



**UNIVERSITI TEKNOLOGI MARA**

**RELATIONSHIP BETWEEN INTELLECTUAL  
CAPITAL (IC) AND FINANCIAL PERFORMANCE  
IN ISLAMIC BANKING INDUSTRY**

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## ABSTRACT

This research wants to investigate the impact of intellectual capital (IC) to financial performance based on Islamic banking industry. The aim of research is to give some view to several large and small corporation on important of intellectual capital (IC) for component on sustainability. It also to emphasized by the public interest in sustainable business. There are four independent variables whereby Value-added intellectual capital (VAIC), Capital Employed efficiency (CEE), Human Capital efficiency (HCE), and Structural Capital efficiency (SCE). It depends on dependent variable that measure of profitability as ROA. The time series data for this research study are 2017 until 2020 which consists 4 years observations. In this research study, a regression analysis was use to evaluate the impact of IC towards financial performance. Sample of 20 Islamic banks based on Gulf Cooperation Council (GCC) countries which operates in Bahrain, Qatar, Saudi Arabia and UAE were chosen with period of 4 years data from annual report. Based on findings that outcome, the VAIC, HCE, SCE and CEE is insignificant result whereby there is no relationship between intellectual capital (IC) model with financial performance. Meanwhile, HCE, SCE and CEE having positive relationship with financial performance of Islamic banking industry and VAIC have negative relationship with financial performance. The study reveals that all independent variable gives no relationship with financial performance of intellectual capital (IC) and impact towards Islamic banking industry.

Keywords: Intellectual capital (IC); Value-Added intellectual capital (VAIC); Human Capital efficiency (HCE); Structural Capital efficiency (SCE); Capital Employed efficiency (CEE); ROA; Gulf Cooperation Council (GCC) countries; Islamic banking;

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

Beginning of twenty-first century, proverb “knowledge is power” have a bigger significance than ever before (Rechberg and Syed, 2013). Changes today make knowledge all over the world have changes innovation and creativity in firms especially from tangible assets to intangible assets such as intellectual capital (IC). Intellectual capital plays a role to enhancing the high-tech knowledge-based firms which based on knowledge assets which is intellectual capital (IC).

Intellectual capital can be referring as intangible capital and resources such as knowledge, human resources, brands and system whereby supports creation of firm value (Brooking, 1996; Edvinsson and Malone, 1997; Stewart, 1997). As banks are consider as high-knowledge firms because their important asset are intellectual and all activities involved intellectual nature that consists direct interaction with customer that related to intellectual capital (IC), there is no reason that there are many important factors contribute to enhancing the performance of banks. Important of IC as a part of reporting an asset, several large and small corporations just realised that IC is the main components of sustainability (Marshall et al., 2006; Borkowski et al., 2010).

Islamic banks asset size been increase rapidly in worldwide (Albaity et al., 2019). As well, Islamic finance is one attractive opportunity for investors because they show the good position rather than conventional banks to absorb the external shocks. Goals of Islamic banks can achieve through using all resources include intangibles/intellectual and tangible. Otherwise, important to examine the banking sector that using intellectual capital (IC) able to achieve the growth of new economy.

The flow of this chapter continues with section 1.2 which explains about the background of study. The problem statement, research question, research objectives, significance study, scope of study, limitation of study, definition of key term are based