DETERMINANTS OF INTELLECTUAL CAPITAL PERFORMANCE OF GCC LISTED BANKS

MAHFOUDH ABDUL KAREM AL-MUSALI

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DETERMINANTS OF INTELLECTUAL CAPITAL PERFORMANCE OF GCC LISTED BANKS

BY
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ABSTRACT

This study examines the level of intellectual capital (IC) performance of listed banks in the Arab Gulf Cooperation Council (GCC) countries using VAIC methodology and investigates the hypothesized impact of corporate governance variables (namely board diversity and ownership structure), bank specific characteristics (namely bank internationality, financial performance, bank adherence to Islamic Shariah principles, and bank risk), banking industry characteristics (namely banking industry concentration and presence of foreign banks) and macroeconomic environment on IC performance. In addition, this study determines the moderating role of the frequency of board meetings in the relationship between board diversity and IC performance. Multiple regression analyses are used to analyze the data. Hierarchical regression analysis is employed to examine if the frequency of board meetings moderates the relationship between board diversity and IC performance. The results of a survey of a sample of 128 GCC listed banks for the period 2008-2010, show that IC performance of GCC listed banks is low. Findings show that board interlocking, board size, representation of independent directors, family ownership, government ownership (when a government holds a majority of shares that is 51% or more), domestic strategic ownership, and domestic non-strategic ownership have significant relationships with IC performance. In addition, this study provides evidence that except for bank internationality, bank specific characteristics, banking industry characteristics, and macroeconomic environment play important roles in determining IC performance among GCC banks. Furthermore, the results generally do not support the study’s hypothesis that the impact of board diversity on IC performance is positive as the frequency of board meetings increases. The result of this study contributes to the body of knowledge in IC-related studies, particularly with regards to the determinants of IC performance. Findings provide some input to investors, managers, regulators and policymakers, as well as researchers in addressing the factors affecting IC performance.

Keyword: intellectual capital, IC performance, GCC banks, VAIC
ABSTRAK


Kata kunci: modal intelek, prestasi modal intelek, bank GCC, VAIC
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<td>ABB</td>
<td>FULL LIST</td>
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<tr>
<td>AAOIFI</td>
<td>The Accounting and Auditing Organization for Islamic Financial Institutions</td>
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<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
</tr>
<tr>
<td>CE</td>
<td>Capital Employed</td>
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<tr>
<td>CEE</td>
<td>Capital Employed Efficiency</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CIBAFI</td>
<td>The General Council for Islamic Banks and Financial Institutions</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ES</td>
<td>Efficient Structure</td>
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<td>ESCA</td>
<td>Emirates Securities and Commodities Authority</td>
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<td>GDP</td>
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<td>ICE</td>
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<td>ICMA</td>
<td>Institute of Certified Management Accountants</td>
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<td>IPO</td>
<td>Initial Public Offerings</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>MBBG</td>
<td>Major British Banks Group</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>MESDAQ</td>
<td>Malaysian Exchange of Securities Dealing and Automated Quotation</td>
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<td>OECD</td>
<td>Organization for economic cooperation and development</td>
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<td>QL</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>Small and Medium Enterprises</td>
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<td>The National Investor</td>
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<td>United Arab Emirates</td>
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<td>United Kingdom</td>
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<td>US</td>
<td>United States</td>
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<td>VA</td>
<td>Value Added</td>
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<td>VAIC</td>
<td>Value Added Intellectual Coefficient</td>
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<td>World Trade Organization</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of Study

There is a general consensus among researchers and accounting practitioners that, with the advent of knowledge-based economy, intellectual capital (IC), rather than physical and financial capital, becomes the main factor in driving firm value and sustaining its competitive advantage (Ahuja & Ahuja, 2012; Wang, 2011; Zeghal & Maaloul, 2010). Wang and Chang (2005), for example wrote “IC can be viewed as the most valuable asset and the most powerful competitive weapon in business” (p.222). One of the strong evidence of the increasing role of IC is the large and the growing discrepancy between market values and book values of firms which is often attributed to IC (Chen, Cheng, and Hwang, 2005; Goh, 2005). Brennan and Connel (2000) reported that IC assets constitute a substantial proportion of the discrepancy between book and market value. It is estimated that 80 percent of the Standard & Poor’s 500 firms’ value is attributed to knowledge-based assets or IC whereas tangible assets constitute the rest (Lev, 2001).

As a result, there is now a growing awareness that the potential for creating competitive advantage and long-term corporate value lies more importantly in efficient management of IC than in tangible assets (Ting & Lean, 2009; Proctor, 2006; Wang & Chang, 2005). This is especially so in knowledge intensive industries such as the banking industry as its key resources are intangible and intellectual in nature (Shih, Chang, and Lin, 2010; Kujansivu & Lonnqvist, 2007). Ahuja and Ahuja (2012) argue that an efficient utilization of IC is more crucial for
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**Others,**

Awards

Universiti Utara Malaysian’s Dean’s Award for Excellent Academic Achievement in the Master of Science (International Accounting), 2009.