

The Impact of the Intellectual Capital on Firms' Financial Performance and the Market Value: Evidence from the Listed Companies in the Colombo Stock Exchange

De Mel, V. N. S.¹, Premarathna, W.G.I.D.² and Tennekoon, S.T.M.S.³

Department of Finance, University of Kelaniya, Sri Lanka^{1,2,3}

nidukshi.sa98sri@gmail.com¹, imeshadevindi888@gmail.com², stmst201@kln.ac.lk³

ABSTRACT

Purpose: The purpose of this research was to examine the impact of intellectual capital on firms' financial performance and market value.

Design/Methodology/Approach: Intellectual capital was measured using the value-added intellectual capital coefficient and hence, human capital, structural capital, and capital employed efficiency were used as the components of the independent variable of Intellectual capital. The dependent variables of the study were firm's performance and the firm's value which were measured using return on assets and market to book value respectively. Secondary data were collected over the period of 2017 to 2021, from the annual reports of highest market capitalized companies from each sector of the GICS classification. Data of the research was analyzed by using the e-views software.

Findings: The panel data regression analysis revealed that there is a positive significant impact of human capital, structural capital, and capital employed efficiency on firm's performance. Further, the analysis confirmed the existence of a positive significant of human capital, structural capital, and capital employed efficiency on firm's value.

Originality: The finding of this research will be beneficial to the management of the company to make decisions relating to intellectual capital, human capital development, knowledge management, and to prepare a succession plan for the organizations.

Keywords: *Value Added Intellectual Capital, Human Capital Efficiency, Capital Employed Efficiency, Structural Capital Efficiency, Market to Book Value, Return on Assets*