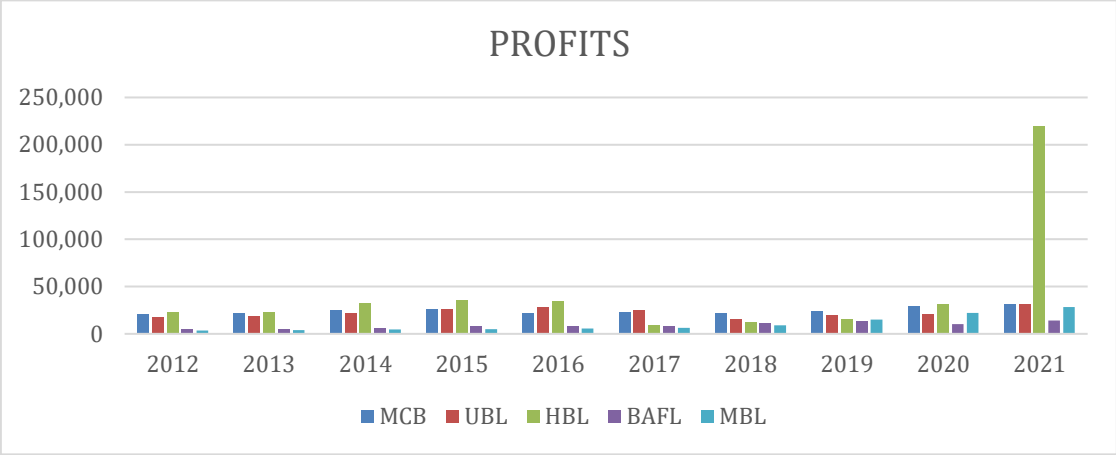
H1: Information Technology has a significant impact on profitability of Commercial banks in Pakistan.

Conceptual Model:



Over view of industry (Secondary Analysis):

The ten-year record of five major commercial banks in Pakistan showed significant peaks and troughs in profit, with considerable investment in information systems that will continue to strengthen its workers' talents as well as enable them to give the highest services to consumers. From 2012 till 2021 major advancement has been made in all below 5 banks from brick and motor till fully or partially Automated and enhancement of IT scope from head offices to regional offices.



Primary Analysis:

To evaluate the conceptual model and the suggested study hypotheses, an online questionnaire was constructed, a technique for obtaining information from large geographic location, contacting large number of people, as well as acquiring scientifically valid data. A structured and standardized questionnaire was used to design the questionnaire along with Interview. 50 Employees who have observed Significant impact of IT that contributed towards the Profit of Bank are included in the sample of the study.

SPSS version 19.0 was used to perform some of the preliminary analysis, data screening prior model estimation and analysis. The gender representation in the sample is reasonably balanced, with 66.3% males and 33.7% females. Majority of the respondents were quite healthy young people aged 20 to 29.

Descriptive Profile Analysis:

Reliability Analysis

Reliability refers to the extent to which the scale produces consistent results, if there is an existence of more than one way to measure a given variable. If the association in the reliability analysis is higher than 0.60 then the scale yields the consistent results and is therefore acceptable. The reliability analysis is constructed with the help of Cronbach's Alpha. The higher the value of Alpha the more reliable.

Reliability Statistics

Cronbach's Alpha	Cronbachch's Alpha Based on Standardized Items	N of Items
.814	.814	6

Reliability analysis of the items in profitability

The alpha coefficient in the table 0.814 suggests that the items in the dependent variableprofitability are reliable.

Reliability Statistics

Cronbachch's Alpha	Cronbachch's Alpha Based on Standardized Items	N of Items
.792	.793	10

Reliability analysis of the items in IT Expense

The alpha coefficient in the table 0.793 suggests that the items in the independentvariable IT Expense are reliable.

Analysis of research objective 1

To determine whether a relation exists between independent variables that are IT Expense anddependent variable that is Profitability. The research objective was then interpreted in the form of null hypothesis and alternate hypothesis.

The null hypothesis is as follows:

HO1: Information Technology has no significant impact on profitability of commercialbanks in Pakistan.

The alternate hypothesis:

HA1: Information Technology has a significant impact on profitability of commercial banks in Pakistan.

Empirical tests have been individually conducted for independent variables that are IT Expense in relation to the dependent variable that is Profitability with the help of Pearson's' Bivariate Correlation.

Correlations

		meanp	mean IT
Mean p	Pearson Correlation	1	.417**
	Sig. (2-tailed)		.000
	N	100	100
mean IT	Pearson Correlation	.417**	1
	Sig. (2-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

Table of Correlation

Pearson's Bivariate Correlation was used to find whether relation between independent and dependent variables exist. The Pearson Correlation value of between -1 and 1 justifies the existence of relation among the variable and the value beyond this range represents that no relation exist. Since all the values are in range presenting 1, and 0.417 and -0.210 IT Expense mean respectively, thus it shows that relation between independent variables and dependent variable exists.

Analysis of research objective 2

We will use linear regression analysis in order to analyze the second objective of our study in which we aim to find out the impact of independent variables on dependent variable. The second research objective is:

To investigate whether variables such as Information Technology have negative or positive impact on Profitability of Commercial Banks in Pakistan.

The null hypothesis is as follows:

HO1: Information Technology has no significant impact on profitability of commercial banks in Pakistan.

The alternate hypothesis:

HA1: Information Technology has a significant impact on profitability of commercial banks in Pakistan. We used SPSS to analyze linear regression.

Model Summary

model	R	R Square	Adjustedd R Square	Std.Error of the Estimate
	.4.117[a]74	.166		.55782

a. Predictors: (Constant), mean IT

Model Summary IT Expense:

The above table. i.e. table no, shows the model summary and overall fit statistics. We find that the adjusted R2 of ourmodel is 0.166 with the R2 = 0.166 that means that the line regression explains 16.6% of the variance in the data of IT

Expense.

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.422	1	6.422	20.639	.000[b]
Residual	30.494	98	.311		
Total	36.917	99			

ANOVA Analysis IT Expense:

The strength and weakness depend on the significance value. Significance value should be less than 0.05, Sig. =0.000, the test is highly significant, thus we can assume that there is a linear relationship between IT Expense and profitability.

A significance value of less than 0.05 indicates that the alternative hypothesis should be accepted, and null hypothesis should be rejected and vice versa. The significance value IT Expense is 0.00, which means null hypothesis is rejected and alternated hypothesis is accepted thus, IT Expense is significantly related to Profitability.

Hypothesis Assessment Summary

The acceptance or rejection of the hypothesis is based on the significance value of each variable in the coefficient table. The significance value being less than 0.05 which mean alternate hypothesis has been accepted and null hypothesis has

been rejected and significance value being greater than 0.05 indicates that null hypothesis has been accepted and alternate hypothesis has been rejected.

Variable	Hypothesis	Statement	Summary
IT Expense	HO1	Information Technology has no significant impact on profitability of commercial banks in Pakistan	REJECTED
	H1	Information Technology has a significantimpact on profitability of commercial banks in Pakistan	ACCEPTED

Interview Analysis:

Interview was conducted with Saad Malik, Manager of DATA ANALYTICS at SILKBANK and according to him IT makes a business more efficient, effective and promptly responded to customers' needs. With improved efficiencies, increased staff productivity, reduced risk, and higher customer satisfaction, IT service helps take organizations from functional to exceptional. One of the advantages of IT is that it reduces the operational costs e.g. low costs of labor being eroded with falling costs of automation. Nowadays, virtual meetings save you time and money and are now the preferred method of communication. Reducing paper use causes saving on printing costs as key documents are now mainly on Google Drive.

While discussing about PANDEMIC he said, During COVID, digitization enabled contactless banking in times of physical distancing, and offered bank employees the possibility to work remotely. It is not only confined to the banking industry, of course. But it has already left a strong imprint on banks, and all signs point to even more sweeping changes ahead. This pandemic has highlighted the fundamental role that digital infrastructure plays in the rapid delivery of services by banks and other financial institutions. Globally, 76% of adults worldwide have a bank account today, compared to 51% adecade ago. He continued by saying Digital banking is certainly revolutionizing the way many people access and manage their money but he believes it's unlikely to eliminate the need for brick and mortar banks for the immediate future. He believes that if one on one customer experience is important for you, then a brick-and-mortar account is a better option for you. On the other hand, if you prefer high interest rates and low cost then a digital account is the better choice.

Conclusion:

The financial industry, which is the foundation of any industry, is facing a number of issues, including globalization, liberalization, competitiveness, and significantly high costs of Technology maintenance and setup. Because of the possibility of IT impacts that occur as a consequence of consistently strong pool of qualified labor, problems of growing demands to satisfy customer needs for quality-of-service delivery, truthfulness of the information management, and competing in financial institutions, the impact on profitability remains uncertain. The information was obtained from both primary and secondary sources. In secondary sources, research was conducted on how 5 different banks have increased their Profit with the increase in their Technology Innovation for last 10 years. While Primary Analysis was conducted using Questionnaire filled by 50 respondents and Interview Analysis. Our research shows that improving IT in the financial sector is a necessaryin a quickly changing market, like the IT revolution has paved the way for an unprecedented surge in financial activity aroundthe globe.

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Appendix

Questionnaire and Interview Question

#	STATEMENTS	RATING				
IMPACTT OF INFORMATION TECHNOLOGY ON ORGANIZATION's PROFITABLITY.						
1.	Banks processes are more efficient, tasks are performed more quickly.	SA	A	N	D	SD
2.	Short term targets are more achievable.	SA	A	N	D	SD
3.	Operational cost have decreased since the adoption of IT.	SA	A	N	D	SD
4.	Communication within the organization has improved.	SA	A	N	D	SD
5.	Customer base has increased.	SA	A	N	D	SD
6.	Banks quality of service has improved due to IT implementation.	SA	A	N	D	SD

#	STATEMENTS	RATING				
PERCIEVED CRITICAL BARRIER IN THE ADOPTION OF INFORMATION TECHNOLOGY IN THE ORGANIZATION.						
1.	Lack of awareness about the benefits of IT.	SA	A	N	D	SD
2.	Employee IT skills is too low.	SA	A	N	D	SD
3.	No source of reliable and vender-independent information.	SA	A	N	D	SD
4.	Resistance to change within our organization.	SA	A	N	D	SD
5.	Security concerns.	SA	A	N	D	SD
6.	Unreliable service providers.	SA	A	N	D	SD

#	STATEMENTS	RATING				
EVALUATION OF INFORMATION TECHNOLOGY ADOPTION IN THE ORGANIZATION.						
1.	The organization evaluates it through feedback and recommendations.	SA	A	N	D	SD
2.	The organization has set up a committee that assesses and evaluates IT needs.	SA	A	N	D	SD
3.	Adequate standards for evaluating IT implementation.	SA	A	N	D	SD
4.	Evaluated conduct throughout the Duration.	SA	A	N	D	SD

S.N	INTERVIEW QUESTIONS:
1	Banks are shaping the future through a paradigm shift towards a Technology Company with a Banking License. The Bank's commitment to serving its clients with a superior banking experience is underpinned by digitization and innovation of its services. How true is this statement for you?
2	A strong shift in customer transaction behavior towards digital modes during the pandemic, how does this change in technology infrastructure played a pivotal role in supporting growing portfolio of products and services of banks?
3	For the first time in Pakistan's history, NRPs (Non- Resident Pakistanis) are being provided an opportunity to remotely open an account in Pakistan through an entirely digital and online process without any need to visit a bank branch. How does this initiative effects banks profitability?
4	IT has shifted from being a resource barely employed in business to the on of extreme importance which businesses invest in to gain competitive advantage. What do you think are the main driver behind this shift?
5	As compare to IT expenses do you think operational cost have decreased since the adoption of IT in banks?
6	In your opinion, will IT replace brick and motor banks into digital banking solution? As digitization is providing ease of doing business and helps in better customer service?