

The Impact of Intellectual Capital on Financial Performance of Service Companies in Colombo Stock Exchange in Sri Lanka

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Abstract

In modern economics, Intellectual capital is described as an intangible asset that can be used as a source of sustainable competitive advantage. However, intellectual capital components have to interact with each other to create value. The paper aims to investigate the impact of intellectual capital on public listed service companies' financial performance in Colombo Stock Exchange. A sample of 40 companies was selected from 117 companies representing 5 Global Industry Classification Standard industry groups listed on CSE. In this respect, the study has been conducted using data drawn for 2015 to 2019 from Consumer Services, Health Care Equipment & Services, Banks, Diversified Financials, and Insurance companies. The Value Added Intellectual Capital Coefficient (VAIC) model developed by Pulic (2000) is used to determine the IC performance. Accordingly, human capital, structural capital and capital employed efficiency are used as intellectual capital constituents of this research. Return on Assets (ROA) is used to measure the financial performance of selected companies. Findings provide useful insights to companies' management, especially those industries, in understanding the impact of various components in intellectual capital in their growth. This study also has practical and useful value in the perspective of human resource development and its implications. Thus, this study would guide the consultants and human resource managers to determine how much and how more value could be established by managing an organization's human resource.

Keywords: Intellectual Capital (IC), Value Added Intellectual Coefficient (VAIC),