

**THE IMPACT OF INTELLECTUAL CAPITAL ON FIRMS’
FINANCIAL PERFORMANCE: A COMPARISON BETWEEN
BANKING SECTOR AND DIVERSIFIED FINANCIAL SECTOR
IN SRI LANKA.**

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Abstract

Intellectual Capital is a value-creation concept that plays an important role in performing firms’ financial performance. The purpose of this study is to evaluate the moderating effect of the industry sector on the relationship between intellectual capital and the firm’s financial performance. Modified Value Added Intellectual Coefficient (MVAIC) methodology is used in this study for measuring the intellectual capital of the firm. Financial performance is measured by using the proxies of return on assets (ROA), return on equity (ROE), and market-to-book value (M/B) ratios. A quantitative deductive approach is applied in this study and secondary data was drawn from the published annual report of the respective banks and diversified financial sector firms for the period of 2017-2021.

According to the data analysis, there was a significant positive relationship between IC and firms’ performance of Sri Lankan banks. In addition to that capital employed efficiency has a significant impact on bank performance compared to structural capital efficiency. Various Components of the IC differ across all subsectors in the diversified financial sector. Diversified financial sectors have high-value MVAIC due to a higher level of human capital efficiency. Finally, the findings of this study motivate banks and diversified financial sector management to improve knowledge management practices in their organization.

Keywords: *Intellectual Capital, MVAIC, Firm Performance, Banking Sector, Diversified Financial Sector.*