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Lecture Notes in Networks and Systems
Volume 194 LNNS, 2021, Pages 1772-1809
International Conference on Business and Technology, ICBT 2020; Istanbul; Turkey; 14
November 2020 through 15 November 2020; Code 256389

A Comparative Performance Analysis of Islamic and Conventional Banking: A Case Study of Pakistan (Conference Paper)

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Abstract

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The objective of this research is to critically evaluate the performance indicators which are used in previous studies and propose a comprehensive indicator to check the performance of selected Islamic and Conventional banks of Pakistan over the period of 2011–2016. The comprehensive indicator of performance is comprised of indicator of profitability, customer satisfaction and cost & revenue efficiency. Where the efficiencies measured using Stochastic Frontier Analysis, while overall indicator has been constructed using Principle Factor Analysis. This study provides ranking of selected banks based on the new indicator of performance and insights to what are possible determinants in conventional and Islamic banking system. This study then compared the determinants of performance such as Bank size, Operating efficiency, Management efficiency, Employee efficiency, and Funding cost between conventional and Islamic banks which are comparable in size. To compare the determinants of performance, regression analysis was applied. Feasible Generalized Least Square (FGLS) approach later used to compare the determinants of performance. Findings show that Meezan bank tops in revenue efficiency and Askari bank tops in cost efficiency. In overall performance comparison, Meezan bank tops accordingly. This study identifies Operating efficiency, Management efficiency, Employee efficiency, and Funding cost as important determinants of Pakistani banking sector. © 2021, The Author(s), under exclusive license to Springer Nature Switzerland AG.

SciVal Topic Prominence ⓘ

Topic: Interest Margin | Bank Profitability | Non-Interest Income

Prominence percentile: 93.143 ⓘ

Author keywords

Commercial banks Customer satisfaction Efficiency Factor analysis Islamic banks Performance Profitability
Stochastic Frontier Analysis

ISSN: 23673370

ISBN: 978-303069220-9

Source Type: Book Series

Original language: English

DOI: 10.1007/978-3-030-69221-6_129

Document Type: Conference Paper

Volume Editors: Alareeni B., Hamdan A., Elgedawy I.

Publisher: Springer Science and Business Media Deutschland GmbH

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