UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

SUPPLEMENTARY EXAMINATION 2007

TITLE OF PAPER:	MANAGEMENT INFORMATION SYSTEMS II
DEGREE AND YEAR :	BCOM
COURSE NUMBER:	COM 502/BA 416
TIME ALLOWED:	TWO (2) HOURS

INSTRUCTIONS:1. THIS PAPER CONSISTS OF SECTIONS (A) AND (B)

2. THE CASE STUDY SECTION (A) IS COMPULSORY

3. ANSWER ANY TWO QUESTIONS FROM SECTION B.

Note **MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH AND FOR ORDERLY PRESENTATION OF WORK**

THIS EXAMINATION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

SECTION A

What Happened to Citicorp?
During the 1970s' Citicorp rose to Number 1 rank in retail banking, pioneering in information technology innovations such as ATM machines. Citi was often cited as a shining example of a company that used information systems strategically to create a competitive edge. It appeared that Citi could do no wrong.

Twenty years later, Citicorp found itself with large losses, strapped by bad loans and massive layoffs. Its status had dropped to the second tier in the global banking market, it had to cut back on innovations and consolidate some of its systems and networks. What happened?

The bank had embarked on an ambitious program to decentralize its information systems, hoping to speed up the development of new products and services by giving its business units the responsibility for developing their own systems.

Citi became crippled by non-performing Third World and commercial real estate loans made during the 1980s. These bad loans continued to mount. In the fall of 1992, 7 percent of Citicorp's loans were reported as either delinquent or so troubled that full repayment was unlikely, giving Citicorp the eighth worst record among the 50 largest U.S. banking firms. The delinquency rate on Citicorp's mortgage loans was four times the national average.

Federal bank examiners criticized Citicorp for sloppy mortgage lending practices that did not properly identify risky loans and that overcharged many customers who relied on Citibank to keep track of monthly payments on their mortgages. Citibank was said to have incorrectly calculated the amount of customers' money accumulated in escrow accounts for real estate taxes and insurance. A total of $1.1 billion of its mortgage loans were more than 360 days delinquent but had not been identified as foreclosed.

Citi launched a $1.5 billion cost reduction campaign and tried to improve its financial position by unloading assets. It sold 50 percent of its Ambac to municipal bond insurer for $330 million and sold $1.25 billion of convertible preferred stock. It also had to cut costs by scaling back or cutting out pet projects such as Quotron Systems Inc. and Citicorp POS Services Inc. These projects had been designed to put Citi in the "information business."

At its height, Citicorp was jokingly described as a software company masquerading as a bank. It had over 150 computing centers, over 100 different telecommunications networks, and 4000 program developers. Many of these were cut back and consolidated to reduce costs. In 1991 Chairman John Reed announced $1.5 billion in cost reductions over the next two years, including a reduction in jobs from 95,000 to 86,000.

In the 1970s Citi had purchased Transaction TechniInc. to develop the hardware and software for its ATM systems. These were an instant success. Citi pushed into consumer banking added to Citi's revenue because more customers did more transactions with the bank. While competitors installed ATMs primarily to reduce costs, Citi used ATMs to attract more customers. An average of 75 percent of Citi's customers prefer the ATMs machines to human tellers, compared to 43 percent at other banks.

As new ATM systems such as Master Card Inc.'s Cirrus rose to compete with Citi, Citicorp refused to inter connect them. Customers then began flocking to other banks because Cirrus and similar networks allowed them to do their banking at virtually any ATM instead of having to search for a Citibank outlet. Citi eventually joined because it wanted global availability of customer access to ATMs for cash. But the damage was done, Citi's ATMs which originally were leading edge, could no longer compete with its rivals' systems.

The early success of Citi's ATMs convinced top management of the power of business units to create their technological innovations. Top management began more decentralization, believing this would encourage entrepreneurship and more strategic use of technology. It initiated Project Paradise, which showered bank managers with billions of dollars to develop the systems they wanted. No thought was given to compatibility. But the bank was so successful that it did not recognize the systems redundancies created by Project Paradise until the mid-1980s. By then it realized that many of its systems weren't necessarily helping the customer but were merely internal bureaucratic activities.

Many consider Reed's worst strategic blunder to be the 1984 purchase of Quotron for $680 million. Quotron was the market-leading computerized stock-quotation system with 100,000 stock quotation terminals in brokers firms. Then competing stock quotation systems started to flourish. Automatic Data Processing bought Bunker Ramo, a Quotron competitor, and expanded its computer vices to brokerages. Reuters Holdings Plc. began selling quotation data on its terminals. The bulk of Quotron customers were financial services firms that did not feel comfortable buying products from Citi, which they viewed as a competitor, Quotron fell to the Number 2 position in stock quotation data, with only 60,000 terminals, while ADP grew to 70,000 terminals.

Shortly after acquiring Quotron, Citi launched Reward America, a point-of-sale business that tried to create new products and services for the retail and travel industries by capturing market data at the cash register. This project was a good idea in theory, but it turned out to be impractical. Gathering data every time the cash register rings was not practical because the data were at the individual store level. Firms such as Coca-Cola are typically not interested in one store but in the entire Boston market, for example. Reward America was shelved in 1990, and its management was folded into Citi's card businesses. Several hundred POS employees still gather shopper data from stores for direct marketing.

Hoping to reduce costs and reassert management control, Citi is consolidating its computer centers and networks. It hopes to save $ 100 million annually by consolidating its 100 plus networks into a single Global Information Network.

Citi does not want to eliminate local flexibility altogether. It hopes that when one of its local business units comes up with a new product, its simplified architecture will help it make "success transfers" more rapid than before. But eliminating redundancies is not easy, compared to superficial cost cutting; it entails major cultural changes.

Case Questions

1. Use the competitive forces and value chain models to analyze Citicorp's situation. What competitive forces did Citicorp have to deal with? What kinds of strategic information systems did Citicorp use? 25 marks

2. What management, organization, and technology factors contributed to Citicorp's problems? 15 marks

3. If you were a Citicorp manager, what solutions would you recommend? Would you suggest new information system applications? 10 marks

SECTION B

Answer any two questions

Question 1
When would an organisation be expected to outsource? Discuss 25 marks

Question 2
Give ways in which one could apply IT in value chain to improve efficiency.
25 marks

Question 3
(a) What are the critical skills that an IT manager should look for in selecting a service provider? 13 marks

(b) Draw a strategic grid that shows the impact of IT on strategy and operations.
12 marks

Question 4
Hosting models can be roughly catergorised along service lines. Discuss 25 marks