

Intellectual Capital and Financial Performance: Evidence from the Banking and Diversified Financial Companies in Colombo Stock Exchange

Maduwanthi, W.M.¹ and Karunaratna, W.V.A.D.²

^{1,2}*Department of Accountancy, University of Kelaniya*

¹*wmm.maheshika@gmail.com*, ²*anurawvadk@kln.ac.lk*

Abstract

Global economies have transferred from an information-based economy to a knowledge-based economy. In that, Intellectual Capital (IC) is considered a vital corporate asset. Numerous investigations have highlighted that organizations can achieve competitive advantages through IC.

This study aims to compare the results of the effect of IC on the Financial Performance of firms belonging to Banks and the Diversified Finance sector companies listed on the CSE. In addition, this study examines the moderating effect of industry on the relationship between IC and Financial Performance. Most of the prior studies have focused on multiple ranges of sectors. Still, direct attention has not been given to do a comparative study among the sub-sectors of the financial industry. Therefore, this study focused on comparing the Banking and Diversified Financial sectors to fulfill that gap. The Value-Added Intellectual Capital model (VAIC) is used to measure the IC components: Human Capital Efficiency, Structural Capital Efficiency, and Capital Employed Efficiency, while Return on Asset is used as the Financial Performance indicator. The sample of the study comprises 12 banking and 34 Diversified Finance companies' annual reports from 2015 to 2020. Panel regression analysis is used to examine the impact of IC on ROA by using E-views software. Empirical results indicate that HCE has a significant association with the Financial Performance of the financial companies in Sri Lanka. The finding of this study highlights the importance of knowledge-based resources in shaping the value of businesses in the emerging Banking and Diversified Finance sector companies in Sri Lanka.

Key words: *Intellectual capital (IC), Value Added Intellectual Capital (VAIC), Return on Asset (ROA), Banking Sector, and Diversified Financial sector*