KOGI JOURNAL OF MANAGEMENT
VOL. 9 No. 2, March 2023
http://kogmanjourn.com.ng

EFFECT OF HUMAN RESOURCES ACCOUNTING ON FINANCIAL PERFORMANCE: AN EMPIRICAL EVIDENCE FROM THE MONEY DEPOSIT BANKS IN NIGERIA

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Abstract

Human resource accounting is the act of gathering data on human resources, measuring it, and sharing it with relevant parties so they may make informed investment decisions. In order to assure efficiency and effectiveness in their operations, businesses have recently moved their attention to human resource accounting. The impact of human resource accounting on the financial performance of Nigerian banks was the main subject of this study. The issue that inspired the study is the widespread practice among Nigerian banks to inefficiently account for the input of human resources in their annual statements. As a result, rather than capitalizing human resources in their statement of financial position, these banks instead expend them in their income statement, lowering their profit after tax. The broad objective of this study is to determine the extent to which human resource accounting affects the financial performance and value of Nigerian Banks. This study is therefore considered significant because, there are still universally, grey areas to be sorted out on the subject matter of human resources accounting. In the bid to achieve the study objectives, the researcher gathered data from ten money deposit banks. Data were collected from both primary and secondary sources using an ex-post facto research design. Following collection, the data were tabulated and subjected to multiple regression analysis. According to the first hypothesis's findings, there is a substantial correlation between the capitalized cost of human resources and the banks' post-capitalization profit before tax in Nigeria. The outcome of hypothesis two showed that there is a substantial correlation between the capitalized human resource cost and the post-capitalization net worth of Nigerian banks. According to the conclusion of Hypothesis 3, there is a sizable difference in the profit before tax of Nigerian banks before and after capitalization. The study concludes that human resources accounting positively influenced financial performance of banks in Nigeria within the period under study. It is advised that standards be established for measuring and identifying human resources in the banking industry. It is also advised that management of commercial banks in Nigeria have a proper understanding of human resource accounting. Managers will be able to make the best decision possible when investing in human resources thanks to this. Additionally, the study suggests that policies aimed at improving the post-capitalization profit before tax of banks in Nigeria pay close attention to capitalized human resource costs, net worth, and total assets as these variables significantly influenced the post-capitalization profit before taxes of the studied banks in Nigeria. The study's limitations are related to the small sample size of companies and years used in the analysis.

Keywords: *Capitalization, Human resources cost, Profit before tax and Net worth.*

INTRODUCTION

Due to the rapid-fire pace of today's corporate climate, businesses are starting to assess the importance of intangible assets, particularly human resources, in day-to-day operations. For any business, human resources (HR) are essential. When it comes to running a business successfully on a daily basis and achieving its goals, human resources play a crucial role (Jena, B. M., Maharana, N., Chaudhury, S. K. and Mohanty, S., 2022).

Human Resource Accounting (HRA) has received more attention recently as a crucial component of daily business operations that improves the overall financial performance of the corporation. Human capital constitutes a major asset of companies today (Ogwuche, A. E., Odobi, O. D. and Enwuchola, R. O., 2022), opines that transition from industrial economy to knowledge-based economy has characterized business operations in the past few decades. There has been a pragmatic shift in the way by which capital asset are being accounted for, before now physical capital was the focal point in the economic activities, the major characteristics of the emerging economy is an increasing emphasis on human asset, core competence, knowledge, skills and intellectual capital (Ekwe, M. C., 2013). Human Resources are the technical know-how, skills, talents and knowledge of people which can be tapped in the production of goods or services.

Enofe, A. O., Mgbame, C. Sunday O. S., & Ovie, O., (2013), referred to the American Accounting Association's definition of human resources accounting as the measuring of data of human resources and communicating the information to the interested parties. Going by the various definitions above, human resource accounting in simple term is accounting for the value of people in organization to enhance information for decision making by the users of financial information.

Human Resource Accounting is a process of determining, identifying and measuring data about human capacity and communicating the generated information to interested parties (Ijeoma, N., Bilesanmi, A. O. and Aronu, C.O., 2013). As a result, it is an effort to identify and report resource investments made by a company that are not being taken into account by traditional accounting procedures. Human resource accounting, on the other hand, improves the measurement of the value that people bring to the realization of corporate objectives and aids management in making crucial decisions regarding human resources in order to improve the performance and value of the organization. It necessitates measuring an organization's performance and making the best use of the resources that fall under both direct and indirect management. So, in order to accomplish organizational goals and enhance business performance, the total valuation is crucial for decision-making.

Human element is one of the most valuable inputs in an organization [4]. A team of competent, devoted and motivated persons can convert a sick concern into a successful one. Incompetent and disinclined personnel may waste the existing physical and financial resources leading the concern to collapse.

It is common knowledge that new companies with capital compositions that are floated by technically sound professionals receive more interest than expected. This is founded on the reality that when it comes to wealth creation, investors throughout the global and national capital markets place a high value on human resources and talents more than any other factor. Up until 1965, the traditional accounting profession often downplayed the value of human resources in attaining their stated goals and objectives. However, in recent years, interest in the Human Resources Account (HRA) and its inclusion in financial reports for businesses have grown significantly. Two main factors support treating investments in people as assets: first, current and prospective investors need this information to assess the value of the business enterprise, and second, investments in people meet the requirements for being treated as assets. A problem therefore arises where insufficient human resource information is disclosed to enable users make meaningful investment decisions. In other words, where the human resource information that is provided is less than users' requirements, an expectation gap therefore arises.

The overall objective of this study is to determine the extent to which human resource accounting affects the financial performance and value of Nigerian Banks. The study specifically examined the extent to which Capitalized Human Resource Cost affect profit before tax and Net worth of banks in Nigeria. The study provides empirical evidence on whether significant difference exists in the Profit before Tax and Net Worth of banks in Nigeria based on different accounting treatment of HRC. This study is significant because, there are still universally, grey areas to be sorted out on human capital accounting. The rest of this paper is organized as follows: Section II review of the concept of HRA, Human Capital, Net worth and Profitability. Section III presents the research methodology. Section IV focuses on results and discussion of findings. Finally, Section V concludes the paper with the main contribution with the aid of heuristic model.

REVIEW OF RELATED LITERATURE

A. Human Resource Accounting

Human Resource Accounting (HRA) is the process of identifying, recording, summarizing and reporting the capital Investments on Human Resources of an Organization that are presently not accounted for in the conventional accounting practices (Ezejiofor, R. A., John-Akamelu, R. C. and Iyiobi, F. C., 2017).

Human Resources (HR) are people's technical know-how, capabilities, skills, talents and knowledge, which are channeled towards the production of goods or services (Micah, L. C, Ofurum, C. O, and Ihendinihu, J. U., 2012). Human resources have been identified as one of the main sources of competitive advantage by many organizations in today's economy (Bassey, B. E., and Tapang, A. T., 2012), (Jelil, A. A., Olotu, A. E., & Omojola, S. O., 2014). Human resources is a viable source of sustained competitive advantage among firms because, they meet the criteria of being valuable, inimitable, and no substitutable (Wright, P. M., McMahan, G. C., and McWilliams, A., 1994). Resource-based theorists therefore argue that human assets can be a source of sustainable advantage because; tacit knowledge and social complexity are hard to imitate (Coff, R. W., 1997).

Jeroh, E. (2013), carried out an examination on the relationship between human resource accounting and the comparability of financial statements in Nigeria. It was ascertained that a significant relationship exists between the variables. Therefore, human capital accounting is a necessary component of a credible financial statement. Yet (Bokhari, I. H., Qureshi, T. M., Bashir, F., and Hijzi, S. T., 2012), suggested that the concept of human capital accounting is struggling for acceptance in the financial statements.

Human resource accounting (HRA) is of topical origin and is struggling for acceptance (Ezejiofor, R. A., John-Akamelu, R. C. and Iyiobi, F. C., 2017). It is a known fact that Human resources accounting is an accounting measurement system and there exist a large body of literature that has been published in the last decade showcasing the various procedures for measurement. This theory has received tremendous attention from the academicians which has resulted to the development of substantial body of literature. This is despite the fact that under the conventional accounting system that human capitals are not recognized as a physical or financial assets (Mustafizur, R., Amzad, H. and Tabassum, A., 2013), (Brummet, R. L., 1970).

B. Human Capital

The concept of seeing human capital as an asset which can be quantified is the theoretical underpin for human resources accounting. Hence, Human resource accounting is not new in enterprise accounting and management. Organization's investment was first considered by the father of Economics Adam smith in his writing (Brummet, R. L., 1970). Many other economists and social scientists have sought to understand the nature and casual aspects of industrial growth. The contribution of human factor to this growth had generated great interest among researchers (Carper, W. B., 2002).

Likert, R. M., (1967), shewed more light on human resource accounting which is also known as human asset accounting by professionals in the field of accounting, behavioral and personnel management. Human Resource accounting is defined as the act of identifying, measuring and communicating information that resolves around human resource values to interested parties (System of National Accounts, 2008). This definition has three key themes and they include:

1. Identifying human resources as assets which can be reported financially;
2. Measurement of asset information about human resources; and
3. Communication of this information to parties who are interested.

It has been the centre of discussion on human resource accounting whether employees of an enterprise is an asset and possibly the attribute of such employees to be valued.

C. Net Worth

Net worth is the monetary value of all the financial and non-financial assets that is owned by an organization or institution minus the value of all their outstanding liabilities (System of National Accounts, 2008).

Net worth can apply to companies, individuals, governments or economic sectors such as the sector of financial corporations or to entire countries. Net worth in business is also known to as equity. It is holistically based on the value of all the assets and liabilities which expressed on the financial statements. If the items on the balance sheet do not express their true market value, the net worth will also be misleading and inaccurate. In the balance sheet, if the accumulated losses exceed the shareholder's equity, net worth becomes negative.

D. Profitability

Profitability is seen as the degree that an organization or business entity makes financial gains or profits. This goes a long way to showcase how efficient the management can make profit using the resources that is available to them in their competitive marketing environment Ezejiofor, R. A., John-Akamelu, R. C. and Iyiobi, F. C., 2017), (Jeroh, E., 2013), asserts that profitability is the state or condition of a given venture to earn a return from its investment. However, Profitability is an index for efficiency and it is seen as a parameter to measure efficiency of the management in an organization. Despite profitability being a parameter for measuring efficiency, the growth in profitability cannot be taken as a final evidence of efficiency. Oftentimes, a satisfactory profit can be recorded in the mist of operational inefficiency and in the other hand; an organization with the proper degree of efficiency can still not make profits. The net profit figure shows satisfactory balances between the values gained and value invested. The change in operational efficiency is just one of the factors on which profitability of an enterprise largely depends. Hence, there are many other factors apart from efficiency, which affect the profitability.

E. Likert model

Likert, R. M. (1967), defended the thesis that the HCA would play a key role in the development of value and, thus, increase the performance of an organization through the introduction and participatory management structure and processes which he called system 4. Likert argues that changes in causal variables such as management style, leadership strategies and organizational structures, not only result in improved productivity, cost, results, or variables of the final results of similar organizations, but also manifest themselves in improved attitudes, loyalties, motivations and objectives of performance, perceptions, skills, among others, between employees. Likert model was adopted as the theoretical underpin for the study because of its relevant to the subject matter.

RESEARCH METHODOLOGY

The study adopted ex-post facto research design. Time series data of five years were adopted for the study and the population of the study is made up of ten commercial banks that are quoted on the Nigerian stock exchange. Ex-post facto research design and time series data were used for this study. The population of this study comprises of sixteen quoted commercial banks in Nigeria. Fifteen years annual reports (2005-2020) of these banks constituted the secondary data that were used for this study.

The multiple regression model employed to estimate the effect of Capitalized Human Resource Cost, Net worth and Total asset, on post capitalization profit before tax of banks in Nigeria is specified as;

$PBT = B_0 + Bi\ CHRC + B_2\ NW + B_3\ TA + ei$ ……….. (1)

Where

PBT= Profit before Tax after capitalization of Human Resource Cost
CHRC= Capitalized Human Resource Cost
NW = Net Worth after capitalization of Human Resource Cost
TA= Total Asset after capitalization of Human Resource Cost
ei = error term
B_o and B_i= Parameter estimates.

The ordinary least square (OLS) regression technique and relevant parameters were used to present, analyze and test hypotheses. The Ordinary Least Squares (OLS) regression analysis, T-test and correlation were the statistical tools used in testing the research hypotheses.

RESULTS AND DISCUSSION OF FINDINGS

Hypothesis one

H_{o1}: There is no significant relationship between Capitalized Human Resource Cost and post capitalization Profit before tax of banks in Nigeria.

Table 1: Correlation Result between Capitalized Human Resource Cost and Profit before Tax of Banks in Nigeria

		CHRC	PBTn
CHRC	Pearson Correlation	1	.819**
	Sig. (2-tailed)		.000
	N	10	16
PBTn	Pearson Correlation	.819**	1
	Sig. (2-tailed)	.000	
	N	16	16

*****. Correlation is significant at the 0.01 level (2-tailed)***

Table 4.1 shows the correlation result is .819 significant relationship between Capitalized Human Resource Cost and post capitalization Profit before tax of banks in Nigeria.

Hypothesis two

H_{o2}: The association between capitalized human resource cost and post capitalization net worth of banks in Nigeria is not significant.

Table 2: Correlation Result between Capitalized Human Resource

		CHRC	NW
CHRC	Pearson Correlation	1	.593*
	Sig. (2-tailed)		.017
	N	10	10
NW	Pearson Correlation	.593*	1
	Sig. (2-tailed)	.017	
	N	10	10

****. Correlation is significant at the 0.05 level (2-tailed).***

Table 4.2 shows the correlation result between Capitalized Human Resource Cost and Net worth of banks in Nigeria. The result shows at 0.05 level significant levels (2-tailed) that the association between Capitalized Human Resource Cost and post capitalization Net worth of banks in Nigeria is significant.

The result of hypothesis one revealed that is a significant relationship between Capitalized Human Resource Cost and post capitalization Profit before tax of banks in Nigeria. This finding is in agreement with the work of [8], and [7] that found a significant relationship between capitalized human resources cost and corporate performance.

The finding of hypothesis two revealed that the association between Capitalized Human Resource Cost and post capitalization Net worth of banks in Nigeria is significant. This finding is also in agreement with the work of [19] and corroborated by the work of [6] and [5] whose study revealed a significant relationship between Capitalized Human Resource Cost and the value of firms.

Contribution to Knowledge

The study revealed a positive relationship between human resources costs and both post-capitalization net worth and profit before tax for banks in Nigeria. This finding suggests that with better human resources accounting, banks in Nigeria would perform better in terms of both net worth and profit before tax. Additionally, this study offers organizations a route to identify, categorize, record, summarize, and disclose various aggregations of human resource costs that are not disclosed by the conventional financial reporting system, presenting them as an overhead to the management. This is because stakeholders are becoming more interested in and demanding corporate accountability. This gives management the avenue to identify opportunities that will enhance cost saving. It provides foresight to organizations on how to satisfy the growing demands for statutory disclosure of human resource information in their annual reports.

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