# THE IMPACT OF SOCIO-COGNITIVE FACTORS TOWARD E-TRANSFORMATION IN THE BANKING INDUSTRY OF SRI LANKA

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## ABSTRACT

*E-Transformation is the emerging trend in the e-Economy deals with the technological innovation in ICT towards the people, process and functions of an organization. There are various critical success factors for e-transformation. This article emphasises on the impact of socio-cognitive factors towards e-transformation. One of the main reasons for such failures in e-transformation is the inability to properly align business processes and IT and the large expenses that are necessary to reengineer the information infrastructure and applications to support the few processes. There were several socio-cognitive factors identified through various studies. In this study, the organizational resistance is considered as another socio- cognitive component which influences on E-transformation.*

**KEY WORDS**: *Banking Industry of Sri Lanka, E-Transformation, Organizational Resistance, Socio-Cognitive factors.*

## 1.INTRODUCTION

Information and Communication Technology (ICT) has been becoming an increasingly important field in the development and the growth of every organization. The availability and usage of adequate ICT components in the operation of organizations are inevitable in the current competitive business environment, since organizations want to capture the market share and sustain in the market.

In many industries, ICT is the integral part of the functioning of Corporate Management and the root cause for the survival of Organizations. Any Organization which provides successful solutions to the linking of business strategies, people and ICT will find itself positioned perfectly in the market. Several researchers have discussed ways that ICT can be used as catalyst for change.

In Sri Lanka, the impact of ICT on various organizational activities in public and private sector has been identified. In this context the adoption of ICT and its consequences have been influencing in various levels and various eras in organizations based on its sophistication. In Sri Lanka, banking is one of the industries that took advantage of the ICT and advancements around the world since 1950s. This enables the banking as the first mover on ICT and makes them to gain competitive advantages. (Central Bank of Sri Lanka, 2003). Further, Ranasinghe (1999) argued in his research that banking sector in Sri Lanka uses IT 90% on average which is the highest when compared to the other sectors. Further, the previous research findings of the author show that in Sri Lanka, due to the arrival of many new private banks the public sector banks have been facing problems to provide efficient & effective services to public with limited resources. But private banks intend to capture the market share and thrive in the business through the ICT – induced Organizational Transformation (Selvarajan, 2010).

## 2. OBJECTIVES

The main objective of this research is to identify the influence of socio-cognitive factors in the E-transformation journey. There are several critical success factors for e-transformation in the banking industry. Most of them are highly related with the technological perspective. However, this article emphasises on the socio-cognitive factors for e-transformation in Sri Lankan Banking Industry.

## 3. METHODOLOGY

The findings of this research have been derived from both qualitative and quantitative methods. However, in order to identify the psychological factors, the interpretive case study methodology has been followed by using the in-depth interviews and observations, since the human factors cannot be measured or understood quantitatively. Further, two pioneered public sector banks and private sector banks have been selected for this research through the judgement sampling method in order to maintain the validity of the research.

## 4. SOCIO- COGNITIVE FACTORS AND E-TRANSFORMATION

The Socio-cognitive factors are the forces which influence in the micro and macro level process in organization that shape the individuals and organizational activities. This perspective analyses the individual and collective processes that are required to detect unexpected situations to effectively process information and carryout commitment in organization.

The socio-cognitive approach to e-transformation suggests that organizations possess cognitive and social impediments as well as enablers to organizational decision making and action. The socio-cognitive factors examine the psychological and sociological constructs such as organizational decision making, information processing, beliefs, emotional intelligence, social norms, mindfulness, politics and other related factors.

It is very important to consider that the socio- cognitive factors address both the cognition and behaviour of an organization. Further, the socio-cognitive approach of e-transformation concentrates on the duality of beliefs and behaviour throughout the entire cycle of ICT adoption, starting from planning and design to the implementation, deployment, use and eventual disposal of ICT.

## 5. E-TRANSFORMATION IN THE BANKING INDUSTRY

There are various definitions given by different authors. E-Transformation is a planned and evolutionary move towards leveraging web technologies to enhance business. In addition to implementing the technologies, this move is characterized by the need to evaluate processes within the organization and manage relationships. (A1-Mashari, 2001)

Business processes have been changing continuously due to business driven and IT driven forces. Business driven forces are market pressures, customer needs and competition. IT driven forces result from advances and merging of Information and Communication systems. Exchange of information in a company has changed dramatically with the introduction of facsimile, email, intranets and the internet. The process of transforming into an innovative and effective IT – enabled organization is e-Transformation (Arunatilake and Ginige, 2003).

Ginige (2008) further claimed that e-Transformation is an ongoing process with multiple stages and dimensions and cannot be approached as a one off project. In its early stages, business reasons heavily influence the types of information systems deployed in the organization.

E-Transformation means an Organizational Transformation which uses the ICT as a catalyst. There are various definitions for e-Transformation. "E-Transformation is about the effective diffusion and use of ICT and about the deep structural capability

changes in the economy and society that accompany ICT use and diffusion" (Hanna & Knight, 2012) and comprises several key interdependent elements.

E-transformation encompasses the envisioning of new work strategies, the actual process design activity, and the implementation of the change in all its complex technological, human, and organizational dimensions since it is a radical improvement approach that critically examines, rethinks and redesigns mission, product and service processes within a political environment. E-transformation creates new architecture for business and management processes. It involves the redrawing of organizational boundaries, the reconsideration of jobs, tasks and skills. It literally means "rethinking everything".

The Sri Lankan banking and financial sector is observing a significant increase in utilisation of IT. Specifically in the private sector, most of the organizations are heavily depending on modern ICT solutions to deal with the growing competition and productivity requirements by their customers.

Previous studies in the banking industry of Sri Lanka articulate that branch managers and employees have limited access to internet and internet banking. Moreover, they debate that the customers' satisfaction of ATM availability in Sri Lanka is low and the interaction between the customers and the branch staff are also low. Only after eliminating these drawbacks, the banks' performance will be increased.

All people who are involved in the transformation need to understand their current intra organizational culture and perform the required changes in order to adopt and optimize the use of new approaches to conduct their new business processes (Serour and Henderson – Sellers, 2002). This finding opens up for further investigation in this area. The following table (Table 1) shows how does an organization transform in different ways and the impact of socio-cognitive factors in readiness, adoption and diffusion stages.

## Table 1 The Organizational Transformation Maturity Stages

| Transformation Maturity stages | Main Activities |
|---|---|
| **READINESS** (Pre-conditions) | Moving organizations to a global environment with culture change and eliminating obstacles |
| **ADOPTION** (Technology Acceptance) | Technology assessment, selection and implementation. Education and training on new technologies |
| **DIFFUSION** (Technology Dissemination) | Deploying the adopted technologies in practice Stop people from going back to old habits |
| **RETROSPECTIVE** (Post-conditions) | Evaluation and continuous improvement Keeping up-to-date with new technologies |

*Source: Serour (2005), p.57 Idea Group Inc,*

Valorinta (2012) identified that three processes of *comprehension,* building *commitment* and *Coordination* occur throughout the technological life cycle that can both impede or promote IT–enabled change. He found how the Socio cognitive processes are driving IT enabled change. In his point of view, the better comprehension organizational actors have the opportunities provided by IT, the more likely they are to initiate IT – enabled change

processes. Respectively, shared comprehension across the organization is an important requirement for building joint commitment for the change initiative. Strong organizational commitment again enables effective cross functional coordination for the change effort. These three Cs also play a major role in Sri Lankan banking industry.

The author presents another finding related with mindfulness which shows that ICT can be

promoted as a source of incremental and radical innovations in organizational routines; people's negative attitudes and affections toward ICT may affect their inclination to consider new ICT enabled solutions. ICT projects can be considered as an opportunity for a mindful and collaborative exploration of new innovative ways of conducting organizational work.

## 6. CRITICAL REVIEW AND DISCUSSION

According to the doctoral study of the author, it was investigated that there were several factors influencing on the level of achievement in e-transformation in the banking industry of Sri Lanka as a whole. The impact given for each factor in public and private sector may be different. However, these factors can be categorised as Internal and External. Under the internal, there are three perspectives namely, Management Perspective, Employees' Perspective and Organizational Perspective. The socio-cognitive factors under each perspective are summarised below (Selvarajan, 2013).

### Management Perspective:-
♣ Visionary and passionate leadership is necessary to achieve organizational commitment.
♣ Organizational commitment and involvement towards e-transformation in every managerial level is inevitable.
♣ Management practices towards technology adoption.
♣ During the e-transformation Senior Management must communicate, communicate and communicate.

### Employees' Perspective:-
⌗ Organizational participants must be able to be comfortable with ambiguity.
⌗ Knowledge Workers, and End users participation and commitment towards the ICT projects.
⌗ Positive attitudes, perception and beliefs of system users toward the new ICT innovation.
⌗ There must be a close interaction between the employees and customers. ( Interactive Marketing)

### Organizational Perspective:-
✦ The E-transformation effort must be consistent with the underlying beliefs and values of the organization.

✦ The E-transformation must be balanced with simultaneous cultural change.
✦ Incentives must be developed for the new change.
✦ Accountabilities must be changed to support the new process.
✦ Reengineering must be conducted with zeal.
✦ Obstacles that stand in the way of change must be removed.
✦ Success must be celebrated and rewarded.

In case of the External factors, the major socio-cognitive factors have been identified and listed below.

✦ Attitudes and life style change of consumers/ customers.
✦ Cultural patterns and religious factors.
✦ Advertising and publicity.
✦ Consumer buying patterns.
✦ Media views.
✦ Image and ethical issues.

## 7. CONCLUSIONS

E-Transformation is a process and not an event. It is a major decision and very expensive one. Unfortunately, there are sometimes unsuccessful stories. The failure rate is very high (some estimate as 75 to 85 percent). One main reason for such failures is the inability to properly align Business processes and IT, and the large expenses that are necessary to reengineer the information infrastructure and applications to support the few processes. Also, organizational resistance can be a critical factor. Here, organizational resistance is also considered as another socio- cognitive component which influences on E-transformation. Finally, it is concluded that there are several internal and external factors influencing on the e-transformation process. However, considering the socio-cognitive factors in both internally as well as externally by the relevant authorities is also an inevitable aspect in the successful E-transformation.

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