

Abstract

In this study we examine the efficiency scores of the commercial banking sector of Pakistan. Commercial Banking sector performing its functions efficiently act as lifeblood for the development of any economy. For the past few years Pakistan's commercial banking is making an intense investment & improvement in IT in order to compete the global competition. Due to financial liberalization the entry of the foreign banks with advance technology in the commercial banking sector has been increased which compels the whole industry to adopt the new technology in order to survive in the competitive atmosphere & to attract more & more market share. To justify the huge investments in computers and related technologies many question arises about the efficiency & productivity growth of the banks due to IT. So this study analyzes the efficiency measure & Productivity growth of sample of 13 commercial banks for cross sectional analysis & 9 commercial banks for the pooled data analysis for the period 1998 to 2010.

In this study data envelopment analysis is used to compute the efficiency aggregates for both models of DEA, i.e. constant return to scale & variable return to scale. The study also measures the Malmquist total factor productivity (TFP) & decomposes it further into change in productivity owing to technological improvement, pure technical efficiency and scale efficiency. In this study the time period (1998-2010) has been decomposed into pre-technical reforms (1998-2005) & post-technical reforms (2006-2010) period, in order to compare the efficiency change after the adaptation of IT by the commercial banking sector. The variables are selected under intermediation approach (IA). The inputs variables used for the pre-technical reforms analysis are total deposits & operating expense, while for the post-technical reforms software & computer equipments has been added. On the other output variables used for the study are total Income, investments and advances. The results show that technical efficiency has been significantly increased in post-technical reform era & as a result TFP has also been boosted. The results show that MCB Ltd. is consistently scored the highest efficiency & Malmquist TFP scores.