Impact of Human Resource Accounting on Investment Decision in Nigeria

ABDULLAHI, Nuruddeen Abba, Ph.D

Dangote Business School,
Bayero University,
Kano, Nigeria
E-Mail: naabdullahi.dbs@buk.edu.ng, Phone Number: +234 8036416987

ADEJOLA, Paul Adebayo, Ph.D

Department of Accounting,
Nasarawa State University,
Keffi, Nasarawa State. Nigeria
E-Mail: padejole@yahoo.com, Phone Number: +234 8036802529

LAMBE, Isaac, Ph.D

Department of Accounting,
Bingham University,
Karu, Nasarawa State. Nigeria
E-Mail: talk2ice@yahoo.com, Phone Number: +234 8027629054

Abstract

The contemporary issues surrounding human resources accounting has been well received in many disciplines, most especially in the field of management sciences. Human resources accounting is essentially the systematic accumulation of information about changes in investments made in human resources and reporting same back to management and all relevant stakeholder, in order to assist in making informed judgments that decision makers would otherwise not have made without such additional information. Given the importance of human resources management in contemporary times, this study seeks to assess the impact of human resource accounting on investment decision in Nigeria. By means of the ordinary least square (OLS) log-linear multiple regression model the study tested its formulated hypothesis that human resource accounting is highly significant to investors and requisite stakeholders in making informed investment decisions. More so, the inclusion of human resource accounting in financial reporting is desirable to aid the public in making rational decisions. The study therefore recommends that organization should enhance the retention of education and training of staff so as to avert wastage of knowledgeable investment and the company law should equally require companies to attach information about the value of human resource and the result of their performance during their accounting year

Kewords: Human resources accounting, Decision Making, Investment decision, Human Capital

INTRODUCTION

Over the years, human capital has long been recognized as a vital asset and value creator to enterprises. In contemporary times, expert posits that core competence, knowledge creation and innovation are primarily responsible for creating value over and above physical and financial resources. To develop a competitive advantage especially for emerging businesses and start-ups, it is important that firms truly leverage on the workforce as a competitive weapon. This is vital and important for employment generation and for economy recovery in developing economies such as Nigeria. A strategy for improving workforce productivity to drive higher value for the firms has become an important focus. Firms seek to optimize their workforce through comprehensive human capital development programs not only to achieve business goals but most important is for a long term survival and sustainability. To accomplish this undertaking, firms will need to invest resources to ensure that employees have the knowledge, skills, and competencies they need to work effectively in a rapidly changing and complex environment.

Mayo (2006) posits that people are often spoken of as assets, but are generally treated as cost because there is no credible system of valuing them. Fajana (2002) asserts that current accounting procedures deal with human resources as expense rather than as investment. This is perhaps the essence of human resource accounting otherwise referred to as human capital accounting or human asset accounting. Fajana (2002) further posit that under conventional accounting system, utilization of money and materials are reported whereas, the value of human resources is seldom incorporated in financial statements. Human capital accounting relates to the quantification in monetary terms (such calculating capital value) of human resources employed by an organization. A well-developed system of human resource accounting could contribute significantly to internal decisions by management and external decisions by investors (Fajana, 2002).

Raghav (2011) also opines that human capital accounting helps potential investors judge a company better on the strength of human assets utilized.Thus, if two companies offer the same rate of return on capital employed, information on human resources can help investors decide which company to choose for investment. Until recently, the value of an enterprise as measured by the traditional balance sheet was viewed as sufficient reflection of the enterprise's assets. However, with the emergence of the knowledge-based economy the traditional valuation has been called to question, due to the recognition that human capital is an increasingly important part of an enterprise total value (Herman & Mitchell: 2008). Perhaps it was the realization of the short comings of the traditional balance sheet as a basis of business performance evaluation that led Kaplan and Norton (1992) to develop a framework that incorporates all qualitative and abstract measures of true importance of a firm, called the balanced scorecard. By focusing not only on financial outcomes but also on the human issues, the balanced scorecard helps provide a more comprehensive view of a business. This in turn helps organization to act in their best long-term interest. The financial objectives are therefore balanced with customer, process and employee perspectives. It is important to note that rapid technological change, increasing sophistication of customers and the importance of innovation have shifted the bases of competition for many businesses away from traditional physical and financial resources(Cuganesan,2006).The challenge in contemporary times is to ensure that firms have capability to find, assimilate, compensate and retain human capital in the shape of talented individuals they need in other to drive a global organization that is both responsive to its customers. Similarly, firms seek the burgeoning opportunities of using their human resources together with technology for investment decisions, entrepreneurial breakthroughs that ultimately leads to economic recovery (Armstrong,2006). In response to these changes, firms have embraced the notion of human capital has a good competitive advantage that will enhance their investment decisions, and as such human resource accounting has becomes a part of an overall effort to achieve cost-effective and investment decisions.

From the foregoing, 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. A number of pertinent questions have been brought to the fore in a bid to assess the impact of human resource accounting on investment decision. These questions revolve around the issues relating to an understanding of: the constraints in the application of human resource accounting by organizations for investment making decisions; the level of significance of the reporting of human resource value as asset in the statement of financial position of companies, and an identification of what the users of accounting information have to gain in this mode of reporting. Although there is a broad assumption that human capital has positive effects on firms' performance via investment and entrepreneurial decision making, the notion of performance for human capital remains largely untested. Hence, this study attempts to look into the connection between human resource accounting, investment and entrepreneurial decisions making of firms in an emerging country such as Nigeria. The main objective of this study therefore is to examine the impact of human resource accounting on investment decision. To achieve this objective, the null hypothesis stated below will be subsequently analysed.

H_0: Human resource accounting has no significant impact on investment decision of firms.

This study will be of immense value to bank regulators, investors, accountants, management, policy makers, academics, entrepreneurs and other relevant stakeholders, as it will provide deep insights into the value of benchmarking the performance of employees, against policy objectives of investment decisions, competition and going concern frameworks of firms. To a large extent, the study will be of immense benefit to all stakeholders in the private sector, as it would suggest ways on how to address or avoid conflict decision making.

2. LITERATURE REVIEW

Conceptual Framework

In the current business environment, human capital is regarded as a key source of competitive advantage. With the knowledge agenda, companies view their employees as an important resource and invest heavily in them. However, there is a general consensus that the value of human resources, or human capital, is usually adequately situated in terms of its conceptual framework, due to strict recognition criteria for intangible assets that do not allow human resources to be shown as an asset in the statement of financial position (Tayles, Pike & Sofian; 2007). Nevertheless, information on human capital and its development is the key underlying principle in understanding the concept of human capital, given its important to financial analysts and fund managers, who need to assess the future direction, potential and values of companies. Ishikawa and Ryan (2002) suggest that it is the stock of human capital that predominantly determines the conceptual framework of this vital phenomenon.

Human Resources Accounting and Decision Making

Human Resource Accounting involves accounting for expenditure related to human resources as assets as opposed to traditional accounting which treats these costs as expenditures that reduce profit. Fariborzand (2011) defines human resources accounting as, the identification, accumulation and dissemination of information about human resources in monetary terms. This suggests that, human resources accounting is the systematic accumulation of information about changes in investments made in human resources and reporting back that information to operating managers in order to assist them to make better decisions than they would have been able to make without such additional information.Raghav (2011) opines that human resources accounting is a method of measuring the effectiveness of personnel management activities and the use of people in an organization. Parameswaran and Jothi (2011) align their views with those of the American Accounting Association's definition of human resources accounting as, the measuring of data of human resources and communicating the information to the interested parties. Given the foregoing, human resource accounting is essentially the process of accounting for the value of people in an organization in other to enhance information for decision making by the users of financial information.

Similarly, Koontz and Weihrich (2010) define decision making as the selection of a course of action from among alternatives, implying that, decision making is at the core of planning. This suggests a plan cannot be said to exist unless a decision – a commitment of resources, direction, or reputation - has been made. Most of the times managers and entrepreneurs see decision – making as their central job because they must constantly choose what is to be done, who is to do it, when, where, and occasionally how to do it. Thus, decision making is a step in planning, even when such decisions are taken so quickly with little thought or when it influences actions only a few minutes, it is still part of planning. Decision making is a daily phenomenon in the life of entrepreneurship businesses and corporate organization, a course of action can seldom be judged alone because virtually every decision must be geared to other plans. In the views of Simon et al (1987), the work of managers, scientists, engineers, lawyers and the work that steers the course of society, and its governmental organization is largely work of making decisions and solving problems. Mosley, Pietri and Megginson (1996) on their own part view decision making as an exercise that individual and managers undertake in their daily activities to take advantage of opportunities and solve problems as they arise and they broadly classified decision making into programmed and nonprogrammed decisions. Koontz and Weihrich (2010) put it more succinctly, when they opined that decision making is a process involving the following the steps of premising, identifying alternatives, evaluating alternatives in terms of the goal sought and choosing an alternative that will best achieve the goal.

Empirical Literature

Since almost every literature on human resources points at people in organization as the greatest assets of organizations and this fact is also declared in most organizations' mission statements, annual reports and at companies annual general meetings (AGM), it therefore becomes imperative to look at the impact of human capital on decision making in fims in Nigeria. Human beings control and drive every other resources of an organization; hence the quality of decisions made by them reflects either directly or indirectly on the organization's performance. The study of Becker and Huselid (1997) as referred to by Kajola and Adedeji (2011), corroborated this assertion when they found a strong relationship between the quality of human capital and financial performance. In the study conducted by Okpala and Chidi (2010) they concluded that a well-developed system of human resource capital accounting could contribute significantly to internal decision by management and external decisions by investors. Information on investment and value of human resources is useful for decision making in the enterprise and as such, human capital accounting is highly significant to investor in making relevant investment decisions and the inclusion of human capital accounting in financial reporting is desirable to aid investors in making rational decisions. They also emphasized the need to address the issues of human capital development at both the micro and macro levels and that human capital value should be included in the statement of financial position of Nigeria organizations in other to aid investment decisions. Fariborz and Raiasheka (2011) in a study conducted on Iranian companies concluded that lack of Human Resources Accounting (HRA) disclosures in financial statements usually leads to obliquity of users. The study maintained that the use of HRA information in financial statement has incremental impact on individuals' decision-making process in order to stock investment statistically. It expressed the view that HRA information can play a critical role in internal managerial decision making and its measures can be used to show that investment in company's human resources may result in long-term profit for the company. Herman and Mitchel (2008) also opined that a comprehensive treatment of expected cost from human resource policies would provide external and internal financial analyst with different and useful information.

A study by Flamholtz, Bullen and Hua (2003), reported that human resource accounting provides the strategic level of management with an alternative accounting system designed to measure the cost and value of people to an organization. According to the study, HRA represents both a paradigm (a way of viewing human resource decisions and issues) and a set of measures of quantifying the effects of human resource management strategies upon the cost and value of people as organizational resource. They referred to other studies; Elias (1972), and Hendricks (1976), which found a significant association between HRA and decision making. In the study conducted byKeller (2009) on the effect of Management practices on the economic performance of firms, it was established that the outcome of the literature review demonstrated that management practices have a direct impact on firm performances. It also referred to the findings of Bloom and Van Reene (2007) which illuminates the correlation between management decisions and firm's economic performance. Specifically Bloom and Van Reene (2007) as cited by Keller (2009) were able to establish that management practices have a significant effect on the economic performances of family owned and operated firms as well as privately owned firms. Consequently, the inference from foregoing shows that; most firms recognizes the fact that human resources are assets that are germane to the success of the organization; Unlike the physical assets that are recognized in the financial statement human assets are not recognized in the financial statement; Human Capital theory supports the view that human capital is an important asset in organization; There exists a correlation between management decision and firm performance; and the lack of human resources information disclosure affects investors decisions.

Theoretical Discussion

This study considers two basic theories; the Human Capital Theory and the Decision Theory as the pillar on which the theoretical framework is predicated. This is because it is a given fact that the intellectual part of human beings drives an organization and equally constitute the assets in them and that the quality of this intellectual capital also determines the quality of investment making decision that are made at various levels of organization by employees who are the source of competitive advantage which ultimately reflects in corporate performances.

Human Capital Theory

The Human Capital theory proposed by Schultz (1961) and extensively developed by Becker (1964), has its roots from labour economics, a branch of economics that focuses on general work force in quantitative term. The theory contends that education and training raise the productivity of workers by imparting useful knowledge and skills, thus raising workers' future income as well, through increase in their lifetime earnings. The theory posits that expenditure on education, training and development is a costly exercise, and should be considered as investment since it is undertaken with a view to increasing personal incomes and enhancing the proficiency of employees. Human capital approach is essentially used to explain or support occupational wage differential and as such education, training and development would not only increase employee personal income, it would also serve as a means of achieving corporate competitive advantage which reflects ultimately in organizational performance; and if asset is considered as any expense which benefit is derived beyond one financial year, then it follows that expenses incurred in training and developing the human resources of an organization qualifies to be so called and treated in its books since the benefits from such costs usually last for many financial periods.

Flamholtz (1999) as noted by Baney and Wright (1997) opined that human capital theory distinguished between general skills and firm specific skills of human resources. General skills are those skills possessed by individuals which provide value to a firm and are transferable across a variety of firms. For instance, all competitor firms have the potential to accrue equal value by acquiring employees with knowledge of general management, the ability to apply financial ratios, or general cognitive ability. On the other hand, specific skills, provide value only to a particular firm, and such skill 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 firms policies and procedures provided to that firm, but usually would not be valuable to other firms. The main relevance of this theory is that it considers the cost of education, training, development and even workers medical treatment as investments which are expected to reflect in increased or improved productivity of individual workers. Thus, if these are investments like other physical assets or non-current assets, considerable effort must be made to also reflect such value of human capital on the statement of financial position.

Decision Making Theory (Subjective Expected Utility Theory)

The decision making theory, otherwise called the Subjective Expected Utility (SEU) theory postulates that the quality of human capital available in organizations reflects the quality of decisions and choices made and such decisions ultimately influences organization performance. The development of subjective expected utility theory (SEU) was a major intellectual achievement which gave for the first time a formally axiomatic statement of what it would mean for an agent to behave in a consistent, rational manner. It assumed that a decision maker possessed a utility function which is an ordering of all possible outcomes of choices by preference, that all alternatives among which choice could be made were known, and the consequences of choosing each alternative could be ascertained (or in the version of the theory that treats choice under uncertainty, it assumed that a subjective or objective probability distribution of consequences was associated with each alternative). By applying subjectively assigned probabilities, SEU theory opened the way to fusing subjective opinions with objective data, an approach that can also be used in man machine decision-making systems. The assumption of SEU theory is very strong, permitting correspondingly strong inferences to be made from them. Although the assumptions cannot be satisfied even remotely for most complex situations in the real world, they may be satisfied approximately in some microcosms – problem situations that can be isolated from the world's complexity and dealt with independently.

METHODOLOGY

For the purpose of this study, the ordinary least square (OLS) log-linear multiple regression model is used to estimate the variables via data triangulation. This involves estimation of the model in order to examine the effect of human resource accounting on investment decisions. The linear estimation technique aims at achieving unique parameter estimates that would enable us to interpret the regression coefficients and consequently give a slightly better fit. The estimation was conducted using the econometric computer software package, E-Views version 7.0. Also an appropriate model with respect to the objective of the study was formulated. This is to theoretically establish the relationships between the variables; Employees, Training and Development, Human Resource Development fund, Retirement Benefits to analyze their impacts on return on investment (ROI) which is a proxy for investment decision of firms.
The model specification is formulated to tests the hypothesis developed earlier in the study and they are as follows:

$$ROI = \beta_0 + \beta_1 TD + \mu_t --------1$$

$$ROI = \beta_0 + \beta_2 HRDF + \mu_t ---------2$$

$$ROI = \beta_0 + \beta_3 RB + \mu_t ---------3$$

Where;

TD	=	Training and Development
HRDF	=	Human Resource Development fund
RB	=	Retirement Benefits
ROI	=	Investment decisions measured by return on investment (ROI)

RESULT AND DISCUSSION

The data presentation and analysis contains presentation of data, presentation of regression result, hypothesis testing and discussion of findings, in an attempt to analyze the relationship between the different variables involved in the analysis. To this effect, human resource accounting on investment decision of firms in Nigeria is evaluated using t-test statistical tool.

Statistical Test of Hypothesis

Using the *t*-test (*t*-statistic), a variable is statistically significant if t^* (*t*-calculated) is greater than the tabulated value of ±1.96 under 95% (or 5%) confidence levels and it is statistically insignificant if the t^* is less than the tabulated value of ±1.96 under 95 (or 5%) confidence levels. According, the t-test is defined as:

$$t = \frac{\rho}{\left(1-\rho^2 \big/ n-2\right)^{\frac{1}{2}}}$$

That is;

H₀: β_0 = 0 (Null hypothesis)

H₁: $\beta_1 \neq$ 0 (Alternative hypothesis)

Ho: Human resource accounting has no significant impact on investment decision of firms

Table 4.1: T-Test Result

Test Value = 0					
t-value	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
2.368	219	0.000	2.18182	2.0003	2.3633

Source: Researchers Computation 2021 (E-Views 10.0)

The calculated t-value above is 2.36 and the tabulated value is 1.96 under 95% confidence levels. Since the calculated is greater than the tabulated value (2.36 > 1.96), the null hypothesis ($H0_1$) is therefore rejected and it can be concluded that human resource accounting has an impact on investment decision of firms.

Discussion of findings

From the analysis, it could be observed that Human resource accounting has an impact on investment making decision of firms. This is because HRA views human resources as assets on investments which must be maintained for long-run productivity. The best use of HRA are used as a managerial tool to aid in making decisions that benefits the long-run strategic goals and profitability of the company for sound investment decision making.The development of human resource accounting is also positively influenced by the educational level of employees and their overall satisfaction. Therefore, development of human resource accounting has a direct impact on ROI of firms. Findings from this study are in agreement with the works of Becker and Huselid (1997); Kajola and Adedeji (2011) and Okpala and Chidi (2010), who all found a positive impact and strong relationship between the quality of human capital and investment decision of firms.

CONCLUSION AND RECOMMENDATIONS

This study set out to assess the impact of human resource accounting on investment decision of firms in Nigeria as well as the desirability of the inclusion of human resource accounting in financial reporting. HRA increases investment in firms because investors have the assurance of adequate use of their resources as a result of the value of human resource. Most importantly, human resource accounting gives shareholders and stakeholders adequate and sufficient information on the position of the organization which can also be used to determine the profitability and stability of such organization. From the findings of this study, it can be concluded that human resource accounting is highly significant to investors in making relevant investment decisions and that the inclusion of human resource accounting in financial reporting is desirable to aid investors in making rational decisions. With human resource accounting, management is well equipped to make effective and efficient decisions to move the organization forward. The study generally recommends the need to address the issues of human resource development and investment at both the micro and macro levels and that human capital value should be included in the statement of financial position of Nigerian firms to aid investment decisions. However, in more coincide terms, the study suggests that; management in organizations should consider the investment of HRA and change the traditional look for them as expenses in the statement of financial position. Accordingly, the amount of investment made in the Human Resources and its value can be utilized by the Human Resources management personnel to determine how far the investment in Human Resources is utilized by the management in producing income for the organization.

Closely related to the above is the recommendation that firms should enhance the retention of education and training on staff so as to avert wastage of knowledgeable investment. Accounting standard boards should equally incorporate their accounting standard for the valuation and disclosure of human resource accounting. Consequently, the company law should require companies to attach information about the value of human resource and the result of their performance during their accounting year in notes and schedule.

References

Armstrong, M. (2001). *Human Resources Management Practice (8th Edition)*. London - UK: Kogan Page Limited.

Armstrong, M. (2006). *A handbook of Human Resource Management Practice* (*10th Edition)*. Amazon Platform.

Cuganesan, S. (2006). Reporting Organizational Performance in managing Human Resources: Intellectual capital or stakeholder perspectives. *Journal of Human Resource Costing & Accounting*, 10(3), 164-188.

Fajana, S. (2002). *Human Resources Management (1st Edition)*. Lagos, Nigeria: Labofing and Company.

Fariborz A. & Raiashekar, H. (2011). Decision – making based on Human Resource Accounting Information and its evaluation method. *Asian Journal of Finance and Accounting*, 3(1), Retrieved from URL:http://dx.doi.org/10.5296/ajfa.v3i1.883

Flamhlots, E.G, Bullen, M.L., and Hua, W.Z. (2003). Measuring the ROI of Management Development: An application of stochastic rewards valuation model. *Journal of Human Resource Costing and Accounting,* 7(2), 21-40.

Flamholtz, E.G. (1999).Current issues, recent advancements and future directions in human resource accounting. *Journal of Human Resource Costing and Accounting*, 4(1), 11-20.

Flamholtz, E. G. (1999). *Human Resource Accounting*. San Francisco, CA: Jossey-Bass Publishers.

Flamholtz, E. G.,Bullen, M. L., and Hua, W. (2002).Human Resource Accounting: A Historical Perspective and Future Implications. *Management Decisions*, 40(10).

Herman, T. & Mitchell, J.B. (2008).Financial implication of accounting for Human Resources using a Liability Model. *Journal of Human Resources Costing and Accounting*, 12(2), 124-137.

Ishikawa, M. and Ryan D. (2002).Schooling, Basic Skills and Economic Outcomes.*Economics of Education Review*, 21(3), 231-243.

Kajola, S.O. and Adedeji, S.B., (2011). Human Resources Accounting: Old myth and New realities. *Babcock Journal of Economics, Banking and Finance*, 1(1), 110-121.

Kaplan, R. S., and D. P. Norton (1992). The Balanced Scorecard: Measures that drive Performance. *Harvard Business Review*, 41 (6), 71–79.

Keller, F.G. (2009).Does management practices affect the economic performance of firms. Retrieved from: http://worldmanagementsurvey.org/wp-content/images/2010/07

Koontz, H. and Weihrich, H. (2010). *Essential of management; an international perspective* (8th ed.), New Delhi: Tata McGraw Hill Education Private Limited.

Mayo, A. (2006). *The Human Value of the Enterprise: Valuing people as assets*. London: Nicholas Brealey.

Mosley, D.G., Pietri, P.H., and Megginson, L. C. (1996).*Management Leardership (5th Edition.)*. New York, United States: Harpercollins Publishers Inc.

Okpala, P.O. and Chidi, O.C. (2010). Human Capital Accounting and its Relevance to Stock Investment Decisions in Nigeria.*European Journal of Economics, Finance and Administrative Sciences,* Issue 22, pp. 65-76.

Parameswaran, R. and Jothi, K. (2005).Human resources accounting.*The Chartered Accountant*, 8(8), 867-874. Retrieved from: http://220.227.161.86/10501jan05p867-874.pdf

Raghav, R. (2011). *Human Resources and Accounting*.Retrieved from: http://en.allexperts.com/q/Human-Resources-2866/2011/2/HUman-resources.

Simon, H.A., Dantzig, G.B., Hogarth R., Plott, R.C., Howard R., Schelling, T.C, Shepsle, K. A., Thaler, R., Tversky, A., and Winter, S. (1987). Decision Making and Problem Solving. *Institute for Operations Research and the Management Sciences,* 17(5), 11-31, Retrievedfrom:http://www.jstor.org/stable/25061004.

Tayles, M., Pike, R., and Sofian, S. (2007). Intellectual capital, Management Accounting practices and Corporate Performance: Perceptions of Managers.*Accounting, Auditing and Accountability Journal,*20(4), 522-548.