Human Resources Accounting Disclosures in Nigeria Quoted Firms

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Abstract

This study was carried out to ascertain 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.The study made use of secondary sources of data in eliciting the required information needed for this research. The 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 finds 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.

Keywords: Human resource, financial performance, disclosures.

Background to the Study

Human Resource is a term which refers to the set of individuals who make up the workforce of an organization or a business entity. According to Syed (2009), it comprises 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 success of any organization depends on the ability of the human resources to effectively and efficiently optimize other resources such as land, equipment and money hence human resources are the greatest assets at the disposal of businesses. This is why the statement "our greatest assets are our people" is declared in most companies' annual reports.

Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. Okpala & Chidi (2010), explain that human resource accounting relates to the quantification in monetary terms of human resources employed by an organization and assert that a well-developed system of human resource/capital accounting could contribute significantly to internal decisions by management and external decisions by investors.

The work of Bassey & Tapang (2012) points to the fact that human resources .have been identified as one of the main sources of competitive advantage by many organizations in today's economy. Particularly, the private sector organization is widely diverse and has focused on human resources as having special strategic value for organization development. Abdullahi & Kirfi (2012) maintain that the quantification of the value of Human Resources helps the management to cope up with the changes in its quantum and quality so that equilibrium can be achieved in-between the required resources and the provided human resources. As a result, it becomes imperative to put measures in place to effectively manage people with their needs and expectations to enhance productivity. Therefore, proper appreciation of human resource accounting will enable managers take appropriate decisions regarding investment in human resources. It will also provide comparative information regarding costs and benefits associated with investments in human assets.

Statement of Problems

Though the idea of accounting for human resources started many years back, the concept still lacks general acceptability (Bowers, 1973). Many authors and scholars have conducted researches on how humans within an organization can be valued and reported in the financial statements of such organization.(Schulz, 1961; Hermannson, 1964; Likert, 1967; Bowers, 1973; Flamholz, Bullen & Hua, 2002).   Human resource accounting and reporting by corporate organizations is still at the infant stage in Nigeria. Some of the companies that have invested heavily in human resources and have applied human resources accounting in one way or the other in Nigeria include Unilever Plc, Nigeria Breweries, Cadbury Nigeria Plc, Nestle Foods Nigeria Plc, Access Bank Plc, Zenith Bank Plc, amongst others. The investments by these companies in human capital development are normally not reflected in their balance sheets as assets but expensed in the profit and loss accounts. (Okapla & Chidi, 2010; Micah, Ofurun & Ihendinihu, 2012). The major challenges encountered in the recognition of human

resources as an asset rest largely on its characteristics, quantification in monetary terms and the method of reporting. What are the constraints in the application of human resource accounting by organizations? How significant is the reporting of human resource value as asset in the balance sheet of companies? Do the users of accounting information have anything to gain in this mode of reporting?

Research Questions

    (i)   What is the relationship between a firm's financial performance and human resource accounting disclosure?

    (ii) To what extent does the industry type of a firm impact on its human resource accounting disclosures

Objectives of the study

In line with the research questions, the objectives of this study are to:

    (iii) Determine if there is any relationship between a firm's financial performance and human resource accounting disclosures using return on assets.

    (iv) Ascertain to what extent the industry type impact on the human resource accounting disclosures using financial and non-financial sectors as a case

Research Hypothesis

    The following hypotheses will be tested in the course of this research study:

    Ho1: There exists no significant relationship between firms' financial performance and human resource accounting disclosures

    Ho2: there is no significant difference between human resource accounting disclosures of financial and non-financial sector.

Literature Review

Human Resource accounting has been the focus of much academic research since the late 1960's. This may be attributed to the apparent increasing recognition within the business community of the importance major stakeholders attach to socially and environmentally responsible corporate behavior. It is also pertinent to note that modern economies are moving from production-oriented operations to service oriented operations thereby rekindling interest in human resources accounting.

A number of empirical studies have been conducted on the issue of human resource accounting in corporate organizations. A number of these studies have highlighted the need to capitalize human capital asset in the balance sheet of companies as against being written off as expenses in the profit and loss accounts. Hermannson (1964), in his pioneer work concerning the valuation of human assets attempts to place money value on human capital in the balance sheet. Barney (1991) notes that human resources accounting has helped in solving most personnel related problems in corporate organizations. Barney futher assets that sustainable competitive advantage is attained when the firm has human resource pool that cannot be imitated or substituted by its rivals. Flamholtz, Bullen & Hua (2002) add that there should be long term perspective in managing people and urged that people should be considered assets rather than merely variable costs. Sveiby (1997) argues that corporate organizations acquire human resources to generate future revenues, and therefore human resource should be considered when valuing a company by capitalizing instead of expensing them in the current period. Wagner (2007) in his report entitled valuing a company's innovators, suggested that human capital is one of the intangible assets that investors look for in valuing a company, along with structural capital and relational capital. Wagner concluded that the long-term value of innovative workers is not getting enough attention from companies preparing annual reports for investors. Similarly, 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.

There have been also been some empirical researches on the issues of human resource accounting in Nigeria. Okpala & Chidi (2010) in their work examined the relevance of human capital accounting to stock investment decisions in Nigeria and opine that corporate success now rests on the ability and knowledge of people who can easily adapt to technological changes and drive organization to attain its goals and objectives. They explain that the function of human capital accounting is to provide information which affords investors opportunity to truly evaluate and understand the complete picture of an organization. Kirfi & Abdullahi (2012), view the practice of human resources accounting in Nigerian companies as more of a mirage than reality as human resource is not reported in financial statements. Kirfi and Abdullahi argue that the existing accounting practice lack regard to human resource as an asset and have significantly discouraged the use of any or a combination of measurement technique(s) in quantifying human resource let alone reporting it in Nigeria. Bassey & Tarpang (2012) examined the influence of expensed Human Resources Cost (HRC) on corporate productivity and found that expensed human resources (remuneration, protection and dismissal/ compensation) costs are important determinants of expensed human resources cost and does significantly influence corporate productivity.

Micah, Ofurun & Ihendinihu (2012) also studied the relationship between firms' financial performance and human resource accounting disclosure of companies in Nigeria using five years financial data and found that the combined effect of firms' financial performance accounted for 75.9% of the variation in human resource accounting disclosure.

Methodology
This research utilized the content analysis technique which is a research method for making replicable and valid inferences from data, to operationalise the human resources accounting disclosure variables. The study made use of secondary sources of data in eliciting the required information needed for this research. The secondary sources were based solely on the use of firms' corporate websites and annual reports of selected listed companies in Nigeria and for the period 2007 – 2011.

The sample size consisted of fifty (50) listed firms randomly drawn from all sectors in Nigeria. In this study, human resource accounting disclosure (HRAD) was measured by constructing an index comprising fifteen (15) discretionary human capital disclosure items in line with the methodology adopted by Syed (2009). An HRADI shall be computed by using the following formula:

HRADI = (Total score of Individual company X 100)/Maximum Possible score obtainable.

Table 1: Measurement of HRAD variables.

No	Disclosure Items
1	Separate HR statement
2	Total value of Human Resource
3	Number of Employees
4	Human Resource Policy
5	Training and Development
6	Management succession Plan
7	Employment Report
8	Employees' Value Addition
9	Human Resource Development fund
10	Workers'/Employees' Fund
11	Employees' Category
12	Managerial remuneration
13	Retirement Benefits
14	Performance Recognition
15	Superannuation Fund

Source: Syed 2009.

In this study, Return on Asset (ROA) is measured as Profit before Tax/Average Total Assets. ROA is a measure of profitability that takes into consideration the assets necessary to produce income.

Financial and non-financial sector is measured using banks and other non-banks financial institutions such as insurance companies and pension funds as the financial sector while other companies such as cement, fuel & power, textile, pharmaceuticals & chemical and other companies fall under the non-financial sector. The study therefore will test the hypothesis to ascertain if there is a difference between levels of human resources accounting disclosures and the industry type.

Descriptive statistics in the form of tables, percentages were used to present demographic and other data relating to the study.

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 strength of the relationship between the Independent and dependent variable were ascertained by using Pearson Product moment correlation coefficient "r".

Model Specification:

$$HRAD = f\{FIN, PT\}$$

$$Y_i = \alpha + \beta_1 FIN_i + \beta_2 PT_i + et$$

Here,

Y = Human Resource Accounting Disclosure Index (HRADI)

α = inception of the regression line

β_i = Coefficient (Slope of the regression line)

FIN = (dummy variable) = Financial Institution, value 1 if the company is a financial institution and 2 otherwise.

PT_i = Profitability is measured by the Return on Asset (ROA)

et = error term

Results

Table 2: Level of Human Resources Accounting Disclosures

Score Range	No. of Companies	Company %	Cumulative %
10 – 20	11	22	22
20 – 40	30	60	82
40 – 60	5	10	92
60 – 80	4	8	100
Total	50	100	-

Source: computed by researchers 2013

Table 2 presents the distribution of Human Resource reporting levels in terms of number of items disclosed as percentage of the total disclosure items. The modal class of HR disclosure items 20-40 percent indicates that maximum 30 companies' HR disclosure level is 20 to 40 percent while 11 companies disclose 10 to 20 percent of total disclosure items. The table also shows that the HRAD of around 82 percent of the sample companies are less than 40 percent disclosure items. The remaining 18 percent companies have a HRDI between 40 and 80 percent. It implies that the level of human resource reporting of listed companies of Nigerian quoted companies at the period 2007 to 2011 is very low.

Table 3: Medium of Human Resources Accounting Reporting

Medium of Reporting	No. of Information Reported	Percentage
Profit and Loss Account	28	13
Notes to the Account	137	67
Directors' Reports	12	7
Chairman's Statement	8	3
Value Added Statement	16	8
Profile of Business	5	2
Total	206	100

Source: Computed by researcher, 2013

This table indicates that most companies in Nigeria use the notes to the accounts as the main medium of disclosing information about human resources in their annual report as 67 percent of information reported is disclosed through this medium. It also shows that the profit and loss account is the next most used medium to report human resources accounting as it takes 13 percent of information disclosed. Directors' reports, chairman's statement, value added statement and profile of business are sparingly used as medium of reporting human resources accounting given the percentage of 7,3, 8 and 2 respectively based on the statistics computed by researchers during the period.

Test of Hypotheses

Hypothesis One: There exists no significant relationship between firms' financial performance and human resources accounting disclosures.

Using SPSS version 15.0 to analyze the variables HRADI and Return on Asset, the relationship between Firm Financial Performance and Human Resource Accounting Disclosure shows that the correlation coefficient (r) = 0.863 at 0.05 level 2 tailed . This value is high, implying that a strong relationship exist between Return on Asset and Human Resource Accounting Disclosure. The significant/probability value (PV) = 0.000 < 0.05 level of significance therefore the researchers reject the null hypothesis and accept the alternate and conclude that there is a significant relationship between firms financial performance and human resource accounting disclosures.

Hypothesis Two: there is no significant difference between human resource accounting disclosures of financial and non-financial firms.

In testing this hypothesis, the independent sample t-test was run on SPSS using the financial institutions and non-financial institutions with 1 and 2 entered for them as variables respectively and tested against the HRADI. The result shows a significant value for the independent sample t-test .006 which is less than .05 level of significance.. It does not support our hypothesis that there is no significant difference between financial and non-financial sector average HRADI. We therefore reject the null hypothesis and accept the alternative. It means that average HRADI of financial and non-financial companies are significantly different.

Findings and Conclusion

This study was carried out to ascertain 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.

The study finds that a positive relationship exists between the financial performance of a company and its level of Human Resource Accounting Disclosure.

Further, findings of the study indicate that financial companies such as banks and insurance companies in Nigeria are disclosing human resources accounting information than non financial companies and company's profitability positively influences companies to report the human resources accounting information in their annual report.

The paper also finds that most companies (financial and non-financial) in Nigeria still use the notes to the accounts as the preferred medium of disclosing human resources accounting information. The study also ascertained that the level of human resources accounting reporting in Nigeria is still very low.

Recommendations

From the findings of this study, it could be concluded that human resource accounting is highly significant to firms productivity and financial performance and that human resource accounting in financial reporting is desirable to aid stakeholders in making rational decisions. Based on the findings, it is the opinion of the researchers to recommend that standard should be created for human resource identification and measurement. This will enhance valuation of human capital, ensure a higher degree of utility to stakeholders, uniformity in disclosures and will allow a reliable comparison of human capital values.

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