Chapter XIII

Digital Technologies and the Cross-Border Expansion of South African Banks

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Abstract

This chapter explores the role of Information and Communication Technologies (ICTs) in the international development of South African banks. It is argued that South African banks derive important advantages from the use of ICTs in their expansion into neighbouring countries. Using Dunning’s (1989, 1988) eclectic approach as a mechanism with which to assess the evidence supporting this argument, ICT is explored both as an ownership specific capacity, as a locational specific factor influencing the geographical pattern of international expansion, and as a facilitator of the internalization of cross-border banking networks. Through an investigation of the significance of digital technologies in the cross-border expansion of South African banks, including case studies of Stanbic and ABSA, this chapter highlights the opportunities and challenges confronting such organizations. In so doing, the chapter will contribute to the understanding of intra-African foreign direct investment in the banking sector and the emerging digital economy in developing countries.
Introduction

The financial sector is central to the economy. Economic activity must be financed, thus, as economies grow so to do their financial sectors. Indeed, developments in the economic, political and technological environment over the last 30 years have intensified the impact of financial-sector activity on the economy as a whole. For example, in the current era, financial market integration is a major aspect of the ongoing process of globalization (Held, McGrew, Goldblatt & Perraton, 1999). The increasing intensity of competition since the 1970s, together with deregulation of the financial markets and the internationalisation of financial services, has driven the application of digital technologies in the sector. In particular, innovations in the field of Information and Communication Technologies (ICTs) have fundamentally influenced the sector, especially in terms of the speed with which financial services may be produced and delivered (Strange, 1998). However, the impact of digital technologies combined with the deregulation of financial markets has led to a growing concentration of financial service activity in global cities, such as New York, London, and Tokyo (Sassen, 2001; Castells, 2000). Consequently, the enormous flows of capital circulating around the globe, including, for example, the daily foreign exchange market turnover, which amounted to US $1,500 billion in 1998 (BIS, 2002), largely by-pass the developing countries of Africa, including South Africa. Nevertheless, digital technologies do influence the financial services sectors in these countries, both in terms of the availability and cost of capital, consumer access to services and the organisational development of service providers. While digital technologies are having a significant impact on the global financial markets, this chapter focuses on the impact and role of ICTs in the expansion of financial services organisations in the developing countries of Africa and, in particular, on the international development of South African banking organisations.

To exploit the opportunities arising from the adoption of liberal economic policies and privatization of state-owned companies by many African countries, South African banking organizations have sought to extend their international networks throughout the continent. The aim of this chapter is to explore the role of digital technologies in facilitating this cross-border expansion of South African banking organizations. The rise of ICTs since the 1970s and, in particular, the growth of the Internet since the mid-1990s, has influenced the organization of economic activity (Castells, 2000). The banking sector has experienced significant organizational change resulting from the adoption of ICTs (Bryan, 1993; Jones, 1993). However, specific challenges do exist for financial-sector organizations operating in Africa. For example, compared to most other parts of the world, Africa has a poorly developed ICT infrastructure (Mansell & Wehn, 1998). Even so, it is argued here that South African banking organisations derive important advantages from the use of ICTs in their expansion into neighbouring countries.

Through an investigation of the significance of digital technologies in the cross-border expansion of South African banking organizations this chapter highlights the opportunities and challenges that confront such organizations. In so doing, the chapter will make a contribution to the understanding of intra-African foreign direct investment in the banking sector. Furthermore, by examining the use of ICTs by developing countries’ multinational organizations this chapter will contribute to an understanding of the
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