



HUMAN RESOURCE ACCOUNTING DISCLOSURES AND FINANCIAL PERFORMANCE: EMPIRICAL EVIDENCE FROM MANUFACTURING COMPANIES IN NIGERIA

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Abstract

Human Resource Accounting can be viewed as a measurement process that recognises the resources of an organisation as an intangible asset whose cost and value are included in the financial statement of the organisation. The study was carried out with an objective of assessing the effect of Human Resources Accounting Disclosures on Financial Performance of Manufacturing Companies in Nigeria with the use of secondary data, obtained from the published annual reports of five (5) purposively identified manufacturing companies from 2015-2019. The study employed the multiple regression analysis (MRA) and findings showed that both the HR Training & Development Cost (HRTDC) and HR Remuneration Cost (HRRC) jointly and individually have noticeable effect on the financial performance of manufacturing companies in the country, Nigeria. The study also found that financial performance is dependent upon human resource accounting. HR Training and Development Cost and Remuneration Cost have significant contributions to the financial ability of a firm. The study, therefore, concluded that financial performance is dependent upon some individual performance that makes up the HRA disclosure such as staff rebuilding and retraining for development and HR remuneration. Finally, the study recommends that companies should expend more on the need to develop and train staff and also ensure that there are good staff remuneration and a low rate of employee turnover to avoid wastage of knowledgeable investment. Also, the accounting bodies should ensure a guideline that regulates the process of HR reporting in organisations.

Keywords: Human Resource, Human Resource Accounting, Financial Performance, HR Training & Development Cost, HR Remuneration Cost



1. Introduction

In the recent global market, organisations are composed of competitors, regardless of the industry. To establish a competitive advantage, it is significant that the firm truly depends on its workforce as a weapon in the competitive market. Companies seek to maximize their workforce through comprehensive training and rebuilding of their manpower (labour) programmes, not only to achieve organisation goals, but also, most importantly, for long-term survival and sustainability of the organisation (Marimuthu, Arokiasamy & Ismail, 2009). Amahalu, Agbionu, and Obi (2017) postulate that "human resource (HR) means a group of employees who make up the workforce of an organisation or a business entity". Human resources are the strength, talents, and knowledge of people, which potentially can be applied to the production of goods or rendering services.

The importance of human resource accounting is to create a model valuation for human resources and make sure that the essence of the human resource that drives the organisation for better performance is well represented and stated in firms' financial statements as intangible assets (Adebawolo, Enyi, & Adebawo, 2015). The development of accounting for human resource is initiated from the growing needs of the importance of human resources in the management of an organisation. In the late 1950s, human resource was regarded as a human asset by Rensis Likert, but it was later replaced by scholars from 'asset' to 'resource' (Asamu, Olawale, & Oluyemi, 2020).

The Financial Performance means the evaluation of the profitability and financial strength of any organisation. Financial performance is an action used to generate higher sales, profitability, and value of a business entity to the shareholders (of the business) through managing the expenses, equity, revenue and both current and non-current assets. Its main purpose is to provide complete information to the shareholder and stakeholders through the financial statement to encourage them to make decisions (Naz & Naqvi, 2016).

A study was conducted recently by Asamu, Olawale, and Oluyemi (2020) on the disclosure of human resource assets of manufacturing companies quoted in the Nigerian Stock Exchange (NSE). The study concluded that adequate reward has a significant effect on operational performance and financial leverage. Ijeoma and Aronu (2013) examined the effect of HRA on financial statements among Nigerian banks. Kruskalwallies test was used to analyse the collected data from the financial statement and they concluded that non-application of HRA measures had a negative effect on the future investment of the bank. Every amount of money spent on the in-service development and training of employees was treated as expense. Ofurum and Adeola (2018) carried out a study on nine (9) quoted companies of the Nigerian Stock Exchange for 5 years, using the ordinary least square and the Product Moment Correlation Coefficient of Pearson and found that there was no correlation between HRA and profitability of the listed companies.



Regardless of the various studies, the gap now is that most researchers have not been able to relate effectively the nexus that exists between the financial performance (strength) and the human resource accounting in the manufacturing companies in Nigeria.

Accounting for human resources is very necessary for the manufacturing companies since the majority of their workers are directly involved in the production of the major products and services of the companies. The selected companies treated human resources as an expenditure instead of assets in their statement of financial position. The major lacuna is that accounting for human resources is that companies' workforce are the most valuable assets in the organisation because the organisational performance or growth depends on the strength of employees. Therefore, some organisations invested in human resource one way or the other. The investments made by these firms in development (of human capital) are not reflected in their statement of financial position as assets, but reflected as liabilities in their statement of comprehensive income (Micah, Ofurun & Ihendinihu, 2012). Although numerous studies have been done on accounting of human resource in advanced countries, there is a gap in the literature in developing countries like Nigeria. Many of the Nigerian firms do not follow the accounting of human resources in their balance sheet.

The specific objective of this study is to assess the effects of human resources accounting disclosures on the financial performance of manufacturing companies in Nigeria. Specifically, the study aims to investigate the effects of HR training and development cost on financial performance of manufacturing companies in Nigeria; and to assess the influence of human resource remuneration cost on the financial performance of manufacturing companies in Nigeria.

The first hypothesis stated that human resource training and development cost has no significant effect on the financial performance of manufacturing companies in Nigeria. Also, the second hypothesis stated that human resource remuneration cost has no significant effect on the financial performance of manufacturing companies in Nigeria.

2. Literature Review

Theoretical Review

Transactional Cost Theory and Resourced Based Theory were adopted for the study.

Transaction cost theory was propounded by Coase (1937) and later developed by Oliver Williamson in the 1970s. According to Williamson (1979) this theory declares that, "business enterprises choose governance structures that economize transaction cost associated with establishing, evaluating, monitoring, and enforcing agreed-upon exchanges". In predicting the nature of governance structure, an enterprise will employ two behavioural predictions, namely bounded rationality and opportunism (seeking self-interest with guile). It means that the main problem that is to be solved by organisations is how to plan structures for governance, which take advantage of bonded rationality while protecting opportunism. To proffer a solution to this problem, both the explicit and implicit contracts



are created, closely monitored, seriously enforced, and regularly revised. For example, organisations that require firm-specific knowledge and skills are assumed to establish internal labour markets that join self-interested and bounded rational members of staff to the organisation, while companies that do not need these mentioned skills can gain efficiencies by competing for self-interested and bounded rational talent in an external labour market (Williamson, 1981). Contextual factors, in turn, to some extent, determine if the types and amounts of skills and knowledge a firm needs are likely to be available in the external labour market, the costs of getting them from the external market, the organisation's capability for developing them internally, and the costs of doing so.

Resource-Based view (RBV) contends that organisations have resources, a subset of which empowers them to accomplish competitive advantage, and a subset of those that lead to prevalent long-term performance (Barney, 1988). Resources that are important and uncommon can prompt the production of competitive advantage. That advantage can be maintained for longer periods (of time) to the extent that the company can safeguard against resource imitation, substitution or, probably, transfer. In general, empirical studies using the theory mentioned above have strongly backed the resource-based view (Barney, 1988).

Resources which are valuable, but scarce, can lead to the establishment of a competitive advantage. The advantage can be for a long period of time sustained to an extent that the firm can protect itself against the common resource imitation, transfer, or substitution". The theory confirms that firms' (competitive) advantage is retained by the institutional valuable resources, and capabilities, that are not common and cannot be replaced. RBV was built into a coherent theory by Wernerfelt (1984) as cited by Odhong, Were and Omolo (2014). Odhong et al (2014) also believe that firms' competitive advantage can be protected through the knowledge and skills development. The theory considers human capital as a resource that cannot be replaced or replicated. And this gives a firm a competitive advantage over other firms.

Empirical Literature

Inua and Oziegbe (2018) comment on the effect of human resource accounting on the performance of selected Nigerian banks. The study adopted an ex-post-facto research design and regression analysis was used to ascertain the effect of HRA attributes such as staff cost, staff strength, director remuneration, and firm size on financial performance. The findings revealed that direct remuneration had no significant relationship with the firm's financial performance. There is a significant effect on staff cost, staff strength, and firm size on the financial strength of the company.

Ofurum and Adeola (2018) evaluated the nexus between HRA and the profitability of selected Nigerian firms. Secondary data were adopted from the nine (9) service firms quoted on the Nigeria Stock Exchange (NSE) from 2011-2015. The data collected were analysed using ordinary least square (OLS) and the Product moment correlation coefficient



of Pearson. The findings revealed that there isn't any essential relationship between Human Resource Accounting & the profitability of the quoted firm. The study recommended that Staff should be well compensated in terms of reward and remuneration to bring out the best in them, management should make retirement benefits attractive to attract the best brain to their respective firms and establishment and that should be a well-coordinated program for staff development if the firm's profitability and performance are desired to increase positively.

The study conducted by Onyinyechi and Ihendinihu (2017) looked into accounting for human resource and the financial strength of firms in Nigerian. The study was aimed at determining the extent to which human resources influence the profit of firms after tax, total revenue, and the (net) asset. The hypotheses formulated were evaluated at a 5 percent level of essence using the Multiple Regression Analysis and the result showed that personnel benefit-cost has an important and positive effect on the profit after tax, while there is an undesirable impact on Net Asset. The research, therefore, finalizes that human resources contributes to the financial growth of companies and the contributions cannot be overemphasized. Firms should have a culture of training, developing, and encouraging the employees to put in their best towards financial growth of their companies. Providing them with infrastructures and a conducive working environment could reduce the rate of job turnover being experienced among firms.

Ilaboya (2013) explores the extent that large and top companies have adopted socially responsible reporting practices with a focus on human resource reporting within corporate annual reports. The results found that human resource disclosures lack overall consistency and comparability. Indicators of quantities are stated by few companies in the sample, with more concerns clear with a lack of attention paid to disclosure relating to equal and clear opportunities, work-life balance, and integration of disadvantaged groups.

Adebawajo (2015) studied Human Resources Accounting and corporate performance. The study examined the result of accounting of human resources on the performance of the business in Nigeria. The study adopted an empirical Ex-post factor research design, on a sample of 18 listed Banks in the Nigeria capital market. The study employed primary data with the aid of a well-constructed questionnaire designed to collect relevant information from the respondents on six steps Likert Scale and validated through peer review with Cronbach Alpha Coefficient of 0.807 and 0.870 for human resources and organisation performance respectively. The hypotheses were tested using a simple regression model and the result entails that human resources accounting significantly affect the bank's performance and also human capital-related information is relevant to the market value of the sampled banks in Nigeria.

Abiola and Adisa (2020) examined the influence of human resources accounting practices on managerial decision making in Nigeria. 16 quoted companies in the Nigerian financial sectors were used. The study found that there is a significant impact on managerial decisions in the organisation through the accounting of human resource.



3. Methodology

A cross-sectional survey was adopted for the study which involves a time series survey of existing data (Secondary data). Time series annual data was adopted ranging from 2015-2019 with sample sizes of 5 companies which are Cadbury Nigeria PLC, Dangote Sugar Plc., PZ Cussons, Unilever Nigeria PLC, and Nestle Nigeria PLC. A purposeful sampling method was used for selecting these sampled companies, reason being the availability of complete data obtained from the yearly report of the sampled companies for the period under consideration. Multiple regression was used to analysis the formulated hypotheses.

Model Specification

To analyse the influence of disclosures of human resource accounting on financial performance from manufacturing firms in Nigeria, the study used the ordinary least square (OLS) in the form of Multiple Linear Regressions to establish the relationship between Financial Performance(the Dependent Variable) and Human Resource Training& Development Costs HRT&D and Human Resource Remuneration Cost HRRC (the Independent Variables). The regression model was estimated through the use of Statistical Package for Social Sciences (SPSS).

$$FP = \alpha + \beta_1 HRTD + \beta_2 HRRC + \mu$$

Where,

FP = Financial Performance (Measured by profitability)

α = Intercept of the regression line

μ = Error or stochastic term

β = Coefficient

HRTDC = Human Resource Training and development

HRRC = Human Resource Remuneration Cost

Table 1: Definitions and Measurements of the Study Variables

Code	Definition	Type	Measurement	Authors/Studies
FP	Return on Assets (ROA)	Dependent Variable (Financial performance measured by profitability)	Profit Before Taxes/Total Assets	It is a measure of ROA. The higher the ratio, the better the performance and assets utilisation of the companies. This is in line with the research works of Enofe, Mgbame, Sunday &Ovie, (2013)
TD	Human resource training & development costs	Independent Variable	Personnel expenses (training cost)	This is the total amount spent on training and development of manpower. This is in line with Syed 2009.
RC	Human resource remuneration cost	Independent Variable	Personal expenses (Salaries, wages, and allowances)	Remuneration is to total compensation received by the employees which include salaries, wages, and allowance. This is in line with Syed 2009.



Decision Rule

The acceptance/rejection criterion was that, if the p-value is greater than the alpha value of 0.05, we fail to reject the null hypothesis (H_0) and accept the alternate hypothesis (H_1).

4. Results

Descriptive Statistics

The descriptive analysis employed in this study is the summary of the statistics table. This includes the minimum, maximum, mean, and standard deviation of the distribution.

Table 2 Descriptive Statistics of the variables

	N	Minimum	Maximum	Mean	Std. Deviation
Training and Development Cost	5	1187874	1421360	1275815.00	94862.354
Remuneration Cost	5	9662142	12536952	11357738.60	1151930.196
Return on Asset	5	7924968	45557630	30790226.20	15399086.577

Source: Researchers' computation (2020).

Table 2 shows the descriptive statistics of the variables. The result revealed that HR Training and Development Cost range from a minimum of 1187874 to a maximum of 1421360 with a standard deviation of 94862.354 and a mean of 1275815.00. HR Remuneration Cost ranges from a minimum of 9662142 to 12536952 maximum with the mean of 11357738.60 and a standard deviation of 1151930.196. Return on Asset (ROA) was on the average of 30790226.20 with the 15399086.577 standard deviations. It ranges from a minimum of 7924968to a maximum of 45557630.

Multi-Collinearity Test

This refers to the presence of high correlations between independent variables. This assisted in assessing the strength and the direction of the relationship between the dependent and independent variables.

Table 3: Multi-collinearity Test

Variables	TV	VIF
HR Training and Development Cost	0.714	1.400
HR Remuneration Cost	0.623	1.107

Source: Authors' Computation, 2020

Table 3 revealed the Multi-collinearity test that was tested through the use of the variance inflation factor (VIF). The results show that the study is free from the multi-collinearity problem because the Tolerance Value (TV) is < 1 and Variable Inflation Factors (VIF) is > than 10. The result is in agreement with the assumption of the classical regression model which states that there should not be multi-collinearity among the explanatory variables included in the model.



Table 4: Multiple Regression

Model 1	R = 0.986	R ² = 0.975	Adj.R ² = 0.972		
	Sum of square	Df	Mean square	F	Sig.
Regression	441.860	1	147.287	20.831	0.000 ^b
Residual	848.463	4	7.071		
Total	1290.323	5			
Variable	Unstandardised coefficient (β)	Std. error	Standardised coefficient (β)	T	Sig.
Constant	7.737	1.042		7.427	0.844
HRTDC	.513	.058	.145	1.758	.000
HRRC	.145	.318	.310	1.324	.004

Note: X₁= HR Training and Development Cost; X₂= HR Remuneration Cost; Dependent variable: Profitability

Source: Researchers' computation (2020).

Table 4 shows that Human Resource Training and Development Cost (HRTDC) and Human Resource Remuneration Cost (HRRC), were significantly joint predictors of profitability ($F_{(1, 4)} = 20.831$; $R^2 = 0.975$). The predictor variables jointly contribute 97.5% to profitability, while the remaining 2.5% could be due to the effect of extraneous variables. This implies that human resource accounting has a positive and significant relationship with the manufacturing firms' profit. Furthermore, HRTDC ($\beta = 0.145$; $t = 1.758$; $P < .05$), and HRRC ($\beta = 0.310$; $t = 1.324$; $P < .05$) were independently related to manufacturing firms' profit at 5% level respectively. This implies that HR Training & Development Cost and HR Remuneration Cost independently relate to the financial performance of manufacturing companies in Nigeria. This was supported by Khan, Khanand, and Khan (2011) which examines the impact of the investment of HR training and development on performance and found that there is a positive and significant impact of HR training and development on performance.

Finally, from the second hypothesis, the findings revealed that HR remuneration cost has a significant and positive relationship with the financial performance of manufacturing companies in Nigeria. This was supported by Adebawajo (2015), who concluded that salaries, wages, allowance, and all forms of remuneration motivate employees and increase their performance.

The theoretical implications of this study involve understanding the various ways of success in an organisation where some resources may be omitted or added to the approach to enhance effectiveness and efficiency. Moreover, it will be vital to know whether the proposed framework differs in organisations of different contexts. The managerial implication of the study is that it will be interesting to know how the findings of this study will help the organisation to perform better. It would be important to find out whether this framework will be beneficial for policymakers and the stakeholder's community or not.



5. Conclusion and Recommendation

Based on the findings of the study it was observed that HR Training & Development Cost and Remuneration Cost have a significant effect on the financial performance of a firm. It was discovered that HR Training and Development, and staff remuneration cost will inspire the employees to give their best to the company which will boost the performance of the company financially. It is therefore concluded that financial performance is dependent upon the individual performance that makes up the HRA disclosure such as staff rebuilding and development and HR remuneration. Further studies should focus on other dimensions of HRA like staff salary, level of increment in staff, and staff retirement on the financial strength of the different industries.

In line with the outcomes of this study, the following recommendations are made from an HR perspective and an Accounting perspective. From the view of human resources practitioners, the company should expend more on staff and development and also ensure that there are good staff remuneration and a low rate of employee turnover to avoid wastage of knowledgeable investment. From the accounting view, the accounting bodies should ensure that there is a guideline for managing the process of HR reporting in Nigeria. The cost of Human resources should be reported in assets accounts rather than as expenses.

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