

DETERMINANTS OF TECHNICAL EFFICIENCY OF BANKS IN YEMEN

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DETERMINANTS OF TECHNICAL EFFICIENCY OF BANKS IN YEMEN

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ABSTRACT

The main objective of this thesis is to identify the efficiency level and the determinants of efficiency of the Yemeni banks over the period from 1998 to 2011. This thesis consists of three specific objectives. The first objective is to determine the technical, pure technical and scale efficiency score of banks. The second objective is to analyse the differences in efficiency in terms of banks identity, bank type and internationalization of banks. The third objective aims to identify factors that determine efficiency. The two-stage approach which consists of data envelopment analysis (DEA) and Tobit regression is employed in analyzing the data. Specifically, the DEA was used to estimate banking efficiency in the first stage, while the Tobit regression was applied in examining the determinants of the efficiency obtained from the first stage. The results of DEA show that, on average, technical, pure technical and scale efficiencies for all banks over the sample period are 74.5%, 86.3% and 85.5%, respectively. The results also indicate that most Yemeni banks are facing scale problems due to decreasing returns to scale. In addition, the results reveal that there are significant difference in efficiency among banks operating in Yemen based on their identity, bank type and internationalization of banks. Moreover, the results from Tobit regression illustrate that there is a positive relationship between efficiency scores and internationalization of banks, type of banks, intellectual capital performance and gross domestic product, while banks size and profitability have significant negative influence on efficiency. A major contribution that arises from the study is that this is the first study that shows the importance of intellectual capital performance in ensuring banks efficiency especially in Yemen.

Keywords: technical efficiency, pure technical efficiency, scale efficiency, data envelopment analysis, intellectual capital performance

ABSTRAK

Objektif utama tesis ini adalah untuk mengenal pasti tahap kecekapan dan penentu kecekapan bank-bank di Yaman bagi tempoh 1998 hingga 2011. Tesis ini mengandungi tiga objektif khusus. Objektif pertama ialah untuk menentukan skor kecekapan teknikal, skor kecekapan teknikal tulen dan skor kecekapan skala untuk bank-bank. Objektif kedua ialah untuk menganalisis sama ada terdapat perbezaan dalam kecekapan dari segi identiti bank, jenis bank dan pengantarabangsaan bank. Objektif ketiga bertujuan untuk mengenal pasti faktor-faktor yang menentukan kecekapan. Pendekatan dua peringkat yang terdiri daripada analisis penyampulan data (APD) dan regresi *Tobit* digunakan untuk menganalisis data. Secara khususnya, APD digunakan untuk menganggarkan kecekapan perbankan pada peringkat pertama, manakala regresi *Tobit* digunakan dalam meneliti penentu kecekapan yang diperolehi daripada peringkat pertama. Keputusan APD menunjukkan bahawa secara purata, kecekapan teknikal, kecekapan teknikal tulen dan kecekapan skala untuk semua bank dalam tempoh kajian adalah masing-masing 74.5 peratus, 86.3 peratus dan 85.5 peratus. Keputusan juga menunjukkan bahawa kebanyakan bank di Yaman menghadapi masalah skala kerana pulangan berkurangan mengikut skala. Di samping itu, keputusan menunjukkan bahawa terdapat perbezaan yang signifikan dalam kecekapan antara bank-bank yang beroperasi di Yaman berdasarkan identiti bank, jenis bank dan pengantarabangsaan bank. Selain itu, keputusan daripada regresi *Tobit* menunjukkan bahawa terdapat hubungan yang positif antara skor kecekapan dan pengantarabangsaan bank, jenis bank, prestasi modal intelektual dan keluaran dalam negara kasar, manakala saiz bank dan keuntungan mempunyai pengaruh negatif yang ketara terhadap kecekapan. Sumbangan utama yang terhasil dari kajian ini ialah ia merupakan kajian pertama yang menunjukkan kepentingan prestasi modal intelektual dalam menentukan kecekapan bank terutama di Yaman.

Kata kunci: kecekapan teknikal, kecekapan teknikal tulen, kecekapan skala, analisis penyampulan data, prestasi modal intelektual

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TABLE OF CONTENTS

	Page
TITLE PAGE	i
CERTIFICATION OF THE THESIS WORK	ii
PERMISSION TO USE	iv
ABSTRACT	v
ABSTRAK	vi
ACKNOWLEDGEMENTS	vii
TABLE OF CONTENTS	viii
LIST OF TABLES	xii
LIST OF FIGURES	xv
LIST OF ABBREVIATION	xvii
CHAPTER ONE INTRODUCTION	1
1.1 Introduction	1
1.2 Background of the Study	6
1.3 Problem Statement	10
1.4 Research Questions	14
1.5 Objectives of the Study	15
1.6 Significance of the Study	15
1.7 Organization of the Study	19
CHAPTER TWO LITERATURE REVIEW	20
2.1 Introduction	20
2.2 Efficiency Definition and Classification	20
2.2.1 Economic Efficiency	21
2.2.2 Allocative Efficiency	22
2.2.3 Technical Efficiency	22
2.2.3.1 Pure Technical Efficiency	23
2.2.3.2 Scale Efficiency	23
2.3 Methods of Measurement Efficiency	25
2.3.1 Parametric Approach	25
2.3.1.1 Stochastic Frontier Approach (SFA)	26
2.3.1.2 Distribution-Free Approach (DFA)	27
2.3.1.3 Thick Frontier Approach (TFA)	27

2.3.2 Non-Parametric Approach	28
2.3.2.1 Data Envelopment Analysis (DEA)	28
2.4 Specification of Inputs and Outputs	29
2.4.1 Production Approach	30
2.4.2 Intermediation Approach	30
2.5 Bank Efficiency	31
2.6 Underlying Theories of Efficiency	39
2.6.1 Divisibility and Shakeout Theory	39
2.6.2 Moral Hazard Theory	40
2.6.3 Bad Management Theory	40
2.6.4 Eclectic Theory	41
2.6.5 Resource Based Theory	41
2.7 Determinants of the Efficiency	43
2.7.1 Size	43
2.7.2 Profitability	47
2.7.3 Financial Capital	50
2.7.4 Non- Performing Loans (NPLs)	55
2.7.5 Internationalization of Banks	59
2.7.6 Automated Teller Machines (ATMs)	62
2.7.7 Type of Banks	66
2.7.8 Intellectual Capital Performance (ICP)	71
2.8 Summary	78
CHAPTER THREE METHODOLOGY	79
3.1 Introduction	79
3.2 Measurement of Bank Efficiency	79
3.2.1 Data Envelopment Analysis	79
3.3 Process of Identifying Input and Output	83
3.4 Hypotheses Development	84
3.4.1 Size	84
3.4.2 Profitability	84
3.4.3 Financial Capital	85
3.4.4 Non-Performing Loans	86
3.4.5 Internationalization of Banks	87
3.4.6 Automated Teller Machines (ATMs)	88

3.4.7 Type of Banks	88
3.4.8 Intellectual Capital Performance	89
3.4.9 Control Variables	90
3.5 Measurements of Explanatory Variables	94
3.6 Two-Stage Approach	95
3.7 Sample and Data Sources	98
3.8 Summary	98
CHAPTER FOUR EMPIRICAL RESULTS AND DISCUSSION	99
4.1 Introduction	99
4.2 Descriptive Statistics Deviation of the Input and Output Variables	99
4.3 Estimation of Banks Efficiency Score in Yemen	103
4.3.1 DEA estimates of Efficiency for Government, Foreign and Domestic Banks.	110
4.3.2 Efficiency of Yemen Banks Based on Bank Type	117
4.3.3 Efficiency of Yemen Banks Based on Bank Internationalization	121
4.4 Descriptive Statistics of Independent Variables	125
4.5 Assumptions of Tobit Regression Analysis	129
4.5.1 Normality	129
4.5.2 Multicollinearity	130
4.6 Tobit Regression Results	133
4.7 Robustness Analysis	143
4.7.1 Testing the Robustness of the Main Results by Exclusion of the Independent Variables that Show Insignificant Associations with the Dependent Variables	143
4.7.2 Robustness Tests by Using Tobit Random Effects Models (Panel Data) for Technical, Pure Technical and Scale Efficiencies	145
4.7.3 The Substitution of the Variable Intellectual Capital Performance (ICP) with its Components (i.e., Human Capital Efficiency [HCE] and Capital Employed Efficiency [CEE]).	147
4.8 Summary	150
CHAPTER FIVE SUMMARY AND CONCLUSION	151
5.1 Introduction	151
5.2 Summary of the Study	151
5.3 Implications of the Study	155
5.3.1 Implication to the Theory	155

5.3.2 Implication to the Policymakers	157
5.3.3 Implication for Managers	158
5.3.4 Implications for Academic Researchers	158
5.4 Limitations of Study and Future Research	159
5.5 Summary	160
REFERENCES	161

LIST OF TABLES

Table		Page
Table 1.1:	List of the Banks in the Yemeni Banking System	9
Table 2.1:	Summary of Prior Studies on Efficiency of Bank and the Inputs and Outputs used in DEA	37
Table 2.2:	Summary of Size and its Impact on Efficiency	45
Table 2.3:	Summary of Profitability and its Impact on Efficiency	49
Table 2.4:	Summary of Financial Capital and its Impact on Efficiency	53
Table 2.5:	Summary of Non-Performing Loans (NPL) and its Impact on Efficiency	58
Table 2.6:	Summary of Internationalization of Banks and its Impact on Efficiency	61
Table 2.7:	Summary of ATM and its Impact on Efficiency	65
Table 2.8:	Summary of the Type of Banks and its Impact on Efficiency	70
Table 2.9:	Summary of Intellectual Capital Performance (ICP) on Performance	76
Table 3.1:	Measurements of Explanatory Variables	94
Table 4.1:	Descriptive Statistics for Inputs and Outputs used in DEA (RY)	100
Table 4.2:	Correlation of Input and Output Variables	102
Table 4.3:	Efficiency Measure of the Yemen Banking Sector (1998 - 2011)	104

Table	Page
Table 4.4: Number and Percentage of Nature of Return to Scale in Yemen's Bank Sector Analysis	110
Table 4.5: DEA Estimates of Efficiency for Government, Foreign and Local Banks, 1998-2011	111
Table 4.6: Kruskal-Wallis Test for Difference in Variances for Efficiency Components from DEA	115
Table 4.7: Mann-Whitney Test for Two Independent Samples for Technical, Pure, and Scale Efficiency, Based on DEA Estimation	116
Table 4.8: Efficiency of Yemen Banks Based on Bank Type	117
Table 4.9: Mann-Whitney U Test between Commercial Banks and Islamic Banks	118
Table 4.10: Efficiency Measures of Yemen Banks Classified by Banks' Internationalization	121
Table 4.11: Mann-Whitney Test between International Banks and Local Banks	124
Table 4.12: The Descriptive Statistics for Dummy Independent Variables	125
Table 4.13: Descriptive Statistics of the Continuous Independent Variables	126
Table 4.14: Descriptive VAIC and its Components (HCE, SCE and CEE)	127
Table 4.15: Pearson Correlation Tests between Independent Variables of Study	131
Table 4.16: The Results of VIF	132
Table 4.17: Tobit Censored Regression Results	134

Table		Page
Table 4.18	Summary of Testing Hypotheses Results Related to the Determinants of Efficiency	142
Table 4.19:	Robustness Tests to the Exclusion of the Independent Variables that Show Insignificant Association with the Technical, Pure Technical and Scale Efficiency (TE, PTE & SE) Scores	144
Table 4.20:	Log Likelihood Ratio for Technical, Pure Technical and Scale Efficiencies	145
Table 4.21:	Tobit Random Regression Results	146
Table 4.22:	The Substitution of the Intellectual Capital Performance (ICP) with its Components (HCE & CEE)	148

LIST OF FIGURES

Figure		Page
Figure 1.1:	Percent of Firms with a Checking or Savings Account in 2010	4
Figure 1.2:	Percent of Firms with a Bank Loan/Line of Credit in 2010	4
Figure 2.1:	The Efficiency Analysis Framework	21
Figure 2.2:	Technical and Allocative Efficiency	24
Figure 3.1:	Measurement Scale Efficiency	82
Figure 3.2:	The Three Inputs and Two Outputs Used in the DEA Model	83
Figure 3.3:	Study Framework	93
Figure 4.1:	Technical, Pure and Scale Efficiency of Yemeni Banks, 1998-2011	108
Figure 4.2:	Technical Efficiency of Government, Foreign and Local	113
Figure 4.3:	Pure Technical Efficiency of Government, Foreign and Local	113
Figure 4.4:	Scale Efficiency of Government, Foreign and Local	114
Figure 4.5:	Technical Efficiency of Commercial and Islamic Banks	119
Figure 4.6:	Pure Technical Efficiency of Commercial and Islamic Banks	120

Figure		Page
Figure 4.7:	Scale Efficiency of Commercial and Islamic Banks	120
Figure 4.8:	Technical Efficiency by Bank Internationalization	122
Figure 4.9:	Pure Technical Efficiency by Bank Internationalization	123
Figure 4.10:	Scale Efficiency by Bank Internationalization	123
Figure 4.11:	VAIC and its Components	128

LIST OF ABBREVIATIONS

AE	Allocative Efficiency
ATM	Automated Teller Machines
CBY	Central Bank of Yemen
CEE	Capital Employed Efficiency
Crisis	Financial Crisis
CRS	Constant Returns to Scale
DEA	Data Envelopment Analysis
DFA	Distribution-Free Approach
DMUs	Decision Making Units
DRS	Decreasing Returns to Scale
EE	Economic Efficiency
FINCP	Financial Capital
GATS	Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HCE	Human Capital Efficiency
HIC	Human Intellectual Capital
ICP	Intellectual Capital Performance
IMF	International Monetary Fund
INTSU	Internationalization of Banks
IRS	Increasing Returns to Scale
IT	Information Technology
MENA	Middle East and North Africa
NPL	Non- Performing Loans
PTE	Pure Technical Efficiency
ROA	Return on Assets
ROE	Return on Equity
SCE	Structural Capital Efficiency
SE	Scale Efficiency
SIC	Structural Intellectual Capital
SFA	Stochastic Frontier Approach
TE	Technical Efficiency
TFA	Thick Frontier Approach
TYPE	Type of Banks
VA	Value Added
VAIC	Value Added Intellectual Coefficient
WTO	World Trade Organization
YBRD	Yemen Bank for Reconstruction and Development

CHAPTER ONE

INTRODUCTION

1.1 Introduction

It is widely believed that the banking system is the core of the economic structure of any country, and represents the engine of any development initiative. In addition, it plays a significant role in the growth and development of an economy, as evidenced academically and practically by the literature (Al-Marri, Ahmed & Zairi 2007). Therefore, as the financial institutions and banking system become more effective and stronger, the more roles they play in the economic development through efficient production of products and services (Al-Hajri & Tatnall, 2008). Hence, to carry out this role, each bank needs to be efficient in order to maintain its business successes, given increasing competition in the financial markets, and to contribute to the economy.

Efficiency in economics is a term that describes how well a system performs in producing the maximum output for a given quantity of inputs. If more outputs are produced without altering inputs, or if fewer inputs are used for the same quantity of output produced, efficiency is said to be improved. In the banking industry, efficiency is measured as the difference between the bank's position and its best production frontier. These measures are critical as they enable us to distinguish banks that will survive from those that will not. As such, the present study examines the efficiency of the banking sector in Yemen over the period from 1998 to 2011.

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