The Relationship between Intellectual Capital and Financial Performance: An Empirical Study of Indian Pharmaceutical Industry

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ABSTRACT

This paper empirically examines the relationship between intellectual capital (IC) components (i.e., human, structural and physical capital) with the financial performance measures (i.e., profitability, return on equity, productivity and market valuation) of Indian pharmaceutical industry. Value added intellectual coefficient (VAIC^M) method is exercised to examine the intellectual capital performance. Moreover, correlation and panel regression models were employed to examine the relationship between IC and measures of financial performance. Empirical data were accumulated from the CMIE Prowess Database, over the ten-year period of 2002-03 to 2011-12. The results evince that intellectual capital has a significant and positive association with measures of financial performance respectively. The results also divulge that Indian pharmaceutical industry still depends on physical capital efficiency. The study concludes that individually, structural capital and physical capital positively influences financial performance of companies; whereas human capital efficiency, a major component of intellectual capital does not characterise any significant role in increasing the financial performance of the companies. There is an immediate necessity for companies to start voluntary disclosure of non-financial information.

KEYWORDS: Intellectual capital, Pharmaceutical industry, Productivity, Profitability, ROI, Market valuation, India.

REFERENCES