

**TECHNICAL EFFICIENCY OF DOMESTIC  
COMMERCIAL BANKS IN MALAYSIA**

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JOHOR**

**MAY 2007**



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**Submitted in Partial Fulfillment  
of the Requirement for the  
Bachelor of Business Administration  
(Hons) Finance**

**FACULTY OF BUSINESS MANAGEMENT  
UITM, JOHOR**

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**BACHELOR OF BUSINESS ADMINISTRATION  
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SEGAMAT**

**“DECLARATION OF ORIGINAL WORK”**

I, NURHAZANI BT MUHAMAD AYUB, (I/C NUMBER: 840714-11-5718)

Hereby, declare that:

- This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation where otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: \_\_\_\_\_

Date \_\_\_\_\_

11 MAY 2007

LETTER OF TRANSMITTAL

Faculty of Business and Management  
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Kampus Johor  
85009 Segamat  
Johor Darul Takzim

Encik Muhamad Sukor bin Jaafar  
Faculty of Business Management  
Universiti Teknologi MARA  
Kampus Johor  
85009 Segamat  
Johor Darul Takzim

Dear Encik Muhamad Sukor bin Jaafar,

TECHNICAL EFFICIENCY OF DOMESTIC COMMERCIAL BANKS IN MALAYSIA

On January 2007, I was required to do a project paper on Technical Efficiency of Domestic Commercial Banks in Malaysia.

2. I was informed to submit this report on date of submission, as a part of the course requirement for bachelor in Business Administration (Honors) Finance 06. I hereby submit this report and hope that you will find everything satisfactory.

Thank you.

Yours truly,



.....  
(NURHAZANI BT MUHAMAD AYUB)

2005656286

B.B.A (HONS) FINANCE 06

## ABSTRACT

This study focuses on the technical efficiency of domestic commercial banks in Malaysia. The objective or the purpose of this study is to determine whether the banks are efficient or inefficient in combining their input and output.

In this study, the bank inputs acts as independent variables; net fixed assets and operating expenses. The dependent variables for this study are loans and advances, deposits, and investment securities. In order to make this study clearly defined, there are two models were created. To analyze the technical efficiency of domestic commercial banks in Malaysia, this study using ten domestic commercial banks in Malaysia. The time horizon is during 1996 to 2005 which covers ten years. Technical efficiency is estimated by using intermediation approach to define bank input and output. This study assumed that banks transform net fixed assets and operating expense to produce loans and advances, deposits and investment securities. This study was using non-parametric approach, which is known as Data Envelopment Analysis (DEA), developed by Charnes, Cooper and Rhodes (1978). DEA provides the mathematical formula in measuring technical efficiency scores. There are some previous researches have concluded that most of the banks are inefficient in combining their input and output in achieving the banks goals. This study can be used by the domestic commercial banks as their guideline to know their technical efficiency.