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The Performance of Islamic Banking Among the Commercial Banks in Malaysia

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ABSTRACT

This paper examines the accounting performance of the Islamic banking among (??) commercial banks in Malaysia. A total of 18 commercial banks which include 4 Islamic banks are selected as samples covering the period of 2000 – 2006. Accounting performance is measured by the return on assets (ROA) and return on equity (ROE). The objective of the study is (1) to determine whether Islamic banking performance is at par with the conventional banking and (2) to investigate whether the type (Islamic or conventional bank) and age of bank influence the performance. Result of the independence t-test of the study shows that there is no significant difference in the performance of the Islamic and the conventional banking in Malaysia although the mean score for conventional banking is higher. The regression results show that the age of banks has a positive impact on the bank performance where as none of the types of banks influence performance.

Keyword: *performance, Islamic banking, commercial banks*

Introduction

The tremendous growth of Islamic banking in the last few decades specifically in the 1980s and 1990s has increased its importance not only in the Islamic countries but to non-Islamic countries. A bold prediction made by Zaher and Hassan (2001) states that the Islamic banks are set to control some 40-50 percent of Muslim savings by 2009/2010. The significance of Islamic banking is further confirmed by Tsang (2008) that the current Islamic banking assets and funds are estimated to be between US\$700 billion to US\$1 trillion with more than 300 institutions located in more than 75 countries (ElQorchi, 2005). Furthermore, the Islamic banking is noted as the fastest growing segment with a growing rate of 15 per cent per annum (ElQorchi, 2005; Khan 2007).

With such a tremendous growth, the Islamic banking is moving into the mainstream of global banking and has a good prospect in expanding its operation. Moreover the Muslim population is increasing and the population for year 2007 is estimated at 1.8 billion worldwide (www.islamicpopulation.com, 2007). Likewise, the existence and expansion of Islamic banking is not limited to Muslim dominated countries but also to Non-Muslim countries such as in the United Kingdom, Denmark and other Non-Muslim countries. Moreover a country's financial system including the banks has a direct impact on the financial development and prosperity of a country (Brown 2003). This is evident in two major financial crises that is the Asian financial crisis in 1998 and the global financial crisis in 2008. Both crises caused the collapse of the country's economy and thus performance of bank is of important for all to know.

Numerous literatures have stressed that the performance evaluation of organization specifically the commercial bank is important (Dave, 2008; Hussein, 2003; Brown 2003). Dave (2008) argued that the performance evaluation of an organization is significant for sustainable growth and development and this has been recognized long ago. In addition Dave (2008) added that the evaluation will bring out strengths and weaknesses of the organisation for the purpose of further improvement. Similarly, the performance evaluation is important so that the Islamic banking sector is at par with its conventional banking (Brown, 2003) to meet the global competition. Nevertheless Brown (2003) further added that the evaluation is important so that the Islamic banks across the country can benchmark best practices among them.

In addition, the financial institutions that cater to this segment are growing much faster than conventional banks because of the strong demand among consumers for products and services that comply with Shariah (Benaissa, Parekh and Wiegand, 2005). Last but not least the performance evaluation is important to all parties in the banking industry since it will help bank management to improve its managerial performance and investors' decision making (Hussein, 2006). In another aspect, the need for evaluation of performance of Islamic banking in Malaysia is pertinent because there are very few studies conducted

recently which are using accounting measure as performance indicator. The most recent published research on this matter is by Rosly and Azhar (2003). Earlier research were by Wong (1995) and Samad and Hassan (1999). Most of the current performance studies on Islamic banking used economic measure ((Mokhtar, Abdullah and Alhabshi, 2006, Suffian 2007 and Kamaruddin, Safa and Mohd, 2008).) Thus more researches on Islamic banking performance using accounting measure are needed to be done since the findings from studies done outside Malaysia might not be the same since the financial environment of a country is different. Likewise the main objective of the study is to determine whether Islamic banking performance is at par with the conventional banking. Secondly is to investigate whether the type and age of bank influence the performance of bank.

Literature Review

Although the modern financial institutions in the western and central Europe started to evolve in the 17th century notably in Britain yet the evolvement of Islamic financial institutions started only in 1970s (Archer and Karim 2002). The need for Islamic financial system among the Muslim dominated countries emerged after this countries gained independence and their desire to manage their affairs in accordance with their own values and traditions (Siddiqi, 2001). Besides, the Islamic resurgence in the late 1960's and 1970's also contribute in initiating the call for a financial system that allows Muslim to transact in a system that is in line with their religious beliefs (BNM website, 2007).

The increased in wealth of the Middle Eastern countries due to their oil production gave rise to a major need for financial intermediation for investment in petro-dollars mainly to outside Middle East and Islamic countries. In addition the limited capacity to absorb large volume of investment that was handled by conventional financial institutions (Archer and Karim 2002) initiated the setup of Islamic finance system in these countries. Hence the need to have an Islamic financial system was vital and immediate. The Muslim scholars had taken the effort to embark on the development of Islamic financial system in the mid 1970s. This leads to the establishment of Islamic Development Bank in 1974. Subsequently in 1975 the first Islamic banks was set up that is the Islamic Bank of Dubai. Since its inception more than three decade ago, Islamic finance has developed at a remarkable pace. There are 300 financial institutions, located in more than 75 countries (El Qorchi, 2005), are mostly concentrated in the Middle East, and Asia with Malaysia and Bahrain being the biggest hubs.

In Malaysia, the development of Islamic banking was initiated when the government started the Pilgrim's Management Fund in 1962 (Harun, 1997). Following the successful implementation of the Pilgrim Management Fund Board (referred to as PMFB), there was a continuous pressure on the government to

help establish an Islamic bank¹. Thus the first Islamic bank in Malaysia; Bank Islam Malaysia Berhad (BIMB) was established in July 1983.

Ten years later in March 1993, the Bank Negara Malaysia (BNM) launched the Interest Free Banking Scheme (IFBS). Under this scheme, the conventional banking institutions are allowed to offer Islamic banking products and services using their existing infrastructure including the branches. The IFBS was later renamed to Islamic Banking Scheme (referred to as IBS) in January 1999. The government on October, 1, 1999 founded the second Islamic bank, Bank Muamalat Malaysia Berhad (BMMB). The establishment BMMB as an Islamic bank was the result of a spin-off following the merger between BBMB and Bank of Commerce (Malaysia) Berhad (BOCB).

There are considerable empirical studies that investigate the performance of Islamic banking either using the accounting or economic measure as their performance indicator. Among the research that were done in Malaysia using accounting measure were by Wong (1995), Samad and Hassan (1999) and Rosly and Azhar (2003). Most recent studies on performance have used economic measure as their performance indicator (Mokhtar, Abdullah and Alhabshi, 2006, Suffian 2007 and Kamaruddin, Safa and Mohd, 2008).

Wong (1995) was among the first who analyse the performance of Islamic banking in Malaysia. His study compared the BIMB and conventional commercial banks' performance from year 1984 to 1991 and found that the performance of the Islamic bank is commendable when compare with the conventional counterparts. Alternatively, Samad and Hassan (1999) found that the performance of BIMB is lower as compared to it conventional counterparts in terms of it profitability measured by the Return in Assets (ROA) and Return in Equity (ROE). Both studies by Wong (1995) and Samad and Hassan (1999) only compared BIMB and conventional banks since at the time of their studies there is only one Islamic bank namely the BIMB.

Due to the lack of study on Islamic windows (commercial banks that are offering Islamic banking scheme (IBS) along with the conventional banking i.e the bank has both Islamic and conventional banking in their operation), Rosly and Abu Bakar (2003) has included the Islamic windows or IBS in their study. Their study analyses the performance of the IBS and the conventional banks only (exclude Islamic banks). Their findings reported that the IBS banks recorded higher Return on Assets (ROA) as compared to their conventional counterparts on the justification that the IBS banks are able to utilize existing overheads. The existing overhead is carried by mainstreams banks or the commercial banks that offer both Islamic and conventional operations. Thus the overhead is absorbed by its conventional counterparts since the conventional is their major banking business. Thus from the three studies discussed earlier only Wong and Rosly and Azhar reported that the Islamic banking are better off in term of profitability as compared to the conventional banks.

This finding is consistent with a study done outside Malaysia by Hassoune (2002). Hassoune (2002) analyses the profitability measured by ROE of the Islamic banks and conventional banks in the Gulf Cooperation Council (GCC) countries. The GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The study found that the Islamic banks profitability was higher than that of the conventional banks. On top Hassoune (2002), other Islamic banking performance studies done outside Malaysia that used accounting measure as performance indicator were by Saleh and Zeitun (2006), Brown (2003) and Sarker (1999).

Saleh and Zeitun (2006) analyzed the performance of Islamic banking in Jordan for 1998 to 2003. Their study is limited to analyzing the performance of only two Islamic banks in Jordan namely the Jordan Islamic Bank for Finance and Investment (JIBFI) and Islamic International Arab Bank (IIAB). During the period under study, both banks have shown increased in efficiency measured by its Total Deposit to Total Assets Ratio and its Debt Ratios. From the aspect of profitability measured banks, discount houses and other non-bank institutions by ROA and ROE, the IIAB shows a decreased in its profitability for the 4 years period. Alternatively, the JIBFI shows an increased in profitability for both ratios only in the year 2002 and 2003. Without any comparison with the conventional banks, Saleh and Zeitun (2006) study is not conclusive in comparing the performance of the Islamic banks in Jordan with its conventional counterparts.

In another study Brown (2003) compare the performance of the Islamic banks in nineteen countries from Asia, Middle East and North Africa over the period 1998 to 2001 using both the accounting and economic measures. The findings of the study reported that countries in the Middle East like Bahrain, Kuwait, Saudi Arabia and Yemen consistently for the 4 years period are having the best Return on Average Assets (ROAA). In addition Brown (2003) also reported that countries like Saudi Arabia, Kuwait and Iran have the largest market based on its asset size. On top of that, Islamic bank in Kuwait is also having the least liquid banking market. Besides, Iran and Brunei are having the highest concentration ratio for Islamic banking among the countries analyse in this study. Unfortunately her study does not include the comparison of Islamic and conventional banks among those countries and thus we cannot conclude which banks either Islamic or conventional are better in term of its performance. Sarker (1999) looked at the performance, problems and prospects of Islamic banking in Bangladesh. Among the conclusions are:

1. Islamic banks are able to provide efficient banking services if they are supported with appropriate banking laws and regulations. Studies show that Islamic banks will not operate as efficiently as they should be if they operate under the conventional banking framework.

2. Efficiency can be achieved by applying a reasonable percentage of the profit/loss sharing modes if the Islamic banks operate under the conventional banking framework.
3. Government of Bangladesh should transform conventional banking system to Islamic banking system as it will benefit the country's economy.
4. Development of more standardized and universally tradeable financing instruments is necessary for the existence of a liquid and efficient Islamic financial system.

In another perspective of performance study, Yudistira (2004) and Hassan (2005) used economic measure specifically the Data Envelopment Analysis (DEA) as their performance indicator. Yudistira analyse the performance of eighteen Islamic banks from twelve countries which include seven Middle East, two East Asia and three African countries over the period 1997-2000. Her study reported that the Islamic banks in the Middle East regions perform better until 1998 and subsequently showing sluggish results. The non Middle East Islamic banks are slightly more efficient after 1998. The reasons for inefficient of non Middle East countries before 1998 is because at that time the region is experiencing Asian financial crisis.

Hassan (2005) study has included the comparison of the Islamic and the conventional banks. The study analyses 43 Islamic banks in 21 countries over the period 1994 – 2001 and found that the Islamic banks are relatively less efficient as compared to their conventional counterparts. On top of that the results of the study also show that the five efficiency measures used in the DEA by Hassan (2005) as performance indicator are highly correlated with the accounting measures proxy by the ROA and ROE. This suggests that the five efficiency measures used in the DEA can be used concurrently with conventional accounting ratios in determining Islamic banks performance. Thus the results of the study will the same whether it is using economic or accounting measure as the performance indicator.

Methodology

The sample used in the current study is derived from the list of commercial banks listed by the BNM. The study covers the period from 1st January 2000 up to 31st December 2006. As of 31st December 2006 there are 18 commercial banks in Malaysia that offer Islamic banking services. Out of these 18 commercial banks, 14 banks were having both Islamic and conventional banking for their operation. The other four banks are full-fledged Islamic banks namely, Bank Islam Malaysia Bhd (BIMB) Bank Muamalat Malaysia Bhd (BMMB) and Kuwait Finance House (KFH) and Al- Rajhi Banking and Investment Corporation Malaysia Bhd (Al-Rajhi). Based on these 18 commercial banks, the study grouped

the bank into 2 different categories: Islamic banking and conventional banking. The lists of samples selected are listed in Table 1.

The data collected for this study comprised of two categories: dependent and independent variables. Information regarding the independent and dependent variables are obtained from Bursa Malaysia for listed banks and from the Company Commission of Malaysia for non-listed banks. The dependent variables consist of two performance measurements: return on assets (ROA) and return on equity (ROE). The ROA is defined as net income after tax and zakat, divided by total assets. The ROA measures the capital intensity of the firms, and how many dollars are earned from each dollar of assets the firm controls. The ROA as performance indicators have also been used in previous Malaysian studies on firm performance (Rosly and Abu Bakar, 2003; Tam and Tan, 2007; Ahmad, Huson and Abd Razak 2008) and other areas in the regions (Aarma, Varnu and Vensel, 2004; Adam and Santos, 2006). ROE is defined as net income before zakat and taxation divided by shareholders equity. The ROE measures a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested. As such it is significant to determine the return an investor will get in their investment to a company.

Table 1: List of Commercial Banks Selected

No	Name	Category
1.	Alliance Bank	Islamic and Conventional banking
2.	Citibank	Islamic and Conventional banking
3.	HSBC Bank	Islamic and Conventional banking
4.	Malayan Banking Bhd	Islamic and Conventional banking
5.	<i>OCBC Bank Bhd</i>	Islamic and Conventional banking
6.	<i>Public Bank</i>	Islamic and Conventional banking
7.	<i>Standard Chartered Bank</i>	Islamic and Conventional banking
8.	<i>Southern Bank</i>	Islamic and Conventional banking
9.	<i>AM Bank</i>	Islamic and Conventional banking
10.	<i>Affin Bank</i>	Islamic and Conventional banking
11.	<i>CIMB Bank</i>	Islamic and Conventional banking
12.	<i>EON Bank</i>	Islamic and Conventional banking
13.	<i>Hong Leong Bank</i>	Islamic and Conventional banking
14.	<i>RHB Bank</i>	Islamic and Conventional banking
15.	<i>Kuwait Finance House</i>	Islamic Banking
16.	<i>Al Rajhi Bank</i>	Islamic Banking
17.	<i>Bank Islam Malaysia Bhd</i>	Islamic Banking
18.	<i>Bank Muamalat Msia Bhd</i>	Islamic Banking

Various studies have also used ROA and ROE as their performance measures such as by Xu and Wang (1997), Ang and Ding (2006), Remi and Zeitun (2006). For the purpose of this study, we only select one type of the banking system which is the commercial bank. The independent variable selected is the category and age of the banks. The study will seek to find out whether the category and age of the bank do influence the performance of the commercial banks. With respect to firm's age; the study measures the firm's age from the date of set up till the date of observation of the study. As for the category, the definition of a bank category is based on a number of different characteristics such as business focus, geographic scope of activities and legal status (Swiss National Bank, 2007). Thus for this study there are two categories of commercial banks based on the characteristic; the Islamic and conventional banks.

Results and Discussion

Descriptive Statistics for All Samples

Table 4a shows the descriptive results for the study. Based on descriptive results the mean results for ROA and ROE for the eighteen (18) commercial banks in Malaysia are 0.77 and 10.99 per cent respectively. The minimum ROA and the ROE is -25.78 and -573.37 percent respectively and the maximum ROA is 11.32 and ROE is 112.95. In addition the study has included the age of the bank as a variable and the average age for the bank undertaken in this study is 45.18 years.

Table 4a: Statistics for all Samples

	ROA	ROE	AGE of Bank
Valid	205	205	206
Missing	1	1	0
Mean	0.768	10.997	45.180
Median	0.879	12.2820	37.00
Std. Deviation	2.309	43.872	34.757
Skewness	-7.431	-11.668	1.377
Std. Error of Skewness	0.170	0.170	0.169
Minimum	-25.779	-573.368	1
Maximum	11.323	112.949	131
Sum	157.404	2254.436	9307

Table 2b shows the detail percentages of the samples taken in the study which covers the period of 2000 - 2006. A total of eighteen (18) commercial banks are selected and out of this four (4) are Islamic banks. Where as 14 commercial banks are having both Islamic and conventional banking for their operation. A total of 52.9 percent of the samples are Islamic banks and Islamic windows while about 47% of the samples account for the conventional banks.

Table 4b: Category of Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Islamic	109	52.9	52.9	52.9
	Conventional	97	47.1	47.1	100.0
Total		206	100.0	100.0	

Descriptive Statistics for Full-Fledged Islamic Banks

Out of the eighteen (18) commercial banks in the study, four (4) banks are full-fledged Islamic banks: BIMB, BMMB, Al-Rajhi and Kuwait Finance House. Table 4c shows the mean result for ROA and ROE are -1.237 and -22.41 percent respectively. The minimum and maximum for ROA is -25.779 and 1.067 percent respectively. Meanwhile, the ROE has a minimum of -573.368 and a maximum of 22.855 percent. The average age of the full-fledged Islamic banks is much lower compared to the whole sample with a mean of 15.5 years. Whereas the mean for the whole sample of the commercial banks is

Table 4c: Statistics for Islamic Banks

		ROA	ROE	AGE of Bank
N	Valid	24	24	24
	Missing	0	0	0
Mean		-1.237625	-22.411417	15.50
Median		.248000	3.228500	13.00
Std. Deviation		2.309	43.872	34.757
Skewness		4.770	4.077	.573
Std. Error of Skewness		5.6046933	118.3521631	13.244
Minimum		-25.7790	-573.3680	1
Maximum		1.0670	22.8550	43
Sum		29.7030	537.8740	372

Descriptive Statistics for Banks with Islamic Window

For the other fourteen (14) commercial banks undertaken in this study, they have Islamic window in operation and the descriptive the results are shown in Table 4d. The mean ROA and ROE for the Islamic window banks 1.042 and 17.613 percent respectively. The minimum and maximum range for ROA is -3.147 and 5.074 percent respectively. For the ROE, the minimum is -21.158 percent and the maximum is 49.99 percent. However, the age of the bank is found to be higher than the previous samples (the Islamic banks) at 50.51 years.

Table 4d: Statistics for Islamic Windows

		ROA	ROE	AGE of Bank
N	Valid	85	85	85
	Missing	0	0	0
	Mean	-1.042165	-17.612576	50.51
	Median	.922000	16.673000	39.00
	Std. Deviation	9690705	11.9189517	35.641
	Skewness	.293	-.127	1.263
	Std. Error of Skewness	.261	.261	.261
	Minimum	3.1470	21.1580	3
	Maximum	5.0740	49.9880	131
	Sum	88.5840	1497.0690	4293

Descriptive Statistics for Conventional Banks

Table 4e shows the result for the same fourteen (14) banks as illustrated in Table 2c but in this case the analysis involved the conventional banking portion of the operation. The mean ROA is 54.02 percent while the minimum and maximum ROA are found to be -25.78 and 5.07 percent respectively. As for the ROE, the mean is 8.8 percent. The minimum and maximum ROE is - 573.37 and 49.99 percent respectively. The mean age of the conventional bank is at 42.8 years.

Descriptive Statistic for All Islamic Banks Inclusive of Islamic Windows

The following table presents the results for all Islamic banks inclusive of Islamic window. The mean ROA and ROE is 54.02 and 8.8 percent respectively. The minimum and maximum ROA are -25.78 and 5.07 percent respectively. The mean ROE is 8.8 percent. The minimum and maximum ROE is -573.37 and 49.99 percent respectively. The mean age of the conventional bank is at 42.8 years.

Table 4e: Statistics for Conventional Banks

		ROA	ROE	AGE of Bank
N	Valid	109	109	109
	Missing	0	0	0
	Mean	.540193	8.799954	42.80
	Median	.784000	14.195000	36.00
	Std. Deviation	2.8845805	58.0613055	35.181
	Skewness	.231	.231	.231
	Std. Error of Skewness	.261	.261	.261
	Minimum	-25.7790	-573.3680	1
	Maximum	5.0740	49.9880	131
	Sum	58.8810	959.1950	4665

Table 4f: Statistic for all Islamic Banks Inclusive of Islamic Windows

		ROA	ROE	AGE of Bank
N	Valid	109	109	109
	Missing	0	0	0
	Mean	.540193	8.799954	42.80
	Median	.784000	14.195000	36.00
	Std. Deviation	2.8845805	58.0613055	35.181
	Skewness	.231	.231	.231
	Std. Error of Skewness	.261	.261	.261
	Minimum	-25.7790	-573.3680	1
	Maximum	5.0740	49.9880	131
	Sum	58.8810	959.1950	4665

Test for Normality

In statistics, normality tests are used to determine whether a random variable is normally distributed in order to decide the type of testing that should be used. Among the normality tests include D'Agostino's K-squared test, the Jarque-Bera test, the Anderson-Darling test, the Cramér-von-Mises criterion, Kolmogorov-Smirnov, Shapiro-Wilk test, Pearson's chi-square test, and the Shapiro-Francia test (http://en.wikipedia.org/wiki/Normality_test). The study has selected one that was best known, the Kolmogorov-Smirnov test. The Kolmogorov-Smirnov test is based on a simple way to quantify the discrepancy between the observed and expected distributions (<http://www.graphpad.com/library/BiostatSpecial/article197.htm>).

Table 4g present the result of the Two-Sample Kolmogorov-Smirnov Test. The result shows that the Sig. value is more than 0.05 which indicates the samples taken in the study are normally distributed. Thus since the samples are normally distributed, a parametric test should be selected in conducting the test for the samples.

Table 4g: Test Statistics Kolgomorov-Smirnov

		ROA	ROE
Most Extreme Differences	Absolute	.155	.155
	Positive	.155	.062
	Negative	-.034	-.115
Kolmogorov-Smirnov Z		1.110	.825
Asymp. Sig. (2-tailed)		0.170	0.504

Test of Difference Between Groups

An independent samples t-test is one of the parametric testing used in order to answer the first objective of the study that is to determine whether Islamic banking performance is at par with the conventional banking. Thus, the independent samples t-test is used in comparing the mean scores of two different groups namely the Islamic and conventional banks in term of their performance. The results of the independent t-test are presented in Table 4h and Table 4i. The results show that the means score of the conventional banks exhibit higher as compared to the Islamic banks. The means scores for the ROA for the conventional bank is 1.03 as compared to only 0.54 for the Islamic banks. As for the ROE, the mean score of the conventional banks is 13.49 as compared to only 8.80 for the Islamic banks.

Although the mean scores for conventional banks are higher, the result is not conclusive since in order to know which category of banks is better in term of performance, the results in Table 4i should be analysed by looking at its significant value under the section labeled t-test for Equity of Means. The results presented shows that the Sig. value is more than 0.05 which indicates

Table 4h: T-test: Group Statistics

	CategoryBank	N	Mean	Std. Deviation	Std. Error	Mean
ROA	Islamic	109		0.540193	2.8845805	.2762927
	conventional	96		1.026281	1.3646830	.1392824
ROE	Islamic	109		8.799954	58.0613055	5.5612645
	conventional	96		13.492094	16.9971560	1.7347650

that there is no significant difference between the performance of the conventional and the Islamic banks. The finding totally contradicted the studies by Samad and Hassan (1999) in which they found that the conventional banks are better off as compared to the Islamic bank. The difference between Samad and Hassan (1999) and this study is that the study by Samad and Hassan (1999) has only one Islamic bank at that time and it is represented by BIMB. Where as, in this study, the Islamic bank comprised of four Islamic banks on top of 14 other Islamic windows operated side by side with the conventional banking. Thus the difference in samples probably influenced the results. In another study by Rosly and Abu Bakar (2003) has included the Islamic windows or IBS of other financial institutions not limited to commercial banks only. Thus the results by Rosly and Abu Bakar (2003) shows that the Islamic banks are better off in term of performance measured by ROA.

Table 4i: T-Test: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig.: 2-tailed	Mean Difference	SE Difference	95% CI of the Difference	
		Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower
R	Equal variances assumed	1.11	0.29	-1.51	203	0.13	-0.49	0.32	-1.12	0.15
A	Equal variances not assumed			-1.57	158.2	0.12	-0.49	0.31	-1.10	0.12
R	Equal variances Assumed	1.13	0.29	-0.76	203	0.45	-4.69	6.15	-16.8	7.423
E	Equal variances not assumed			-0.81	128.6	0.42	-4.62	5.83	-16.2	6.83

Regression Results

Regression analyses of the data were used in this study to determine the association between category of bank that is Islamic or conventional, age of the bank with the ROA and ROE. The ROA and ROE are regressed individually against the category and age of the bank. The two models used are as follows:

Model 1: $ROA = \alpha + \beta_1 \text{Category of Bank} + \beta_2 \text{Age}$

Model 2: $ROE = \alpha + \beta_1 \text{Category of Bank} + \beta_2 \text{Age}$

Where:

- α = intercept
- ROA = Return on assets is determined by net income after tax and zakat divided by total assets
- ROE = Return on equity is determined by net income after tax and zakat divided by total equity
- β_1 Category of bank = Two types namely the Islamic or/and conventional banking system
- β_2 Age of bank = The age of the firm is defined as the age of firm from the date of incorporation

Table 4j reports the results of multiple regressions for the two models using ROA and ROE as performance variables, category and age of bank as independent variables. The R square indicates that the independent variables have the impact on the dependent variables. The independent variable that is the age of the bank explained about 9 percent on its impact of performance measured by ROA. Accordingly the result for Model 1 where the ROA is the dependent variables indicate that the age of the bank has positive impact on the bank performance. This result is consistent with Beck, Cull, Jerome (2005) and Glancey, 1998. Beck, Cull, Jerome (2005) found that longer established banks enjoyed performance advantages over relative newcomers Where as Glancey 1998, found that older firms benefit from dynamic economies of scale by learning from experience and thus results in better profitability. In addition according to them the older firms may also benefit from its reputation effect since they have enter the market earlier and thus allow them to earn higher margin on sales (Glancey, 1998).

As for the category of banks that is Islamic or conventional banking system; it does not have any impact on performance of the bank. It does not matter whether the bank is having Islamic or conventional, its performance will not be much affected in the sense that none of this is better than the other as been tested using the independence t-test and has been discusses above.

The result for Model 2 reported the same findings as Model 1 except that the R square for the Model 2 is much less than Model 1. Although the age of the bank has significant positive relationship with performance at 5 percent significant level yet its only explained about 4 percent of the impact on performance. Thus the impact of age on performance represented by ROE is very low as compared to ROA at about 9 percent.

Table 4j: Multiple Regressions for ROA and ROE Models

Model 1 : ROA = $\alpha + \beta_1$ Category of Bank + β_2 Age

Model 2 : ROE = $\alpha + \beta_1$ Category of Bank + β_2 Age

	Model 1 ROA <i>Estimated Coefficients</i>	Model 2 ROE <i>Estimated Coefficients</i>
Constant	0.520 (0.013)	5.901 (0.138)
Independent Variables:		
Category of bank	0.006(0.963)	1.875(.250)
Age of bank	0.008(0.000***)	.078(.014**)
R square	0.091	0.043

Note: *** denotes that the parameter is statistically significant at 1%

**denotes that the parameter is statistically significant at 5%

* denotes that the parameter is statistically significant at 10%

Conclusion

The study focused on investigating the performance of the Islamic banking among the commercial banks in Malaysia. A total of eighteen commercial banks which include four Islamic banks are investigated in this study.

The results from the independent t-test shows that there no difference in performance between Islamic and conventional banks although the means score for both ROA and ROE for the conventional banks exhibit higher as compared to the Islamic banks. The t-test for Equality of Means does not show significant results at 0.05 significant level for both performance measure. Alternatively if the significant level is taken at 0.10 level, only the ROA shows statistically significant difference. This means that the conventional bank is better than the Islamic bank as found in earlier study by Samad and Hassan (1999).

Results from the regression analysis shows that the age of bank has positive impact on the performance of bank either measured by ROA or ROE. Where as the category of bank does not have any impact on performance.

Suggestion for Future Research

Since the study only analyses the commercial banks in Malaysia, therefore it is recommended to include all other financial institutions such as the investment banks and development financial institutions in future research. Thus there will

be more samples to be tested and the study will be more representative of the financial institutions in this country.

Secondly, it is recommended to include other variables that such size of the bank, growth or non performing loans as independent variable since the age of bank only explained about 4 and 9 percent for ROE and ROA respectively.

Endnote

- ¹ In this study, Islamic banks are synonymous with Islamic Financial Institutions namely commercial banks, finance companies, and merchant.

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