

An Analysis of Intellectual Capital and Performance in the Banking Industry

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Abstract

In a knowledge economy, intellectual capital as the fourth production factor is receiving a great deal of attention, even more than other factors such as labour, land, and capital. Although it is believed that firm performance comes from knowledge assets like intellectual capital (IC) and its useful applications, managing IC has not been adequately addressed. Thus, the purpose of the study is to understand the interaction of Intellectual Capital and Management Accounting Practices (MAP) that could influence firm performance, and to explore the mediating effect of MAP on the relationship between intellectual capital and firm performance. This study used the mixed method approach with a parallel concurrent design, starting with the collection and analysis of quantitative and qualitative data, giving equal weightage to both methodologies. In the quantitative study, eighty-two financial firms were surveyed. The questionnaires were distributed among finance managers of thirteen banks, nineteen finance and leasing companies and fifty insurance companies. In the qualitative study, two banks were studied, one having high IC and the other lower IC. The empirical data supported the fact that the relationship between IC and Firm Performance is mediated by MAP while the effect of human Intellectual Capital on the Firm Performance is more prominent than that of structural or relational Intellectual Capital. Therefore, the mediating role of MAP established in this study suggests that MAP could be used as a way of improving the utilization of IC. This study also provides a foundation for understanding the interaction between Intellectual Capital components and a firm's performance

Keywords: Firm Performance, Intellectual Capital, Management Accounting Practices, Mixed method, Resource Based View.

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