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Risk management practices in IS outsourcing: an investigation into commercial banks in Nigeria

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Abstract

This research work focuses on the risk management practices adopted by Commercial Banks in Nigeria that are related to the outsourcing of information systems (IS). The need for the research emerged from the lack of studies addressing these problems in developing countries in general and in this country in particular. The research reported in this paper shows that despite the globally increasing trend of IS outsourcing in the sector, Nigerian commercial banks are lacking in both strategic and operational risk management practices. Consequently, they are especially prone to the adoption inappropriate IS solutions and are vulnerable to IS failure and fraud.

The research is empirically based drawing on an extensive literature and case study review as well as an extensive survey of banks in Nigeria. The main method of data collection was a questionnaire sent to 15 commercial banks, which was aimed at respondents in three distinct categories: executive management, systems managers and users. The analysis of the data included both a quantitative and an inductive qualitative approach. The latter was used to draw inferences on the current situation.

The findings revealed that managers of commercial banks understand the nature of IS outsourcing and that they all agreed that adopting risk management practices is important. Nevertheless, the situation is critical. A significant proportion of the commercial banks have no documented and structured outsourcing strategy or policy; consequently no programme or procedural guidance is available at any level. The study also discovered that contrary to practice in developed countries, the regulatory authorities in Nigeria have not formulated substantive guidelines or procedural rules to be adopted nationally by commercial banks.
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1. Introduction and background of study

In Nigeria, all banks are licensed by the Central Bank of Nigeria (CBN) and incorporated under the companies and Allied Matters Act of 1990. The intermediation role of banks in a country with an estimated population of 120 million inhabitants results in a pressing need to develop or acquire, install, deploy and maintain top rated information systems (IS). The systems so deployed are expected to be efficient, effective, robust and fluid in order to respond and adapt to current and future operational needs.

IS plays an important role in the business of any bank. These systems are at the core of the information management of the organisation and allow it to operate efficiently and maintain its competitive advantage. According to O'Brien (1996, p.7), "if information systems do not properly support the strategic objectives, business operations, or management needs of an enterprise, they can seriously damage its prospects for survival and success". This paper further enumerates three vital roles of IS:

- Support of business operations.
- Support of managerial decision making.
- Support of strategic competitive advantage.

Consequently and as proposed by Drucker (1995), in today's knowledge-based society information is the framework around which organisations are formed. Banks are no exception as they are expected to make continuous use of the rapid changes in technology in order to improve customer service and to handle new business processes. As banks broaden their services, widen their customer base and extend their services into new geographies, IS plays an important role in this drive to differentiate and compete. Information systems provide better data distribution, integrated business processes, and networked communications, and enable banks to improve customer relationships, as well as streamline overhead costs. (Sun Microsystems, 2001).

A number of well-known authors have stressed the critical nature of information systems to banks. Scott (2000) proposes that introducing computer-based information systems will enable most banks to cope with instability in the business environment. Boiney (1999) noted that the role of information systems is being transformed: "today's information systems must truly add value to the organisation through the creation, capture, distribution, application, and leveraging of knowledge". On the other hand, White (2002) wrote that the advances in Information and Communications Technology (ICT) are no doubt bringing financial innovations that are "undermining, or may soon undermine, many of the restrictions faced by most commercial banks on clearing houses issues". In agreement, Broady-Preston and Hayward (2001) state that "in the current turbulent business environment, quality information is required to ensure that companies achieve competitive advantage by using such information to make decisions more rapidly than their rivals". Similarly, West (1996) suggests that institutions should take advantage of technology so that they will not be left behind in our market economy.

Nigerian Banks are no different from other banks in the world. They depend on IS to guarantee differentiation and competitive advantage. However, IS design and development lies outside the basic scope of core retail banking. Thus, most commercial banks in Nigeria resort to outsourcing for the provision and maintenance of their IS. So the success of the organisation itself often

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