The Impact of Human Capital on Firms' Performance in Nigeria

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ABSTRACT

The study examined the impact of Human Capital on firms' performance in Nigeria considering Deposit Money Banks. The selected deposits money banks are United Bank for Africa (UBA) Plc, First Bank Nigeria Plc, Wema Bank Plc, Zenith Bank Plc, Guaranty Trust Bank Plc, First City Monument Bank Plc, Fidelity Bank Plc, Diamond Bank Plc, Eco Bank Plc and Access Bank Plc in Nigeria. The study adopted Ex-Post Facto research design since it relied on secondary data using panel data. The target population for this study is focused on the ten deposit money banks five years financial reports spanning over 2011 - 2015. In this study, a purposive sampling technique was used to select the deposits money banks from the financial service sector of the quoted companies of the Nigerian stock exchange as at September 2015. From the findings of the study, it is concluded that the inclusion of Human Capital as asset in the financial reports makes the reports more relevant for decision making compared to the conventional way of reporting. Thus, expenditures on human resource like those relating to training, education, welfare, recruitment, selection, contribution to pension fund, and subsistence allowance are better accounted for when they are capitalized rather than expensed. Therefore, it is a necessity to capitalize them. In recommendation; International Accounting Standard Board should consider human resources accounting as an inclusion of non-current asset. Further research should expand the sample, period of study and explore qualitative research.

Keywords: Human Resources Accounting, Human Capital, Intellectual Capital, Financial Reporting

INTRODUCTION

The global economy has for the past few decades witnessed gradual transition from industry based environment; with a focus on physical assets such as factories, plants, machines and equipment; to a high technology, information, and innovation based environment, which focuses on the expertise, talents, creativity, skill, dedication and experience of people in the organization-the organization's intellectual capital. Enyi and Adebawojo (2014) notes that given the growing importance of human and intellectual capital to economic success at both the macroeconomic and enterprise levels, the nature of investments made by firms need to shift to reflect this reality. It is being contended among scholars that adequate investments are not being made on intellectual capital in line with its growing importance in organizations today.

Human capital also known as human resource has been severally referred to as a key factor of production. Many organizations have explicitly acknowledged the vital place of their human capital by designating it as their most valuable assets. Human capital is considered veritable because the human capital is indispensable in the success of any organization as it controls and coordinates the other factors of production. There are so many methods available to measure the success of physical capital and assess its impact on financial performance. For measuring the effectiveness or efficiency of the use of the physical capital the well-known conventional tools like profit, return on investments (ROI), return on equity (ROE), and return on assets (ROA) can be used.

Statement of the Problem

The conventional financial reporting practice has over the years failed to classify the very huge investments incurred on staff recruitment and other related expenses in the Financial Position as Non-current Assets to be amortized as appropriately. Employees are often spoken as assets, but are generally treated as costs because there is no credible system of valuing then as cited in Mayo, 2006.

Aim and Objectives of the Study

The main objective of this study is to examine the impact of Human Capital on firms' performance in Nigeria. The specific objectives of the study are:

i. To examine the impact of Staff Salaries on firms' profitability in Nigeria.
ii. To assess the impact of Directors' Emolument on firms' profitability in Nigeria.

The Statement of the Hypotheses

The following null hypotheses are formulated for this study:

$\mathbf{H_1}$**:** Staff Salaries has no significant influence on firms' profitability in Nigeria

$\mathbf{H_2}$**:** Directors Emoluments has no significant on firms' profitability in Nigeria

LITERATURE REVIEW

Conceptual Review

Concept of Human Resource Accounting

The concept of Human Resource Accounting also known as Human Capital Accounting (Amah, 2006) is based on the premise that an organization's employee should be considered as one of its primary assets on the same basis as its plants, equipment and other physical assets. According to Adebawojo et al. (2015) Human Resource Accounting (HRA) involves accounting for the company's management and employees as human capital that provides future benefits. "Human Resource Accounting (HRA) is the human resources identification and measuring process and also its communication to the interested parties." Human Resource Accounting (HRA) is one of the latest concepts adopted by companies in recent times particularly in India. Most of the enterprises which follow Human Resource Accounting spare a separate section in their annual reports for a detailed account of their human resources. Human asset reporting in India usually includes a profile of human assets, the compensation pattern, training and development, human asset productivity, human asset value, and the total wealth of the organization. The concept of human resource accounting can be basically examined from two dimensions: the investment in human resources; and the value of human resources. The expenditure incurred for creating, increasing, and updating the human resource quality is known as investment in human resources. Such investment yields fruitful results like higher productivity and higher income to the organization.

Concept of Human Resources Development

Adebawojo et al. (2015) defined Human Resources Development as the framework for helping employees develop their organizational skills, knowledge and abilities. Human Resources Development includes such opportunities as employee training, employee career development, performance management and development, coaching, mentoring, succession planning, key employee identification, tuition assistance, and organizations development.

Micah and Ihendinihu (2015) discussing the philosophy of human resource development stated that Human resource development makes a major contribution to the successful attainment of the organization's objectives and that investment in it benefits all the stake holders of the organization.

Concept of Organizational Performance

Generally, performance could be regarded as one of the key determinant factors that are widely used in measuring the success or failure of organizations. Although several research works had been carried out on performance related issues as it affects organizations or firms but its definition has been challenging to researchers. According to Perera and Thrikawala, (2012) performance is probably the most widely used dependent variable in organizational research today, yet it remains one of the most vague and loosely defined constructs. They further confirmed that the struggle to establish a meaning for performance has been ongoing for many years and it is not limited to the field of strategic Human Resource Management (SHRM).

Thus performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Zehri et al., 2012). Also in the years between 80s and 90s, identifying organizations objectives became more complex than it was originally considered. This made managers to consider organization as a successful one, if such organization is able to accomplish its goal (effectiveness) using minimum resources (efficiency).

THEORETICAL REVIEW

External Financial Reporting Theory

The theories of external financial reporting have been categorized into two broad groups: descriptive and normative. While descriptive theories attempt to set forth and explain what and how financial information is presented to users of accounting data, the normative theories attempt to prescribe what data ought to be communicated and how they ought to be presented (Jacob and Sherine, 2013).

Human Capital Theory

The theory has its root from labour economics which is a branch of economics that focuses on general work force in quantitative term. The theory postulates that expenditure on education or training and development is costly, and should be considered as investment since it is undertaken with a view to increasing personal incomes. On the other hand, specific skills provide value only to a particular firm, and such skills are of no value to competing firms. An instance of this is the knowledge of how to use a particular technology used only by one firm, or knowledge of a firm's policies and procedures provided to that firm, but usually would not be valuable to other firms.

THEORETICAL FRAMEWORK

This study adopted human capital theory based on the assertion that education or training raises the productivity of workers by impacting useful knowledge and skills.

The relevance of the theory to this study is that it considered the cost of education, training, development and even workers' medical treatment as investments towards improved productivity of individual workers and also creates a sort of competitive advantage which ultimately could result in improved organizations performance. However, the position of this study is that education or training and development will not only increase employee personal income, it will also serve as a means of achieving corporate competitive advantage which reflects ultimately in organizational performance

Empirical Review

Enyi and Adebawojo (2014) examined the effect of Human Resource Accounting on the decision making process and business valuation method on the premise that firms in post industrial economy operate within a competitive economic environment which require timely, effective and efficient decisions to ensure success and survival. The study which is empirical was carried on 16 publicly quoted Nigerian Banks.

Okpako et al. (2014) examined the relationship between human resource accounting and firm performance. Their study conducted a survey on seven (7) companies quoted on the Nigeria Stock Exchange. The study used primary data and secondary data. 260 questionnaires were distributed and 246 questionnaires were retrieved on the companies targeted at the staffs of human resource, accounting, and audit/internal control departments which were considered to be the relevant departments for their study.

Mustafizur et al. (2013) stated that the idea of Human Resource Accounting (HRA) has been a debatable issue by academicians, accountants and standards setters universally. Their study critically assesses the concept of HRA in order to unveil its strengths and weaknesses. Descriptive and content analyses were used in collecting data through documented texts, journal articles and other publications.

Jacob and Sherine (2013) emphasized that Human Resources are important assets of an organization. However, there is no legal regulation for accounting human resources in any of the organization’s annual report. Their main aim of this review is to study the benefits of HR practices to the firm. Their review highlights the theoretical definitions for HRA and challenges faced during implementation of HRA measurement models to predict the organization’s performance. The Human Resource Accounting was explained as “the process of identifying and measuring data related to human resource and communicating this information to interested parties” as cited in American Accounting Association’s Committee on Human Resource Accounting 1973.

Micah and Ihendinihu (2012) examined the relationship between firms’ financial performance and human resource accounting disclosure of companies in Nigeria. They considered 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.

Adebawojo et al. (2015) stated that human beings are the most critical assets in organizations as established in the available literatures. Human being drives other organizations’ resources to achieve success. Currently, this most important asset 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.

Perera and Thrikawala (2012) investigated the impact of investment in human capital on financial performances of the companies in Sri Lanka using information contained in the financial statements of listed companies under Colombo Stock Exchange for the period of 2 years from 2009 to 2010. Sample of the study was selected as 40 companies listed under Colombo Stock Exchange. Data analysis was carried out with aid of SPSS (Statistical Package of Social Sciences). Their findings revealed that there is a significant relationship between investments in human capital and firm financial performances (0.021).

Zehri et al. (2012) examined the relationship between intellectual capital and business performance from the standpoint of financial performance, the marketplace and economics. Their study empirical use a sample of 25 companies listed on the stock market in Tunisia using a panel’s data.

METHODOLOGY

The study adopted the Ex-Post Facto research design since it relied on secondary data using panel data to establish the meaningful relationship between the human capital accounting and organizational financial performance. The target population for this study is focused on the ten deposit money banks considering five years financial statements spanning over 2011 - 2015. A sample of ten deposits money banks quoted on the Nigerian Stock Exchange will be selected randomly from the fifteen deposits money banks listed on the floor of the Nigerian Stock Exchange. In this study, a purposive sampling technique was used to select the deposits money banks from the financial serve sector of the quoted companies of the Nigerian stock exchange.

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Presentation of Results

Table 4.1

Dependent Variable: Profit After Tax				
Method: Least Squares				
Included observations: 5				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Staff Salaries	6.304963	4.398104	1.433564	0.0288
Directors Emoluments	-5.449169	12.14345	-0.448733	0.6976
C	47.09437	72.43982	-0.650117	0.5823
R-squared	0.566645	Mean dependent var		43.04000
Adjusted R-squared	0.133290	S.D. dependent var		18.16163
S.E. of regression	16.90798	Akaike info criterion		8.777158
Sum squared resid	571.7597	Schwarz criterion		8.542821
Log likelihood	-18.94290	Hannan-Quinn criter.		8.148220
F-statistic	1.307577	Durbin-Watson stat		2.814044
Prob(F-statistic)	0.433355			

Dependent variable: PAT ***significance at 5%**

Source: Researcher's E-view 7.0 Regression Analysis (Output), 2020

Estimated Model: $PATit = \beta_0 + \beta_1 SSit + \beta_2 DEit + \mu it$

Test of Hypothesis 1

Research objective 1: To critically investigate the impact of staff salaries on firms' profitability in Nigeria

Research question 1: To what extent will staff salaries influence firms' profitability in Nigeria?

Research Hypothesis 1: H_1: Staff Salaries does not contribute significantly to firms' profitability in Nigeria.

Interpretation of Results

One of the main variables of interest which is on staff salaries is positively and significantly impacts profit after tax. Its value of 6.30 implies that while keeping constant expenses on directors' emoluments, a percentage increase in expenses on staff salaries brought about 6.30% increases in the profit of the firm. Also, the coefficient (β_1) is statistically significant in this model.

Decision: The probability value of expenses on staffs is 2.88 percent which is less than the level of significant at 5 percent indicating that the staff salaries is statistically significant in the model.

Therefore, we reject the null hypothesis that states that expenses on Staff Salaries does not contribute significantly to Profitability of deposit money banks in Nigeria and we accept alternative hypothesis that states that expenses on staff salaries contribute significantly to profitability of deposit money banks in Nigeria.

Test of Hypothesis 2:

Research Objective 2: To critically investigate the impact of Directors' Emoluments on firms' profitability in Nigeria.

Research Question 2: To what extent will Directors' Emolument influence firms' profitability in Nigeria?

Research hypothesis 2:

H_2: Directors' Emolument does not contribute significantly to firms' profitability in Nigeria.

Interpretation of Results

The expenses on directors' emoluments negatively impacts the profitability of the deposits money banks, as a percentage increase in directors emoluments leads to 69.76% decrease in the profitability of the selected deposit money banks in Nigeria while holding other variables constant. Also, the coefficient (β_2) is not statistically significant in this model.

Decision: The probability value on directors' emolument is 69.76 percent which is higher than the level of significant at 5 percent indicating that directors' emolument is not statistically significant in the model.

Therefore, we reject the alternative hypothesis that directors emoluments does not contribute significantly to Profitability of deposit money banks in Nigeria and we accept alternative hypothesis that states that directors emoluments contribute significantly to profitability of deposit money banks in Nigeria.

SUMMARY AND CONCLUSION

This study investigated whether Human Resources accounting explain a financial performance in the Nigeria banking sector. Specifically, the study focused on the investigation into the effect of Human Resources indices on financial performance of selected banks in Nigeria. The banks' financial performances were examined using profitability. Profitability was measured by Profit After Tax. Both the questions and the hypotheses dealt with the effect of the different aspects of intellectual capital on banks' financial performance. In respect of the research questions and the hypotheses, the results as shown in table 4.1 showed the analysis of the different effects of intellectual capital on financial performance in Nigerian banks. The findings of the study are summarized as follows: 1. that there is a strong significant and positive relationship between the staff salaries and profitability level of deposit money banks in Nigeria. 2 that directors' emoluments also showed strong significant and positive relationship with profitability of deposit money banks in Nigeria. For further study, we suggested that the sample size be extended and period of study to cover post pandemic era and qualitative research should also be examined in this area of study.

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