

Research Article

Intellectual Capital and Its Impact on the Financial Performance: Evidence from Palestine

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Abstract

The study aimed to explore the impact of intellectual capital on the financial performance of corporations listed on the Palestine Exchange. The analytical approach was used in this study to examine the financial statements of these corporations during the period from 2017 to 2022. Data was collected from the annual financial reports of the listed companies. The study population consist of all 43 companies listed on the Palestine Exchange which regularly disclosed their financial and sustainability reports, distributed across various economic sectors. Data extracted from the financial statements was processed using the statistical package program SPSS, using multiple regression analysis to examine the impact of intellectual capital in its three dimensions: human capital, structural capital, and relational capital, on financial performance indicators represented by return on assets, return on equity, and net profit ratio. A clear relationship was found between the components of intellectual capital and the financial performance of public shareholding companies on the Palestine Exchange. It was also found that intellectual capital, in its various dimensions, has a significant impact on return on assets, return on equity, and net profit margin. Intellectual capital in the banking sector had the greatest impact on financial performance compared to other sectors.

Keywords

Intellectual Capital, Human Capital, Structural Capital, Relational Capital, Financial Performance

1. Introduction

Intellectual capital is closely related to the ability of pioneering corporations to manage and assess their business performance and to add value across all operations. Achieving this goal requires distinguishing value-adding activities from those that do not contribute to increasing value. This enables companies to enhance their effectiveness and improve performance by optimizing the use of their resources. In particular, ambitious corporations must go beyond non-value-adding activities by improving or replacing them with ones that enhance their efficiency. This transformation plays a critical role in achieving corporate goals and ensuring

the sustainability of progress through the intelligent and effective utilization of resources. Intellectual capital is embodied in individuals who possess the ability to think, analyze, and innovate [12].

In addition to decision-makers capable of managing all organizational activities and addressing potential business challenges, today's contemporary organizations cannot function without intellectual capital. This is manifested in the valuable human resource with essential capabilities, which can effectively influence organizations and their performance. While organizations may possess good physical capabilities,

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advanced digital capabilities, successful organizational capabilities, and other capabilities, they cannot use them with the required efficiency and effectiveness without the presence of intellectual capital capable of directing and exploiting these resources in a manner consistent with the organization's goals. Accordingly, intellectual capital remains the primary driver of all the successes achieved by organizations today in their various activities [5].

Intellectual capital has become one of the most important variables for survival and continuity, as it focuses on the unique human mind and how to nurture, develop, and invest in it to become a resource that can be utilized in developing its economy. Many scholars emphasize that companies seeking to develop new technologies or products must employ individuals with exceptional intellectual abilities and high performance. This helps create competitive advantages and enhance the competitiveness of products. As a result, intellectual capital encompasses knowledge, skills, flexibility, efficiency, creativity, and innovation—qualities that are difficult for competitors to replicate. This has led organizations to increasingly focus on developing and leveraging their intellectual capital [7].

Intellectual capital plays a strategic role in enhancing the financial performance of business enterprises by enabling them to achieve a competitive advantage through the effective utilization of available human potential and capabilities. It contributes to improving the company's future performance and reducing costs. Moreover, it carries informational significance by influencing financial performance and company valuations through the predictive power or relevance of such information. Hence, intellectual capital has become an important factor in shaping a company's reputation, as it helps reduce uncertainty and enhances the relevance of data in financial markets [13].

2. Problem Statement

Although intellectual capital has increasingly been recognized as a critical driver of corporate value and competitive advantage, there is still no standardized accounting framework for its measurement, reporting, or evaluation. Existing empirical research generally indicates that intellectual capital positively influences financial performance; however, these findings remain inconsistent across countries, markets, and industry contexts. In emerging and developing economies, where reporting practices and regulatory structures differ substantially from international norms, this ambiguity becomes even more pronounced.

Within the context of Palestine, the challenge is further compounded by several issues. First, companies listed on the Palestine Exchange are not subject to unified or mandatory intellectual capital disclosure requirements, resulting in varied reporting practices and potential measurement distortions. Second, most prior studies on intellectual capital in the region have focused on single sectors or specific components,

offering limited insight into how intellectual capital behaves across multiple economic sectors. Third, there is a noticeable lack of empirical evidence linking intellectual capital efficiency to financial performance using sector-level comparisons in the Palestinian market.

This combination of non-standardized measurement, limited sectoral coverage, and scarce empirical evidence creates a clear research gap regarding how intellectual capital truly affects financial outcomes in Palestine.

This study seeks to fill this gap by systematically examining the impact of intellectual capital and its components on the financial performance of companies listed on the Palestine Exchange, while also comparing effects across different economic sectors. By applying a structured measurement model of intellectual capital efficiency and analyzing sector-level variations, the study provides a more comprehensive understanding of how intellectual capital contributes to financial performance in the Palestinian context. The findings aim to support policymakers, investors, and corporate decision-makers in improving disclosure practices and enhancing the strategic management of intellectual capital.

3. Purpose of the Study

This study aims to analyze the relationship between investment in intellectual capital—specifically human, structural, and relational capital—and the financial performance of public shareholding companies listed on the Palestine Exchange. It also examines whether this impact varies across different economic sectors. The study addresses a research gap due to the scarcity of literature examining intellectual capital within the Palestinian context and the limited attention paid to its direct effects on performance indicators such as ROA, ROE, and net profit margin. By filling this gap, the study seeks to inform financial and administrative decisions that promote more effective investments in intellectual capital.

4. Hypotheses of the Study

To answer the questions of this study, the following hypotheses were developed:

$H0_i$: There is no statistically significant impact of intellectual capital on the financial performance of corporations listed on the Palestine Exchange at the significance level ($\alpha \leq 0.05$).

$H0_{i,a}$: There is no statistically significant impact of Human capital on financial performance of corporations listed on the Palestine Exchange at the significance level ($\alpha \leq 0.05$).

$H0_{i,b}$: There is no statistically significant impact of Structural capital on the financial performance of corporations listed on the Palestine Exchange at the significance level ($\alpha \leq 0.05$).

$H0_{1c}$: There is no statistically significant impact of Relational Capital on the financial performance of corporations listed on the Palestine Exchange at the significance level ($\alpha \leq 0.05$).

$H0_2$: There are no statistically significant differences in the impact of intellectual capital on financial performance that can be attributed to the economic sector at the significance level ($\alpha \leq 0.05$).

5. Literature Review

5.1. The Concept of Intellectual Capital

Intellectual capital is the wealth of knowledge possessed by an organization. It includes the employees' ingenuity and their ability to think and learn, as well as the data, experiences, wisdom, and ideas related to the goals and mission of company [3-7]. It consists of three main dimensions: human capital, structural capital, and relational capital, combining to form an intangible yet essential element in achieving value and organizational excellence [8].

5.2. Significance of Intellectual Capital

The significance of intellectual capital stems from its role as a fundamental resource in today's competitive environment as it serves as a primary driver of innovation and creativity within the organization [5]. Intellectual capital has become an important factor in achieving competitive advantage. It also contributes to the efficient resources use, the support of sustainable institutional growth and development and the financial performance improvement [16].

5.3. The Role of Intellectual Capital in Economic Life

The role of intellectual capital in economic life is manifested through its ability to develop products and services and enhance the quality of administrative and production processes, thereby strengthening companies' competitiveness in open markets. Ideas and knowledge become genuine capital that can be invested to achieve excellence and generate wealth. Further, indicators of modern performance increasingly depend on intellectual capital as a key factor in explaining differences in business outcomes among organizations, especially given the inability of traditional accounting systems to measure the true value of intangible intellectual assets [1].

5.4. The Impact of Intellectual Capital on Financial Performance

Intellectual capital is considered one of the main determinants in explaining disparities in financial

performance among companies. It is closely related to enhancing innovation capacity, achieving operational efficiency, and increasing profitability. Structural capital plays an important role in improving financial performance by providing a strong organizational framework, supporting internal operations, and offering effective information systems that contribute to higher productivity. In addition, relational capital contributes to building strategic relationships with customers, stakeholders, and suppliers, thereby enhancing the ability of company to achieve stable returns and maintain its competitive position. Human capital is one of the fundamental pillars in performance development, as employees possess expertise, skills, and accumulated knowledge. With that said, its impact largely relies on the level of investment in human resource development and organizational environment [4].

Al-Shami [6] indicated that financial performance of Egyptian banks was significantly improved by the intellectual capital. These banks demonstrated their awareness of the importance of investing in knowledge, expertise and relationships to achieve positive financial results, by using intellectual capital to enhance returns on assets. In the same context, the results of Shiyad's [14] study confirmed that Saudi banks can achieve high profitability rates through the effective use of their human and structural capital, indicating that the effective use of intellectual assets had a greater impact than physical variables. Meanwhile, Al- Al-Khalayleh's [2] study and Abu Al-Hijaa [9] study concluded that relational capital had a positive impact on return on assets in Jordanian banks, while structural and human capital did not demonstrate a clear impact, which highlights the institutional relationships importance in supporting financial performance. These studies agree that smart investment in intellectual capital is a basic pillar for achieving a sustainable competitive advantage and enhancing financial performance.

Conducted in the Algerian context, Tamrabet's [15] study demonstrated that pharmaceutical companies were capable to improve their financial performance by increasing the intellectual capital efficiency. In particular, the Soidal Group demonstrated tangible financial outcomes, including improved indicators of return on assets and equity, as well as revenue growth. This is due to the continued investment in human competencies and organizational processes. These findings align with those of Janošević, Dženopoljac, and Bontis [11] who examined Spanish companies and found a positive impact of both human and structural capital on return on assets and return on equity, despite the absence of a direct effect on net profit. In the broader European context, Holienka and Pilková's [10] study on industrial firms in Slovakia demonstrated that intellectual capital is an important factor in achieving positive returns on assets, especially in periods preceding economic crises. The need to integrate intellectual capital into managerial strategies was emphasized by this study so as to enhance financial stability during difficult times. All combined, these reviewed studies—across diverse

economic environments—clearly affirm the tangible impact of intellectual capital on financial performance, whether through boosting profitability, improving operational efficiency, or increasing firms' market value.

6. Methodology

This study adopts a descriptive-analytical approach to examine the relationship between intellectual capital and the financial performance of corporations listed on the Palestine Exchange. Secondary data obtained from the annual financial reports of the listed companies served as the primary source for the analysis. The theoretical foundation of the study was built using academic books, journal articles, and empirical studies on intellectual capital and financial performance.

A content analysis method was used to extract information related to human, structural, and relational capital from annual reports spanning the years 2019 to 2024. This helped in constructing a model to assess the influence of intellectual capital on financial performance indicators.

In the applied part of the study, quantitative analysis techniques were used to evaluate the relationship between independent and dependent variables. Financial ratios were calculated using Microsoft Excel, and statistical analyses were conducted using SPSS software to validate the study hypotheses.

7. Study Population and Sample

The study population comprises all 49 companies listed on the Palestine Exchange during the period from 2019 to 2024. These companies are spread across several economic sectors, providing a broad representation of the Palestinian financial market.

From this population, the study sample includes 43

companies that consistently disclosed their financial and sustainability reports during the study period, making them suitable for analysis.

8. Statistical Analysis and Hypothesis Testing Results

Data collected from the annual reports were initially processed and coded using Microsoft Excel to build a comprehensive database. Subsequently, SPSS software was used to perform statistical analysis.

8.1. Statistical Tools Used

- 1) Descriptive Analysis: To calculate means and standard deviations.
- 2) Variance Inflation Factor (VIF): To check for multicollinearity among independent variables.
- 3) Pearson Correlation Coefficient: To examine the strength and direction of relationships.
- 4) Multiple and Simple Regression Analysis: To assess the impact of intellectual capital on financial performance.
- 5) ANOVA Test: To test the statistical significance of the models.

8.2. Hypothesis Testing Results

Results related to Testing the First Hypothesis: There is no statistically significant impact at the level of ($\alpha \leq 0.05$) of intellectual capital in its dimensions (human capital, structural capital, and relational capital) on financial performance in its dimensions (return on assets, return on equity, and profitability ratio) in corporations listed on the Palestine Exchange.

Table 1. Regression Analysis Results for Return on Assets.

Variables	B Coefficients		T-Test	Sig.
	Unstandardized Coefficients	Standardized Coefficients		
Constant	1.931-		-1.351-	.178
Human Capital	0.166-	-.153-	-1.394-	.165
Structural Capital	0.763	.548	4.592	.000
Relational Capital	0.516-	-.436-	-6.143-	.000
R value	0.407			
R Square	0.165			
Adjusted R Square	0.155			
Calculated F value	15.844			

Variables	B Coefficients		T-Test	Sig.
	Unstandardized Coefficients	Standardized Coefficients		
Significance level of F test	0.000			

The results of the multiple regression analysis indicate that structural capital has a significant positive impact on return on assets (ROA), with an estimated value of 0.763 at a significance level of 0.000, demonstrating the importance of this dimension in improving returns. In contrast, relational capital demonstrates a clear negative impact on ROA, with an estimated value of -0.516 and a significant level of 0.000. Human capital, on the other hand, had no significant impact on ROA, with an estimated value of -0.166 and a significant

level of 0.165. The regression model explains approximately 16.5% of the variance in ROA, as evidenced by the R^2 and Adjusted R^2 values, and the F-test reflects strong statistical significance for the model at a significance level of 0.000.

The regression equation was as follows:

$$\text{Return on Assets} = -1.931 - 0.166 (\text{Human Capital}) + 0.763 (\text{Structural Capital}) - 0.516 (\text{Relational Capital})$$

Table 2. Regression Analysis Results for Return on Equity.

Variables	B Coefficients		T-Test	Sig.
	Unstandardized Coefficients	Standardized Coefficients		
Constant	6.151-		-4.127-	.000
Human Capital	0.089-	-.081-	-.704-	.482
Structural Capital	0.407	.292	2.316	.021
Relational Capital	0.009	.008	.103	.918
R value	0.232			
R Square	0.054			
Adjusted R Square	0.043			
Calculated F value	4.758			
Significance level of F test	0.003			

With respect to return on equity (ROE), the analysis shows that structural capital has a positive and significant impact on ROE, with an estimated value of 0.407 and a significant level of 0.021, reflecting the importance of this dimension in improving ROE. On the other hand, human capital and relational capital did not show a significant impact on ROE, with estimated values of -0.089 and 0.009, respectively, with insignificant significance levels (0.482 and 0.918). The regression model indicates that it explains only about 5.4% of

the variance in ROE, as evidenced by the R^2 and Adjusted R^2 values. Although the F-test shows strong statistical significance for the model at a significance level of 0.003, the individual dimensions of intellectual capital do not contribute significantly to explaining ROE. The regression equation was as follows:

$$\text{Return on Equity} = -6.151 - 0.089 (\text{Human Capital}) + 0.407 (\text{Structural Capital}) + 0.009 (\text{Relational Capital})$$

Table 3. Regression Analysis Results for Net Profit Ratio.

Variables	B Coefficients		T-Test	Sig.
	Unstandardized Coefficients	Standardized Coefficients		
Constant	-4.478-		-3.562-	.000
Human Capital	-.173-	-.185-	-1.603-	.110
Structural Capital	.625	.526	4.190	.000
Relational Capital	-.250-	-.244-	-3.277-	.001
R value	0.315			
R Square	0.099			
Adjusted R Square	0.088			
Calculated F value	8.913			
Significance level of F test	0.000			

Regarding the net profit ratio, the analysis reveals that structural capital has a positive and significant impact, with an estimated value of 0.625 and a significant level of 0.000, indicating the importance of this dimension in improving profitability. In contrast, relational capital shows a negative and significant impact on the net profit ratio, with an estimated value of -0.250 and a significance level of 0.001. Human capital, however, did not show a significant impact, with an estimated value of -0.173 and a significance level of 0.110. The regression model explains approximately 9.9% of the variance in the net profit ratio, as evidenced by the R^2 and Adjusted R^2 values. The F-test reflects strong statistical significance for the model as a whole at a significance level of 0.000. The regression equation was as follows:

$$\text{Net profit ratio} = -4.478 - 0.173 (\text{human capital}) + 0.625 (\text{structural capital}) - 0.250 (\text{relational capital})$$

Results related to Testing the Second Hypothesis: There is no statistically significant impact at the level ($\alpha=0.05$) in the impact of intellectual capital on financial performance attributed to the economic sector variable.

To verify the validity of the previous null hypothesis, a simple regression analysis test was conducted to determine the impact of the independent variable on the dependent variable. The following table shows the results:

Table 4. Results of the Simple Regression Analysis of Intellectual Capital in the Sectors.

Sector	R Value	R Square	F-Value	Sig.
Banking	0.856	0.733	93.499	0

Sector	R Value	R Square	F-Value	Sig.
Industry	0.129	0.017	1.086	0.301
Insurance	0.536	0.287	16.124	0
Services	0.343	0.118	6.13	0.017
Investment	0.064	0.004	0.261	0.611

The above table presents an analysis of the relationship between intellectual capital and financial performance across five sectors: banking, insurance, industry, services, and investment. The analysis used the correlation coefficient (R), F-value, R Square, and statistical significance to investigate the extent of the impact of intellectual capital on financial performance.

The results indicated that the banking sector had the greatest impact on financial performance, with the highest R value of 0.856. This indicates that financial performance in this sector is strongly positively related to intellectual capital. The significance value of 0.000 not only demonstrates the significant statistical significance of this relationship but also underscores the importance of intellectual capital in improving financial performance for this sector.

The insurance sector also showed a moderate impact, with a statistically significant value of (0.000) and an R value of 0.536. The services sector demonstrated a weaker impact, with a significance level of (0.017) and an R value of "0.343". On the other hand, the investment and industrial sectors did not show an impact on financial performance as the statistical significance was not meaningful and their R values were low.

It can be concluded that the banking sector shows the most statistically significant relationship between financial

performance and intellectual capital, followed by the insurance sector, then the services sector, while the investment and industrial sectors demonstrate statistically or minimally insignificant impact.

9. Discussion

The findings of the current study showed that there is a relationship between the financial performance of corporations listed on the Palestine Exchange and intellectual capital across its three dimensions: human, relational and structural. It was found that structural capital has the greatest impact on improving performance indicators, followed by relational capital, while human capital did not show a statistically significant impact.

The results also showed that structural capital contributes to increased profitability, improved return on equity, and increased operational efficiency. However, the impact of relational capital was mixed, with a primarily negative impact on return on assets. Despite its theoretical importance, the impact of human capital remained limited, indicating difficulties in managing institutional ties.

The results also showed that the impact of intellectual capital varies across economic sectors. The impact was weak or insignificant in the investment and industrial sectors, while the impact was more pronounced in the banking sector, followed by the insurance sector. This manifests the need to adopt specialized strategies to maximize the intellectual capital use.

These results are consistent with several previous studies, such as Al-Shami [6], Tamrabet [15], and Janošević et al. [11]; all of which emphasized the positive impact of relational and structural capital on financial performance improvement. They differ from other studies in terms of the impact of human capital. The study recommends increasing investment in developing institutional relationships and structural infrastructure, which would reflect positively on enhancing financial performance.

10. Conclusion, Implications and Recommendations

10.1. Conclusion

- 1) Intellectual capital, particularly structural capital, plays a significant role in financial performance.
- 2) Sectoral differences are evident, with banking being most affected.
- 3) Human capital needs better management and utilization.

10.2. Implications

1. Practical Implications

The results offer clear, actionable insights for firms operating in the Palestine Exchange:

- 1) *Invest in structural capital*: Since structural capital has the strongest positive effect on financial outcomes, corporations should prioritize improvements in organizational systems, digital infrastructure, internal processes, and knowledge management tools.
- 2) *Optimize relational capital*: The mixed influence of relational capital suggests the need for selective and strategic management of external relationships. Firms should focus on high-value partnerships and reduce reliance on relationships that do not contribute to improved asset productivity.
- 3) *Re-evaluate human capital investments*: The insignificant impact of human capital indicates that traditional approaches to training and employee development may be insufficient. Firms should focus on converting human expertise into structural assets to maximize its financial impact.
- 4) *Avoid one-size-fits-all IC strategies*: Because intellectual capital affects sectors differently, corporations need tailored approaches that reflect sector-specific operational models and performance drivers.

2. Managerial Implications

The study offers several insights relevant to corporate leaders, HR managers, and strategic decision-makers:

- 1) *Embed knowledge into organizational structures*: Managers should institutionalize employee knowledge by developing standardized procedures, documentation systems, and digital management platforms.
- 2) *Improve relational governance*: Decision-makers should regularly evaluate the cost-benefit dynamics of relationships with customers, suppliers, and partners to mitigate relational risks.
- 3) *Develop sector-specific IC strategies*:
 - a) *Banking and insurance managers* should leverage structural capital through digitization, automation, and data-driven decision tools.
 - b) *Industrial and investment managers* should focus on structural capital initiatives that enhance efficiency and reduce operational costs.

3. Social Implications

The study also offers several implications at the social and national levels:

- 1) *Strengthening the knowledge economy in Palestine*: By identifying which components of intellectual capital truly enhance corporate performance, the study helps guide national strategies toward building a more knowledge-based economy rooted in efficient processes and digital infrastructure.
- 2) *Improved financial stability and investor confidence*: Enhancing structural capital contributes to more reliable, transparent, and efficient corporate operations, which supports better governance practices and can improve investor trust across the Palestine Exchange.
- 3) *Supporting employment quality rather than quantity*: The limited impact of human capital suggests that

organizations in Palestine need to shift from hiring more employees to *developing higher-quality talent* and ensuring that knowledge is effectively transferred into organizational systems. This can lead to more skilled employment and better long-term job stability.

- 4) *Promoting responsible relational practices*: Since relational capital can negatively affect performance when mismanaged, the findings encourage firms to engage in more sustainable, transparent, and mutually beneficial partnerships, contributing to healthier market dynamics and community trust.

10.3. Recommendations

- 1) Encourage greater investment in structural infrastructure and information systems.
- 2) Strengthening institutional relationships and stakeholder engagement.
- 3) Improve training and retention policies to leverage human capital potential.
- 4) Develop sector-specific strategies to optimize intellectual capital utilization.

Abbreviations

ROA	Return on Assets
ROE	Return on Equity

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Author Contributions

Doaa Abed Alhafiz: Conceptualization, Data curation, Formal Analysis, Funding acquisition, Investigation, Resources Software, Writing – original draft

Akram Rahhal: Methodology, Project administration, Supervision, Validation, Visualization, Writing – review & editing

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Data Availability Statement

Raw data was generated from the financial statement of banks which were published on their internet websites.

Derived data supporting the findings of this study are available from the corresponding author on request. Literature reviews were used from previous studies that are available online in the public domain. I confirm contribution to the paper's study conception and design, analysis and interpretation of results, and draft manuscript preparation.

Conflicts of Interest

The authors declare no conflicts of interest.

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Biography

Doaa Abed Alhafiz is a dedicated accountant at Al-Makased Hospital, where she applies her expertise to support financial management and operational efficiency. She earned her master's degree in accounting and taxation from Al-Quds University in 2024, building on a strong foundation established during her Bachelor's degree in Accounting from Birzeit University. Passionate about continuous learning and professional development, Doaa combines her academic knowledge with practical experience to contribute effectively to her organization. Her commitment to accuracy, ethical standards, and innovative problem-solving makes her a valued member of her team, reflecting her dedication to excellence in the field of accounting.

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