"The Impact of Information Technology Investments on Financial Performance of Jordanian Banking Sector"

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Abstract


The main objective of this study is to examine the relationship between information technology and financial performance by estimating the contribution of information technology (IT) investment to banks performance measured by financial ratios, in the same year of investment, the second year to the investment (one-year lag), and the third year (two-year lag). Survey had been implemented to collect data for a sample consists of 14 Jordanian banks, for five years (1997-2001). Multiple regression models had been developed to examine the relationships under study.

This study results indicates no relationship between accumulated IT capital and banks' profitability measures in the same year of investment or the second year, or the third year. However, accumulated IT capital had significant negative relationships with strategic performance measures in the same year. While in the following two years accumulated IT capital had a negative effect on only revenues to total assets and market value to book value ratios. Also, the results of this study indicate that there is no significant relationships exist between annual IT investments and profitability measures in the same year of IT investment or the second or the third year. While, Annual IT investments had significant and negative relationships with banks' strategic performance measures. However, when the developed variable "conversion effectiveness" is included in the regression, many hidden negative relationships between IT investments and profitability measures had disclosed. Conversion effectiveness had been found to have a moderating effect on the relationship between IT investments and banks' profitability, though it had no effect on the strategic performance measures.

Keywords: investment Information technology, financial performance, Jordanian banks.