

**Effect of Intellectual Capital on the Financial Performance of Listed Banks in Sri Lanka**

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**ABSTRACT**

**Introduction:** The relationship between companies' financial performance and intellectual capital is becoming a highly interesting issue in this era, particularly in periods of severe economic uncertainty, when companies are looking for new solutions to survive and face a competitive advantage. This study analyses the effect of intellectual capital on the financial performance of listed banks in Sri Lanka.

**Design/ Methodology/ Approach:** The author uses the VAIC method to measure the independent variables of the study and components of VAIC are the independent variables of the research and financial performance is the dependent variable. The study indicates how intellectual capital influences the financial performances of banks in the past nine years from 2011 to 2019. The secondary data collection method was used to collect the data from the annual reports of the listed banks in Sri Lanka.

**Findings:** Used the regression analysis method to compute the result and the result shows a positive relationship between intellectual capital and the bank's financial performance. This result in lines with the previous literature (Bontis , et al., 2000) (Chu, et al., 2011). Furthermore, over the nine years period, Capital Employed Efficiency & Human Capital Efficiency have a positive significant relationship on Return on Assets.

**Conclusion:** This study would provide information to the stakeholders and potential investors to assess the value-creating capabilities of selected banks. The findings of this study help decision-makers to aware on the importance of intellectual capital as a key factor that can enhance a bank's ability to maintain its competitive position.

**Keywords:** *VAIC, Financial Performance, Intellectual Capital, Banks in Sri Lanka.*