

BANK EFFICIENCY AND INTELLECTUAL HUMAN CAPITAL IN MALAYSIA



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LETTER OF SUBMISSION

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Prof,

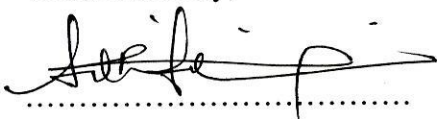
**FINAL RESEARCH REPORT 'BANK EFFICIENCY AND INTELLECTUAL
HUMAN CAPITAL IN MALAYSIA'**

Kindly refer to the above.

With reference to the above, submitted are three (3) copies of the Final Research Report entitled 'Bank Efficiency and Intellectual Human Capital In Malaysia' by a group of researchers from The Faculty of Business Management, Universiti Teknologi MARA (UiTM), Sarawak Campus.. This is a Dana Kecemerlangan Research Project.

Thank you.

Yours sincerely,



ASSOC. PROF. DR. ROSITA HAJI SUHAIMI

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ABSTRACT

In the era of liberalization and globalization, commercial banks are expected to face stiff competition that forces them to be more efficient in controlling their costs. Hence, this study aims to investigate the cost efficiency of the commercial banks in Malaysia, and the significant factors that can influence the cost efficiency of these banks. The Stochastic Frontier Approach was applied to estimate cost efficiency of the banks, which was then regressed as the dependent variable, and competition, ICT infrastructure, intellectual human capital, and size of the commercial banks were the independent variables. This study includes all the 23 commercial banks in Malaysia from 1990 to 2009. Most of the time since 1995, the cost efficiency of foreign banks has surpassed the cost efficiency of the local banks but the local banks seemed to improve their cost efficiency after their merger exercises. However, the overall cost efficiency of the commercial banks over time is entering a down trend, as the efficiency score of the commercial banks is deviating further from the frontier. Both investment in ICT and non ICT infrastructure were found not significant in affecting the cost efficiency of the commercial banks but intellectual human capital was found to be significant in increasing cost efficiency. However, increases in competition led to a decrease in cost efficiency. On the other hand, the merger efforts by the commercial banks in Malaysia since 2001 have now been proven successful in improving efficiency.

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CHAPTER 1: BACKGROUND

1.1 Introduction

In the RMK-9, it was mentioned that the application of ICT in the service industries, such as e-banking and e-commerce, particularly in the banking and telecommunication subsectors, contributed a great deal to productivity (Malaysia, 2006). However, with increasing competition, ICT, being a basic infrastructure element for financial institutions, may no longer be regarded as a competitive edge, as every bank has already extensively embraced ICT in their operations to serve their customers better.

In the era of globalisation and liberalisation, the commercial banks might be facing challenges in order to be cost and profit efficient. Human intellectual capital might play the role of achieving bank efficiency. Yildirim and Philippatos (2002) in their study of European countries, and Nikiel and Opiela's (2002) study of banks in Poland, found that the banks were able to achieve cost efficiency but not profit efficiency because they were facing stiff competition and were forced to sacrifice their profits to gain more market share. In Malaysia, Mohd. Zaini et. al (2001, 2003), and Mariani Abdul Majid et. al. (2003) estimated the cost efficiency of Malaysian banks. However, the relationship between a bank's cost efficiency and specific factors such as intellectual human capital and ICT has not been explored so far.