

**IMPACT OF INTELLECTUAL CAPITAL ON FINANCIAL
PERFORMANCE OF THE BANKING SECTOR IN SRI LANKA**



By

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ABSTRACT

This study was attempted to investigate the impact of Intellectual capital on the financial performance of the banking sector in Sri Lanka. The objectives of this study are to identify the impact of human capital on financial performance, to identify the impact of structural capital on financial performance and to identify the impact of capital employed on financial performance of banking sector in Sri Lanka.

In this study literature part explained independent variables, dependent variable and the relationship between those variables clearly defined by using previous literature reviews. Conceptual model is developed based on the existing literature. Many studies have been done in the area of intellectual capital and its contribution to the value of the firm. This study sets out to extend the evidence by investigating the intellectual capital of banks operating in Sri Lanka. The study uses Value Added Intellectual Capital model (VAIC) in determining intellectual capital and its three major components. In this study panel data sets of Sri Lankan banking sector were used to investigate the impact of intellectual capital on financial performance of banking sector in Sri Lanka using the Random Effects model. Random Effect model has selected by using the results of Hausman Test. For the purpose of this study, 100 observations of 20 banks over the period 2014-2018 were included. Annual reports, especially the profit and loss accounts and balance sheets of the selected banks have been used to obtain the data. Return on Assets (ROA) was considered as proxies for financial performance

Findings of this research indicates that, Sri Lankan banks, in general, human capital efficiency, structural capital efficiency and capital employed efficiency have a significant positive relationship with financial performance. Further these findings would be both conceptually and practically appealing for bankers to apply knowledge management practice in their institutions. Also this study would provide some information to the stakeholders and potential investors to assess the value creating capabilities of selected banks. Findings of this study help decision makers be aware of the importance of intellectual capital as a key factor that can enhance a firm's ability to maintain their competitive position

Keywords: Intellectual Capital, Financial Performance, Return on Asset, Sri Lankan Banking Sector

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