Human Resource Accounting and its Influence on Organisational Profitability

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Abstract
The study was carried out to investigate the effect of Human Resource Accounting (HRA) on profitability of organisations. The aim was to examine the effect of cost of Human Assets (HAs) on earnings of enterprises. Using Ordinary Least Square (OLS) regression, data on costs of HAs obtained from financial statements (secondary source) of seven agro-allied companies from 2015 – 2019 were analysed. The results reveal a positive and insignificant relationship between costs of HAs (explanatory variables) and profitability of organisations (dependent variable) at 5 percent level of significance. It was concluded that costs of HAs are productive, useful and worthwhile investments that have no negative effect on profitability of organisations. In view of this finding, it was recommended that organisations in Nigeria should invest more in development of human asset as such investment or costs in development of human asset will contribute positively to profitability. However, in view of scanty empirical studies on HRA practice by enterprises in the Nigerian economy, the study suggests that further research be carried out on the extent to which these costs are reported in the financial statements of organisations in compliance with International Financial Reporting Standard (IFRS) and International Accounting Standard (IAS) on its disclosure in financial statements.

Keywords: Human Resource Accounting, Profitability, Financial Statements, Cost of Human Assets, Worthwhile Investment

Introduction
Growth and development of any organisation thrives on how efficiently the resources available to that organisation are harnessed. The harnessing of the physical resources (material, machine and money) in organisations, are done by employees (the human resources) of an entity. For a desired objective of every enterprise, the physical or inanimate resources have be properly channelled by humans or animate resources as the physical resources cannot act on their own. Ordinarily, the efficient and effective utilisation of inanimate resources depends largely on the quality, calibre and character of human resources working on it.

As a system, the state/ condition of any organisation, be it private or public, is a function of human behaviour variable triggered by the level of training and motivation that manifest in employees’ loyalty and capacity to deliver on the set objectives of the organisation. Training and motivation are so important to the extent that an organisation with tremendous physical resources, may fail to deliver on its objectives, if the right human resources to manage its affairs are absent. Thus, Coltz & William (2015) opined
that two firms having identical physical assets and operating in the same environment and market may have different returns due to difference in human assets. Therefore, human resources are valuable assets to an organisation upon which the performance of the other depreciable resources possessed by an enterprise rotates. As an asset, any expenditure incurred in the acquisition and retention of human resources is treated as investment of an organisation. Cost of human resources represents sacrifice (investment) that has to be made to acquire humans for the benefit of an entrepreneur that often translates into or expressed in profitability term (Bukhle & Jannel, 2012).

The cost of HAs also referred to as historic cost has both revenue and capital components (Coltz & William, 2013). For easy and detailed presentation of the cost of financial statements of enterprises, Lynn & Mannila (2015) further classified costs of HA into: (i) Acquisition (ii) Training and development (iii) Welfare (iv) safety and health expenditure. The detailed classification has made it possible for organisations to assign monetary value to investment (cost) in improving the quality of assets in their accounting practice. Assignment of monetary value of HA and its disclosure in financial statement is a morale booster that triggers loyalty, efficiency, productivity and profitability of firms in most developed and developing economies (Matallib & Nour, 2011; Nelsons & Oliver, 2013). Domivey (2016) observed that firms in China, India, Singapore, UK and Japan since the adoption of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) on fair presentation and disclosure in financial statements, have made deliberate efforts to extensively reports and provide information on HAs employed, their utilisation and the accruing benefits. The information provision on HA or human resources of organisation underscore the importance of HA of human qualitative and quantitative variables and benefits in the short and long term.

Unfortunately, Olusaga & Klev (2016) observed that most organisations in developing nations of Africa especially Nigeria, despite the adoption of IFRS and IAS, in their financial statements outrightly do not report on investment in HAs while few others do but scanty information on the cost to improve this critical asset and its effects on the their earnings. Multiple issues/ problems associated with partial disclosure or non-disclosure of values of human assets in financial statements of many enterprises in Nigeria according to Olusaga & Klev (2014), include inability of management to ascertain the rate of depreciation and appreciation of skills of human resources, improper interpretation of contribution of employees to return of capital, misuse of human assets, frequent misunderstanding between employees and managers that trigger unrest, low morale of employees and decrease in productivity that negatively affect profitability. Corroborating Olusaga & Klev (2014), Damodu and Adegoke (2018) summarised that the critical issue that has been confronting businesses in Nigeria is failure of these enterprises to recognise and disclose transparently in their financial statements the value and contribution of their human resources. The multiplier effects of non-provision of information regarding employee value, their maintenance and retention are low morale, high employee turnover and decline in profitability (Damodu & Adegoke, 2018).

Objectives of the Study
The study sought to:
1. Investigate the effect of acquisition cost of human assets on profits of organisations.
2. Examine the effect of training and development cost of human assets on profits of organisations.
3. Determine the effect of safety and health expenditure of human asset on profits of organisations.
4. Find out the effect of welfare cost of human asset on profits of organisations.

**Hypotheses of the Study**
To guide the study, the following hypotheses were formulated:
1. Acquisition cost of human assets has no effect on profitability of organisations.
2. Training and development costs of human assets have no effects on profitability of organisations.
3. Welfare cost of human assets has no effect on profits organisations.
4. Expenditure on safety and health of human assets has no effect on profits of organisations.

**Conceptual Review**
HRA is a process of identifying and measuring data relating to recruitment, utilisation of human resources and communication of this information to interested parties (Brown & Cletus, 2006). The party that is mostly interested in information content of this aspect of accounting is management as it assists in making necessary decisions required to cope with changes that might occur in the quantum and quality of humans in an organisation. Appropriate managerial decision relating to the asset is a tool for attaining a balance between the required and available human assets. The need for a balance in human asset will lead management to make critical decisions such as disengagement, recruitment, training and retention of employees for their efficient utilisation. It is in relation to this efficient utilisation of human assets that Pacillo (2013) viewed HRA as accounting for animate assets in an organisation in order to maximise their utilisation. For maximum utilisation of animate assets, their performance and training requirements have to measured and qualified, thus Lee, Eric & Fedrick (2015) viewed HRA as the measurement and qualification of human organisational inputs and the requirements to bring out the efficiency in the performance of the assets. Performance of human assets will enable management to correctly evaluate the rate of depreciation or appreciation in the skills of the assets. Human assets evaluation using HRA helps management to ascertain positive or negative changes that might have occurred in the assets overtime.

Thus, Laffatti (2011) states that HRA is that aspect of accounting that attempts to identify and report to management, the investment of the organisation in human resources/ assets and the changes that might have happened in the performance of the assets overtime; identification of the changes that have occurred in the performance in the assets will enable management in matching costs of investment in the resources and revenue earned via the utilisation of the assets. Thus, HRA is an art of measuring the economic value of human assets to organisation, a systematic accumulation of information about economic changes in the assets and communication of information to management for better decision relating to employment, retaining and utilisation of the assets (Woodruff, 1973, cited in Olusaga & Klev, 2016). The essence of HRA is for recognition, valuation and disclosure of economic substance of humans in organisation. The valuation and disclosure of the assets is a loyalty and morale booster to employees. To management, it is a tool for manpower planning regarding employment, retention and utilisation of the assets for profitability.
Review of Empirical Studies
Dasari, Chand & Devarapall (2013) conducted a study on human resource accounting methods and practices in India. The study was an exploratory review that brought to fore, the significance of human capital investment in business operations. Evidence obtained from theoretical and empirical studies suggest that HRA contributes significantly to improved performance (profitability) of organisations. Merlin & Augustin (2014) examined the impact of HRA in educational institutions. The aim was to investigate the importance of HRA in organisations particularly in academic institutions. Data for the study were primarily obtained from three (3) academic institutions in India using questionnaire. Results of analysis using chi – square of non-parametric statistics, suggests that HRA creates positive impact on teaching faculties and hence efficiency and performance of teachers.

Cherian & Sherine (2013) did a review of HRA and organisational performance. The aim was to review studies conducted on the benefits of HRA practices in firms. From theoretical review on introduction of HRA, it was discovered that HRA helps organisations in evaluation of human capital/assets that enhances managerial accounting and organisational performance. Chu & Huag (2015) carried out a study on the relevance of HRA in financial reporting of the manufacturing sector in China. The aim was to underscore assets in the financial statements of manufacturing enterprises. Using survey questionnaire, data were obtained from 120 respondents comprising owners and staff of ten (10) manufacturing organisations. The analysis of the data was done using descriptive statistics of mean scores and standard deviation. Findings suggest that HRA has significant positive impact on organisational performance. Mutalib (2016) examined the importance of human capital implementation and disclosure in post International Financial Reporting Standards in Nigeria. The result of one way repeated Analysis of Variance (ANOVA) indicates a significant increase in the trend of human capital in post IFRS due to numerous advantages such as adequate disclosure.

Elumaloltz, Balorr & Gabson (2017) in a study on HRA, assessed the contributions and practical application of HRA in organisations. From literature, it was discovered that though human asset accounting and disclosure in financial statement is critical to employee loyalty, however, there is still a low level of research on the importance of HRA across the globe. The study suggested further research on the contribution of HRA for future development of the emerging field in financial reporting of entities. This study is an attempt to extend the frontier of knowledge in HRA and its effect on profitability of organisations and, therefore, a contribution to knowledge.

Theoretical Framework
The study is anchored on human capital theory propounded by Schultz in 1964 further developed by Becker in 1964. The theory has its roots in labour economics that focuses on general work force in a qualitative term. The theory has two assumptions namely: (1) That education or training raises the productivity of workers by imparting useful knowledge and skills thus, raising workers future income and (2) 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 not only personal income of workers but also as a means of achieving corporate competitive advantage that reflects ultimately in organisational performance. Profitability is a key indicator upon which the performance
of any enterprise is usually measured (Laffatti, 2011: Elumalohz, Balorr & Gabson, 2017). The emphasis of the theory stems from its assumption that investments and valuation of human assets should be disclosed in the financial statement of entities. The theory is, therefore, relevant to this study in Nigerian business environment where many organisations do not report the value of human assets in their financial statements. The theory and evidence from literature on the importance of HRA formed the basis of recommendation of this study to enterprises in Nigeria on the need for HRA.

Methodology

Ordinary Least Square (OLS) method was employed to check the interactive effect of HRA on the profitability of organisations. Secondary data (financial statements) for five years (2015–2019) of seven (7) companies namely: Jamco Food and Beverages Company; Manado Aluminum Industry; Dalami Manufacturing Company; ACCE Ceramic Company, JAYTEE Groups of companies; Alphaco Communication Limited; and Castol Packaging Company - from two states in Nigeria- Kogi and Benue were used. Analysis of the data was done using multiple/regression with the aid of E- view statistical tool. Further Durbin Watson (DC) test was carried out to test the adequacy of the model and also, to detect whether there is auto correlation among the error terms.

Using OLS regression, the equation to test the relationship between profit (y) the dependent variable and X₁ X₂ X₃ and X₄ representing the independent variables decomposed into ACHA, TDCHA, WCHA and SHEHA respectively is represented in econometric form of equation as follows:

\[ P = a + \beta_1 ACHA + \beta_2 TDCHA + \beta_3 WCHA + \beta_4 SHEHA + E \]

where

\( P = \) Profit
\( a = \) Intercept
\( ACHA = \) Acquisition Cost of Human Assets
\( TDCHA = \) Training and Development Cost of Human Assets
\( WCHA = \) Welfare Cost of Human Asset
\( SHEHA = \) Safety and Health Expenditure of Human Assets
\( E = \) Error term

Results

<table>
<thead>
<tr>
<th>Table 1:</th>
<th>Summary of OLS Multiple Regression Analysis</th>
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<tbody>
<tr>
<td>Coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Intercept</td>
<td>-2.4610</td>
</tr>
<tr>
<td>ACHA</td>
<td>-1.38150</td>
</tr>
<tr>
<td>TDCHA</td>
<td>0.00249</td>
</tr>
<tr>
<td>WCHA</td>
<td>-0.01630</td>
</tr>
<tr>
<td>SHEHA</td>
<td>-0.24617</td>
</tr>
</tbody>
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\( R^2 = 0.053 \) \( \text{adjusted } R^2 = 0.051 \)

\( \text{DW statistics } = 2.31 \)

Source: Computation using E– view statistical package.
Discussion of Findings
In the diagnostic test, the calculated DW value of 2.31 greater than the DWu (upper value of DW) of 1.883 indicates that there is no correlation (error), thus, confirming the adequacy or fitness of the model of this study. Using the t-statistics decision rule, the null hypotheses of the study are accepted since the critical value (table value) of t at 2.31 is greater than the calculated values for all the predictor values at 5% level of significance. Thus, ACHA, TDCHA, WCHA and SHEHA have no significant effects on the dependent variable (P). This implies therefore that costs to acquire, train, motivate (welfare) and ensure the safety of human organisational assets are not expenditure that can negatively affect profitability. Rather, the costs are investments that will trigger their utilisation, performance and positive returns (Schultz, 1961; Lee, Erick & Federick, 2015; Pacillo, 2013)

It is sad and rather unfortunate that one of the key reasons for decrease in profitability in many firms in Nigeria according to Olusaga & Klev (2014) is low performance of employees traceable to morale issue. Low morale negatively affects profitability and is largely attributable to non or improper recognition and disclosure of the value of humans in the books of account of these organisations. It should be noted, however, that the correct assessment of the contribution of humans properly recognised and disclosed through the instrumentality of HRA has been the tool that has triggered employee loyalty, performance and profitability of firms across the globe (Elumaloltz, Balorr & Gabson, 2017). In fact, reporting costs of human assets in financial statements of an enterprise which is rare in Nigeria according to Olusaga & Klev (2014) and Damodu & Adegoke (2018) is a way of measuring the economic value of humans to the organisation and not necessarily as expenditure that reduces profit. The key objective of HRA is to assign value to human resources and presenting same in the books of accounts of the reporting entity.

Further, from the empirical evidence, the low value of the coefficient of determination ($R^2$) at 0.053 shows that only about five (5) percent variation in the profits of organisations are explained by the predictor variables while a greater portion of the variation (95 percent) are explained by other factors. Similarly the adjusted $R^2$ value of 0.051 indicates that only about five percent changes in the profit of the enterprises are explained in the model after all necessary adjustments are taken care of. This implies, therefore, that cost of acquisition (recruitment), training, welfare, safety and health are not cost per se or expenditure that can account for any negative variations in profits of entities but rather, they are investments in assets. When the assets are properly taken care of, their high morale, loyalty and performance will positively affect profitability. Proper investment in human assets is a profitability enhancer (Cherian & Sherine, 2013; Elumaloltz, Balorr & Gabson, 2017).

It is in recognition of the importance of human assets and the need to disclose their value in financial statements that many enterprises in advanced nations according to Matallib & Nour (2011) and Nelson & Oliver (2013) in compliance with IFRS requirement have been reporting on the value of humans in their financial statements. Sadly enough, the recognition and disclosure of the value and contribution of humans is yet to be given the desired prominence in the financial statements of enterprises in Nigeria (Olusaga & Klev, 2014; Damodu & Adegoke, 2018).
Conclusion and Recommendations

Development of HRA practice in an enterprise constitutes an essential pre-requisite and a key factor in sustaining continuous evaluation of effects of costs of improving the quality of HA on earnings. Since investments in the assets usually expressed in the cost terms (cost to improve quality) are productive, useful and income/profit yielding ventures to organisations, the cost of providing and improving the quality of the assets have no negative effect on profitability, but positively affect/impact earnings of firms. It is with this that the following recommendations are put forward:

1. Cost value information relating to acquisition and maintenance of HAs or HR in the financial statements and annual reports in public and private enterprises in Nigeria should be given a serious thought by owners and managers of these organisations.
2. HRA practice among enterprises should be encouraged in Nigeria through appropriate legislation following the adoptions of IFRS and IAS recommendation on fair reporting and disclosure of information on all assets and liabilities of organisations.

References


