Proceedings of 3rd Global Accounting, Finance and Economics Conference
5 - 7 May, 2013, Rydges Melbourne, Australia, ISBN: 978-1-922069-23-8

Super-efficiency Performance of Malaysian Banking Industry

Farhana Ismail*, Rossazana Ab-Rahim** and Nur-Zaimah Ubaidillah***

While past banking efficiency studies had tended to focus on quantifying the efficiency of financial institutions, few attempts were undertaken to compare the efficiency performance of domestic and foreign banks; and even fewer to compare the super-efficiency performance of both banks. By addressing the above discussion as the gap in the literature, this study contributes to the existing literature by utilising Data Envelopment Analysis to super-efficiency scores for individual banks. The first objective of this study is to estimate technical efficiency and its decompositions, which are pure technical and scale efficiency as well as to estimate super-efficiency index of Malaysian banks for the study period 2000 to 2010. The results indicate that in general, domestic banks perform better than foreign banks. However, the super-efficiency results reveal that on efficiency performance per individual banks; individual foreign banks are more efficient than individual domestic banks. The findings are valid across technical efficiency and its decompositions, which are pure technical efficiency and scale efficiency.

JEL Codes: G21, D24 and L25

1. Introduction

The investigation of bank efficiency is important from both microeconomic and macroeconomic point of view (Berger and Mester, 1997). From the micro perspective, the issue of inefficient banking system is crucial given increasing competition and improvements in the institutional, regulatory, and supervisory framework. From the macro perspective, the efficiency of banking sector influences the cost of financial intermediation and the soundness of financial market. Thus, an improvement in the banking performance represents a better allocation of financial resources which results in higher private investments that favors economic growth. As the main challenge of 10th Malaysian Plan is to stimulate private investment, the New Economic Model of Malaysia has listed private investments as one of the core of strategic reform initiatives to transform Malaysia to a high income economy. On top of that, the second thrust of 10th Malaysian Plan states the urgency to create conducive environment to unleash economic growth, by emphasizing on 12 sectors of National Key Economic Area (NKEAs); and financial services sector is listed as one of the NKEAs to be exploited.

In the limelight of liberalization and innovation, the brisk development of financial institutions has made banking systems vulnerable to financial crises. Thus, measurement of the efficiency of financial institutions is important. Firms have been persistently putting in effort to adapt and adjust themselves according to changes in the social and economic environment, with the ultimate goal of improving their productive efficiencies (Harker and Zenios, 1999). The construction of efficiency index is undertaken by employing non-

*Farhana Ismail, Faculty of Economics and Business,
Universiti Malaysia Sarawak, Malaysia. Email: ifarhana@feb.unimas.my
** Rossazana Ab-Rahim, Universiti Malaysia Sarawak, Malaysia
Email: arrossazana@feb.unimas.my
*** Nur-Zaimah Ubaidillah, Universiti Malaysia Sarawak, Malaysia
Email: unzaimah@feb.unimas.my