



Corporate Governance And Intellectual Capital's Impact On Companies' Financial Performance

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ABSTRACT

This study's main goal was to investigate the relationship between corporate governance and financial performance. Particular attention was paid to the principles, concepts, and corporate governance's importance. This approach was deemed suitable and consistent with the prevention and treatment of the recent financial crises that occurred in East Asia, Russia, and the United States. These crises resulted in the insolvency of numerous prominent international institutions and companies, including the present one. The aforementioned crises can be attributed to the errors committed by the Board of Directors, a perceived deficiency in transparency and disclosure, and the disregard of corporate officials for their accountability and the obligation to ensure and safeguard the rights of others. These reasons were addressed in the governance charters issued by countries and companies to fill the previous gaps, as this brings benefits and interest to companies, stakeholders, and the economy in general. Therefore, it can be asserted that the implementation of these logical principles furnishes a solid foundation for attaining equity, fostering a sense of accountability among organisation members, and ultimately enhancing financial performance through the formulation of effective decisions that benefit all parties involved.

The current study also investigated the relationships between the organisation's financial performance and its intellectual capital. Intellectual capital was the subject of the inquiry, encompassing its constituent parts (Customer Capital (CC), Human Capital (HC), and Structural Capital (SC)), in addition to its importance, assessment approaches, and impact on the organisation's financial performance. Previous research has not found any significant correlation between intellectual capital effectiveness and an organisation's financial performance. Other contradictory results about the impact of components of intellectual capital on financial performance have been reported in previous studies.

The relationship between governance and intellectual capital has a greater effect on a company's financial performance and value than a sum of the contributions of each component considered separately. Inconsistencies in the findings of accounting studies that concentrate exclusively on intellectual capital or governance provide support for this assertion. The value of a corporation is increased by its improved performance, which is achieved through the combination of its intellectual capital and strong governance systems.

Keywords: Corporate Governance (CG), Intellectual Capital (IC), Value added intellectual capital (VAIC), Financial Performance.

1. Introduction:

In order to sustain their market position and gain a competitive advantage, organisations depend on economic resources to produce financial gains. The characteristics of these resources vary in accordance with the economic climate of the organisation. Companies have historically placed considerable reliance on tangible assets throughout the industrial era. Nonetheless, the economy has undergone a paradigm change from industrial to knowledge-based (Pulic, 1998). Knowledge, information, and information technology are considered strategic assets in this economy; therefore, knowledge has become one of the factors of production

(Mondal, 2016). This knowledge exists within workers who transform it into great or small value according to their capabilities (Pulic, 2000).

Intellectual capital is a modern idea that has become crucial for organizations in the competitive economy and information era. It is seen as the key pillar driving innovation and renewal. It fosters innovation and facilitates the transformation of knowledge into a valuable asset and a competitive advantage, thereby taking the lead in driving change. Financial performance is enhanced when competitiveness is increased; this is achieved by shifting focus from tangible to intangible assets and from the principle of diminishing returns to the principle of rising returns. Within the realm of knowledge economics, intellectual capital has garnered significant attention from writers, economic academics, and professional organisations in the accounting industry. They focus on its idea, components, objectives, importance, and methods of measurement and disclosure. (Kamath, 2019).

Three fundamental components that comprise intellectual capital have been identified through scholarly investigations: HC, SC, and CC. HC the knowledge, skills, and practical knowledge that individuals possess; SC refers to the internal environment of the company; and relational capital concerns the formation of relationships with the outside world (Abd-Elrahman et al., 2020; Khan, 2018). Intellectual capital can be divided into three components that allow for individual handling of each component. However, physical and financial capital are seen as constraints on investing in intellectual capital components (Murthy and Mouritsen, 2011). Insufficient financial and physical resources prevent the organization from making intellectual capital investments. The evaluation of the efficacy of resource allocation and the generation of value through the use of intellectual capital are indispensable for the organization's leadership to achieve optimal outcomes. (Pulic, 2000).

The researcher believes that intellectual capital is as crucial as other resources because it enables companies to grow rapidly in the presence of a strong competitive environment in all fields and that investing in developing intellectual capital with all its components will lead to raising the efficiency and productivity of the company and increasing its capacity. The company works to create value to generate profits in the future continuously to achieve its goals and objectives.

On the other hand, corporate governance helps to create control mechanisms that enable a system for sharing profits, balancing wealth for shareholders, and creating effectiveness for the company. Governance is seen as a developing operational method that safeguards the integrity of financial transactions by setting up guidelines that safeguard the private rights of shareholders and the public interests of shareholders. It also ensures the survival and ongoing existence of joint stock companies in the market (Khan and Ibrahim, 2017), Governance is crucial for productivity, profitability and sustainable development, as a response to challenges in the climate of contemporary global companies. There is an increasing interest in how governance frameworks affect the performance of companies. Some researchers, such as Tricker (2000), suggest that the nineteenth century was characterised by regulators while the twentieth century was dominated by management. In the 21st century, known as the period of globalisation, the emphasis will transition to corporate governance.

Corporate governance is a very important topic for both local and multinational organizations in this era, as financial crises in the global economy have increased its importance. The main goal of global governance systems and laws is to prevent the misuse of administrative power and strengthen the effectiveness of corporate boards of directors. Moreover, their goals include supervising the implementation of strategies, improving internal control systems, and delineating clear boundaries regarding the roles and powers of stakeholders, the Board of Directors, shareholders, and executive management. A robust corporate governance framework enhances an organization's capacity to retain favourable stakeholder relationships, implement cutting-edge technological systems, and attract highly skilled personnel (Tran et al., 2020).

While there is widespread agreement that good governance principles lead to better financial results, the relationship between corporate governance and performance remains a difficult topic with no clear consensus. This correlation has been substantiated by several investigations (Gruszczynski, 2006; Drobetz et al., 2003)., Although this has not been substantiated by other research (Sueyoshi et al., 2010; Abdullah, and Page, 2009:), the findings regarding the influence of governance remain equivocal. To determine the way in which intellectual capital influences financial performance, it is crucial to perform an analysis of the correlation between the two factors. Consequently, this relationship must be investigated. In the knowledge age, businesses may place less emphasis on material and financial resources and instead prioritise knowledge-based activities. Therefore, it is the duty of governance mechanisms to generate and foster the intellectual capital that is inherent to the frameworks and personnel of the organization (Keenan and Aggestam, 2001). Executive leadership is tasked with the identification and cultivation of intellectual capital, which is present in all organisations and serves to provide a competitive edge. There are proponents who contend that governance, as opposed to the problem of agency and market valuation, entails the collaboration of investors and administrators in order to attain knowledge and comprehension regarding the optimal utilisation of shared resources (Kraft and Ravix, 2008). From the above, the problems of the study can be presented and formulated as follows:

Might the synergistic impact of intellectual capital and governance mechanisms have a substantial influence on the financial performance of a company, as opposed to evaluating the individual effects of each factor in isolation?

To answer this main question and cover all aspects of the topic, the following sub-questions are posed:

What exactly is meant by the term corporate governance?

What are governance principles and what is the significance of adhering to them within an organisation?

What are the fundamental components of the intellectual capital concept?

What are the intellectual capital features, and why is it important? How is it measured?

What is meant by financial performance, its importance, and how is it measured?

What effect does corporate governance have on the financial performance of an organisation?

To what extent does intellectual capital affect the financial effectiveness of commercial enterprises?

To what degree do corporate governance and intellectual capital impact an organisation's financial performance?

2. Literature Review

2.1 The Theoretical Background for Governance Corporate

2.2.1 Concept of Governance Corporate

Corporate governance (GC) represents a broad and complex concept that is difficult to define. There have been many definitions provided for this term by the book and researchers, international bodies, and organizations; due to the multiple dimensions included in this concept (Zingales, 1998; Becht et al., 2003), Corporate governance, as defined by (Adams and Borsellino, 2015), encompasses a system of regulations, partnerships, collaborations, and procedures that regulate the exercise and supervision of power within organisations. An additional classification of corporate governance could be as an assemblage of mechanisms utilised to supervise and administer entities in an effort to establish effective frameworks for internal control and risk management (Alqatan, 2019).

An organisation that has had a significant effect on the definition of governance is the Organisation for Economic Cooperation and Development (OECD). In this regard, governance is defined as the framework that regulates the oversight and administration of enterprises. It is also one of the most widely accepted and utilised definitions. The corporate governance framework determines how duties and benefits are distributed among the many stakeholders or members of the business, including the board of directors, shareholders, and CEO. Additionally, the regulations, controls, and processes that govern corporate management and control decisions are established by corporate governance. Consequently, governance establishes the structure upon which the organization's goals are built. Furthermore, performance and results are being monitored. Effective corporate governance also endeavours to furnish suitable monetary rewards to stakeholders, including shareholders, board of directors members, executives, financial intermediaries, and service providers. These rewards are administered within a comprehensive framework of controls designed to incentivize the aforementioned parties to fulfil the predetermined objectives in order to benefit the organisation and its shareholders (OECD, 2004:p11).

The American Institute of Internal Auditors (IIA) asserts that corporate governance comprises a series of protocols that are adhered to by representatives of stakeholders in order to oversee the risk management of the organisation and verify the sufficiency of internal control measures in order to accomplish goals, uphold the organization's values, and fulfil objectives (IIA, 2003: p5).

An alternative definition of corporate governance can be derived by drawing on previous definitions: A set of rules and regulations known as corporate governance is designed to enhance oversight or reduce the potential for conflicts of interest to arise between a company's stakeholders, shareholders, and managers

2.1.2 The Importance of Governance Corporate

As a result of the economic collapses and financial crises that struck some developed and developing economies, including the United States, Russia, East Asian countries, and Latin American countries, such as the Enron scandal at the turn of the twenty-first century, governance has become mandatory in a number of these economies. Since the year 2000, the company's shares have been traded in the United States for an amount exceeding \$90 per share. In order to protect itself from risks and enter the financial industry, the corporation employed Special Purpose Entities. Enron issued additional shares in response to the decline in asset value, which increased the company's obligations and precipitated a decline in the value of its shares. The company disclosed financial losses for the third quarter in late 2001, which resulted in a decline in the share price to \$33. The \$600 million loss disclosed by the company precipitated a decline in the value of its shares. The corporation filed for bankruptcy at the end of the year, as its stock price had fallen to \$8. Financial corruption in particular and administrative and accounting corruption in general were responsible for the majority of these failures (Reed, 2002).

Financial and audit failures were documented in companies such as Health South, Com World, and Tyco (Türel et al., 2017). Consequently, there was a focus on corporate governance, prompting a fresh perspective from the

global community. This led developed countries to seek additional methods for overseeing managers' performance and the operational processes of economic firms to safeguard the rights of all involved parties and stakeholders, making governance a significant concern for both developed and developing nations. The collapses are mainly caused by corruption. Administrative and accounting corruption, especially financial corruption, is influenced by the role of auditors in verifying the accuracy of financial statements and accounting information (Reed, 2002).

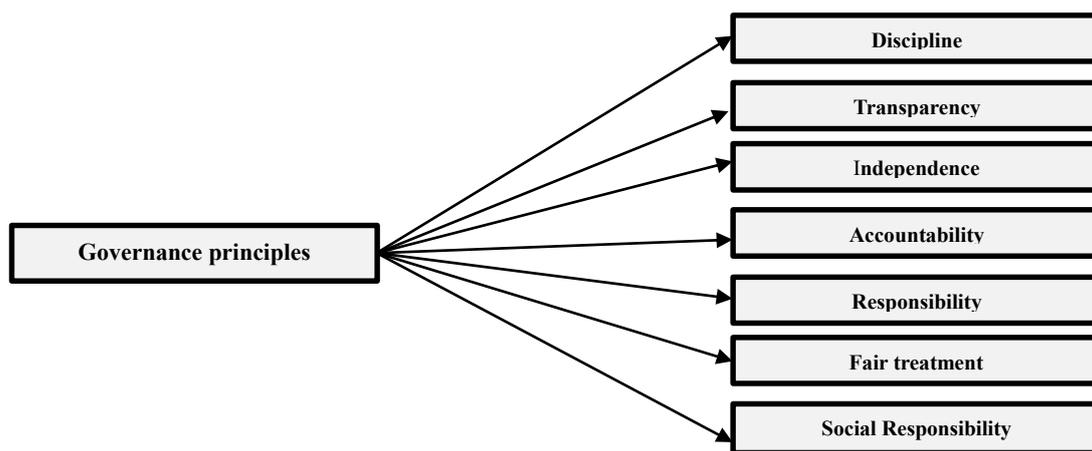
The significance of corporate governance is evident in accounting and supervisory functions through the following aspects: (Krasniq, 2008, p. 6)

1. Well-managed companies have better performance. Companies that apply governance are expected to reduce their cost of capital, and thus, they can attract investors on a broader scale, or most of them who seek long-term investment.
2. Make every effort to assure the evaluation and improvement of financial performance. The effectiveness of an organisation is dependent on the implementation of a wide range of decisions made by its leadership. It is imperative for organisations to develop financial strategies that maximise the enhancement of financial performance (Hossein and Zivar, 2014).
3. Companies that apply governance reduce the possibility of the company being exposed to various risks of failure or bankruptcy in its comprehensive sense, as well as fighting financial and administrative corruption and preventing its presence or return. Also, if the company acts responsibly, it can build fruitful, long-term relationships with all stakeholders.
4. Increasing companies' ability to compete and open new markets.

2.1.3 Governance Corporate Principles

The Organisation for Cooperation and Development has identified the following to be fundamental principles of governance (OECD, 2015, p.13):

1. Discipline: adhering to proper and ethical conduct when overseeing the company's operations.
2. Transparency: One of the contemporary and cutting-edge concepts in governance, transparency is one that conscientious management must contemplate due to its significance to the organisation and the involved parties. Transparency encompasses not only the provision of an exact account of all activities occurring within an organisation, but also the rejection of ambiguity, opacity, and deceit in favour of openness.
3. Workplace independence entails the absence of any unnecessary influences or constraints.
4. The capacity to evaluate and appraise the performance of the Board of Directors and Executive Management constitutes accountability, as well as hold each official responsible for their respective obligations. A system of sanctions and responsibility are both constituent elements of accountability.
5. Responsibility: All interested parties in the company have a responsibility.
6. Fairness necessitates the observance of the rights of all constituent groups within the organisation.
7. Social Responsibility: perceiving the organisation as a conscientious member of society.



Source: Created by the researcher from the above sources.

2.2 The theoretical background of Intellectual Capital

2.2.1 Intellectual Capital concept

In a rapidly evolving environment, a company's capacity to innovate and remain competitive is largely reliant on its intellectual assets. Most organisations see a decrease in value due to the improper allocation of intellectual capital. Unlike other companies, particularly in industrialised nations, it serves as an effective instrument for promoting development, creating wealth, and attaining economic expansion. Intellectual capital is crucial for firms as it greatly influences the development of successful strategies and future growth (Abdulaali, 2018).

Intellectual capital refers to intangible resources that are not tangible, such as capabilities, experience, and skills possessed by individuals, nor do they encompass intangible assets owned by the company itself. The company's intangible resources are created by its innovative human resources and include everything that is distinctive to the organisation. The organisation may boost its productivity, expand its customer base, and create a lasting competitive edge by taking this action (Abdelrhman et al., 2014).

The most comprehensive definition of "it" is as follows, as provided by the Chartered Institute of Management Accountants: "it consists of good relationships, technological capabilities, knowledge, experience, professional expertise, and skill that, when utilised, will provide organisations with a competitive edge." (Bhasin, 2016.p8). Intellectual capital includes human capital and structural capital, which are intangible assets of an organisation. According to the Organisation for Economic Co-operation and Development (OECD), these components are valued in monetary units. Human capital refers to the skills, knowledge, and abilities of the organisation and its employees, while structural capital encompasses intellectual property, technology, organisational processes, and distribution networks (Sánchez et al., 2012: 404).

The aforementioned information indicates that each definition provides a unique description of the importance of intellectual capital for organisations that differ in scale and have a global presence. Consistent with the definitions provided above, intellectual capital can be conceptualised as the outcome of the interplay between the competencies of staff, the organisational framework, and the external relationships of the organisation. Attaining peak levels of efficiency and effectiveness is of utmost importance for the organisation in order to secure its sustained existence and continuous advancement in the current business environment.

2.2.2 The Importance of Intellectual Capital

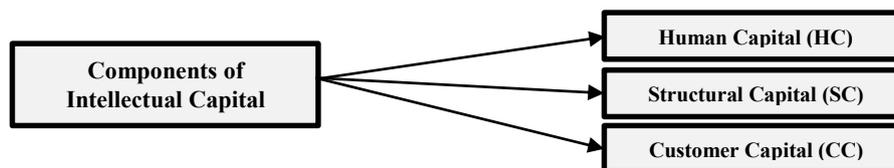
Intellectual capital is one of the items that emerged in the late twentieth century and is significant in firms on both an internal and external level. The relevance of intellectual capital is demonstrated by the following:

- a) Intellectual capital is an essential component of intangible assets across all industrial sectors globally, as it exerts a preponderant influence over every undertaking (Moor and Craig 2008, 21).
- b) The ability to secure a patent for an invention serves as an indicator of the considerable importance attributed to intellectual capital (Allen et al., 2002:104).
- c) The primary function of intellectual capital is to establish and enhance the competitive advantage of an organisation, given that the majority of modern businesses rely on the expertise and knowledge possessed by their personnel (Vitolla and Raimo, 2020), Consequently, As a consequence, organisations have become more reliant on intellectual capital and intangible assets as opposed to tangible assets.
- d) The valuation of intellectual capital is a pivotal and nuanced factor that substantially influences the success or failure of a business on account of its influence on profitability (Obeidat et al., 2017). A company that intends to increase its profits must pay more attention to information technology (Shaneeb and Sumathym 2021).

2.2.3 Components of Intellectual Capital

Most accounting studies agreed Abdelrhman et al., 2014; Aslam et al., 2018; Musa, 2018) classified intellectual capital into three main groups: -

1. Human Capital (HC) comprises the combined expertise, competencies, experiences, and skills possessed by the workforce of an organisation, all of which enhance the worth and financial viability of the company. It encompasses both theoretical and practical knowledge possessed by individuals, along with a range of abilities and talents, including artistic, athletic, and technical skills. Therefore, it signifies the knowledge held by employees that the corporation lacks.
2. Structural Capital (SC): The company's success is based on consistent practices, study, growth, and a positive reputation, along with the cognitive technology it utilises. The provision of this form of capital represents the inherent worth of the organisation and the preservation of its unique capabilities. The company's physical presence and financial worth are determined by its structures and systems. It embodies the principles that enhance human resources and persists inside the organisation even after individuals depart. It contains A- Innovative capital: Involves the introduction of novel features. The fundamental aspects and components associated with the company's production system can be represented by patents, production licences, the quantity of innovative new technologies, and the revenue generated by innovative new products compared to total sales. The knowledge regarding the operations of a business that is stored in information systems, databases, and distribution networks is referred to as operations capital.
3. CC is customer relationship capital. Customer innovation capital pertains to the relationships established by an organisation with its clients and customers. Enhancing these connections is evident in the company's sustained labour and achievements. Hence, the organisation cannot possess customers. It gains value by maintaining relationships with consumers, retaining them, sharing ideas and information, having a significant market share relative to competitors, observing market growth rates, and attracting new clients.



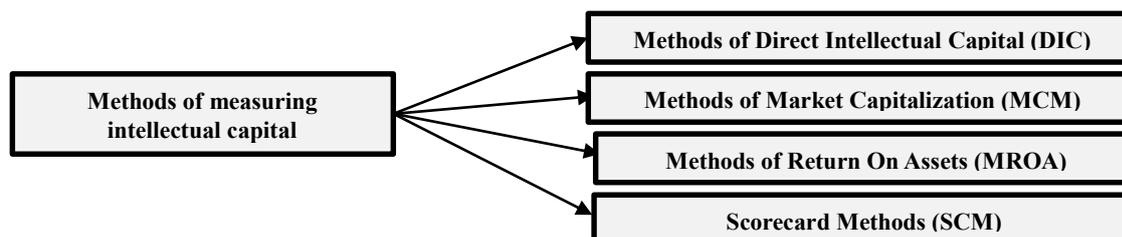
Source: The researcher prepared this from the above information.

2.2.4 Methods of Measuring Intellectual Capital

When endeavouring to quantify and disclose such assets, intellectual capital poses one of the greatest challenges for accountants due to its intangible nature. There is no mechanism to limit or access intellectual assets, and they cannot be quantified directly (Starovic and Marr, 2003).

Methods for measuring intellectual capital are divided into four types (Nazari and Herremans, 2007):

- A. DRI Capital (Direct Intellectual Capital) Methods: In order to conduct an intellectual capital assessment, it is imperative to identify three fundamental components: customer capital, human capital, and structural capital.
- B. MCM computation methods include the following: One potential substitute method for quantifying the value of intellectual capital or intangible assets is by applying their monetary worth. The proprietors' equity is discounted from the market capitalization of the organisation in order to achieve this process.
- C. Return on Assets (MROA) Methods: To calculate return on tangible assets, divide the company's net profits (before taxes) by the tangible assets' average value over a specified period. The ensuing calculation involves identifying the discrepancy between the return on tangible assets of the organisation and the return on assets of the sector. The subsequent calculation involves dividing this discrepancy by the mean value of the tangible assets owned by the organisation in order to determine the average profits generated by its intangible assets.
- D. Scorecard Methods: Scorecard Methods (SCM). Without explicitly stipulating a monetary value, these approaches calculate the worth of intellectual capital in a manner analogous to the direct method. These methods use indicators in the form of graphs or shapes to report on performance.



Source: Based on previously provided information, prepared by researcher.

2.3 Financial Performance (FP)

Performance is a basic requirement for the continued existence and continuity of an organization, rather than its extinction. Moreover, it is among the concepts that have received attention from many sources. Despite the enormous amount of research devoted to the concept of performance, a unanimous agreement has not yet been reached. Performance is typically described as the successful completion of the goals associated with a specific job or task. Performance is assessed using a criterion (Mardiana, 2018: 261), and it is defined financially as the organization's capacity to oversee and regulate its resources (Fatihudin et al., 2018: 554).

Diverse definitions of financial performance exist among researchers, with some placing greater emphasis on the ability of a company to fulfil its financial obligations (Msua, 2016: 13).

Ganyam, and Ivungu (2019: 42) define financial performance as the combination of an organization's financial well-being and its capacity and readiness to meet its responsibilities. A few people draw attention to the organization's ability to make money, considering its current financial commitments and promise to continue providing services in the foreseeable future. As defined by Wanjohi et al. (2017:71), it is a metric that signifies the degree of efficiency with which an organisation employs its resources. To ensure the generation of revenue As stated by Mohammad and Bujang (2019: 270), An assessment of the financial performance of a company can be made through its revenue generation strategy, which involves the efficient use of its capital structure, intellectual capital, and resources. Moreover, performance may be conceptualised as a measure of the extent to which an entity efficiently employs its material and personnel assets in pursuit of its goals. (Miller and Bromiley, 1990:759). In a study presented by (Dhanabhakyam and Kavitha, 2012:255), financial performance refers to achieving profitability and profitability. This indicates efficiency, which indicates the degree of use of assets and administrative effectiveness. Ryan and Jacobs (2005:85) referred to it as the basic determinant of value, as the value of an organization is equal to financial performance.

Goswami and Sarkar (2011:161) defined it as the degree of correlation between liquidity and profitability and that they are the main determinants of financial performance. Financial performance, as defined by Poudel (2012:9), is the capacity of an organisation to generate fresh resources on a daily basis throughout a specified period of time, as evaluated through cash flow and net income.

As Dater and Rajan (2017) The term "it" refers to a metric that evaluates the extent to which a business is successful, sustainable, and capable of enduring; thus, a decrease in the targeted level of financial performance intensifies the risks to the business's ongoing existence and sustainability. Based on the above, it can be said that financial performance is a broad concept that expresses the organization's method of investing its available resources according to standards and considerations related to its goals in light of a group of internal and external variables with which the organization interacts in its quest to achieve its efficiency and effectiveness to secure its survival.

Financial performance is crucial for economic institutions as it plays a key role in achieving objectives and ensuring financial stability, productivity, and growth. In a competitive environment, an organisation's success and sustainability depend on these elements. A company's creditworthiness is ascertained by lenders through the evaluation of its financial performance. In order to identify plausible investment opportunities, investors and analysts utilize financial performance to assess comparable companies within the same industry, to make comparisons with other industries or sectors. Financial performance is of the utmost importance because it assists stakeholders with financial interests in evaluating the strengths and weaknesses of a company by evaluating its performance from multiple angles. This data helps users make informed financial decisions. Financial performance is crucial for monitoring and evaluating companies' actions, behavior, and effectiveness. It includes identifying obstacles, proposing corrective measures, and directing performance towards the desired results. It also helps rationalize companies' investments and supports decision-making. In order to ensure cohesion, existence, and competition (Bontis, 1998).

Every organization needs to evaluate its performance periodically to help measure its progress (Elshafie, 2016). Performance can be measured through metrics that provide the company's management and those interested in it with a complete picture and comprehensive information about its current situation and what it is expected to achieve. Performance metrics are Either financial metrics that measure financial performance or non-financial (operational) metrics (Nasip et al. 2019) that measure operational performance (Elshafie, 2016).

Financial metrics are regarded as the most accurate indicators of a company's progress towards attaining its economic objectives, predicated on the terminology and components of the financial statements. (Musa, 2018) Financial metrics are centred on the optimisation of profit and the enhancement of shareholder benefits. This constitutes the fundamental basis of a company's efficacy, as it is achieved by employing numerous highly effective approaches, including scientific management and enterprise value assessment (Li, 2021). Simultaneously, operational performance metrics assess the degree to which sales and market share growth are occurring, thereby furnishing a comprehensive understanding of operational performance and directing attention towards the determinants that contribute to financial performance (Elshafie, 2016).

Profitability is often considered a key indicator of financial performance because it indicates a company's primary goal of generating the profits required to obtain investments from shareholders and creditors. On the contrary, the corporation lacks the capacity to endure and thrive. Return on equity and return on assets represent only two of the myriad financial ratios and indicators that can be utilised to evaluate a company's profitability (Vanderpal, 2015).

By quantifying the extent to which a company generates profits from its tangible and intangible assets, the metric known as Return on Assets (ROA) is employed to assess the overall performance of the organisation. When return on assets is greater, it indicates that the organisation is making better use of its intellectual capital in comparison to its physical assets. The efficacy of assets (Lee et al., 2019) Additionally, a key metric for assessing profitability is the rate of return on equity (ROE). This metric not only calculates the net income accessible to shareholders but also identifies the potential hazards linked to investing in the company's equity (Kamath and Desaim 2014).

2.4 The impacts of corporate governance on Financial Performance

Due to it relates to critical aspects of the life cycle of organizations of all types – where performance refers to a company's ability to achieve its objectives, particularly those of a long-term nature – the concept of performance, both generally and financially, encompasses many aspects of fundamental subjects that impact the success or failure of a business. which are mainly represented in the goals of profit or adaptation, growth, and survival, in light of the conditions and challenges of an unstable environment characterized by the increasing intensity of competition, each organization is obligated to assess its performance in light of the globalisation phenomenon and the widespread adoption of information and communications technology (ICT). This evaluation serves to determine the organization's potential and capabilities, while also ensuring that resources are allocated efficiently. Performance results reveal The centers of strength that the company must exploit and maximize, as well as the weak points that the latter must address and narrow. Given the importance of the concept of performance to business organizations, as it represents the primary motivation for any company and is also considered the primary factor for survival, growth, and continuity, it has received attention. An influential researcher in the fields of administration and management, the majority of whose

work centered on financial strategies and methods that would increase and enhance the overall and financial performance of the organisation. It has been demonstrated by numerous studies that the corporate governance system is one of the regulatory systems that significantly contributes to enhanced financial performance (Hossein and Zivar, 2014).

The impact of corporate governance on the performance of countries, including those of not-Arab origin, has been the subject of extensive scientific investigations in the past. These investigations represent an opportunity for a comprehensive examination. Brown and Caylor's (2004) investigation into the correlation between financial performance and corporate governance and utilising a sample of 2,327 American companies is an illustration of this type of inquiry. As a means of evaluating governance, the financial markets have implemented an index called Score-Gov. Audit, board of directors, internal law, level of education, executive director compensation and rewards, property rights, and advanced studies—these are the eight categories into which this index classifies its fifty-one governance standards. Metrics including return on equity, profit margin, sales growth rate, Tobin's Q, and dividends paid to shareholders were utilised to evaluate the organization's performance as financial indicators. The companies were subjected to an evaluation index and the Pearson correlation coefficient in order to examine the correlation between corporate governance and performance. The hierarchy of governance levels, descending from the highest to the most fundamental. A correlation between corporate governance and each approved performance measure has been established, which is statistically significant, according to the study's findings. Additionally, it was determined by the study that firms exhibiting a comparatively superior standard of governance demonstrate greater profitability, valuation, and dividend payout to shareholders in comparison to firms with a comparatively inferior standard of governance.

Wu et al. (2009) initiated a scientific inquiry with the purpose of determining the influence of corporate governance frameworks on the monetary performance of businesses. The investigation focused exclusively on publicly traded corporations that occurred on the Taiwan Stock Exchange between 2001 and 2008. Banking, financial, and insurance institutions were specifically excluded. An evaluation of governance was carried out by scrutinising the characteristics of the ownership framework, such as the extent of dual executive and director obligations, the proportion of insider ownership, the discrepancy between voting rights and cash flow rights, and the dimensions of the board of directors. Financial performance metrics including return on assets, return on stock, and Tobin's Q were utilised in the assessment of the organisation. The results of the multiple regression analysis indicate that a number of governance indicators—including the proportion of insider ownership, the independence of the board of directors, and the financial performance of the company—are statistically and positively correlated with the former. Several governance practices, including the size of the board, the CEO holding dual positions, and the discrepancy between currency flow rights and voting rights, were discovered to have an extremely negative correlation with financial performance, as indicated by the research.

Al Mutairi and Hasan conducted an investigation in 2010. The effect of ownership structure, corporate governance, and financing decisions on the performance of Kuwaiti companies listed on the capital market was investigated in a field study. By implementing panel regression models, this objective was successfully achieved. In pursuit of determining the answer to this inquiry, an analysis was conducted on the financial statements of a sample comprising eighty publicly traded Kuwaiti companies on the capital market of Kuwait. The primary indicators utilised to assess the performance of the organisation during the nine-year period from 2001 to 2009 were return on assets and Tobin's Q. Supplementary control variables, ownership structure (including shareholder identity and concentration of ownership), and financial decisions comprise the independent variables. The findings of the research suggested that no observable association existed between the ownership structure of a company and its performance. However, the ownership by the government had a marginal impact on return on assets.

Ghorbel's and Klosi (2011) The main goal of this research was to examine the relationship between the corporate governance systems used by Canadian companies and their performance in the stock market. In the three sectors of services, industry, and commerce, the research sample comprised 134 Canadian firms that were publicly traded on the financial market. Board composition, remuneration policy, shareholders' rights, disclosure and transparency levels, and remuneration policy are the four sub-indices of the corporate governance index that were built by the researchers in 2007. A market-to-book (MTB) ratio is utilised to evaluate an institution's performance on the stock market, whereas return on assets and equity are metrics utilised to quantify financial success. Furthermore, a collection of control variables, comprising the organization's age, magnitude, and degree of indebtedness, were integrated by the researchers into the paradigm. The research findings indicate that an integrated governance metric set is significantly and statistically correlated with the financial performance of Canadian companies. The study found that financial performance was significantly and uniquely correlated with the degree of disclosure. Performance tends to improve in correlation with increased levels of disclosure.

An inquiry conducted by Darweesh (2015) Since 2010 until 2014, 116 publicly traded Saudi capital market firms were the subject of an inquiry into the relationship between corporate governance, financial performance, and market value. Corporate governance, an independent variable, was the objective of this research. Consideration was given to the metrics including the size of the board, the degree of independence exhibited by its members, the makeup of committees operating within the board, the ownership arrangement of the company's stock, and

the scope of incentive provisions. The return on equity and return on assets were employed to evaluate the company's financial performance. In the context of market value estimation, Tobin's Q was considered a reliable indicator.

Corporate governance concerns the set of policies, regulations, and ethical standards that affect the management and oversight of a company. The guiding principles ensure equity and openness in the business's dealings with its owners. The enhancement of profitability is accomplished by means of the board of directors' oversight and administration, as well as the effective implementation of corporate governance principles. A board of directors with significant influence ensures that the management team and agents effectively employ investors' funds in a manner that maximises the company's value and generates exceptional returns. A significant degree of investor confidence is placed in the organisation's ability to safeguard and enhance its financial performance using their invested funds, leading to a subsequent increase in its value. Good corporate governance can mitigate financial risks and enhance the company's value by portraying a positive image to stakeholders. Simply put, the company's worth will rise as sound corporate governance principles are more effectively implemented (Indriastuti et al., 2021).

Exploring the relationship between effective corporate governance and strong financial performance has been the subject of a significant amount of research. Their findings indicate that companies that adhere to sound governance practices experience a statistically significant relationship with the performance of their organisations when there are active and independent boards of directors. It is essential to note, nevertheless, that economic factors have no effect on this correlation. In their analysis, Otman (2014) In 2008 and 2011, An analysis was conducted to examine the correlation between corporate governance and the financial performance of eighty Emirati firms that are publicly traded on the Dubai Financial Market (DFM) and Abu Dhabi Stock Exchange (ADX). The researcher employed multiple linear regression models to examine the correlation between corporate governance and financial performance, as assessed by return on assets, return on shareholders' equity, and Tobin's Q. The initial indicator was a financial performance metric derived from an OECD survey; it had no bearing on corporate governance. The evaluation of board of director attributes pertained to the governance mechanisms of the sample companies, which were organisations listed on stock exchanges. This constituted the second objective of the study. The aforementioned attributes were taken directly from the board of directors' reports. According to research findings, Emirati enterprises are said to comply with the corporate governance regulations that were instituted in 2007. According to the regression analysis, each designated performance variable, audit committee independence, and corporate governance mechanisms (such as the board of directors) were also found to be statistically and positively correlated.

Additionally, in their 2014 study, Ammari et al. This study employed a dynamic panel data approach to examine the relationship between board characteristics and the financial performance of forty French joint stock companies that were publicly traded on the SBF 120 index from 2002 to 2009. Return on assets, return on equity, and Tobin's Q (the ratio of book value to market value) were utilised to assess performance. Based on the research findings, it can be concluded that the operational outcomes of French corporations are significantly influenced by the composition of their boards of directors. This is ascertained by conducting an examination of the dimensions of the board, the proportion of independent board members, and the reciprocal nature of obligations.

Disclosure, and transparency are crucial elements of corporate governance, according to the researcher (Shuli, 2011). These principles exert a significant influence on the management of institutions, discouraging them from abusing their authority and encouraging them to safeguard the interests of shareholders, and other stakeholders. Additionally, they promote performance enhancement, competitiveness, and accounting practices, and ensure the provision of transparent financial reports—a practice tha

Al-Malkawi and Pillai (2018) An empirical analysis was conducted to analyse the relationship between corporate governance and performance for a sample of 349 publicly traded businesses on the Gulf Stock Exchange from 2005 to 2012. The primary goal of this research was to assess the impact that internal governance measures have on the operational outcomes of Gulf-based companies. According to the study's findings, a number of variables, including leverage, the level of government ownership, the audit technique used, and the size of the board of directors, have a statistically significant impact on corporate performance.

In relation to regional research, the study (Jabar, 2018) The primary goal of this study was to look into the effects of implementing corporate governance mechanisms on the level of disclosure offered in financial statements and the efficiency of audit procedures. The above objective was successfully achieved by examining various corporate governance mechanisms, assessing the extent of their compliance, and determining the extent to which a representative sample of companies listed on the Iraqi Stock Exchange complied with these regulations. The primary discovery of the research is that Iraq currently lacks any legal framework or legislation concerning corporate governance principles or mechanisms, with the possible exception of a limited number of texts included in statutes like the Companies Law and the Banking Law, among others. The findings of the research also disclosed the extent to which the companies comprising the sample were dedicated to implementing specific governance mechanisms; among the sectors, the financial industry exhibited the most dedication, followed by the remaining industries.

Based on the examination of governance implementation at the global, Arab, and regional levels, it can be asserted that a company's financial performance serves as an indicator of its level of achievement or lack thereof, given that it is intricately connected to the financial facet, which is regarded as one of the most significant determinants of success or failure. Additionally, it serves as a fundamental and efficient axis for expansion and continuity.

With regards to the influence of governance on financial performance, it is crucial to recognise that effective governance is instrumental in attaining the primary objective of economic institutions, which is to generate profits in order to ensure their survival and continued operation in their respective sectors. This is accomplished through the judicious implementation of governance mechanisms that contribute to enhanced performance. financial performance of economic organisations, and as a result, we draw the conclusion that financial performance and governance are directly correlated.

2.5 The Impacts of Intellectual Capital on Financial Performance

In contemporary business settings, organisations are progressively placing greater reliance on knowledge-based resources as opposed to the conventional method of wealth creation through tangible industrial assets (Duff, 2018). It is universally acknowledged that knowledge is a crucial factor in establishing and sustaining a competitive advantage for organisations. (Wang et al., 2016: 25). Human capital, internal capital, and external capital all contribute to the enhancement of an organization's competitive advantage via the acquisition of technologies and the development of knowledge. As a result, the organization's financial resources have been managed more efficiently and its value has increased, as intellectual capital has been solidified as the foundation of its competitive advantage (Yan, 2017:12; Vitolla et al., 2020:31). As a result, the global economy has transitioned from being solely dependent on material assets to being supported by a set of intangible assets including information technology, innovation, creativity, and knowledge. The importance of the intangible elements comprising intellectual capital became evident due to this transition, given that these components, while not tangible, exert a fundamental impact on organisations and their level of sustainability. Numerous enterprises are increasing their investments in intellectual capital as a means to enhance their growth prospects and bolster their competitive edge in the modern marketplace.(Sharma and Dharni, 2017:23), which in turn helps improve the financial performance of companies (Vitolla et al., 2017:6).

The Yaseen (2016). The principal aim of this research was to comprehend the influence of Intellectual Capital, which encompasses human, relational, and structural capital, on the competitive advantage of telecommunications companies in Jordan. The study sample, which included 297 workers from the top telecom provider in Jordan's Hashemite Kingdom (Zain, Orange, Umniah), was drawn from the descriptive analytical approach employed by the researcher. The questionnaire served as a means of gathering data. The study's results indicate that investments made by a company in structural and relational capital positively influence its competitive position both in the market and within its industry. Regarding competitive advantage, relational capital exerts a more substantial influence. There is no direct correlation between the advantage and either human capital, structural capital, or both. The quality of possessing a competitive nature. According to a study by Urbanek (2016), intellectual capital is one of the most crucial strategic assets utilised to generate value and provide a competitive advantage for organisations. Furthermore, the influence of intellectual capital's innovation, human, relational, and structural elements on the financial performance of information technology firms situated in Southeastern Europe was examined by Radoni et al. (2021). The results of the research confirmed the hypothesis that intellectual capital has a favourable effect on profitability..

Chang (2013) argues that, by way of both direct and indirect mechanisms, In general, the components comprising intellectual capital exert a positive influence on financial performance. Ngah and Ibrahim (2009) conducted an inquiry with the objective of elucidating the correlation between innovation processes and intellectual capital components as they pertain to the organisational performance of small and medium-sized enterprises (SMEs) in Malaysia. The primary focus of this inquiry was the ability of small and medium-sized enterprises (SMEs) to allocate their creative assets and skills in a way that guarantees their sustained viability. When comparing these businesses to multinational conglomerates, the objective of this research was to ascertain the unique knowledge asset needs of the former. The aforementioned information is of the utmost importance for small and medium-sized businesses to guarantee their sustenance and profitability. According to the study's findings, intellectual assets ultimately support the innovation and development of new products and services by small and medium-sized enterprises.

Considerable scholarly attention has been dedicated to investigating the correlation, as measured by the coefficient, between intellectual capital and firm performance. Notwithstanding these endeavours, however, an unequivocal resolution has yet to be achieved.

F-Jardon and Martos (2009) state that structural capital has a direct impact on performance but an indirect impact on other components of intellectual capital. The impact of intellectual capital on the financial and economic performance of a representative sample of British corporations is substantial, according to research by Zeghal and Maaloul (2010). Approximately 55% of the variance in economic performance can be accounted for by intellectual capital, said the study. Additionally, this demonstrated the significant impact that intellectual

capital has on reducing production expenses. Also demonstrated by the study was the criticality of decision-makers employing the VIAC method when integrating intellectual capital. The research authored by Sharbati et al. (2010) All components of intellectual capital were discovered to be highly correlated with the effectiveness of the institutions under investigation. Customer capital is similarly considered the most substantial component of intellectual capital in terms of its influence on performance. Human capital and structural capital result from a reduced level of advancement. Investors assign greater significance to companies that exhibit superior profitability and revenue growth in both the current and future, as well as those that utilise intellectual capital more efficiently. This finding was reported by Chen et al. (2005).

An inquiry by Shiu (2006) It was discovered that intellectual capital coefficient and productivity were negatively correlated. Conversely, upon closer inspection, a positive correlation was discovered between market valuation and productivity, as measured by the return on assets and the ratio of market value to book value, respectively. According to a study conducted by Wang (2008), a positive correlation was found between the value of a company and both the intellectual coefficient of value added and profits derived from knowledge capital. Human capital efficacy was found to be positively correlated with return on equity, according to research by Maditinos et al. (2011). Rahman (2012) demonstrates that effectiveness of intellectual capital has a positive impact on financial performance. Pucci et al. (2013) established a positive correlation between intellectual capital and performance..

The investigations of Lu et al. (2014) The production efficacy of the organisation and its intellectual capital were found to have an inverse correlation. Wang (2013) also found that the VIAC and the Tobins Q value exhibited a positive correlation. An increase in intellectual capital is correlated with a higher return on assets, according to a study by Sydler et al. (2014). Intelligent capital and firm value (as measured by Tobin's Q) were found to be positively correlated in the research of Daryaei et al. (2011). Moreover, investigative findings from Sumedrea (2013) demonstrated that during periods of crisis, the expansion of an organisation is influenced by both human and structural capital. However, despite the existence of numerous studies, no positive correlation between intellectual capital and the performance or value of a company has been found. Ferraro and Veltri (2011); Mehralian et al. (2012); or Mehralian et al. (2012); or Tanideh (2013).

According to a study conducted by Iswati and Anshoria (2007), intellectual capital has a significant impact on the financial performance of insurance companies that are publicly traded on the Jakarta Stock Exchange. An additional aspect explored in the study conducted by Balkovskaya and Stulova (2012) was the correlation between an organization's operational efficacy and its intellectual capital. A descriptive study was undertaken encompassing 56 Russian firms that were engaged in the provision of financial services, manufacturing of high-precision electronic devices, pharmacy, and information technology. The researchers gathered the data utilised in this study from databases and annual report information obtained from the official websites of the companies involved. The period of data collection occurred between 2006 and 2008. The findings from the correlation and regression analyses suggest that there is a significant relationship between the profitability of the organisation and its performance, as well as the inverse relationship with regard to the efficacy of its intellectual capital.

Organisational effectiveness and value are enhanced through the utilisation of intellectual capital, a strategic asset. However, the complexity of the matter renders it arduous to manage and regulate for numerous organisations. Scholars have increasingly recognised the significance of comprehending the firm's responsibility in efficiently overseeing, administering, and protecting its intellectual capital in recent research. According to Samriti and Das (2021); Vetchagool (2022); Nadeem et al. (2019).

The impact of intelligent capital utilisation efficiency on the operations of multinational corporations has been evaluated in a multiplicity of prior research endeavours using the VAC metric (Pulic, 2008). The value added is determined using the VIAC scale, which considers employee compensation when calculating the difference between net revenues and total expenses. In an alternative formulation, the evaluation of value-added can be conducted through an analysis of the organization's operational profit after accounting for employees' wages. This is due to the fact that, according to Pulic (2008 & 2000), every employee-related expense serves as an indicator of... the organization's human capital. As a result, he deducted these expenditures from the overall expenses in order to compute the added value, as he regarded them as investments in personnel rather than mere expenditures, and they additionally reflect the market worth of the personnel's competencies.

Additionally, the VAIC metric operates under the assumption of an inverse correlation between human and structural capital due to their complementary nature. As a result, Pulic (2008) calculated the value of structural capital by adding the value of value-added capital to the investment in human capital. It is critical to incorporate both human and structural capital in order to achieve value addition (Pulic, 2008).

The pragmatic evaluation of the correlation between intellectual capital effectiveness and business performance has contributed significantly to the adoption of this metric in both developed and developing nations. The assessment of the efficacy of intellectual capital is critical due to the inherent complexity involved in determining its value. Additionally, in order for businesses to generate value-added, they must not only acquire intellectual capital but also employ it efficiently and effectively (Faisal et al., 2016).

Prior research has incorporated investigations that employed the VAIC scale in its original form. Other research has incorporated additional forms of capital, including creativity capital and relationship capital. A number of studies also employed the VAIC after modifying the structural capital method in order to circumvent its inverse correlation with human capital. The performance indicators that constituted the dependent variables in these investigations included return on assets and equity, among others. These investigations have produced conflicting findings with respect to the effect of the efficacy of intellectual capital and its constituent elements on the performance of the intellectual capital itself.

2.5.1 VIAC scale without adjustment

Buallay's (2017) study Analysed the impact that Value added intellectual capital (VAIC) had on asset return. The performance indicators that constituted the dependent variables in these investigations included return on assets and equity, among others. In regard to the impact of the effectiveness of intellectual capital ,and its constituent elements on the performance of the intellectual capital itself, these investigations have yielded contradictory results.

According to Rufus et al. (2022), From 2010 to 2019, A research investigation was undertaken to assess the influence of the VAIC metric on the performance of 53 Nigerian Stock Exchange-listed publicly traded financial sector firms. The assessment of performance was carried out utilising financial leverage and return on assets metrics. The results of the research suggest that the VAIC metric has a substantial and favourable impact on return on assets. However, it appears that there is no statistically significant correlation between the size of a firm and its return on assets. Furthermore, it was found that return on assets was marginally enhanced by the efficacy of human capital and structural capital, according to the research.

The investigation by Weqar and Haque (2022) An inquiry was initiated to assess the influence of the VAIC metric and its constituent elements on the return on assets of 88 Indian corporations. The sample of assets comprised holdings accumulated between 2013 and 2018. The research findings indicate that there are positive and statistically significant correlations between the VAIC metric and return on assets. The research findings indicate that there are positive and statistically significant correlations between the VAIC metric and return on assets.

The varying results documented in previous studies concerning the impact of the VAIC metric on financial performance may be ascribed to the unique contributions of intellectual capital made by specific companies. Moreover, the technological advancements, sector affiliation, and company scope of the organisation all exert an influence on this disparity (Palazzi et al., 2019). The VAIC, a metric used to evaluate an organization's intellectual capital utilisation efficiency, functions on the assumption that the worth of human capital is negatively correlated with that of structural capital. Additionally, it is worth mentioning that the VAIC measure fails to account for the efficacy of relational capital. As a result, some research endeavours have utilised modified VAIC measures, which involve modifying the methodology used to evaluate structural capital or incorporating relational capital into the scale.

2.5.2 VIAC scale modified

Pulic (2008 & 2000) The valuation of structural capital is ascertained using the residual portion of value added subsequent to the deduction of human capital investments. The necessary computations were executed by him using the formula specified for determining the efficacy of structural capital (value of structural capital divided by value-added). This methodology has been utilised in a multitude of prior inquiries to evaluate the effectiveness of structural capital. The underlying assumption of the approach is that the values of human capital ,and structural capital are inversely proportional. To be more precise, an increase in human capital is correlated with a decrease in the value of structural capital; conversely, an increase in structural capital indicates that human capital has increased in value. The effectiveness of structural capital can be assessed using this approach by dividing "value-added" by "value of structural capital"; the outcome should consistently be below one. The sustainability of this approach to assessing the efficacy of structural capital is contingent on its capacity to interchange human and structural capital. As a result, the VAIC measure is erroneously based on the erroneous premise that the relationship between these variables is inverse. Furthermore, this methodology has faced criticism for neglecting relationship capital and ignoring the fact that organisations necessitate significant quantities of each constituent of intellectual capital (Dzenopoljac et al., 2017). As a result, numerous endeavours to assess the efficacy of structural capital through alternative methods have surfaced. Additional studies, including those that incorporate creativity capital and relationship capital, have been incorporated into the VIAC scale. The outcomes of these investigations vary, as demonstrated in the subsequent studies.

Mondal's study (2016) relied on the VAIC scale after adding a variable expressing relationship capital, measured by marketing costs. Likewise, the study employed the investment quantity in administrative activities as a metric to quantify structural capital. Consequently, the evaluation of structural capital's efficacy followed the same methodology as that of the remaining components of intellectual capital: by calculating the value added by structural capital. The research employed two measurement models: the initial VAIC scale with relationship capital adjustments, and the revised VAIC scale with relationship capital additions and modifications to the structural capital measurement procedure. The study examined a sample of thirty

companies that were active in the computer software and pharmaceutical sectors, using data obtained from the Indian Stock Exchange spanning the years 2010 to 2014. The effect of both the original and modified VAIC measures on return on assets was investigated in the study. Return on assets was found to be positively impacted by both the original and modified VAIC measures, in accordance with the results of the analysis. The study found that the explanatory capacity of the scale was enhanced with the incorporation of relational capital. Additionally, it was discovered that the explanatory power of the metric was enhanced through the modification of the structural capital measurement method.

The (2017) study used Ariff et al. VAIC measures after modifying the method of measuring structural capital. Structural capital is considered intangible assets, except goodwill, because intangible assets express the explicit knowledge within the company. The study was conducted between 2006 and 2013 in order to investigate the effect of VAIC on the return on assets of a subset of publicly traded firms that are listed on the stock exchanges of the following five nations: Singapore, Thailand, Indonesia, Malaysia, and the Philippines. According to the study, the VAIC metric increases return on assets in each of the five countries in a statistically significant and positive manner. Human capital had a quantifiable and positive impact on return on assets in Singapore, Malaysia, and the Philippines, according to the study's findings. Structural capital had a statistically significant and negative impact on return on assets in all countries except Thailand, where it had a substantial and positive influence, according to the results of the analysis.

In order to examine the impacts of return on assets, relationship capital efficiency, innovation capital efficiency, and VAIC, this study employed a sample of 390 industrial enterprises that were publicly traded on the Korean Stock Exchange during the period from 2012 to 2016. The study found that the application of the VAIC scale significantly and positively impacted return on assets. Moreover, according to the research findings, the efficacy of human capital has a significant and positive impact on return on assets. According to the research findings, the explanatory power of the VAIC components was discovered to be greater than that of the VAIC scale. Furthermore, according to the study's results, relationship capital significantly and favourably impacts return on assets. Conversely, the research findings indicate that return on assets is significantly and negatively impacted by the degree of effectiveness of creative capital..

The study used Nadeem et al. (2019) VAIC measure with structural capital measured at the value of R&D and intellectual property costs. The research investigated the impact of VAIC on asset return. A sample of enterprises from ten countries was utilised in the study, with the author classifying five (Australia, Austria, the Netherlands, Singapore, and Sweden) as developed and the remaining five (China, Malaysia, Russia, South Africa, and Turkey) as developing. According to the study, return on assets and VAIC exhibited a strong and positive correlation. Furthermore, human capital and return on assets were evaluated in the study using a modified VAIC scale; the findings of the analysis revealed a positive correlation between the two factors. Conversely, the initial VAIC scale produced equivocal or adverse findings with respect to its effects. Additionally, a positive correlation was identified between return on assets and structural capital in the study. Gupta et al. (2022) investigated the correlation between return on assets and intellectual capital by employing both the original VAIC and the modified VIAC, which incorporated relationship capital as one of its components. The information utilised in this research analysis came from 82 publicly traded companies that were listed on the Indian Stock Exchange from 2009 to 2018. It was determined that the essential VAIC level had a substantial and positive impact on return on assets. In the study, a strong and effective correlation was found between the efficacy of human capital and return on assets. Return on assets was negatively and statistically significantly impacted by structured capital, but was not discernibly impacted by relationship capital. On the contrary, the research revealed that the revised VIAC metric appeared to have no substantial impact on return on assets. Return on assets with respect to regulatory variables is substantially and positively influenced by the size of the organisation, according to the findings of the study. Simultaneously, the financial leverage and longevity of the organisation have a substantial damaging effect on the return on assets.

The study of Xu et al. (2022) analysed the correlation between bank profitability and the VAIC metric throughout the Coronavirus (COVID-19) period. The research employed quarterly data spanning the first to third quarters of 2020, encompassing a representative sample of 34 banks based in China and 39 banks based in Pakistan. The assessment of profitability was achieved by performing the return on assets calculation. The study indicates that the return on assets in China and Pakistan was significantly and favourably affected by the VAIC amidst the coronavirus outbreak. However, it is worth noting that the impact of the VAIC measure on bank profitability in Pakistan is more pronounced than in China. In terms of the findings specific to each country, the research conducted in China revealed a noteworthy and favourable impact on operational effectiveness. The return on assets reveals a clear and substantial adverse effect associated with human capital. A significant and positive correlation exists between return on assets and human capital efficacy, according to the findings of the research conducted in Pakistan. An assessment of the efficacy of relational capital could be conducted by including an extra variable in the VAIC. Based on the study's findings, it was determined that return on assets was significantly and positively impacted by the modified VAIC metric in both nations.

Based on the findings of my research (Pulic, 2000 & 2008), which employed the VIAC scale unaltered, it is apparent that the majority of these studies have identified a positive and statistically significant relationship between the VAIC and return on assets. Research has also indicated that the explanatory capacity of the items comprising the VAIC scale is superior to that of the VAIC scale itself in Turkey (Ozkan et al., 2017). On the other hand, research conducted in Turkey by Ozkan et al. (2017) and Buallay (2017) in Saudi Arabia and Saudi Arabia, respectively, discovered a significant correlation between the VAIC and return on assets.

Sardo and Serrasqueiro (2017) discovered that in the following nations—Greece, Portugal, Spain, Italy, Germany, France, Finland, and the United Kingdom—VAIC from the previous and current years has a positive and statistically significant effect on ROA in the current year. Nevertheless, as indicated by the research of Nadeem et al. (2018), ROA from the previous period had an effect on VAIC in Australia during the current period. This suggests that the correlation between return on assets and VIAC is one-way and contingent upon the influences of each individual variable.

In regard to the findings of research endeavours that employed the VAIC scale, albeit with modifications to the structural capital measurement methodology. The influence of the VIC metric on the financial performance of a particular company has been the focus of numerous research studies when analysed in isolation. The research conducted in India by Maji and Goswami (2017) revealed that return on assets was significantly and positively impacted by both the original VAIC measure and the modified VAIC measure.

Ariff et al. (2017) define structural capital as intangible assets excluding collateral. Additionally, it is revealed in the study that return on assets (ROA) is significantly and positively influenced by VAIC in Singapore, Thailand, Indonesia, Malaysia, the Philippines, and the Philippines. According to a study by Nadeem et al. (2019), The aggregate of investments in research and development and intellectual property was utilised to ascertain structural capital. The research revealed that the return on assets in China, Australia, Austria, the Netherlands, Singapore, and Sweden in the following year was significantly and favourably affected by the modified VAIC measure that was implemented in the present year. Terrorism and Southern Africa. According to the findings of this research, intellectual capital is an indispensable resource for businesses operating in the knowledge economy. The level of competition and the difficulty for other businesses to copy it have made it more significant because it depends on the innate abilities found in human resources, which are a representation of human capital. Due to its intellectual capital, the company has a lasting competitive edge that guarantees revenues, allows it to stay in the market, and compete.

The researcher concludes, on the basis of the information presented above, that intellectual capital is equally crucial to other resources in that it enables companies to grow rapidly despite intense competition in every industry. Investing in the development of intellectual capital in its entirety will additionally enhance the organization's efficiency and productivity, in addition to its capacity to fulfil its goals and objectives. This demonstrates that the organisation consistently generates value with the intention of generating future profits.

2.6 The Impacts of Corporate Governance Intellectual Capital on Financial Performance

There is a prevalent belief that effective governance procedures are positively correlated with improved financial performance. However, despite the considerable amount of research conducted on this topic, a conclusive finding concerning the correlation between corporate performance and governance has yet to be established. While some research has established the significance of this correlation (Gruszczynski, 2006), other research has failed to do so (Sueyoshi et al., 2009). Further research is necessary to ascertain the exact relationship between financial performance and intellectual capital; conclusive findings on this matter have not yet been obtained. An examination of the correlation between intellectual capital and governance, as well as the consequent effect this has on financial performance, is of the utmost importance. In the era of knowledge, it is possible that organisations will prioritise intellectual endeavours over tangible products. As a result, it is incumbent upon management to implement governance mechanisms and foster the intellectual capital that is inherent in the structures and personnel of the organisation. Enhanced managerial oversight of intellectual capital confers a competitive edge and generates value for businesses. (Keenan and Aggestam, 2001; Vetchagool, 2022).

The reliance of the global economy on intangible assets to bolster the value of corporations has generated heightened attention towards both quantitative and qualitative disclosure pertaining to the manner in which these assets contribute to the enhancement of the corporation's competitive edge. Disclosure of intellectual capital entails providing internal and external users with information pertaining to intellectual property that is not accessible through financial reports. The purpose of this disclosure is to assist these users in making informed decisions and to fulfil their informational requirements. (Abhayawansa and Guthrie, 2014: 21), and thus it represents Disclosure of intellectual capital by financial institutions disclosing the intellectual assets in their possession to external parties to indicate their actual financial position, enhance the credibility and objectivity of financial information, and improve their investment decisions Sharma and Dharni, 2017: 23; Martins et al., 2018: 24; Naimah and Mukti 2019: 34).

Executives, shareholders, regulators, and stakeholders rely on the information that companies disclose in financial reports, especially information related to the company's value, to make effective decisions about identifying and monitoring company risks, using resources, and formulating and implementing policies (Anifowose et al., 2017). Conversely, organisations require data pertaining to intellectual capital in order to present a holistic perspective on the undertakings of said organisations and the manner in which they influence the overall performance of the company (Gamerschlag, 2013). In order to ensure proper oversight and facilitate informed decision-making, the principal objective of disclosure in financial reports is to furnish stakeholders with a variety of information that fulfils their requirements (Anifowose et al., 2017: 23; Wang et al., 2016: 18; Yan, 2017: 19).

Disclosing intellectual capital is a monitoring mechanism for administrative performance that helps stakeholders judge executive management's performance in maximising the company's value and wealth (Naser and Hassan, 2016:10). In order to address the concern of information asymmetry, it is necessary to disclose intellectual capital. Furthermore, while enhancing the financial performance and reputation of the organisation are manifested through its stock prices, conflicts of interest that arise between executive management and stakeholders have the potential to hinder the delivery of precise information concerning the current and future worth of the company to stakeholders (Anifowose et al., 2017;22).

Innumerable prior studies (Anifowose et al., 2017:25; Wang et al., 2016:25) have established the importance of governance mechanisms in facilitating the implementation of intellectual capital disclosure. Audit committee responsibility for averting information asymmetry, safeguarding the interests of shareholders and stakeholders, and ensuring a balance of interests between management and stakeholders is central to agency theory. The audit committee's crucial oversight function enables the achievement of this. Furthermore, the audit committee manages and coordinates the organization's internal and external relations in a manner that fosters mutual respect and accountability for the organization's operations (Yan, 2017). It is the responsibility of the Audit Committee to maintain communication with internal and external auditors and to oversee the financial reporting process of the organisation in order to ensure the accuracy and reliability of the information contained in the financial reports. Therefore, advocating for executive directors to increase disclosure levels to reduce information asymmetry and agency expenses, the Audit Committee supervises the financial reporting process in its capacity as an essential governance mechanism. The Committee's efforts in this regard serve to advance the discourse surrounding disclosure standards pertaining to financial statements. Subhasdararam (2019); Astati et al. (2020). Evaluating the efficacy of the audit committee and, consequently, their capacity to oversee and pursue the implementation of financial statement disclosure practices is considered to be highly dependent on the attributes of the committee. Astuti et al. (2020) argue that this improvement in financial statements leads to a heightened degree of intellectual capital disclosure.

The research conducted in 2007 by Cerbioni and Parbonetti An investigation was initiated in order to ascertain the influence of governance on the disclosure of intellectual capital. The results indicate that disclosure is influenced in a positive way by the percentage of independent directors, but in a negative way by dual roles and board size. The investigation was carried out by Li et al. (2008). Moreover, the frequency of audit committee meetings, ownership structure, and board of director composition all have a positive impact on disclosure, whereas dual duties do not exhibit such an influence.

A broader spectrum of information pertaining to intellectual capital is typically divulged in the annual reports of corporations with more substantial audit committees, according to a study by Hidalgo et al. (2011). In contrast, the research conducted by Falikhatun et al. (2011) suggests that intellectual capital disclosure does not exhibit a statistically significant correlation with the proportion of independent directors. The study conducted by Saifieddine et al. (2009) identified a correlation between intellectual capital and governance. A significant factor contributing to an organization's failure to attract intellectual capital is the absence of effective governance mechanisms; thus, this shortcoming is ascribed to the organization's incapacity to attract intellectual capital.

The primary objective of this study was to examine the correlation between intellectual capital, corporate governance, and company performance, as well as the disclosure of social responsibility, among a sample of Australian Stock Exchange-listed companies in 2014, as stated by Aslam et al. (2018). The enhancement of the financial performance of an organisation is influenced by both corporate governance and intellectual capital. Additionally, the results of the research suggest that organisations that uphold robust governance principles are more environmentally aware, given that such principles yield advantages for shareholders and the broader community.

Ibrahim et al. (2021) initiated a research investigation with the aim of analysing a range of corporate governance approaches and factors linked to the performance of intellectual capital. A statistically significant correlation was observed between the effectiveness of intellectual capital, board size, and board independence, according to the study's findings.

Twenty-three in total, Nassirzadeh et al. The principal aim of this research undertaking was to analyse the influence of specific attributes of corporate governance—specifically, leadership turnover, auditor independence, and institutional ownership—on intellectual capital. In addition, the study concentrated on the constituents of intellectual capital, namely human capital, capital employed, and structural capital. From 2011 to 2018, a dataset consisting of 1,170 observations was compiled from a sample of 220 publicly traded

corporations on the Middle East Stock Exchange. The study's results indicate that there is a noteworthy and substantial correlation between higher levels of institutional ownership and intellectual capital, more specifically human capital and structural capital. The results of this study confirm the relationship between the attrition rate of auditors and the efficiency of human and intellectual resources. A robust and affirmative correlation was discovered between human capital and the autonomy of governing bodies. There was an absence of correlation detected between the departure of chief executive officers and intellectual capital, including its component elements.

The primary aim of this research endeavour was to assess the impact of corporate governance practices on the intellectual capital of 64 publicly traded companies listed on the Bucharest Stock Exchange from 2016 to 2021. The objective of this research endeavour was to investigate the correlation between intellectual capital (VAIC), which was measured by the value-added intellectual coefficient (VAIC), and corporate governance (as evaluated by adherence to the Bucharest Stock Exchange Code of Corporate Governance), with economic value added (EVA). The research findings indicate the presence of a statistically significant and positive correlation between intellectual capital and corporate governance. The enhancement of wealth generation is a result of the intellectual capital and effective corporate governance practices that businesses implement, according to research (Achim et al., 2023).

The researcher hypothesises, on the basis of prior research, that robust governance negatively impacts the effectiveness of intellectual capital, thereby diminishing the organization's value.

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