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Al-Shajarah
Volume 2018, Issue Special Issue, 2018, Pages 111-134

Efficiency measurement of islamic and conventional banks in saudi arabia : An empirical and comparative analysis (Article)

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Abstract

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Saudi Arabia , beside Malaysia and many other Muslim countries, is one of those countries where Islamic and conventional banking operate in parallel. Over the last decade, the country's banking industry is growing at rapid pace that accounts for the largest share in GCC. The present study measures and compares the performance of Saudi conventional and Islamic banking industry and identifies the areas where the strategic measures are required to improve the banking performance. It applies non-parametric Data Envelopment Analysis (DEA) for the data from 2008-2016 of Saudi banking industry and provides comprehensive empirical results at individual bank vis-a-vis industry levels. The empirical results demonstrate a mix trend among the banks in achieving technical, pure technical and scale efficiency . It is observed that with the common pledge to expanding market share and performance, both conventional and Islamic banks have been successful in improving their levels of efficiency . At individual bank level, Al-Rajhi is the only bank that has achieved the highest score in terms of technical, pure technical and scale efficiency , while in the conventional banking group, both Saudi Hollandi and National Commercial banks are found on the top position. Despite the growth of incomes and deposits of entire banking industry in Saudi Arabia , this study particularly recommends for the Islamic banks to redirect their short term and long-term marketing strategies and to focus on improving their management skills at the branch level.

SciVal Topic Prominence

Topic: Banks | Banking | bank efficiency

Prominence percentile: 96.191

Author keywords

Bank Performance | Data Envelopment Analysis | Efficiency Measurement | Islamic finance | Saudi Banking Industry

Funding details

Funding sponsor	Funding number	Acronym
King Saud University		
Canadian Bar Association See opportunities		

Funding text

The authors would like express their gratitude to the Dean of Scientific Research at the King Saud University, represented by the Research Centre at the College of Business Administration (CBA), for supporting this research financially.

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ISSN: 13946870
Source Type: Journal
Original language: English
Document Type: Article
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