

The Impact of Intellectual Capital on Firms' Financial Performance: A Comparative Study of Manufacturing and Banking Sectors Listed in Colombo Stock Exchange

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ABSTRACT

Introduction: The importance of intangible assets rather to tangible assets has increased due to the changes in business environment over the past few decades. The purpose of this study is to examine the impact of intellectual capital (IC) on firms' financial performance in Sri Lanka, especially for the manufacturing and banking sectors.

Design/ Methodology/ Approach: Secondary data on 36 listed firms, comprising 24 manufacturing sector and 12 from the banking sector, are collected from Colombo Stock Exchange for 7 years from 2013- 2019. IC and its components are computed using Public's value added intellectual coefficient model and firms' performance is measured by return on asset (ROA). Ordinary Least Square approach and Random effect regression model is used to investigate the hypothetical relationship between IC and firms' performance.

Findings: The results show that there is a significant positive impact of IC on firms' financial performance of both manufacturing and banking sectors. Although there is a significant positive impact to both the sectors, the impact to the manufacturing sector is much higher than the banking sector. HCE, SCE and CEE positively associated with ROA for both the sectors, while CEE insignificant to the financial performance of manufacturing sector. CEE variable is doing more impact to the banking sector while HCE and SCE doing more impact to the performance of manufacturing sector.

Conclusion: Final results of this study concludes that the overall model is statistically significant as well as fulfil the existing research gap. Researcher conclude that there is a significant positive impact of intellectual capital on firms' financial performance for both manufacturing and banking sectors in Sri Lanka.

Keywords: *Intellectual capital, Human capital efficiency, Structural capital efficiency, Capital employed efficiency, Banking sector and Manufacturing sector*