

The Impact of Intellectual Capital and Financial Performance in Sri Lankan Banks

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Abstract

The main purpose of this paper is to examine the impact of Intellectual Capital (IC) on financial performance of Sri Lankan banks. The Value-Added Intellectual Capital coefficient (VAIC) approach developed by Pulic (2000) was used to determine the IC performance. Accordingly human capital, structural capital and capital employed efficiency were used as intellectual capital constituents of this research. Return on Equity (RoE) was used to measure the financial performance of selected banks. The data were obtained from the annual reports of 24 commercial banks listed in Colombo Stock Exchange (CSE) for the period from the year 2017 to 2021 to measure the impact of intellectual capital constituents on financial performance.

Findings of this research indicated that Sri Lankan banks in general, have relatively lower human capital and structural capital efficiency compared to capital employed efficiency. Therefore, the results showed a greater impact of capital employed efficiency on financial performance compared to other intellectual capital constituents.

Findings of this study will help decision makers and banking institutes to be aware of the importance of intellectual capital as a key factor that can improve a firm's ability to maintain their competitive position.

Key words: *Intellectual Capital (IC), financial performance, Commercial banks.*