

## **RANKING OF MALAYSIAN COMMERCIAL BANKS: SUPER-EFFICIENCY DATA ENVELOPMENT ANALYSIS (DEA) APPROACH**

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### **ABSTRACT**

*Banking efficiency studies have tended to focus on quantifying the efficiency of financial institutions. Few attempts have been undertaken to compare the efficiency performance of domestic and foreign banks, and even fewer have compared the super-efficiency performance of both types of banks. Addressing this gap, the present study contributes to the existing literature by utilising Data Envelopment Analysis (DEA) to compute super-efficiency scores for individual banks. The objectives of this study are to estimate technical efficiency and to estimate the super-efficiency index of Malaysian commercial banks over the period from 2000 until 2010. The results indicate that, in general, domestic banks perform better than foreign banks. However, the super-efficiency results reveal that individual foreign banks are more efficient than individual domestic banks.*

**Keywords:** super-efficiency, foreign banks, domestic banks, Malaysian banking

### **INTRODUCTION**

The New Economic Model unveiled by the Malaysian Prime Minister on March 30, 2010 outlined strategic reform initiatives to transform Malaysia into a high value-added and high-income economy with per capita income of at least RM45,000 (the current per capita income is approximately RM21,000). In line with this target, a new trajectory for transformation and growth is envisioned for the Malaysian financial system. The 10th Malaysian Plan stated the urgency of creating a conducive environment to unleash economic growth by emphasising 12 sectors of National Key Economic Areas (NKEAS). The financial sector is one of the key NKEAs to be exploited. During the tenure of the first Financial Sector Masterplan (2000–2010), the financial sector expanded by an annual growth of 7.3% and it has contributed to the further diversification of the