HUMAN RESOURCE ACCOUNTING AND PROFITABILITY OF QUOTED FIRMS IN NIGERIA

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Abstract
The aim of this study is to examine the relationship between Human Resource Accounting and the Profitability of quoted firms in Nigeria. The study used staff remuneration, as proxy for Human Resource Accounting; while net operating profit and return on capital employed were used as proxies for profitability. The study used secondary data from audited financial reports of nine (9) service firms quoted on the Nigerian Stock Exchange (NSE) from 2011 -2015. The data collected was analyzed using ordinary least square (OLS) and Pearson Product moment correlation coefficient. "r", with the aid of SPSS version 20. The findings revealed that there is no significant relationship between Human Resource Accounting and the profitability of quoted firm. Based on the findings it was recommended that Staff should be well compensated in terms of reward and remuneration so as to bring out the best in them, management should make retirement benefits attractive so as to attract best brain to their respectively firms and establishment and that should be a well coordinated program for staff development if the firms profitability and performance are desired to increase positively.

Keywords: Human Resource Accounting, Financial Reporting, Staff Remuneration, Net Operating Profit, Return on Capital Employed

Introduction:
Human resource is one of the major factors of production and had been generally referred to as all human efforts (skilled, semi-skilled and unskilled) used in the process of production. Human Resource is a term which refers to the set of individuals who make up the workforce of an organization or a business entity (Edom, Inah & Adanma, 2015). According to Syed (2009), it comprise the energies, skills, talents and knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services. The driving force of an organization is the human force. The success or failure of any organization is directly related to how human Resource are able to effectively and efficiently manage and organize other factors of production or resources. Human resource, according to Micah, Ofurum & Ihendinihu (2012), are the energies, skills, talent and knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services.

Furthermore, human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties (Enofe, Mgbame & Otuga, 2013). In the words of Okpala & Chidi (2010), human Resource accounting relates to the quantification in monetary terms of human resources employed by an organization. They concluded that a well-developed system of human resource/capital accounting could contribute significantly to internal decisions by management and eternal decisions by investors. Firms that are human resource-oriented (Such as firms in accounting, law, consulting and especially firms in educational sectors.) will appreciated this better.

It can then be argued that, the real profit of an organization cannot be truly ascertained without the inclusion of the human assets. The problem now is what is the method of accounting treatment of human assets that will be generally accepted?

Under human resource accounting, a value is placed on people based on factors like, experience, education, psychological traits, and, most importantly, future earning power (benefit) to the company. The Non accounting of human resources and the change occurring therein, of an organization may provide a poor picture of the profits and profitability of the organization. To ensure growth and development of any organization, the efficiency of people must be augmented in the right perspective. Without human resources, the other resources cannot be operationally effective. The real health of the organization is indicated by the human behavior variables, like group loyalty, skill, motivation and capacity for effective interaction, communication and decision making. As earlier stated, the success or otherwise of an organization depends on how best the scarce physical resources are utilized by the human resource.

Human Resource Accounting can also be seen as the measurement of the cost and value of the work force in an organization. It involves measuring costs incurred by the organizations to recruit, select, hire, train and develop employees as well as of appraising their economic value to the organization. Human Resource Accounting improves management by analyzing investment in human resources and considering people as its asset. It also attracts and retains qualified people. The main objective of human resource accounting is to facilitate the management to get information on the cost and value of human resources. Human resources accounting brings to light the quantum of human resources and indicates the right control of conservation, depletion and appreciation of it in the right perspective. It provides data to the interested persons about the cost of human resources and correspondingly comparing it with the benefit obtained out of its utilization. Adding to the above, (Micah, Ofurum & Ihendinihu, 2012), human resource accounting as the process of identifying and measuring data about human resources and communicating them to interested parties.

Basically, when we talk of Human Resource (Also known as Human capital or Human Assets) it refers to the human knowledge, their inner capabilities and creativity. The development of technology cannot be fully utilized without knowledge and skill. The capabilities of the human capital in relation to the needs of the organization should be improved by creating a climate in which the human knowledge, skill, capabilities and creativity can be developed. How to develop human capital and put it to optimum use is the challenge faced by the present day corporate sector.

Technological improvements, business strategies, quality concerns etc., will have no meaning without personnel (human capital). So it is people who make all the difference. People and their development only can meet the needs of globalization and liberalization. The human capital available in the organization should be rightly assessed and developed through motivation, training and perceptional needs of the organization. Only then, the organizational goals can be achieved and can continue to be a market contributor in the field of competition. The computer technology offers greater precision but demands different skills. The owners (personnel) of these new skills are both technically educated and trained on the job. It is the human capital which should be rightly invented for the qualitative improvement of human beings who are considered the most valuable asset of an organization. Thus, the Human capital refers to the basic skill, capabilities, the perception, know-how and expertise of these personnel. Every individual has certain skills and understanding. The education one has undergone should help him to develop knowledge in general.

The purpose for human resource accounting is not just the recognition of the value of all resources used by the organization, but also includes the management of human resource which will enhance the quantity and quality of goods and services. The basic objective of human resource accounting is to facilitate the efficiency of human resource. It is basically adopted to treat human resources as assets, to generate human data about human resources, to assign value to human resources and to present human assets in the balance sheet. The gap now is that most researchers have not been able to relate effectively the relationship that exists between human resource accounting and the profitability of firms in hospitality, restaurant and communication media related services in Nigeria.

The remainder of this empirical paper is organized as follows. In the next after the introduction is the review of related literature, which contains the theoretical framework concept, empirical studies and hypotheses. Section three is the methodology in it is the research design, data collection method and statistical analysis with model specification. Section four consists of econometrics results and discussion. Section five offer conclusion, recommendations, limitation and suggestion for further studies.

Theoretical framework and Hypotheses

Since there is a great heterogeneity of theories and approaches to human resource accounting, discussion in this article is based on a comprehensive analysis of the resources based theory of the firm blends concepts from organizational economics and strategic management (Barney, 1991). A fundamental assumption of this view is that organizations can be successful if they have and maintain competitive advantage (Porter, 1985). Competitive advantage is attained by implementing a value-creating strategy that competitors cannot, easily copy and sustain (Barney, 1991) and for which there are no ready substitutes.

For competitive advantage to be attained, two conditions are required. First, the resources available to competing firm must be variable among competitors, and second, these resources must be immobile (i.e. not easily obtained). Three types of resources available to organizations are:
Physical (Plant; Technology and Equipment; Geographical location), Human (Employees' experience and Knowledge); and Organizational (structure; systems for planning, monitoring, and controlling activities; social relations within the organization and between the organization and external constituencies) Human resource management greatly influences an organization's human and organizational resources and so can be used to gain competitive advantage (Schuler & Macmillan, 1984).

Presumably, the extent to which human resource management can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate. For example, in some industries, technologies can substitute for human resources, whereas in others the human element is fundamental to the business to illustrate contrast labour intensive and knowledge intensive industries. The latter context may be more conducive to the use of human resource management as a means to gain competitive advantage.

Conceptual Review
In the economics literature, human resource/capital refers to the productive capabilities of people (Becker, 1964). Skills, experience, and knowledge have economic value to organizations because they enable it to be productive and adaptable. Thus, people constitute the organization’s human capital (Bassey & Arzizeh, 2012).

However, there have been controversial issues of human capital reporting on whether it is value relevant to be considered as asset, even though its association with company’s expected future benefits is not certain. Some group considered it as what people owned from learning, experience and skill while another group delineated it as human capability that is directly linked to the work (AL Maani & Jeradat, 2010).

The chartered institute of management accountants noted that all drivers of performance and value should be provided to investors including the non financial ones such as intangibles (Starovic & Marr, 2003). The financial Accounting Standard Board addressed this issue by encouraging business to voluntarily disclose information regarding their intangibles and intellectual capital (FASB 2001). Syed (2009), examined the relationship between corporate characteristics and human resource accounting disclosure and concluded that companies with higher profitability intended to disclose more human resource accounting information.

Accounting profession has required that the cost of each type of intangible asset should be amortized by systematic charges to income over the period estimated to be benefited (AICPA, 1970). Brummet (1970), listed four reasons that contribute to reluctance to measure human resources. The first reason is cultural constraints and taboos that prevent us from associating the money unit to measure people. He stated that "this is unfounded and surely irrational objectives. It may reflect a fear of behavioural reactions which we do not understand and have not given adequate attention". The second reason is people are not owned by an organization and therefore should not be placed on the balance sheet. But he believes that the accountant should monitor those assets which are most significant to their legal ownership status.

Another constraint is the visibility bias, when machines are refurbished. The results can be seen in the form of better production and longer useful life. The costs to refurbish the machines are capitalized and looked upon as an investment. Brummet (1970), feels that there is a hung-up on visibility and that any cost relating the improving human resources (training and development program) will result in future pay-off just as in the case of a machine, those costs should be recognized by capitalization and matched against benefit received.

The fourth reason is the necessity for an interdisciplinary. He believes that interdisciplinary approaches are necessary for solving problems in human resources innovative approaches for providing management with reliable information for decision making. In essence, it may be argued that human resources have not been entirely ignored in current accounting theory and practice. On the other hand, it can also be observed that there are numerous limitations imposed by existing conventional accounting practices for not providing an adequate solution toward explicitly recognizing the human assets and their changes in value in accounting reports. In general, considerable recognition has already been given to the importance of human assets with regard to evaluate the performance of the entity. Thus, a case can be made for “employee service resources which have potential to provide economic benefits to the firm for more than one period can justifiably be heated as assets" within the traditional accounting framework of an asset (Jaggi, 1976).

Empirical Review

Syed (2009) also confirmed in his study conducted on quoted companies in Bangladeshi that there is a relationship between Human Resource Accounting Information (HRAI) and company size. According to him, the result of the study shows that company size significantly associated with Human Resource Accounting information (HRAI), which led to the conclusion that larger companies with higher market value disclose more HRA information than the smaller companies. The possible reason for this result, according to him, could be that large companies are motivated to disclose more human resources accounting information in their annual report to uphold their market value. The study further reveals that the financial companies are disclosing more human resource information than nonfinancial companies and that company’s profitability positively influences companies to report the information in their annual report.

The study conducted by Ahangar (2011), reveals that the performance of a company’s intellectual capital can explain profitability and productivity. The study specifically reveals that Human Capital Efficiency (HCE), Physical Capital Efficiency (PCE) and Assets Turnover Ratio (ATR) significantly influence the company performance as measured by growth in sales. It also confirmed that Human Capital is more efficient than structural Capital in terms of value creation efficiency.

Also, the study of Rehman, Rehman, Rehuman, & Zaliad (2011**),** confirmed that Human Capital efficiency has significant relationship with financial performance’s Returns on Capital Employed (ROE) and Earnings Per Share (EPS). Their study specifically revealed that, one of the important components to strengthen the intellectual capital performance is Human Capital Efficiency. This means that, investing more to boost the employees’ productivity would increase the human capital efficiency of employees. This could imply that performance of an organization depends on its human capital.

Micah, Ofurum & Ihendinihu (2012**),** also conducted a study on the relationship between firms’ financial performance and human resource accounting disclosure of companies in

Nigeria. Five years financial data from 2005-2009 of fifty two companies across all sectors as listed on the Nigeria stock exchange fact book of 2005-2009 were extracted using simple random sampling techniques. Descriptive, correlation and regression statistical techniques were used in analyzing the data. Their findings show that the combined effect of Firm Financial Performance accounted for 75.9% of the variation in Human Resource Accounting Disclosure (HRAD) with an F– ratio 3.581 being significant at 5% confidence level. The positive correlation between Return on Equity (ROE) and Human Resource Accounting Disclosure (HRAD) suggested that an increase in return on equity encourage firm in reporting human capital information so as to establish trustworthiness with stakeholders; enhance external reputation, appear legitimate in the public eye and avoid cost for non legitimacy.

They concluded that human resource accounting information of an organization is very important factor for decision makers in an era of knowledge based economy. They recommended among others that regulatory intervention in the accounting standard setting process for human capital reporting in Nigeria. Standard should be created for human resource identification and measurement. This, they said will enhance valuation of human capital, ensure a higher degree of utility to stakeholder, uniformity in disclosures and will allow reliable comparison of human capital values.

The work of Akintoye (2012**)** using the Skandia Model of Intellectual Capital of value creation was extensively reviewed to justify the need of evaluating intellectual capital in organizations. Oceanic Bank Plc was used as a case study. He adopted the Lev and Schwartz model to determine the value of human resources. Simple linear regression was used to analyze the impact of human resource to effective financial reporting using investment in human capital, profitability and capital employed. Secondary data obtained from the annual reports and accounts of Oceanic Bank Plc from 2002-2006 was used.
His study discovered that human resource has a positive effect on the profit and capital employed by the bank. He was recommended that the likely length of time an employee will spend in an organization should be considered during recruitment and such estimated human resource be capitalized and amortized overtime.

Sharma (2012) also confirmed that organization's performance depends on the quality of human resources by stating that, the success of any organization depends on the quality of its human resources whether it belongs to manufacturing, service or a retail outlet. She further buttressed this fact by stating that organizations' human resources are important assets that are used to increase productivity, earning capacity, increasing wealth and profit, market value and economic valued addition. Although, the physical assets could be important, they are to complement human assets when it comes to issues of performance because physical assets can neither think nor decide. It is the human asset that does the thinking and deciding, making use of the physical resources to channel the course of organization.

Enofe., Mgbame., Otuya & Ovie (2013), examined the relationship between firms' financial performance and human resources accounting disclosures on one hand, and the differences in human resources accounting disclosures reporting level between financial sector and non-financial sector companies quoted in the Nigerian Stock exchange. They made use of secondary sources of data in eliciting the required information needed for their work. Their sample size consisted of fifty (50) listed firms randomly drawn from all sectors in Nigeria. Multiple Regressions was used to analyze the possible relationship between firm financial performance and Human resource Accounting Disclosure in Nigeria, using the statistical package for social science (SPSS) version 15.0.The study fine out that a positive relationship exists between the financial performance of a company and its level of Human Resource Accounting Disclosure. The study also indicates that financial companies are disclosing human resources accounting information more than non financial companies and that company's profitability positively influences companies to report the human resources accounting information in their annual report.

Ifurueze., Odesa & Ifurueze, P (2014), examined the relationship between the aggregated cost of human resource and organizational profitability on one hand and the effect of the disaggregated cost of human resources on organization profitability. Their data was from internal source using a structured information card and annual financial report. Regression analysis was used. Their findings show that there is a positive relationship between profitability and human resource cost, and that changes in profitability can be explained when the expenditure on human resource are segregated into revenue expenditure and capital expenditure. Their study recommended amongst other, that BETA NIG PLC should imbibe the culture of capitalizing and reporting all investment on human resource that improve the quality and productivity.

Akindehinde., Enyi & Olutokunbo (2015), confirmed that Human beings are the most critical assets in any organizations as established in the available literatures. They drive other organizations' resources to achieve success. They noted that currently, human assets is not being accounted for or disclosed in the organizations' statement of financial position like other physical assets and intangible assets. Hence, their study investigated the likely effect of human asset accounting on the performance of business organizations in Nigeria. The empirical study adopted is Ex-post facto research design, conducted on all 18 publicly quoted banks in Nigeria capital market. Their instrument of data collection was questionnaire designed on a six steps Likert Scale and validated through peer review with Cronbach Alpha Coefficient of 0.807 and 0.870 for Human Asset and Organization Performance respectively. Their hypothesis was tested using simple regression model. The result of their analyses confirmed that human asset accounting significantly affects the banks' performance at F-ratio = 56.280, $P \leq 0.05$, R2 =0.193. They concluded that capitalizing human assets would positively impact on performance of organizations and recommended its disclosure as intangible asset in the balance sheet.

Akintoye., Awoniyi., Jayeoba & Moses (2015) examine the effect of adoption of IFRS on Human Resource Accounting Disclosure (HRAD) in the financial statements of banks in Nigeria. Data for HRAD for 11 Nigerian banks were obtained through content analysis of financial statements for 2009-2013. They modified 15 item index constructed by Syed (2009) to measure HRAD practices. On the data obtained, pre-estimation technique was employed through descriptive statistics, then the test of equality between two means was carried out through ANOVA, and finally before running the regression analysis to ascertain the effect of IFRS adoption on HRAD, the hausman test was done to determine whether random effect estimation will be good or not. The ANOVA test revealed that there is no difference in the means of HRAD of financial statements prepared under SAS compared with HRAD of financial statement prepared under IFRS for the period pre and post adoption of IFRS in Nigeria. Furthermore, the regression analysis indicated that adoption of IFRS has an insignificant effect on HRAD practices. They concluded that the general assumption of IFRS providing all inclusive disclosures in all aspect is a myth and in reality HRAD is a developing aspect of accounting; that even IFRS is yet to imbibe into its extensive disclosure requirement. Therefore, they recommended that separate standards should be established for HRAD practices since it is a vital aspect of financial reporting and its disclosure should not be overlooked.

Edom., Inah & Adanma (2015), examined the impact of human resource accounting on the profitability of Access Bank of Nigeria Plc, from 2003 to 2012. Using the ordinary least square analytical technique, secondary data from Access Bank of Nigeria Plc were obtained. Their findings revealed that there is a positive relationship between the indicators of human resource cost (training cost, development cost and number of staff) and the profit of the organization (Access Bank Plc). It was also discovered that there was a significant relationship between training cost, development cost and the profit of the bank. However, they noted that, the number of staff does not have a significant effect on profit of the bank. They therefore recommended inter alia that; organization should enhance the retention of education and training on staff so as to avert wastage of knowledgeable investment. Also, accounting standard board should incorporate accounting standard for the valuation and disclosure of human resource accounting.

Onyekwelu., Osisioma & Ugwuanyi (2015), also examine the Impact of Human Capital Accounting (HCA) on financial performance and market valuation using four publicly quoted companies (banks) in Nigeria. They presented a comparative analysis between the current accounting practice of corporate valuation (net worth) and what it should be if investments on human capital are treated as assets, capitalized and amortized over the useful life span of the assets. Data for their study were sourced through questionnaire which was administered to randomly selected respondents of accountants of management cadre. Secondary data were sourced from the annual financial statements of five selected firms, relevant textbooks and the internet. Data were analyzed using percentages and Chi-Square statistical test.

Their study reveals among others that there is a significant increase in firms' net worth when investments on human capital are treated as assets and capitalized as against the current practice where such expenditures are treated as mere revenue expenses thereby leading to gross undervaluation of firms' Statement of Financial Position (Balance Sheet) and the Income Statement (Profit and Loss Account). They recommended that investment in human capital should be treated as asset and so amortized over the expected period of service while the current practice of writing-off the annual investment on human capital from the year's income statement should be discouraged as the practice grossly undervalues firms. Their submission was relevant regulatory bodies such as Financial Reporting Council of Nigeria, SEC, CBN, NDIC and so on are implored to make laws that will compel quoted firms to compulsorily integrate HCA in their financial reports.

Hypotheses

The foregoing empirical and cum theoretical analysis provides the context for two vital hypotheses that under-study the effect and direction of staff remuneration on net operating profit and return on capital employed in Nigeria, formulated in the null form, to wit:

H_{o1}: There is no significant relationship between staff remuneration and net operating profit of firms in Nigeria.

H_{o2}: There is no significant relationship between staff remuneration and return on capital employed of firms in Nigeria..

Research Methodology

The observational examination concerning the connection amongst staff remuneration on net operating profit and return on capital employed of cit firms in Nigeria depends on an ex-post facts inquire about outline ex post facto is a semi test ponder inspecting how an autonomous variable, display preceding the investigation influence a reliant variable (Kowakzyk, 2016). The population of the study comprised of thirty quoted firms in Nigerian Stock Exchange from where selected nine quoted firms are utilizing the arbitrary inspecting procedure (Nwaiwu, 2018). In line with previous studies (Micah; Ofurum & Ihendinihu, 2012; Ihendinihu & Nwokocha 2015; Nwaiwu, 2016), financial data on staff remuneration, net operating profit and return on capital employed of selected firms were extracted from the period 2011-2015.

Data collected were analyzed using Pearson product moment correlation coefficient, multiple regression and ordinary least square with the aid of "statistical package for social science (SPSS) version 20 was used.

Model Specification

The model specification in based on the theory that human resource accounting aid financial performance of Nigeria. We generated three powerful models such as functional, mathematical and econometrical to achieve the effect of staff remuneration, operating net profit, and return on capital employed.

Functional Model

Nor = ∫(SR) - - - - (1)

ROCE = ∫(SR) - - - - (2)

Expanding functional model into mathematical equation, thus:

NOP = $\alpha_o+\beta_1SR$ - - - (3)

ROCE = $\alpha_o+\beta_1SR$ - - - (4)

Econometrical Equation

OP = $\alpha_o+\beta_1SR+e$ - - - (5)

ROCE = $\alpha_o+\beta_1SR+e$ - - - (6)

Where; ROCE = Return on Capital Employed. NOP = Net Operating Profit. SR = Staff Remuneration. α_o = Intercept of the regression line. B_1 = Coefficient. e = Error term.

Empirical Results and Discussion

Data Presentation

Table 1 **Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Net operating profit	45	-4098450.00	8792790.00	410256.0222	2094779.51816
Return on capital employed	45	-11671493.00	9.73	-259366.2821	1739883.48470
Staff remuneration	45	4440.00	2905022.00	557194.6222	614842.18637
Valid N (list wise)	29				

It can be discovered that the average NOP is N410256.02, with standard deviation of approximately N2094779.51, with a maximum value of N8792790.0 and minimum of N-4098450. Also, the average ROCE -N259366.28 with standard deviation of approximately N1739883.48. The maximum ROCE N9.73and the minimum ROCE N11671493. (-ve). The average SR N557194.62 with standard deviation of approximately N614842.18. The maximum SR N2905022.0 and the minimum SR N4440.0.

Bivariate Analysis

This shows the level of association between employed variables and the direction of movement amongst them. The table 2 below is extracted from the SPSS statistic 20.0 output (see appendix i).

Table 2: Extract of the Correlation Matrix of the Explanatory and Response Variables

Variables	NOP	ROCE	SR
NOP	1		
ROCE	.004	1	
SR	.191	.009	1

Notes:
*** Correlation is significant at the 0.01 level (2-tailed).*
** Correlation is significant at the 0.05 level (2-tailed).*

From the table above, However, SR has a positive and insignificant correlation with firm performance variable. The output revealed r =. .191 and sig. = .209. This revealed that HRAD does not meaningfully and significantly improved net operating profit and return on capital employed.

Data Analysis
Multivariate Analysis
Table 2: Extract of the Model specified (model 1 – V1)

NOP = **$\alpha + \beta 1SR + e$ ……………………………… 1**

	R^2	Beta	t	Sig. (2-tailed)
SR	.036	.191	1.276	.209

ROCE = $\alpha + \beta 1SR + e$ …………………………11

SR	.000	.009	.060	.952

Test of Hypotheses

Hypothesis one states that there is no significant relationship between staff remuneration and net operating profit of firms. Judging from the regression result above, staff remuneration (beta= .191 t = 1.276 sig. = .209) has a positive relationship with net operating cost but was not significant at 0.05% level. The null hypothesis was accepted.

Hypothesis two states thus "There is no significant relationship between staff remuneration and return on capital employed of firms". The result above revealed that although staff remuneration (beta= .009 t= .060 sig. = .952) was positive with return on capital employed, but was not significant at 0.05% level. The null hypothesis was accepted.

Concluding Remark and Recommendations

In line with the analysis and testing of the hypotheses, the study concludes as stated below that:

1. Staffs are not being compensated adequately and as such, their impact is not being felt in terms of their operating profit.
2. Staff remuneration has no significant influence on return on capital employed.
3. Staff development cost has no significant influence on net operating profit of firms.

From the findings above, the following recommendations were made:

1. Staff should be well compensated in terms of reward so as to bring out the best in them.
2. Management should make retirement benefits attractive so as to attract best brain to their respective firms and establishment.

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