

The Impact of Intellectual Capital on Firm's Market Value and Financial Performance

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Abstract

Intellectual capital has a huge impact on the firms' value creation process and it will also generate competitive advantage to the organization with the development of knowledge based economy. The study aims to identify the impact of intellectual capital on firm's market value and financial performance of the bank, finance and insurance sector and manufacturing sector in Sri Lanka. Return on asset and market to book value are separately used as dependent variables. The Value Added Intellectual Coefficient (VAIC) method introduced by Pulic (2000) is used to measure the intellectual capital of the firm. The study used secondary data of 15 bank, finance and insurance sector companies and 15 manufacturing sector companies covering the period of 2012 to 2017. Data were analyzed using linear regression model and used E-Views software to perform statistical tests. The results revealed that intellectual capital significantly impact to the firm's financial performance in bank, finance and insurance sector. However, according to the results there was no significant impact of intellectual capital on firm's financial performance in manufacturing sector. Furthermore, intellectual capital has no significant impact on firm's market value in both sectors.

Key Words: Intellectual capital, Return on Asset (ROA), Market to book value (MB), Bank, finance and insurance companies, manufacturing companies