

## **Impact of Intellectual Capital on the Financial Performance of Finance Sector listed Companies in Sri Lanka**

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### **Abstract**

Propagation in the gap between companies' market value and their book value has resulted in numerous investigations into identifying the factors that influence the market value. Intellectual Capital primarily drives wealth and growth in today's economy. The rise of new economy has highlighted the fact that the value created depends far less on their physical assets than on their intangible ones. The specific objective of this research is to identify the relationship between firms' intellectual capital and firms' financial performance. This study uses Value Added Intellectual Capital model (VAIC) in determining intellectual capital and its three major components: Human Capital Efficiency (HCE); Structural capital efficiency (SCE); and Capital Employed Efficiency (CEE). Financial performance measure Return on Assets (ROA) uses as the dependent variable of the study. The data collection is based on annual reports for the years 2013 – 2017 of 25 listed finance companies at the Colombo stock exchange. Multiple linear Regression analysis is used to study the impact of IC on financial performance using E-views package. Empirical results indicate a significant influence of intellectual capital on the financial performance (ROA) of the finance sector listed companies in Sri Lanka. The findings conclude that intellectual capital is crucial in achieving organizations' financial performance and more emphasis should be placed on the intellectual capital.

**Key Words:** Value Added Intellectual Capital (VAIC), Return on Asset (ROA), Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), Capital Employed Efficiency (CEE)