

INTELLECTUAL CAPITAL REPORTING AND FINANCIAL DISTRESS OF LISTED COMPANIES IN SRI LANKA.

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Abstract

This study aims to investigate the relationship between intellectual capital Reporting and financial distress. Intellectual capital is becoming a crucial performance and long term growth factor in a knowledge-based economy where companies identify their core competence as intangible assets rather than tangible assets. Intellectual capital reporting is mostly unregulated in Sri Lanka, due to the fact that it is voluntary disclosure. In the recent past, there has been a growing dissatisfaction with traditional financial reporting. Further, Intellectual Capital performs an increasingly more important position in sustaining competitive advantages and creating corporate value for a corporation. Therefore, there is a strong need to study whether intellectual capital reporting influences the firms' financial distress. The dependent variable in this research is financial distress and it is measured by the Altman Z Score Model. Content analysis is supported by a disclosure index that measures a variety of intellectual capital Reporting. The independent variables used this research are namely, human capital, structural capital and relational capital. Data was collected from the annual reports of non-financial firms listed in the Colombo Stock Exchange (CSE) for three years from 2019 to 2021 and data was analyzed by using EViews 11 statistical package. This study used descriptive statistics, correlation, and regression analysis to find out the association between independent and dependent variables. Accordingly, the findings of this research will offer a better understanding of the influence of intellectual capital reporting on financial distress. Further the findings of this study will be useful for regulatory bodies to understand the existing level of intellectual capital reporting in Sri Lankan listed companies on the Colombo Stock Exchange, and it will be helpful for Auditors, Managers and Investors. They can get correct decision for their company in the future. In addition to that, the different other stakeholders, such as present and potential investors, also can use these findings to get an understanding of the impact of intellectual capital reporting on financial distress of listed companies in Sri Lanka.

Keywords: *Intellectual Capital, human capital, structural capital, relational capital, Financial Distress, Annual Reports, Listed companies, Sri Lanka*