

# [Does it pay off](https://assignbuster.com/does-it-pay-off/)

Compare/ assess HSBC and Citi-corps IT strategies. Do they invest in IT primarily as a way of cutting costs and improving their operational efficiencies, or do they invest strategically with a view to entrench their competitive positions? As noted in the conclusion of the article written by the Asia Case Research Center and the University of Hong Kong HCBC and Citigroup have both developed into global financial institutions.

Both organizations have heavily invested in InformationTechnologyand, as is self-reported in both companies’ financial statements, both are committed to using IT to gain a competitive advantage. That is where the similarities end. When we examine the details it is obvious that although both firms have heavily invested in IT advancements the types of projects and overall approach are very different. Let us first look at HSBC. The Hong Kong and Shanghai Banking Corporation was founded by Thomas Southerland in 1865 with branches in London Shanghai, and San Francisco.

By the year 2007 the company had grown to have 9500 offices, 200, 000 shareholders, 310, 000 employees and over 125 million customers pning 76 countries. HSBC built their business based on thephilosophyof managing for value from 1998 through 2003 with the objective of providing a satisfactory return on shareholder capital. One of the primary ways HSBC attempted to accomplish this strategy was through its approach to leveraging technology.

An example of the company’s technology strategy is found in a statement which was part of the company’s 1996 annual report. In this report the company described its IT policy as a strategy based on harnessing the power of new technology to provide new and better services for their customers while simultaneously improving the banks operational efficiencies. Then stated the challenge they saw as a global financial services organization factored highly around their ability to link different parts of the group more closely together.

As one progress’s further into the details of HSBC’s information technology approach numerous examples of this 1996 strategy are apparent in the organizations approach to the use of information technology. HSBC’s history appears dotted with instances of the development of ground breaking Independent systems, outsourcing to save costs, and acquisitions of emerging technologies. Despite the hefty price tag the company remained focused on providing innovate value added products and services to both current and prospective customers. Outsourcing is one key to the operational efficiency approach mentioned in its 1996 annual report.

HSBC opened its first offshore processing center in China in 1996 and by 2007 had more than 18, 000 employees across Asia pning ten (10) Asian countries. HSBC estimated that by transferring its back office processing to India and China it saved the organization approximately 30 million U. S dollars annually. Further savings were realized in 2003 when the bank merged and consolidated HSBC and HSBCFinance’s technology service teams later leading to the offshoring of the HSBC Group Service Center creating another 67 million in annual savings.

In total HSBC claims that offshoring provides the bank an estimated cost savings of over 100 million U. S dollars annually. Meanwhile HSBC took on more IT staff to support service improvement projects and online banking. Heavily investing in platforms and applications designed to extend or streamline the online process HSBC fully embraced ecommerce. Beginning in 1998 with their successful Y2K testing and implementation HSBC heavily invested in the internet as a means of reaching new customers and deepening current customer relationships.

Some of the projects were internally innovated however, most were a product of strategic acquisitions and/or partnerships with other organizations HSBC is very focused on innovation the company has used its innovative focus to successfully leverage the power of the internet to reach customers around the world. To create the world’s most inclusive efficient internet portal the company has worked with several different organizations that could assist in furthering its digital capabilities Some examples of these partnerships are:.

Working with Compaq to design an internet payment gateway, partnering with HTK to enable merchants to set up online store fronts, working with MasterCard to develop and launch Asia’s first electronic wallet, cooperating with IBM to develop multichannel banking services, teaming up with Sky digital satellite to launch the UK’s first television banking system, and finally a joint venture with Merrill Lynch to introduce online brokerage services. At the same time the bank was partnering with multiple organizations developing several technology offerings things were also being innovated internally.

HSBC developed and delivered many value added products and services like launching mobile banking and secure net payments for merchants in 1999, the creation of Ibusinesscorporation. com and HSBC. com. HSBC. com which was designed to create a common presentation of all HSBC’s services at any time anywhere to any of its customers was the crown jewel of the technology strategy. Overall the company dedicated a large percentage of its IT budget time and focus on the development, expansion, functionality and inclusiveness of creating a comprehensive online presence.

HSBC spent 164 million dollars on the website hsbc. com in 2001 alone. The internet strategy seemed to pay off for HSBC creating large gains in number of customers and transactions. Overall gains were seen in commercial and consumer banking with increases in customer numbers in both divisions. Overall the bank saw its customer number increase 24% with online transactions increasing a whopping 116%. however this massive push online left the company with 26 websites and over 1. 1 billion dollars in expenses.

In contrast to the HSBC’s strategies for utilization of IT recourses Citicorp followed the diversified financial services model built on the belief that different financial service products should be conglomerated to balance earnings and to create less earnings volatility. The company believed it was more cost effective to cross sell financial products in one go than to sell them separately. Different than the wide corporate structure found within HSBC Citicorp only consists of three major business groups all primarily supported by standard corporate infrastructure. While both banks focused on lobal growth HSBC focused on innovation and leveraging the internet to reach current and potential customers Citi corps approach was that of growth, commonality, and local control. Unlike HSBC, Citigroup took an integrated approach to its IT governance worldwide. By using a combination of packaged and customized software to develop group wide platforms Citigroup enhanced the strength of its extensive international branch network to facilitate knowledge exchange across borders. Since IT projects at Citi were often initiated with a local business unit typically they were designed with local solutions in mind.

The only truly global requirement placed on the innovating branch were that the local system be capable of effectively and efficiently being linked with Citi groups existing system and that security arrangements could be made. The key for Citi was the consistent platform and the ability to share knowledge across space not necessarily that it was internet driven and deployable to the whole world. Also in stark contrast to the HSBC strategy of cost savings through outsourcing, Citigroup pursued IT outsourcing only in a very limited way and not for strategic initiatives.

While HSBC was building strategic initiatives with numerous external companies Citigroup took on projects like the 750 million dollar project in the 90’s to integrate the banks 60, 000 personal computer and 2, 000 LAN’s worldwide into a common global network and system infrastructure. The power of its integrated technology platform would later be demonstrated by the rapid integration of the 750 branch CitiFinancial system By 2000 Citigroup had leveraged its strong common technology platform and its international branch presence to launch its own online presence, Citi on the net.

Directly related to their standard technology and growth platforms by the end of the year 2000 Citigroup had over 800 million online accounts in an effort to deliver convenience and value to its clients. Citigroup created new internet units including e-commerce, e-business, and e-capital markets to empower the existing business lines while simultaneously creating an internet operating group to drive the corporate internet strategy and again use it to coordinate efforts across divisions. By 2002 Citi on the net had been replaced by “ my citi. om” providing the platform necessary to allow the bank the ability to make online banking available in over 90 countries ultimately leading to processing over 39 million transactions around the world in rout to being named “ best of the web 2003” The banking giants internally driven internet strategy seemed to culminate with the launch of Citibank direct in 2006 and nearly 10 billion dollars in deposits. Overall in my perception of the IT strategies of both Citi and HSBC their direction of IT investment does not appear to fit into one black or white strategy however appears more likely to exist on a continuum.

I believethere are examples of both HSBC and CITI investing in IT as a way of cutting costs and improving their operational efficiencies. With HSBC one example of this is outsourcing. With regard to Citi one example is the focus on standard systems providing local solutions. Additionally, I believe both organizations also used technology effectively as strategies to entrench their competitive positions. HSBC as a platform to cost effectively expand its global reach without the costly build-out of constructing an extensive global brick and mortar branch network through the use of the internet.

In contrast, for CITI to be able to provide local solutions by leveraging its global knowledge, services, and offerings to provide value added products and services to current and prospective clients. In closing not addressed directly in the article but appears to be relevant as I look at the different IT approaches taken by both Citi and HSBC is where they started. Both companies come from different backgrounds created in different environments for the purpose of serving different clients.

Although eventually their worlds collided their roots seems quite different. I can’t help but wonder, to what degree were the different approach to types and amounts of investment in IT between the two global banking giants has to be attributed to (1) Different business strategy’s with each company recognizing its own path of least resistance to accomplish their organizationsgoals. (2) The best way to leverage the current asset base of each individual organization. 2. In your assessment, which one of the companies do you think was cleverer in its IT investments?

Both organizations appear to have shown the ability to differentiate one’s organization through the use of technology when technology that can complement their overall business strategy comes available. For Citibank this availability arose through an increase in recourses by the organization; conversely, for HSBC through technological advancements made in the market place. My perception is that both companies utilized IT investments like a vehicle, to get from where they were to where they wanted to be.

The numbers provided in the back of this report show the companies are strikingly similar in many ways despite their very different beginnings and historical decisions regarding investment in IT. Five factors compared n the report are compiled below that both demonstrate their striking similarity but also provide clues to who at least for now is winning the battle for global banking clients. Category(2006)| Citi-Bank| HSBC| Leader| #of Employees| 325, 000| 312, 000| Citi-Bank| IT expenditures| 3762| 4810| Citibank| Net-Profit| 21538| 16358| Citi-Bank| Total Assets| 1, 884, 318| 1, 712, 627| Citi-Bank|

Market Capitalization| 269. 1| 212| Citi-Bank| | ROA| 1. 14%| 0. 96%| By doing some basic calculations using the numbers above it is easy to see that as of the time of this report the company with the best history of performance was clearly Citi-Bank. Although total assets and number of employees are strikingly similar the difference in the organizations is clearly found in three areas. Net profit, IT expenditure’s, and market capitalization. ROA for HSBC is . 96% which signifies it is destroying shareholder capital by losing 4 cents for every dollar invested.

Conversely, Citi-Bank with an ROA of 1. 14% is creating value by transforming every 1$ invested in the company into 1. 14 cents providing a 14% return annually. Another metric not common in finance but appears pertinent here would be an employee to IT expenditure’s ratio where HSBC spent $15, 416. 67 per employee and Citi-Bank spent $11, 575. 38. The second ratio that appears to point to an adjusted IT strategy for HSBC is a total asset to IT expenditure ratio in which again HSBC spends 28% of its total assets on. IT where Citibank again has a better ratio at 20% of its total assets.

Neither of these last two ratios is very common but both appear to be where HSBC could attempt to close the Gap in financial performance between the two companies. Finally of note needs to be the difference in market cap Assuming both companies have a fairly equal amount of issued common equity the fact that Citi-Banks market cap is 57 billion dollars higher that HSBC demonstrates to me that when the marginal investor compares the perceived future performance comparing both companies current business plan investors believe with more confidence that Citi-Bank will generate I higher return on investment and stronger cash flows than will HSBC.

Despite HSBC’s efforts to cut costs be on the forefront of banking innovation Citicorp clearly was able to leverage its vast global network of fixed assets in a standardized approach more successfully than HSBC was able to leverage the internet to increase its profitability through global expansion. In closing I again wonder if part of the increased performance Citicorp sees beyond that which is seen by HSBC is related to cultural bias Simple current consumer preference in the majority of the cultures in which both firms operate.

In conclusion, the writer would like to briefly mention potential factors that came to mind while reading this article. Thinking outside the numbers part of me believes that although trends are less prevalent than they have been for generations past, several groups of people, are particularly fond of being able to bank at a physical location. Some don’t believe in banking at all. Like the trail that amazon is blazing in the online retail market place online banking platforms are different than most people are used to.

Change is often strange and sometimes difficult but if HSBC’s IT strategy is ever to pay off it must hope like amazon that as time passes if more people become comfortable with the idea of online banking their model may thrive. However, until that time unless it were to drastically change its business model and begin to invest in a global network of physical bank branches HSBC’s best strategy may be to stay the course of investing in driving customers more towards the feeling of convenience than perceived safety.