



INTELLECTUAL CAPITAL AND FINANCIAL PERFORMANCE IN SRI LANKAN BANKS

D. Aruppala¹, V. Wickramasinghe², and I. Mahakalanda³

1 Department of Accountancy, Faculty of Commerce and Management Studies, University of Kelaniya

2 Department of Management of Technology, Faculty of Engineering, University of Moratuwa

3 Department of Management of Technology, Faculty of Engineering, University of Moratuwa

dilini@kln.ac.lk

The purpose of this paper is to examine the impact of Intellectual Capital (IC) on market value and financial performance of Sri Lankan banks for the period of 2008 to 2014. Our analysis is about the level of intellectual capital and the level of value creating competency of Sri Lankan banks. The Value Added Intellectual Coefficient (VAICTM) approach developed by Pulic is used to determine the IC performance. Return on Assets (ROA), Return on Equity (ROE), and Market to Book Value Ratio (M/B) are used to measure the financial performance and value creating competency of selected banks. The data obtained from corporate annual reports are regressed to measure the impact of intellectual capital constituents on financial performance.

The analysis indicates that the level of relationships between different intellectual capital constituents such as human capital, structural capital, relational capital, innovation capital and capital employed etc. and financial performance indicators are varied from one to other. However, Sri Lankan banks, in general, have relatively higher human capital efficiency. So the results depict a greater impact of human capital efficiency on financial performance compared to remaining intellectual capital constituents.

Our findings would be both conceptually and practically appealing for bankers to apply knowledge management practice in their institutions. Findings would also highlight the factors affecting the performance of intellectual capital in order to maximize the value creation. Further this study would provide some information to the stakeholders and potential investors to assess the value creating capabilities of selected banks.

Keywords: Intellectual Capital, Human Capital, Financial Performance, Value Creating Competency, Sri Lankan Banks