

**The Impact of Intellectual Capital on Firm's Financial Performance: Special Reference to Listed Banks, Diversified Finance and Insurance Companies in CSE**

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**ABSTRACT**

**Introduction** - This research study has been carried out to determine the impact of the Intellectual capital on the firm's financial performance in the listed banks, diversified finance and insurance companies of the Sri Lanka. This study aims to fill the gap of studying the above-mentioned sub sections listed in Colombo Stock Exchange.

**Design/Methodology/Approach** - This study used VAIC<sup>TM</sup> method to determine firms' intellectual capital, using Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE) and Capital Employed Efficiency (CEE) as Independent Variables and Return on Equity (ROE) as Dependent variable. The research has adopted non-probability sampling method and selected 12 banks, 20 Diversified Finance Companies and 8 Insurance companies as the sample. Also, random effects regression method has initially used to analyse the collected data. Stata package version 16 was used to run the tests and the regression of the model.

**Findings** - Based on the analysed results, Banking Sector VAIC<sup>TM</sup> and ROE has a negative relationship and CEE has positive significant impact on ROE. Diversified Finance sector VAIC<sup>TM</sup> has a positive relationship with ROE and HCE, SCE, CEE has a positive impact on ROE. Insurance sector VAIC<sup>TM</sup> has a positive insignificant relationship.

**Conclusion** - The final result emphasizes that the overall models are statistically significant, and researcher conclude that there is a significant positive impact of CEE on Financial performance of Banking Sector and there is a significant positive relationship of VAIC<sup>TM</sup> components and financial performance of Diversified Finance sector.

**Keywords:** *Value Added Intellectual Capital, Human Capital Efficiency, Structural Capital Efficiency, Capital Employed Efficiency, Return on Equity*