

The Impact of Intellectual Capital on the Financial Performance of Listed Finance Companies in Sri Lanka.

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Abstract

The study investigates the impact of intellectual capital on the financial performance of the listed finance companies in Sri Lanka. Intellectual Capital primarily drives the wealth and growth of today's economy. As per the argument of many scholars, Intellectual Capital (IC) is more likely to be the critical source of a firm's competitive advantage than tangible resources. Hence this study aims to identify the relationship between firms' intellectual capital and firms' financial performance. Further, the study provides a well-structured literature review of existing evidence related to the effect of IC on financial performance. Intellectual Capital consists of three major components, namely Human Capital (HC), Relational Capital (RC) and Structural Capital (SC). The study uses the Value Added Intellectual Capital (VAIC) model to determine the Intellectual Capital. The VAIC model provides the means to measure intellectual capital and efficiency of its individual components, allowing management intervention in those business areas open to statistical analysis. The dependant variable of the study is the financial performance of listed finance companies, and the study uses Return on Assets (ROA) to measure financial performance. This research depends on secondary data published by the listed finance companies. Data were collected from annual reports published under the Colombo Stock Exchange website from 2015 to 2019 of all 54 listed finance companies. The study uses Descriptive measures and the multiple linear regression analysis as analytical methods using E-views software. The findings of the study will provide useful insights, especially into the finance sector companies, and also, the study will offer a better understanding of the impact of Intellectual Capital on financial performance in the developing market of Sri Lanka because the study depends on the whole population.

Keywords: Value Added Intellectual Capital (VAIC), Return on Asset (ROA), Human Capital (HC), Relational Capital (RC), Structural Capital (SC).