A STUDY ON THE COST AND PROFIT EFFICIENCY OF ISLAMIC AND CONVENTIONAL BANK ISLAMIC WINDOWS IN OMAN: A PROPOSED FRAMEWORK

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ABSTRACT

Objective: This study aims to analyze the efficiency of Islamic and conventional banks and their respective Islamic windows in Oman in terms of costs and profits.

Theoretical Framework: The research employs a framework that examines cost and profit efficiency within the banking sector, contrasting the performance of full-fledged Islamic banks and Islamic windows of conventional banks. This framework also investigates the impact of bank-specific variables on efficiency levels.

Method: Using empirical data from the Omani banking sector, the study quantifies efficiency by analyzing bank-specific variables such as capitalization, profitability, operational costs, and loan activity. The comparison includes both Islamic banks and the Islamic windows of conventional banks as of the end of the third quarter of 2022.

Results and Discussion: The findings reveal that, overall, banks in Oman are more efficient at generating profits than controlling costs. Conventional banks, on average, demonstrate higher efficiency in both cost and profit metrics compared to Islamic banks. There exists a positive correlation between both types of efficiencies and factors like bank capitalization and profitability, while a negative correlation is evident with operational costs. Furthermore, increased loan activity is associated with higher profit efficiency but adversely affects cost efficiency.

Research Implications: These results underscore significant efficiency disparities between Islamic and conventional banking sectors. They highlight the need for Islamic banks to enhance their cost management strategies without compromising profit generation, leveraging the benefits derived from their association with parent conventional banks.

Originality/Value: The study contributes to the literature by providing a comparative analysis of cost and profit efficiencies in Islamic and conventional banks, with a particular focus on the unique market dynamics of Oman. This research is valuable for stakeholders in the Islamic banking industry, offering insights into leveraging existing infrastructures and enhancing operational efficiencies.

Keywords: Cost and Profit Efficiency, Islamic and Conventional Banks, Islamic Windows, a Proposed Framework.

UM ESTUDO SOBRE A EFICIÊNCIA DE CUSTOS E LUCROS DAS JANELAS ISLÂMICAS E CONVENCIONAIS DO BANCO ISLÂMICO EM OMÃ: UM QUADRO PROPOSTO

ABSTRACT

Objetivo: Este estudo tem como objetivo analisar a eficiência dos bancos islâmicos e convencionais e suas respectivas janelas islâmicas em Omã em termos de custos e lucros.

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UN ESTUDIO SOBRE LA EFICIENCIA DE COSTOS Y GANANCIAS DE LAS VENTANAS ISLÁMICAS DEL BANCO ISLÁMICO Y CONVENCIONAL EN OMÁN: UN MARCO PROPUESTO

RESUMEN

Objetivo: Este estudio tiene como objetivo analizar la eficiencia de los bancos islámicos y convencionales y sus respectivas ventanas islámicas en Omán en términos de costos y ganancias.

Marco teórico: La investigación emplea un marco que examina la eficiencia de costos y ganancias dentro del sector bancario, contrastando el desempeño de los bancos islámicos de pleno derecho y las ventanas islámicas de los bancos convencionales. Este marco también investiga el impacto de las variables específicas de los bancos en los niveles de eficiencia.

Método: Utilizando datos empíricos del sector bancario omaní, el estudio cuantifica la eficiencia mediante el análisis de variables específicas de los bancos, como la capitalización, la rentabilidad, los costos operativos y la actividad crediticia. La comparación incluye tanto los bancos islámicos como las ventanas islámicas de los bancos convencionales a finales del tercer trimestre de 2022.

Resultados y discusión: Los hallazgos revelan que, en general, los bancos en Omán son más eficientes en la generación de ganancias que en el control de costos. Los bancos convencionales, en promedio, demuestran una mayor eficiencia tanto en las métricas de costos como de ganancias en comparación con los bancos islámicos. Existe una correlación positiva entre ambos tipos de eficiencias y factores como la capitalización bancaria y la rentabilidad, mientras que una correlación negativa es evidente con los costos operativos. Además, el aumento de la actividad crediticia está asociado a una mayor eficiencia de los beneficios, pero afecta negativamente a la rentabilidad.

Implicaciones de la investigación: Estos resultados subrayan las importantes disparidades de eficiencia entre los sectores bancarios islámicos y convencionales. Destacan la necesidad de que los bancos islámicos mejoren sus
estrategias de gestión de costos sin comprometer la generación de ganancias, aprovechando los beneficios derivados de su asociación con los bancos convencionales matrices.

**Originalidad/Valor:** El estudio contribuye a la literatura al proporcionar un análisis comparativo de las eficiencias de costos y ganancias en los bancos islámicos y convencionales, con un enfoque particular en la dinámica única del mercado de Omán. Esta investigación es valiosa para las partes interesadas en la industria bancaria islámica, ya que ofrece información sobre cómo aprovechar la infraestructura existente y mejorar la eficiencia operativa.

**Palabras clave:** Eficiencia de Costos y Beneficios, Bancos Islámicos y Convencionales, Ventanas Islámicas, Marco Propuesto.

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1 **INTRODUCTION**

Islamic banks and Conventional banks Islamic windows in Oman are currently facing challenges in cost and profit efficiency, the trend of the efficiency during the year 2016 has dropped more than 6%, This has negatively reflected the utilization of the liquidity surplus reported by those Islamic institutions, (Central Bank of Oman Economic Report, 2019). Besides that, the level of the cost and profit efficiency of the Islamic financial institutions were further challenged, and has further dropped during the years to 2019 by almost 10%. Government and Central bank of Oman demanding high liquidity ratio to be maintained by the Islamic banks may have pushed the efficiency and performance of these institutions to more difficult challenges and high competition, (CBO The Omani Economics, 2019). Failure to maintain efficient cost and profit efficiency of Islamic banking system, will limit the productivity and future stability in investment and future contribution of these Islamic institutions to the country’s economy (Iqbal, 2013).

In contrast to that, the matching of costs (including operational cost and financial cost) with the capital of the Islamic banks and Islamic windows in Oman will be very expensive as compared to the return it generates from investment of the Capital (ROI) (CBO Almarkazi, 2019). Therefore, if this cost matching gape increases and last for long, this will be going to put these organizations into future competition difficulties which in turn will threat the improvement of the cost and profit efficiency and the sustainability of these organizations. More than that, the low trend in the cost and profit efficiency during the years 2016 to the year 2019, and due to the direct relationship between the cost and profit efficiency of the Islamic institutions and their performance and financial position growth, it was observed that, there were inconsistencies in the growth of the total assets and total profit of Islamic banks and
Islamic windows in Oman. Based on the consolidated total assets of the Oman’s Islamic banks and Islamic windows for the past five years (2015 to 2019), the growth in the direction of total assets has fluctuated negatively and the trend significantly shows that the growth rate was more than 20% for the year 2016 to 2017. The growth for 2018 to 2019 was only 14% (CBO annual report, 2019).

The inconsistency in the growth rate and the level of the efficiency and performance of Islamic banks and Islamic windows, together with their position have raised a question about the ability of these Islamic banks to continue in the market for the long run unless improve the cause of the efficiency and growth stability, (Economist, 2019). Consequently, this will affect boycott expectations from Islamic banks and Islamic windows to play an important role in the country's economic development. Other than that, having CE and PE analyses will support the Islamic business to get a better view of its profitability and costs as it can then implement a better business strategy to support its sustainability (Central Bank of Oman Annual Report, 2018). This position demonstrates that, the level of CE and PE should be highly posited in order to address the emergence of new operations and support the identification of efficiency factors within Islamic banks and Islamic windows. It will ultimately improve the country's economic growth momentum by ensuring that the Islamic finance and banking industry in Oman play the role an engine for national transformation. Industries that are unprepared to upgrade CE and PE certainly cannot boost their productivity and thus will not be able to boost the country's economic growth momentum as a result of economic openness and trade liberalization within the state's financial system (Alzahrani, 2023; Iqbal, 2008; Mohanty, 2012).

Thus, based on the problems and research gap in this study, an effort was made to study the CE, PE level, performance and productivity of Islamic finance in Oman. This study is considered very important and in line with the country's objectives of developing Islamic banking and the Islamic financial industry as one of the competitive and attractive sectors, not only locally but internationally. Indeed, the Islamic sector in Oman needs to become more attractive and competitive to increase its productivity (CBO Almarkazi, 2019; Central Bank of Oman Annual Report, 2018). This can give an indication for the impact of CE and PE levels and the overall efficiency that occurring in the Islamic financial sector on the growth in the country's national economy as a result of CE and PE, and the overall productivity of the Islamic sector in the long run. Therefore, this study can identify and answer the question about the extent of the CE, PE’s influences, as well as the growth rate of the Islamic sector, in how the factors that determine CE and PE affect the level of the performance and productivity of Islamic banks and Islamic windows in Oman. In addition, such a comprehensive study on the efficiency
of the Islamic banking system in Oman will also be introduced to the market with full a focus on the performance and productivity of Islamic banking services using CE and PE technologies. This will serve as a reference and support for academic researchers as well as operational management of Islamic banks.

2 EMPIRICAL STUDY OF CE AND PE FACTORS

All the factors used is in relation to the performance efficiency including the CE and PE based on the previous research papers, and they measure the correlation and the implications between the performance and the element impacting the behavior and the outcome of the Islamic and banking industry. Although there are many elements have been identified for PE and CE, most of the previous studies showed that the main causes of the efficiency of Islamic banks and Islamic windows of the conventional banks have internal and external factors, such as: size of the business, ratio of equity to total assets, information technology, avg. Inflation rate, profitability ratio, credit risk, Labor productivity, Population density, competition, operating cost, GDP per capita, and education experience.

2.1 SIZE OF THE BANK

Based on Bader et al. (2008), the efficiency of the financial institution is influenced and effected positively by the size of the bank. Likewise, Isik and Hassan (2002) emphasized on companies, as in order to be able to execute their operation at an optimal scale, they should maintain a certain size. More than that, Pilar, Marta, and Antonio (2018) have identified on their research of Spain’s SMEs, that the size of the SME impacted the PE of the companies positively. Recent study of Srairi (2010), addressed that, the bigger banks size, the bigger capital and assets and the higher profitability are associated with better efficiency. Bader et al. (2008) total assets of the conventional banks are much greater than the total assets of the Islamic banks, since there is positive relation between the size of the bank and its performance, which then proved the conventional banks as more cost and profit efficient. Aaron (1996) concluded that the size of a bank is not necessary in order to increase its efficiency.
2.2 THE RATIO OF EQUITY TO TOTAL ASSETS (E/TA)

This indicator helps to find out how much shareholders would receive in the occasion of company liquidation. The results are presented as a percentage, which is formulated by dividing total shareholders' equity by total assets of the company, and it represents the value of assets on which shareholders have a residual claim in case of the liquidation. Hassan and Bashir (2003) found that the variable does not have a strong impact on bank performances in countries with different levels of income. On the other hand, Samad and Hassan (1999) stated that the variable is highly significant and positively related to ROA both conventional and Islamic banks; therefore, this indicator has insignificant impact to the CE and PE. However, in case of the significant drop in the ratio, it might indicate a problem in the CE or PE as they are part of the equities retained earnings.

2.3 THE INFORMATION TECHNOLOGY

Frei, Harker and Hunter (1997), shed light on the significant of the technology on the cost and profit efficiency of the banks. Further to that, Sinkey (2002) highlighted information technology as one of the most significant five issues that affect banking performance (Alber, 2011). In addition to that, technology modernization in retail banking industry has been stimulated on by the introduction of new system, such as personal computers banking (Frei et al, 1997), (Alber, 2011). On the other hand, White (1997), emphasized that, the technology and the date starting processing are the heart and the core of financial services institutions. Based on Rudi Vander (2005), a study on the CE and PE for European specialized and de-specialized banks has concluded that the cost and profit efficiency is more efficient for the universal banking system. This was mainly due to the sharing, implementation, and integration of technology across and over the organization multiple outputs. Likewise, a study on the banking expansion on PE of the Saudi banks covers a period from 1998 to 2007 has concluded that, the expansion of the bank using information technology does impact the cost and profit efficiency.

2.4 AVERAGE ANNUAL INFLATION RATE (AAIR)

AAIR disturbs money to efficiently and effectively perform its roles both as a means of exchange and as measurement of value (Stieglitz, 2005). Likewise, AAIR is the annual pricing rate raising of the goods and services, in which consequently lead to fall in purchasing power...
of the product (General dictionary). Hassan and Bashir (2003) declared that the rate of inflation does not seem to have a significant effect on the bank’s CE/PE. Due to inflation which was largely moderate in their sample countries between 2004 to 2010, Mghaieth and Khanchel (2015) established the rate of inflation as unrelated to CE. However, Neoclassical theories have identified asymmetric information as one of the significant tools through which inflation interferes with the effectiveness and efficiency of the financial sector to allocate resources and improve performance (McKinnon, 1973; Boyd et al., 2001). Based on Sanusi and Meyer (2017), on their study on the relationship between the inflation and the financial development of the financial institutions of the South Africa during the year 2016 to 2017, have concluded that, the verbal’s between the inflation and the financial development are bound together for the long run of the business and there is significant impact by the inflation to the financial development and performance of the business due to the strong correlation of these two variables (Sanusi, Meyer, and Ślusarczyk, 2017).

2.5 PROFITABILITY RATIO

This ratio indicates, how profitable is the bank in relation to its total assets. In addition to that, this indicates the level of efficiency on the usage of the assets of the bank to generate profit for the organization. According to Hassan (2006), the return on assets ratio is closely correlated to a bank’s cost efficiency. Likewise, Srairi (2010) stated the return on assets ratio as high by 10% and it has a positive effect on cost efficiency. In addition, Bashir (2003) in his study has inspected the performance of Islamic banks in 21 countries, with the use of financial ratios including the ROA, and he also concluded that, the profitability reacted positively to the growth of capital and negatively to the loan provision. More than that, some authors proved differently from what have been concluded by other authors. Rosly and Bakar (2003), on their study on the performance of the Islamic and Conventional banks in Malaysia proved that the Islamic banks are not efficient although they have reported high ROA compared to the conventional banks.

2.6 CREDIT RISK

Financial institutions generate profit from giving loans to the individuals and other corporate institutions; hence, banks do face high credit risk. Based on clinical study (2010), there is a positive statistically critical relationship between credit risk and cost efficiency.
Samad’s (2004) proved that the credit risk of the conventional banks is much significant than the Islamic banks and the Islamic banks are more liquid than the conventional banks. Hence, the impact of the credit risk to the CE and PE is significant (Abduh and Alias, 2014). Likewise, Srairi (2010), examined elements that might affect the profitability of the Islamic and the conventional banks within of the GCC countries, and was proved that the profitability of both Islamic and conventional banks are affected mainly by three variables including credit risk (Abduh and Alias, 2014).

2.7 LABOR PRODUCTIVITY

On the study by Datta et al. (2005) has stated labor as having a direct impact on the business efficiency and is also one of the most important elements to be considered. On the other hand, Pfeffer (1994, 1998) indicated that competitive advantages are derived directly or indirectly from their human resources. Charoenrat and Harvie (2013, 2014); Pilar et al. (2018), concluded that, enhancement of labor skills has positive impact on the business efficiency.

2.8 POPULATION DENSITY

To find the level of the frontier for certain variables are included on the analysis of the cost and profit performance, and according to prior studies of Fries and Taci (2005); Carvallo and Kasman (2005); and Perera et al. (2007), these variables include macroeconomic variables and a measure of the structure of the banking sector are characterized in groups, and one of these variables was included in group of population density (Srairi, 2010). Moreover, Srairi (2010), concluded on the GCC countries cost and profit efficiency levels for more than 70 conventional banks and the impact of the population density was negative to the cost and profit efficiency. In addition to that, Carrol (1995), proved that the recycling cost was higher in the case of a community monopoly than in the case of a private monopoly, and this was unconnected to the population density, and this was opposite to a study that appeared in the initial 90s by Folz (1995), which addressed that the cost per unit depends on the population density (Lombrano, 2009). More than that, in a study on the cost efficiency and economies of scale of the Switzerland postal services during the year 2005, it was found that the resistance relating to the population density was negative, showing that a 1% growth in the density reduces cost almost by 0.04% (Quaderno, 2005). Based on Kaplan and Yousefi (2013), the provision
of banking services affected by PD. They estimate that in nations where this variable is low, bank costs are greater and banks are not encouraged to rise their efficiency.

2.9 MARKET COMPETITION

Frei, Harker and Hunter (1997, p.1), shed light on the crucial of the intensified global competition and other factors can influence the degree of the efficiency within the organizations. Likewise, Sinkey (2002, p.26), highlighted that competition is one of the most factors that affect efficiency of the organizations (Vander Vennet, 2005). Similarly, based on Maudos (1998), the competition pressure and the organization production size do influence the market prices of the product. Moreover, a study on the impact of the market power and competition on the CE and PE of the Spanish saving and conventional banks for the period covered from 1985 to 1996 concluded that, the stronger level of competition leads to reduction on the market control and power in the price of the products, which consequently force reduction on the inefficiency of the banks (Vivas, 1997). Apart from that, Santo (2000) used banks theory to highlight the positive relation and the effect of the competition on the banking transaction. The recent research paper covers Oman banking industry on the reasons of customers switching between banks, highlighted that bank customers in Oman believes, that they have kept changing the bank in order to get better and attractive offer or consumer loans at a competitive price (Al Ghammari, 2017).

2.10 OPERATING COSTS

The study of Al-Khudairi and Al-Khudairi (2009) on the result of the factors contributing to the cost efficiency of Islamic banks in Africa during the period 1999 to 2009 had disclosed about the negative relationship between the bank's operating costs and CE. In line with Al-Srairi’s conclusion (2010) who also noticed a negative relationship between this factor and cost efficiency, Mageet and Khanshel (2015) concluded that operating costs are positively and statistically significant and vital for CE. More than that, Sufian (2011) found that, operating cost to total assets have a significant negative impact on the profitability of Malaysian Islamic banks. Furthermore, it was also stated that the entrance of foreign banks to the market has led to higher operational cost (Abdul and Alias, 2014).
2.11 GDP PER CAPITA (PERSON)

The GDP flexible signifies the growth degree in country domestic product and is used as a substitution for home fiscal economic situations. Favorable economic environments will affect confidently the demand and supply of banking sectors services, and will perhaps enhance bank efficiency (Yildirim and Philippatos, 2005). Based on H. Semih Yildirim (2001), his study that analyzed the cost and profit efficiency of banking industry in 12 transition economy European companies for the period between 1993 to 2000 has stated that, the GDP is positively linked to CE, which however is negatively linked to profit efficiency. Furthermore, Oman Islamic Finance Report (2015), indicates that, the Sultanate of Oman government claims that, the economy’s tough fundamentals and diversification energies were the core drivers to the attainment of a growth of 3.7% in the year 2009, while admitting that GDP reduction in the same year was due to the 44% fall in oil prices (Badreldin, 2015). In addition to that, a study paper on the environmental variables that has in the CE of the Spanish and French stated that, variables in GDP per capita through countries could produce momentous differences in the mandate for banking sectors services among consumers (Dietsch and Lozano-vivas, 2000).

2.12 EDUCATION EXPERIENCE

Educational efficiency is one of the important factors that might affect the profit and cost efficiency of the banks. However, few research papers had wrote using this element due to the difficulties on the information collection of this element. Few organizations displayed the details information on the educational cost as they may consider it confidential. A study was conducted by Ogunniyi L. T on measurement of the PE of maize products in Nigeria during the year 2011 for a sample of 240 maize products, which was concluded the PE of the farmers as varied significantly between 1% and 99.9% with a basis of 41.4%. This was due to different factors which included the education element and was suggested that the education element needs to be significantly improved in order to improve and reduce profit inefficiency (Abduh and Alias, 2014). In addition to that, it was also found that there is a significant negative coefficient on the education and the profit efficiency of the farms. These results are consistent with Ali and Flinn (1989), Abdulai and Hoffman (2000), (Abduh and Alias, 2014). Moreover, Abbot, presented a paper during the year 2003 on PE among Bangladeshi Rice farmers using data during the year 1996.
### Table 1

**Summary of the factors of the empirical literature review for the Cost and Profit Efficiency**

<table>
<thead>
<tr>
<th>Author</th>
<th>Sample/Year / Country</th>
<th>Methodology</th>
<th>Factors</th>
<th>Results / conclusion</th>
</tr>
</thead>
</table>
| Abduh and Alias      | 15 Islamic Banks 2006-2010 Malaysia    | a- Regression method  
b- Pooled OLS method | a- Size  
b- Operating cost  
c- ROA  
d- Annual Inflation  
e- Credit risk  
f- Education cost | Study objective to find out the element of Islamic banks performance, the results showed some of the variables effect significantly the performance of the Islamic banks. |
| Humphreys            | 178 countries firms as of 2010 Worldwide | a- Hierarchical linear modelling (HLM) | b- Information Technology  
c- Labor productivity  
d- Market competition  
e- Annual inflation  
f- Production cost  
g- ROA | This study explores the significance of related elements on the efficacy of ISO 9000 implementation. It explored the role of numerous related factors at the firm-level. It was concluded that the impact is significant at the industry level; however, it is not significant at the single plant level. |
| Alber                | 6 commercial banks 1998-2007 Saudi Arabia | a- Ratios of actual profitability | a- Information Technology  
b- Population density  
c- ROA  
d- ROE  
e- Labor  
f- Credit risk  
g- Competition  
h- Production cost | The study examining the PE of the Saudi banks and analyzing how it might be affected by banking examination. It was found that, it did impact certain banking products and services but not the POS services. |
| Srairi               | 71 Commercial banks 1999-2007 GCC      | b- SFA                           | a- Size  
b- Equity to assets  
c- Population density  
d- Annual inflation  
e- GDP  
g- Operating cost | Examine the cost and profit efficiency of the GCC countries and comparative of the efficiency between the GCC countries and was concluded that the banks in this reign are more efficient at profit than controlling cost. It was also found that the conventional banks are more efficient in the profit part than the Islamic banks. |
| Yildirim and Philippatos | 12 Banks 1993-2000 Central and Eastern Europe (CEE) | SFA DFA                        | a- Size  
b- GDP per Capita  
c- Credit risk | Analysis the cost and profit efficiency of the banks and concluded that the managerial inefficiency was found to be substantial. |
2.13 THEORY OF COST EFFICIENCY AND PROFIT EFFICIENCY

Based on Pasiouras et al (2008), CE is a broader model than efficiency models such as technical efficiency (TE), as it refers to both technical and allocative efficiency (AE). Likewise, the PE is also a broader model as it addresses both costs and revenues in the evaluation and measurement of the financial institutions’ efficiency. The main meaning and explanation of the CE correspond to one important financial goal of cost minimization (Isik and Hassan, 2002) has defined CE as a measure of how far financial institutions cost is from the best practice financial institutions cost, if it was to have the same output of production under the same conditions. It is evaluated and measured as the trends and ratios between the lowest cost, at which it is possible to achieve a given quantity and capacity of outcome and the observed costs for an institution. For example, a CE score of 0.90 would mean that the financial institution is using 90% of its resources efficiently or instead trashes 10% of its cost’s comparatively to a best-practice institution.
PE is a broader model than CE, as it considers the effect of the choice of the cause and vector of production on both cost and revenues (Sihotang et al, 2022). It is also determined as the trend or ratio between the actual profit of a financial institution and the extreme level that could be reached by the most efficient financial institution (Maudos et al, 2002). In other words, the number signifies the percent of the extreme profits that a financial institution making.

3 THE PROPOSED FRAMEWORK OF THE RESEARCH

This conceptual framework was developed on the literature based from the previous research papers, on the same topic of the PE and CE. This framework is more in line with the current research paper, which therefore leads the current researcher to propose the use of the same factors to support his theses analysis, related to the PE and CE of the Islamic banks and Islamic windows of the Sultanate of Oman,

Figure 1

Conceptual Framework PE and CE

- Size of the bank (SB)
- Ratio of equity to total assets (ETA)
- Information Technology (IT)
- Average annual inflation rate (AIR)
- Profitability Ratio (PR)
- Credit risk (CR)
- Labor productivity (L)
- Population density (PD)
- Market competition (MC)
- Operating costs (OC)
- GDP per capita (GDP)
- Education Experience (EE)

Dependent variables PE & CE of Islamic banks and Islamic windows in Oman
The above conceptual framework was built from different research papers backgrounds, theories, and concepts related to the PE and CE of the Islamic and non-Islamic banks of other countries worldwide, for the purpose of analyzing and exploring the elements that effect of the PE and CE of the Islamic banks and Islamic windows in Oman. Compiling information and understanding in regards with the PE and CE of the Islamic banks in Oman will be obtained by the end of this study. Above are collection of 12 factors including profitability ratios and other economic related elements such as GDP per Capita, Inflationary element, production cost, educational level and others, which are expected to find out the impact of these elements to the PE and CE of the Islamic banks and Islamic windows in Oman and to determine the cause of the inefficiency if any to the PE and CE of the Islamic banks and Islamic windows in Oman.

4 DISCUSSION

Based on a previous study, the efficiency of Islamic banks and Islamic windows in Oman is still less favorable for researchers from other industries, as compared to banks and other traditional industries. Most studies (Badreldin, 2015; Mohanty, 2012) only discuss the performance of traditional banking and Islamic banks in general within the GCC countries. In addition, research on CE and PE factors was limited only to the GCC, Middle East and North Africa (MENA) countries and the majority were either in cost efficiency or profit efficiency individually, less researches covered the Islamic banking industry in Oman due to that Oman Islamic banking was newly introduced and for those who included Oman Islamic banking covered it at aggregate level and did not include the Cost and Profit efficiency and the productivity level of these Islamic institutions, which also shown a studies by Rosman (2013); Mohanty (2012).

Although there were previous studies on Islamic banking in Oman (such as Rosman, 2013; Sudarsanan, 2012), they used the Islamic financial sector in general at the industry level, and did not take into account the factors that determine the efficiency of CE and PE towards the level of efficiency and productivity respectively. CE and PE can be more accurately measured when using the level of individual Islamic data by taking into account the causes of efficiency, which can enhance the efforts of improving and performing individual Islamic banks (Sihotang et al, 2022; James, 2003; Sri, 2010). Moreover, CE and PE levels and productivity growth can be measured more accurately when using the individual data level by taking into account the efficiencies while driving improvement efforts. Tingley (2005) asserts that budgeting using the level of individual data as an individual is preferable because further
analysis of factors affecting the budget level can be studied. Therefore, studies and analyses that use company-wide data have considered the cost and efficiency elements of profit and the value of efficiency and productivity to be more relevant and accurate.

5 BENEFITS AND MANAGERIAL IMPLICATIONS

There are research benefits that can be gained from this paper. Firstly, efforts towards improvement can be made based on CE and PE level decisions, productivity, factors and elements that determine the cause of efficiency. Policymakers who are aware of the factors driving efficiency can improve effective policy proposals and recommendations for developing CE and PE levels and entity productivity. For example, if productivity growth slows down due to low technological progress, policymakers should suggest a policy that stimulates continuous development of technology and application of the latest technologies, which will enhance the efficiency of the organization. In individual Islamic banks, if slow performance and productivity growth is caused by the high manual process and the large waste of inputs that affecting CE and PE of the enterprise, policies that promote CE and PE are required to automatize manual processes by introducing specific technologies and also working with experts in providing extensive training program to improve skills for the production team to optimize the use of raw materials and reduce waste.

In addition to that, this paper provides useful quotes and information for all parties, whether private sector, investors and society to improve public efficiency and use economic resources more efficiently to produce higher performance and productivity, like using the same inputs for maximum production. While the government can offer strategies to enhance the competency of CE and PE certification for companies and the Islamic financial sector as a whole. More than that, this study paper is important for the methodological aspect by applying data envelope analysis (DEA) to determine the level of proficiency. Then, the researcher will use DEAP model to find out the efficiency results. This method is important because of the use of variables on various elements (either makes or causes efficiency in the Islamic financial sectors), is flexible to allow for changes to the variables of the data used. As a result, this method gives a better and clearer analysis of the efficiency of Islamic financial sectors accurately.

Finally, this study is ideal to serve as a citation and additional reference for future generations for the researcher to conduct more studies and analyzes related to Islamic finance in Oman. Indeed, the information obtained by internal or external (global) researchers can be used in the future to determine and trade CE, PE and the productivity of Islamic banking
services in Oman. This study, therefore, can become beneficial as valuable reading material in adding knowledge to faster economic progress.

6 CONCLUSION

To ensure the Islamic banks industry future economic sustainability and participation on the country fiscal economy to support the Omani’s government on diversification of the country’s source of fund and Oman’s GDP, it is very important and crucial to encourage Islamic banks to have strong economic performance, including their profitability and productivity. Many researchers and literatures proved that cost and profit efficiency have direct impact on the banks and other organizations performance; therefore, it is important for the banks to have a proper measurement of their organization performance. Many elements and factors have direct impact on the efficiency of the banks including competition, size and labor productivity. Some of the researchers proved that there is positive relation of these factors with the performance of the banks while some has proved a negative impact. Islamic banks as SMEs of the country is considered to have big role in supporting the country’s fiscal economy, such as provision of work, support, financing, and act as financial intermediary to the country.

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A Study on The Cost And Profit Efficiency of Islamic and Conventional Bank Islamic Windows in Oman: A Proposed Framework


