

Examination and Comparison the Efficiency of Private and Public Iranian Banks Using DEA Technique

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Abstract

The aim of this paper is to apply the Data Envelopment Analysis on the data of the Iranian public and private banks to examine and compare efficiency of them during the period 2008-2012. DEA has become a popular approach in measuring the efficiency of banking industry. The paper employed original Data Envelopment Analysis Models based on an input oriented model to measure the efficiency. It measure Technical Efficiency under constant return to scale (CCR), Managerial Efficiency under variable return to scale (BCC), and Scaled Efficiency. In the period under study, the average technical efficiency was 70%, average managerial efficiency was 90%, and scale efficiency was 77%. The results were unable to uncover significant differences in efficiency between public and private banks in this period. It showed that private sector had more Technical, Managerial, and Scaled Efficiency just for 10%, 5%, and 6% respectively.

Key words: public and private banks, Efficiency, Comparison, DEA analysis

1. Introduction

Each country should try to build the most advanced banking system, because the better bank system the state has, the more competitive the state is. In current strong competitive financial environment is necessary to work as efficient as possible and do not have unnecessary extra costs. Measuring the level of efficiency of the banking system can help to identify the performance of measured units and if there is some way for the eventual improvement. These measurements may provide valuable information to bank managers for their decision making. [1]

And also the study of the bank efficiency is very useful for the financial system development in a country. It helps in fine tuning and taking appropriate strategies for the banks, to drive towards the economic excellence of a nation [2]. In the level of management the measure of systems efficiency is a key issue in order to verify the performances and propose the best countermeasure to achieve the prefixed goals. Many efforts have been made in this field to provide satisfactory answer to this problem. One of the most used