Profit, Revenue and Cost Efficiency Comparison between Islamic and Conventional Banks of Pakistan Using Data Envelopment Analysis

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2015.

ACKNOWLEGMENTS

I am truly grateful towards Allah without whom I would never have finished my dissertation. I also want to thank my supervisor Sir Osman Bin Saif, whose guidance; consistent help and consolation encouraged me and built the capacity in me to finish my study on time. Nonetheless, I might likewise want to thank my guardians and my family who gave their backing to me through this time, who offered me in my whole research some assistance with processing and had made it workable for me.

ABSTRACT

This paper measures and evaluates the revenue, cost and profit productivity of five Islamic and sixteen conventional banks over the period 2010-2014 in Pakistan utilizing Data Envelopment Analysis of their efficiencies. The historical backdrop of routine banks of Pakistan is exceptionally rich in examination of the Islamic banks. Islamic ways of managing finance and banking industry in Pakistan is in its growth stage and a very few banks are working in this sector which performs immaculate in keeping money. It surveys the normal and extra minute's productivity of these banks in view of their size, age, and locale utilizing static and element boards. The discoveries recommend that there are no huge contrasts between the general proficiency aftereffects of conventional versus Islamic banks. To a greater extent the outcomes of this study are in favor of the Islamic framework.

A Data Envelopment Analysis model is connected to gauge the efficiencies of both banking structures under Constant Return to Scale approach. The major purpose of employing DEA method in this study is to engage several inputs and outputs at one time and see the productivity measure of all variables operating at the same time. The study analyzes the operations of each bank separately for the period of five years and then concludes the mean results to compare the two banking systems on the basis of revenue, cost and profit efficiencies. T-Statistics have been used to find the significance of the results and to check if there is any critical distinction between the efficiency scores. The outcomes of the DEA method demonstrate that the revenue efficiency of both the banking systems show no significant difference except in year 2012 where Islamic banks outperformed conventional banks.In the same way no major difference has been observed in the profit efficiencies of both banking systems, Islamic banks however performed better in managing their cost efficiencies than the conventional banks.

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