

Does IT investment improve bank performance? Evidence from Europe*

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Abstract

This paper investigates whether investment in Information Technology (IT) – hardware, software and other IT services – influences the performance of banks. Using a sample of 737 European banks over the period 1993-2000 we analyse whether IT investment is reflected in improved performance (measured using both standard accounting ratios and cost and alternative profit efficiency measures). Despite banks being major investors in IT we find little relationship between total IT investment and improved bank profitability or efficiency indicating the existence of a profitability paradox. However, the impact of different types of IT investment (hardware, software and services) on banks' performance is heterogeneous. Investment in IT services from external providers (consulting services, implementation services, training and education, support services) appears to have a positive influence on accounting profits and profit efficiency, while the acquisition of hardware and software seems to reduce banks' performance.

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