

**SCHOOL EFFICIENCY MODEL:  
AN APPLICATION OF DATA ENVELOPMENT  
ANALYSIS AND THEIR INEQUALITY IN  
URBAN AND RURAL AREAS, SABAH**

PERPUSTAKAAN  
UNIVERSITI MALAYSIA SABAH



**TAN SUI CHIN**

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UNIVERSITI MALAYSIA SABAH

**FACULTY OF SCIENCE AND  
NATURAL RESOURCES  
UNIVERSITI MALAYSIA SABAH  
2016**

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**TAN SUI CHIN**



**THISIS SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF  
DOCTOR OF PHILOSOPHY**

**FACULTY OF SCIENCE AND  
NATURAL RESOURCES  
UNIVERSITI MALAYSIA SABAH  
2016**

# UNIVERSITI MALAYSIA SABAH

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JUDUL: **SCHOOL EFFICIENCY MODEL: AN APPLICATION OF DATA ENVELOPMENT ANALYSIS AND THEIR INEQUALITY IN URBAN AND RURAL AREAS, SABAH**

IJAZAH: **DOCTOR OF PHILOSOPHY (MATHEMATICS WITH ECONOMICS)**

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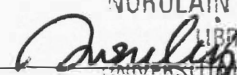
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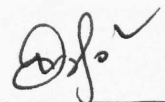
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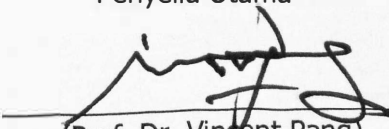
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## DECLARATION

I declare that this project of study is my own product except quotations, equations, summaries and references that are which have been duly acknowledged.

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DEGREE : **DOCTOR OF PHILOSOPHY  
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## ACKNOWLEDGEMENT

Firstly I would like to express my sincere gratitude to my supervisor Associate Professor Dr Ho Chong Mun for the continuous support of my PhD study and related research, for his patience, motivation and immense knowledge. To my co-supervisor Professor Dr. Vincent Pang, thank you for correcting my English writing and valuable comment on my writing. Your guidance helped me in all the time of research in writing of this thesis.

I would like to thank the staffs in Sabah Education Department, Ms Ester Abai, Mr Razmeh Rahman (ICT) and Mr Abdul Hadi Sani (Examination Unit); staffs in Kota Kinabalu Education Office, Mr Mohd Idrem Zizan; staffs in Papar Education office, Mr Saiful Bahri and Mr Faizal Awang Salleh; staff in Tuaran Education office, Mr Osmera Awang Tusin; staff in Penampang Education office, Ms Finy Benilus; staffs in Kuala Penyu Education office, Mr Hyron and Mr Dulamit Bongsu; staff in Beaufort Education office, Mr Asli bin Ibrahim; staff in Ranau Education office, Mr Rajibin Razman, who help me in providing me data needed for the study. Without their precious support, it would not be possible to conduct this research. My sincere thanks also goes to the school principals who willing to let their students to participate the study, and the students themselves for providing rigorous data that allow for the research to be done.

A million thanks to my scholarship sponsor, Ministry of Education Malaysia for providing six plus one semester for my study, which help me worry free on the financial burden and allow me to focus on my studies.

A big thank you to my course-mates, who incented me to pursue and motivated me to work harder to complete my PhD. To all colleagues and friends, who had helped me to correct grammar mistakes in my thesis. It is not sufficient to express my gratitude with only few words, thank you very much. To all those who directly or indirectly involved in this study, I really appreciate the help that I received throughout the research work.

Last but not least, I thank my family for the supporting me spiritually, who sacrifices a lot in my four years of study. To my husband Chai Ming Chan and my daughter Chai Ying Han who understanding and being a great mental support throughout writing this thesis. To my brother Simon, who apply for leave while helping me with data collection in eastern part of Sabah, and to Jerry, who had provided help in the designing and programming of the software. You all are my great support, and I love you all.

Tan Sui Chin

11 August 2016

## ABSTRACT

Education plays an important role in economics and national development of a country. It helps to reduce poverty, enhance quality of life, and improve health condition. Education also helps to reduce the social and ethnic disparity among population in a country. From economic perspective, level of education and the distribution among groups in a country are affecting income distribution, and also the economic growth. The inefficiency in education caused wastage of resources. Besides that, inequality in education among population increase education gaps between groups. This make large portion of revenue being occupied by the well-educated minority and the illiteracy majority continuously live in the poverty. Therefore, the understanding of efficiency and education inequality is crucial. In developing countries, the disadvantage of education quality in rural area has been the main focus in many literatures as rural areas produce weaker students' performance. This study focused on estimating the efficiency of schools in urban and rural areas and identifying the effects of parents' education, quality of schools principal and private tutoring on schools' efficiency. Apart from efficiency, education inequality was measured for schools, districts and urban-rural areas. Education inequality was further decomposed to between-group and within-group inequality. The efficiency of secondary schools was measured by using Data Envelopment Analysis, while the educational inequality was estimated by employing the Theil index. By using secondary schools in Sabah as case study, the empirical result shows that there is a significant difference of school efficiency between the urban and rural areas. School efficiency in urban area is mainly affected by the initial ability of student and private tutoring that conducted. On the other hand, initial ability, parent education and the role of schools principal have significant impact on efficiency in rural area. It is observed that the overall education inequality has decreased from 2009 to 2013. However, from the decomposition of Theil index, the between-urban-rural inequality has widened. Similar result is observed for between-districts-inequality. Therefore, it is proposed that schools and policy makers take appropriate action to schools in rural areas to become more efficient and thus prevent gap widen in between-rural-urban inequality.

## **ABSTRAK**

### **MODEL EFFISIENSI SEKOLAH: APLIKASI DATA ENVELOPMENT ANALYSIS DAN KETIDAKSAMAAN THEIL DI KAWASAN BANDAR DAN LUAR BANDAR, SABAH**

*Pendidikan memainkan peranan penting dalam ekonomi dan pembangunan negara. Ia membantu mengurangkan kemiskinan, meningkatkan kualiti hidup, dan meningkatkan tahap kesihatan masyarakat. Pendidikan juga membantu mengurangkan jurang perbezaan sosial dan etnik di kalangan penduduk di sesebuah negara. Dari perspektif ekonomi, tahap pendidikan dan taburan pendidikan di kalangan kumpulan dalam negara memberi kesan terhadap agihan pendapatan dan juga pertumbuhan ekonomi. Ketidakefektifan dalam pendidikan menyebabkan pembaziran sumber. Di samping itu, ketidaksamaan dalam pendidikan juga membentuk jurang pendidikan antara pelbagai kumpulan. Ini menyebabkan sebahagian besar pendapatan dimiliki oleh kumpulan minoriti yang berpendidikan tinggi. Keadaan ini kemudiannya akan membawa kepada menularnya kemiskinan dalam negara. Oleh itu, pemahaman keefisienan sekolah dan ketidaksamaan dalam pendidikan adalah penting. Di negara-negara membangun, kelemahan prestasi pendidikan di kawasan luar bandar telah menjadi fokus utama dalam banyak kajian. Kajian ini memberi tumpuan kepada menganggarkan efisiensi sekolah di kawasan bandar dan luar bandar dan mengenal pasti sama ada tahap pendidikan ibubapa, kualiti pengetua, kualiti pelajar dan pengambilan tuisyen swasta memberi kesan terhadap keefisienan sekolah. Selain efisiensi, ketidaksamaan dalam pendidikan juga diukur bagi sekolah-sekolah, daerah-daerah dan kawasan bandar serta luar bandar. Ketidaksamaan dalam pendidikan diuraikan kepada ketidaksamaan antara kumpulan dan ketidaksamaan dalam kumpulan. Kecekapan sekolah menengah telah diukur dengan menggunakan Data Envelopment Analysis, manakala ketidaksamaan pendidikan dianggarkan dengan menggunakan Theil indeks. Untuk kes studi di Sabah, keputusan empirikal menunjukkan terdapatnya perbezaan yang signifikan bagi efisiensi sekolah kawasan bandar dan luar bandar. Kecekapan sekolah di kawasan bandar terutamanya dipengaruhi oleh keupayaan awal pelajar dan pengambilan tuisyen swasta. Sebaliknya, keupayaan awal pelajar, pendidikan ibu bapa dan peranan pengetua sekolah memberi kesan yang lebih besar ke atas efisiensi di kawasan luar bandar. Diperhatikan bahawa ketidaksamaan pendidikan secara keseluruhannya telah menurun dari 2009 hingga 2013. Walau bagaimanapun, apabila Theil indeks diuraikan, ketidaksamaan di antara bandar dan luar bandar menjadi semakin meluas. Hasil yang sama diperhatikan bagi ketidaksamaan antara daerah. Oleh itu, adalah dicadangkan bahawa pembuat dasar dan juga pihak pentadbir sekolah boleh mengambil tindakan yang wajar agar sekolah-sekolah di luar bandar menjadi lebih efisien dan seterusnya mengelakkan jurang prestasi yang besar di antara sekolah-sekolah bandar dan luar bandar.*



# TABLE OF CONTENTS

	Page
<b>TITLE</b>	i
<b>DECLARATION</b>	ii
<b>CERTIFICATION</b>	iii
<b>ACKNOWLEDGEMENT</b>	iv
<b>ABSTRACT</b>	v
<b>ABSTRAK</b>	vi
<b>TABLE OF CONTENTS</b>	vii
<b>LIST OF TABLES</b>	xi
<b>LIST OF FIGURES</b>	xiii
<b>LIST OF ABBREVIATION</b>	xv
<b>LIST OF APPENDIX</b>	xii
<b>CHAPTER 1: INTRODUCTION</b>	
1.1 Introduction	1
1.2 Education in Urban and Rural Areas	3
1.3 Data Envelopment Analysis (DEA)	4
1.3.1 Data Envelopment Analysis Bootstrap	6
1.4 Theil Inequality Index	6
1.5 Operational Definitions	7
1.5.1 Decision Making Unit (DMU)	7
1.5.2 Efficiency	7
1.5.3 Non-controllable Variables	9
1.5.4 Education Inequality	10
1.5.5 Between-Group Inequality	11
1.5.6 Within-Group Inequality	11
1.6 Overview of the Education Performance in Malaysia	11
1.6.1 Education in Sabah	16
1.7 Variables Considered in the Study	19

1.7.1	Teacher Quality	19
1.7.2	Class Size	20
1.7.3	Parents' Education Attainment	20
1.7.4	Student Initial Ability	21
1.7.5	School Size—The Economies of Scale	21
1.7.6	Private Tuition	22
1.7.7	Quality Leadership—Excellent Principal	22
1.8	Problem Statements	23
1.9	Objective of the Study	24
1.10	Assumption	25
1.11	Scope of the Study	25
1.12	Organization of Study	25

## **CHAPTER 2: LITERATURE REVIEW**

2.1	Introduction	27
2.2	Education in Urban and Rural Areas	27
2.3	Measuring School Efficiency by DEA	29
2.4	Selection of Variables	32
2.4.1	Controllable inputs	33
a.	Class Size	33
b.	Student-Teacher Ratio	34
c.	Teacher Experience	36
2.4.2	Non-Controllable Variables	36
a.	Parents' Academic Attainment	37
b.	Initial Ability	38
c.	Private Tutoring	38
d.	School Size	40
e.	Principal	41
2.4.3	Examination Result as an Output	42
2.4.4	Empirical Review on Variable Chosen	43
2.5	Solving Non-Controllable Variables	46
2.5.1	Review on the Methods	47
a.	One-Stage Models	48

b.	Multiple-Stage Models	51
c.	Tobit Model	55
d.	Application of Bootstrap	56
2.5.2	Empirical Review	57
2.6	Education Inequality	65
2.6.1	Empirical Review on Education Inequality	65
2.6.2	Empirical Review on Indicator Used in Education Inequality	66

### **CHAPTER 3: RESEARCH METHODOLOGY**

3.1	Introduction	71
3.2	Data	73
3.2.1	Data Retrieval	75
3.3	Conceptual Framework	75
3.3.1	The Economic Model	75
3.3.2	Economic Axioms	77
3.3.3	Data Envelopment Analysis	78
3.3.4	Return to Scale (RTS)	84
3.3.5	Bootstrap Truncated Regression	85
3.3.6	Theil Inequality Index	90
3.4	Model	93
3.4.1	DEA Models	93
3.4.2	Bootstrap Truncated Regression	94
3.4.3	Theil Inequality Index	94

### **CHAPTER 4: RESEARCH FINDING**

4.1	Introduction	98
4.2	Descriptive Statistics	98
4.3	Measuring Efficiency of Schools	102
4.2.1	Data Envelopment Analysis	102
4.2.2	Bootstrap Truncated Regression	110
4.4	Education Inequality	114
4.4.1	Education Inequality for Sabah	114
a.	Decomposition by Urban-Rural Areas	114

b. Decomposition by Districts	116
c. Decomposition by Schools	117
4.4.2 Education Inequality for Urban-rural	119
a. Decompose by Schools	120
4.4.3 Education Inequality for Districts	121
4.5 Summary	123

## **CHAPTER 5: DISCUSSION AND CONCLUSION**

5.1 Summary of the Study	125
5.2 Discussion on School Efficiency	126
5.3 Discussion on Education Inequality	127
5.4 Implication of the Study	131
5.5 Conclusion	134
5.6 Limitation of the Study and Recommendations of Future Research	135

## **REFERENCE**

137

## **APPENDIX**

152

## **List of Candidate's Publications**

177

## LIST OF TABLES

	Page
Table 2.1:	A Summary of the Model Used in Measuring School Efficiency by DEA 31
Table 2.2:	Summary of Empirical Studies on the Inputs and Outputs Variables Used in DEA 44
Table 2.3:	Summary on Model Used in the Second Stage of DEA in the Case of School Efficiency 61
Table 2.4:	Summary of Empirical Studies on Education inequality, the method and indicator selection 69
Table 3.1:	The variables used and abbreviation 74
Table 4.1:	Summary statistics for variables used in DEA, 2012 98
Table 4.2:	Summary statistics for variables used in DEA, 2013 98
Table 4.3:	Summary Statistics for Non-controllable Variables Used in DEA, 2012 99
Table 4.4:	Summary Statistics for Non-controllable Variables Used in DEA, 2013 100
Table 4.5:	Classification of grades into categories 101
Table 4.6:	Percentage of Population Taken SPM Across Grade Levels 102
Table 4.7:	Summary of DEA score measured by CRS and VRS 105
Table 4.8:	Summary of DEA Score with Respect to Urban-Rural for 2012 105
Table 4.9:	Summary of DEA Score with Respect to Urban-Rural for 2013 106
Table 4.10:	DEA Result for Schools in Sabah 2012 and 2013 108
Table 4.11:	Truncated Bootstrapped Second-Stage Regression, 2012 112
Table 4.12:	Truncated Bootstrapped Second-Stage Regression, 2013 113
Table 4.13:	Inequality Decomposition by Rural-Urban 115
Table 4.14:	Inequality decomposed by district 116

Table 4.15: Education Theil decompose to schools 118

Table 4.16: Inequality for Urban and Rural Area, Decompose by Schools 120

Table 4.17: Theil Inequality and Decomposition for Districts 2009-2013 122



## LIST OF FIGURES

	Page
Figure 1.1: Education Expenditure in Malaysia, 2008-2012	12
Figure 1.2: Malaysian Illiteracy Rate, 1970-2010	13
Figure 1.3: Malaysian TIMSS Score in Mathematics, 1999-2011	14
Figure 1.4: Malaysian TIMSS Score in Science, 1999-2011	14
Figure 1.5: Education Expenditure per Student (in USD) 2008 and TIMSS Score in Asian Countries	16
Figure 1.6: Illiteracy Rates for States in Malaysia, 2010	17
Figure 1.7: Mathematics' Mean Grade for Sabah, 2009-2013	18
Figure 1.8: Comparison of urban rural gaps in Sabah over time	19
Figure 2.1: Efficient DMUs in Different Environment	48
Figure 3.1: The flow of School Efficiency Measurement	72
Figure 3.2: Determination of efficiency frontier for CRS and VRS	79
Figure 3.3: The flow in DEA method	88
Figure 3.4: The flow in bootstrap method	89
Figure 3.5: The flow in measuring Theil Inequality	92
Figure 4.1: The School Efficiency Score, 2012	104
Figure 4.2: The School Efficiency Score, 2013	104
Figure 4.3: The Increasing Gaps between Urban and Rural Areas for 2009-2013	115
Figure 4.4: Education inequality for districts with the percentage of rural schools for 2013	117
Figure 4.5: Education inequality for schools with percentage of failure in schools for 2009-2013	118
Figure 4.6: Education inequality for Sabah, Urban and Rural Areas for 2009-2013	119
Figure 4.7: A Few Selected Education Inequalities for Districts	123

Figure 5.1: Examination mean grade for English Language SPM from 2009 to 2013 129

Figure 5.2: Average household income in Sabah for 2002-2012 131





## LIST OF ABBREVIATIONS

- BCC** - Banker-Charnes-Cooper model
- CCR** - Charnes-Cooper-Rhodes model
- CRS** - Constant Returns to Scale
- DGP** - Data Generating Process
- DEA** - Data Envelopment Analysis
- DMU** - Decision Making Unit
- DRS** - Decreasing Returns to Scale
- EPRD** - Eduaction Planning and Research Department
- GE** - General Entropy
- GPS** - *Grad Purata Sekolah* (Average School Grade)
- IRS** - Increasing Returns to Scale
- JPN** - *Jabatan Pendidikan Negeri Sabah* (Sabah Education Department)
- MG** - Mean Grade
- NC** - Non-controllable
- OECD** - Organisation for Economic Co-operation dan Development
- PBS** - *Pentaksiran Berasaskan Sekolah* (School Based Assessment)
- PCG** - Per Capita Grant
- PIRLS** - Progress in International Reading Literacy Study
- PISA** - Program for International Student Assessment
- PMR** - *Penilaian Menengah Rendah* (Lower Secondary School Assessment)
- PPSMI** - *Pengajaran dan Pembelajaran Sains dan Matematik dalam Bahasa Inggeris* (Teaching of Science and Mathematics in English)
- PTE** - Pure Technical Efficiency

- RTS** - Returns to Scale
- SE** - Scale Efficiency
- SES** - Socio Economic Status
- SPM** - *Sijil Pelajaran Malaysia* (Malaysian Certificate of education)
- TE** - Technical Efficiency
- TIMSS** - Trends in International Mathematics and Science Study
- UNESCO** - United Nations Educational, Scientific and Cultural Organization
- UPSR** - *Ujian Pencapaian Sekolah Rendah* (Primary School Assessment Test)
- VRS** - Variable Return to Scale



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## LIST OF APPENDIX

		Page
Appendix A	Approval Letter to Conduct a Study in Education Departments, Education Offices and Schools from EPRD in Education	152
Appendix B	Approval Letter to Conduct a Study in Sabah Education Department, Education Offices and Schools from JPN, Sabah	153
Appendix C	Approval Letter to Conduct a Study in Education Offices and Schools in Kuala Penyu	154
Appendix D	Approval Letter to Conduct a Study in Education Offices and Schools in Papar	155
Appendix E	Approval Letter to Conduct a Study in Education Offices and Schools in Beaufort	156
Appendix F	List of Schools Involve in the Study	157
Appendix G	Data Mining Form	160
Appendix H	Instruction to Teachers	163
Appendix I	Education Inequality and Mean Grade (MG) for Schools, 2009 to 2013	168

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The relationship between education and economic growth has been well debated amongst researchers and policy makers (Delgado, Henderson and Parmeter, 2014; Hawkes and Ugur, 2012; Hanushek and Woessmann, 2007; Psacharopoulos and Patrinos, 2004). Improvements in education can cause significant impact on a country economic and social. UNESCO (2011) reported that 12 percent of people in poor countries can be lifted out from poverty when all children gain access to education. As such, basic education has become a compulsory agenda in many of these countries.

In economics, the education industry has two characteristics which make it a fundamental for a study of efficiency: i.e. size and rising costs. Education represents one of the largest industries in Malaysia, which estimated total expenditures of about RM41.4 billion in 2016 (Kementerian Kewangan Malaysia, 2015). During the same period, estimated academic employment is over 42.2 thousand with the number of student enrolments of about 5 million. Beyond its sheer magnitude, the education industry has experienced a steep increase in costs. For instance, in 1970 education expenditure is RM44 million, in 1980 education expenditure has increase to RM558 million, RM1.6 billion in 1990, RM7.1 billion in 2000 and RM12 billion in 2010. One possible explanation for the raising costs might be qualitative increases in educational outputs.

However, in some studies, there are conditions where schools although supplied with the same resources, fare much better than others (Yocum, 2012; OECD, 2013). Students in these schools achieve better academic performance.

Early conclusions suggest that these schools are simply more efficient than others. However, the accepted economic method for efficiency measurement uses revenue as an output. When considering increases in production, firms use market prices as weightage in efficiency measurement. In education, there is no market price involved which is normally used as weightage, in the output. Here, there is a need to use a methodology which is more flexible and does not require strong assumptions on the production frontier.

Besides efficiency, the different performance levels among schools in the same area or between other areas need to be taken into consideration too. In economics, the income differences within the same community where there are people who have annual incomes in the millions and others only in the thousands, can usually be attributed into inequality. The same cannot be expected when it comes to education. In education, the measurement of inequality is less clear (Cruces, Domench and Gasparini, 2014) due to the different variables used. What can be observed is that, certain kinds of education make it more likely for a student to become an engineer or a company director. These are simply better than that given to students who end up earning much less. Here, there is a need for a better indicator.

With increased awareness amongst nations towards the importance of education, more money is being spent towards it (UNESCO, 2006). The demand for improving the performance of schools has increased as measured in terms of levels of student academic achievement. The assessment of school efficiency in the education system could show performance of schools. While schools are supplied with limited resources and budget, the management is expected to wisely spend the money and correctly allocate resources for maximum production. This condition is crucial in rural areas, where resources are more limited. Students in rural areas perform poorly, and this makes the gaps of education inequality wider. These differences have been the concern of the nations and as well as the policy makers.

## 1.2 Education in Urban and Rural Areas

Generally, “urban areas” refer to the city, while “rural areas” refer to the countryside. The classification of urban-rural areas could be based on the economic activities, occupations, education levels, access to infrastructure and population size (Hugo *et al.*, 1997). Urban areas gain the advantages in all dimensions, whereas in rural areas, activities are mostly at basic levels, normally in agriculture and farming.

Education in rural areas has been a concern in many literatures as rural areas produce weaker student performances. This may be related to the fact that some of these rural areas have sparse and scattered population (Pritchard, 2003). This is worsened if the area is located far from the city. This will normally make most of the schools in rural areas lack facilities and with poor quality non-enthusiastic teachers. Besides, in developing countries, working conditions in urban areas are much better (Hanushek, 1997). Rural schools normally serve fewer students and receive less attention from the government. This is because education funding is frequently based on school enrolment.

In Malaysia, particularly in Sabah, there are limited researches related to rural schools. World Bank (2010) reported a disparity of students’ achievement in Mathematics at year 9 (15 years old) between urban and rural areas. There is a lack of resources, included shortage of teachers in English, mathematics and science. Due the small size of most of the rural schools, many teachers in rural schools are expected to cover several grades at the same time and teaching subjects which are not their major (Ardi Marwan, Bambang Sumintono and Nora Mislán, 2012).

Several urban-rural researches in developing countries relate the poor academic performance in rural areas to a lack of school condition including educational facilities and teacher quality. However, it was found that this is not the root factor. In a latter study, it was found that the differentials in urban-rural performance can be well explained by the differential of parents’ household socioeconomic status (SES) (Hanushek and Woessmann, 2007) especially parents’ education level. Students who study in urban schools have higher socioeconomic

status, including education, occupation and enjoy better quality public service. Rural schools, which tend to have students with lower economic status than their urban counterparts, are generally more disadvantaged in operations compared to students in urban schools.

### **1.3 Data Envelopment Analysis (DEA)**

This study utilizes a micro-level economic approach, called the Data Envelopment Analysis (DEA). DEA is a methodology based in linear programming. It is used to evaluate efficiency of entities (including programs and organizations), by utilizing resources as inputs to produce outputs. It is a frontier analysis and evaluates efficiency through peer benchmarking.

DEA was first introduced by Charnes, Cooper and Rhodes in 1978. This early model has constant returns to scale (CRS) assumption. It can measure how great the Decision Making Unit (DMU) in transforming inputs to produce outputs. DEA has few advantages that other efficiency measurement methods do not have. These advantages make DEA as popular tool in efficiency measurement. This is due to the characteristics of DEA which can accommodate different conditions of sample:

- i. DEA do not require any initial assumption of weight for variable (Charnes *et al.*, 1981; Schwartz and Stiefel, 2001). In the measurement of education efficiency measurement, market cost is absence which is utilized as weights. In DEA, the weightages for every school are freely assigned through the system. Through the calculation of DEA, schools have different weightages in the inputs and outputs. Thus, utilizing DEA in efficiency measurement is more suitable.
- ii. Parametric methods measure school efficiency relative to the average. In DEA, the construction of a frontier model is depend on the sample (Adams, 2008; Schwartz and Stiefel, 2001; Welsh, 2011). Through DEA, outliers of the sample are observed as well. In schools, outlier might provide some important information for the school performance.

- iii. DEA can be utilized different orientation of the data. By DEA, efficiency could be measured as input-oriented, where the quantity of output is remained while minimizing the input. DEA also can be used based on output-orientation; where the amount of inputs is constant, while the output is maximized. These differences happen when the distance from the efficient frontier is measured either horizontally or vertically. The vertical distance from the frontier measures input-oriented efficiency or the efficiency with which inputs are converted into output. The horizontal distance measures output-oriented efficiency or the amount by which inputs could produce the same output.
- iv. DEA does not require strong assumptions on the production frontier. Schools do not have entry and exit options manifest in the competitive markets. Schools, unlike in the conventional market, would not face bankruptcy. Besides, the technique should be adjusted to the characteristics of the uncertainty of schools. Therefore, DEA with these characteristics is suitable as it is more flexible and does not require strong assumptions on the production frontier.

In the economic theory of production, output-oriented efficiency is defined as 'in a set of outputs with the given amount of inputs, it is not possible to increase the quantity of any output without decreasing the quantity of at least one other output' (Kirjavainen and Loikkanen, 1998). An output-oriented approach maximizes outputs by making the inputs constant. In input-oriented approach, the efficiency occurs when outputs are fixed and there is no possible way to decrease the quantity of any input without increasing at least one other input. In other words, inputs are minimized by keeping the outputs constant. The output oriented approach is more appropriate if one is considering the ability to avoid waste by producing as many outputs as input usage allows. Thus, in education, output oriented DEA approach is preferable when the proposition of inputs is assumed unchanged.