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A Review of Literature Regarding the Connection between Human Resource Accounting and Corporate Performance of Firms

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Abstract:
The evaluation as well as the estimation and reporting of cost and value of people in the organization setting is known as Human Resource Accounting (HRA).
The need for this form of accounting is eminent because, with the presence of all the other factors of production, little or nothing can be achieved in an organisation without the contribution of man hence the need to measure and account for human resource. The main objective of this paper is to review extant literature on the nexus between HRA and corporate performance of firms. Many studies have indicated the impact of human resource accounting on the performance of the firm. This review also found that, lack of precision in current measurement practices about what should be reported about HRA or what constitutes HRA, has created a room for researchers to use varying proxies for HRA leading to mixed results in their findings. This review therefore recommends further research into this area to fill the gap in literature.

Keywords: *Human resource accounting, corporate performance*

1. Introduction

One of the influential factors of production is the human resource of an organisation. Human resource simply means the number and value of people working towards the achievement of an organisation's objectives. Firms are expected to account for how this resource is managed. This form of reporting is tagged human resource accounting. HRA connotes the measuring and reporting of the cost and value of people as organisational resources. It entails accounting for all the costs incurred in developing human resource capacity such as training, research and development costs, emoluments, retirement benefits and safety costs. Human resource is important in the Information age just as capital investment was during the Industrial Revolution era. Findings of Olaniyan & Lucas (2008) also in line with this.

The primary function of HRA is to manage and account for organisational expenditures relating to its human resource which provides future benefits for the development of the organisation. Since human resource is a key contributor to the performance of a firm, firms have begun to see labour enhancement and development as an investment and are investing heavily in the training, development, and welfare of their labour force. An increase in human resource leads to specialization which could result in favourable labour efficiency variance. Also, salary increment may not only boost employees' morale but can result in retention of the best brains, thereby ensuring that the firm has comparative advantage over its competitors. Increasing safety and health system measures would reduce the exposure to operational risks (pure risks). However, some managers do not subscribe to this view as they trim their workforce and reduce benefits accruing to the staff so as to reduce costs and not to run into losses. To this category of managers, investment in labour, (that is, those items that constitute HRA data) should be avoided at all cost.

If investment in employees does increase performance, why are some firms not concerned about this. In profitability parlance, increasing cost to increase performance is almost an illogic. A need to find out what other researchers have discovered in this field is necessary. It is in view of the forgoing that this paper seeks to review extant literature on the nexus between HRA and corporate performance of firms and to identify gaps in the literature that will form the basis for future research.

2. Conceptual Clarifications

This section discusses the concepts of HRA and Corporate Performance as seen thus.

2.1. Human Resource Accounting (HRA)

Many authors looked at the meaning of human resource accounting however, majority of them failed to be specific as to what constitute HR expenditure and how it ought to be recognised. To Friedman and Lev (1974) and Lau (1978), HRA is a method of systematically measuring the asset value of labour and the amount of asset creation that can be credited to staff activities. In view of the contribution of human resource to value creation, this definition captures the economic benefits attributable to human resource in addition to recognizing its cost implication.

The American Accounting Association (1973) defines HRA as the process of identifying, measuring, and communicating information about human resource in order to facilitate effective management within an organisation. In other words, itis the knowledge that individuals get during their lifetime that is use to produce goods, services, or ideas in market or non-market situations. This definition considers HRA as the process of recognition and the quantification of human resource for assisting in the effective management of an organisation. The definition is however incomplete as it is not specific as to what constitute the human resource expenditure and how it is to be recognized. This alone is a major challenge facing this aspect of accounting.

HRA is therefore the process of identifying, recording and reporting investments made in the human resource of an organisation that are recognised in the conventional accounting practices. As simple as this sounds, sourcing data is a huge problem because many jurisdictions report human resource in different ways due to the fact that conventional accounting practice does not make provision for the disclosure of HRA data.

2.1.1. Measurement of HRA

Measurement and reporting of human resource vary from one jurisdiction to another. Swedish companies measure and report human resource and intellectual capital according to Swedish models. Large companies in Finland provide information on training and staff development in their corporate annual reports. In the United Kingdom, HR is reported through a business committee of practice referred to as MARIA (Managing and Reporting Intangible Assets) which identifies, value and report on their intangibles (Boedker, Mouritsen & Guthrie, 2008).Kirfi and Abdullahi (2012) averred that the existing reporting practice does not regard human resource as an asset and have significantly discouraged the use of any or a combination of measurement techniques in measuring human resource let alone reporting it. Due to the ambiguity of what constitutes HRA data, researchers resort to using different measures for HRA. Outrun and Adela (2016) used staff remuneration cost, while Asika, Chatom, and Chili (2017) used staff salary, increment in number of staff, and retirement benefits. Okpabo, Atube, and Olufatoye (2014) used training and development cost, welfare cost and safety cost as HRA. The researchers believe that improvement in the aforementioned measures will increase performance.

2.1.2. Corporate Performance

The concept of corporate performance is not a clear-cut concept to define owing to the fact that, different authors view performance from different perspectives. Corporate performance, or firm performance, is a subset of organizational effectiveness that covers operational and financial outcomes. However, most times researchers resort to using financial indicators like Return on Investment (ROI), Return on Capital Employed (ROCE) and return on equity (ROE) to measure financial performance.

High financial performance is a way to please investors and can be represented by profitability, growth and market value (Cho & Pucik, 2005). These three dimensions' complement one another. Profitability measures a firm's past capability to generate returns (Glick, Washburn, & Miller, 2005). Growth, customer satisfaction and employee satisfaction are three important indicators of performance. Customers always have an expectation of their need fulfilment from companies (Fornell, Johnson, Anderson, Cha & Bryant, 1996). For this companies also need to pay attention by creating value proposition for their customers (Barney & Clark, 2007). As per Harter, Schmidt, & Hayes (2002), companies need to be very transparent in job descriptions, investment in training, career plans, good bonus policies and exciting retirement packages to enhance satisfaction of employees.

2.2. Link between HRA and Corporate Performance

The ultimate goal of any human resource executive is to create value through the human resource function. It is not enough for firms to create value and offer their services or products at low prices, for that alone would lead to competitive parity with other firms in the same industry that can also create value and offer their products at competitive prices. To lead and maintain a lead in an industry, a firm must strive to do a usual thing/ routine in a unique way. This can be achieved by ensuring that the employees are rare (in terms of their skills), inimitable and the organisational structure supports innovation and ingenuity. When organisations keep developing their employees through training, carrying research and development into new products and efficient processes, they guarantee that they would always be ahead of the pack and hence their performance will not suffer.For this reason, employee's intellectual competence, employee's skill and corporate human resource function must be properly developed if corporate goals must be achieved (Baney, 1991; Odhong, Were, & Omolo, 2014).

3. Theoretical Framework

3.1. Human Capital Theory

The Human Capital theory was propounded by Schultz 1961 and comprehensively developed by Becker 1964. This theory centres around the value that people add to an organisation. It recognises people as important assets and stresses that investments by firms in people will produce valuable returns. According to the theory, education or training increases the output of workers by imparting useful knowledge and skills, thus raising workers' future output through increase in their lifetime working conditions and salaries.

The theory advocates that individuals with more or higher human capital achieve higher performance when executing tasks (Becker 1964).

According to Ventakaraman (1997), the knowledge and skills inside an individual is known as human capital. Insight, skills, aptitudes are some of the elements of this. This also creates a scope for companies to identify potentials of employees (Shane & Venkataraman, 2000).

The theory posits 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. However, in terms of benefits to an organization, general knowledge is not the most important element These returns are expected to be improvements in business performance, human productivity, flexibility and the capacity to innovate that should result from enlarging the skills base and increasing levels of knowledge and competence.

Human capital approach is used to explain or support occupational wage differential based on expected returns from the employee. These returns are expected to be improvements in business performance, human productivity, flexibility and the capacity to innovate that should result from enlarging the skills base and increasing levels of knowledge and competence. According to Schuller (2000), persuasive skills, knowledge and competences are key factors in determining whether organisations and firms will prosper or fail.

3.2. Resource Dependence Theory

Resource dependence theory as propounded by Pfeffer and Salancik (1978) suggests that when companies lack essential resources, they will seek to establish relationships with parties upon whom they depend. The theory explains how firms create value by managing their resources such as human capital. In determining the importance in terms of dependence and power, of any factor or resource to the organization, three things are considered: which are the, importance of the resource to the organization, alternative sources available for the resource the organization is dependent upon, and the degree of unfettered discretion in the deployment of the resources (Medcof, 2001).

For firms most especially those in the service sector with less automation and which depend on humans for the bulk of their operations, the employee is most important to the firm. This is because the firm is exposed to the risk of losing the best minds to competition, or their employees being left behind in terms of latest innovations and developments in the field such as new knowledge and new laws. These firms would try their best to keep their employees happy, informed and well equipped for the demands of the job; hence, huge salaries, frequent training sessions, more packages that stimulate desire to work at full capacity.

Where the available sources for the resource (Human resource) are in abundance, that you can replace them easily and without much delays, firms may be reluctant in spending more on such an employee but where the sources for a resource is scarce, firms would try their best to retain them and go all out to make them satisfied too. The situation of scarcity has created value for that resource. This explains why technocrats and professionals are always sought after. Everyone can be knowledgeable in a field, but not everyone is a professional.

The degree of unfettered discretion in the deployment of the resource also contributes in determining its importance to the firm. A resource that a firm has absolute control over is not too important as that which there is some restriction in its use. Humans can question and even contest their use in an organisation. Employees can question working conditions, they can take industrial actions to seek redress.

The resource dependency theory is of the view that, companies who depend on their employees for survival and growth, should imbibe the culture of developing their staff in all ramifications as this will increase the opportunity to attract and retain human resource. The goal is not retention of human resource, but the retention of performance levels, which only their human resource can guarantee.

4. Empirical Studies

A lot of work has been done on the connection between human resource accounting and corporate performance of firms. Some of which are reviewed thus:

Onyinyechi and Ihendinihu (2017) examine human resource accounting and financial performance of firms in Nigeria. Data was gathered on personnel benefit cost, profit after tax and total revenue and net assets from a sample of 10 banks for the period 2011-2015 and analysed using OLS technique. Findings shows that personnel benefit cost has a significant and positive impact on profit after tax and a negative impact on the Net Asset. The study concludes that since the contribution of human resource to the financial growth of firms cannot be overemphasized, Firms should imbibe the culture of training, developing and motivating their workforce to put in their best for the financial growth of their organizations.

Worlu and Omodero (2016) examine the effect of human capital development on financial performance of banks in Nigeria. The specific objective was to determine the extent to which the bank's personnel development and welfare (PDW) affects the Profit after tax (PAT), total revenue (TR) and the net asset (NA). A cross sectional survey design was employed. Time series data which comprise PDW, PAT, TR, and NA of 10 quoted commercial banks in the NSE from 2011-2015 was used. Statistical tools of Multiple Linear Regression and student t-test were used for the analysis. The result shows that, human capital development has no effect on PAT and no effect on TR, but a negative effect on NA. The p-value for all the independent variables are not significant.

Uke (2016) assesses the determinants of human capital accounting in Nigeria using a sample of 30 companies listed on the Nigeria Stock Exchange. Data was extracted from these companies on salary, welfare and training costs and employee size for the year 2014 from the Nigeria Stock Exchange fact book. Ordinary least Square regression was used to analyse the data. The study finds that welfare and training cost has a significant impact on the human capital in Nigeria; as size of employee's impact positively on the efficiency, sustainability and profitability of the firm. This study is timely but its study period is just a year hence small to rely on its findings.

Olajiwola (2016) investigates the relationship between human capital accounting information and market value of quoted manufacturing firms in Nigeria. A sample of 50 manufacturing firms was used and data for the study was gotten from 2007-2014. The pooled Ordinary Least square method was used to analyse the data. The findings show that human capital costs have a positive and substantial relevance to share price.

Oğraş (2016) analyses the impact of intellectual capital on the financial performance of the deposit banks in Turkey. The intellectual capital is calculated by using VAIC method. For measuring the financial performance of the banks, return on equity (ROE), return on total assets, growth in revenues and employee productivity ratios were used. The effect of intellectual capital on the financial performance is tested for the years 2003-2008 on first 10 depository banks according to their asset size. The results support that firms' intellectual capital has an impact on the financial performance.

Ofurum and Adeola (2016) studied the relationship between HRA 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 analysed using ordinary least square (OLS) and Pearson Product moment correlation. The findings revealed that there is no significant relationship between Human Resource Accounting and the profitability of quoted firm. The researchers recommend that Staff should be well compensated in terms of reward and remuneration so as to bring out the best in them.

Ndubuisi, Abiahu, Obi, and Okika (2016) ascertain the effect of human resource accounting on financial performance of deposit money banks listed on Nigeria stock Exchange. Specifically, they ascertain the effect or otherwise of staff cost on return on asset, return on equity and market-to book value of 13 banks listed on the floor of Nigeria Stock Exchange from 2010-2015. Ex-post facto research design was used for this study. Using Co-efficient of correlation and Ordinary Least Square (OLS) regression analysis, findings of the study show that human resource accounting has a positive and statistically significant effect on financial performance.

Agbiogwu, Ihendinihu, and Azubike (2016) investigate the effect of human resource cost on the profitability of banks in Nigeria from 2010 – 2014 using First Bank Nigeria, Plc and Zenith bank Nig. Plc. The study adopted content method of analysis and linear regression model to test the stated hypotheses. Findings reveal that staff cost significantly affects earnings per share, net profit margin, and return on capital employed of banks.

A positive association between expenditure on human development and each of the financial performance indicators had been established through a study conducted by Sowunmi, Eleyowo, Salako, and Oketokun (2015) on Ogun State.

Another study on Nigerian banks by Onyekwelu, Osisioma, and Ugwuanyi (2015) indicated how financial performance and market valuation is related with human capital accounting through structured questionnaire.

Khadijeh (2015) examines the relationship between the average disclosure of human resource accounting information and firm value. The study sampled ten (10) listed companies in India for a period of seven (7) years (i.e. 2005-2006 to 2011-2012). Descriptive statistical analysis using correlation, simple linear regression was employed in analysing the data. Findings shows that, firm value is positively affected by the average disclosure of human resource accounting information of selected companies listed on Bombay Stock exchange.

Sixteen (16) Micro finance banks out of the thirty-four (34) existing in Ogun state had been considered by Ikpefan, Kazeem, and Taiwo (2015). Respondents have been screened through random sampling. Profitability of Access Bank of Nigeria Plc, from 2003 to 2012 had been evaluated by Edom, Inah, and Adanma (2015) from 2003 to 2012. The findings of ordinary least square reveal 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; organizations 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.

Adebawojo, Enyi, and Adebawo (2015) investigates the probable effects of human asset accounting on organizational performance in terms of profits, earnings per share, shareholders fund, market value, and return on assets. The empirical study adopted an Ex-post facto research design, conducted on all 18 publicly quoted banks in Nigeria capital market. The hypothesis was tested using simple regression model. The result of the analyses confirmed that human asset accounting significantly affects the banks' performance.

How human capital development and organizational performance in the banking industry are related had been exposed by Oyinlola and Adeyemi (2014) with 351 copies of questionnaire via using judgmental and simple random sampling techniques across branches of four selected banks spread across the State.

Okpabo, Atube, and Olufawoye (2014) determines the link between HRA and firm performance. The paper conducted a survey on 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 this study. Following the collection of completed questionnaires, the study adopted the principle component analysis to quantify the responses obtained so as to obtain a series which captured the composite value of the human resource accounting variable.

Ifurueze, Odesa, and Ifurueze (2014) examines the relationship between the aggregated cost of human resource and organisational profitability and the effect of the disaggregated cost of human resource on organization profitability.

Both secondary and primary data of First Bank of Nigeria Plc had been analyzed by Olalere and Adesoji (2013). The result indicates that Human Capital Development is directly related with achievement of objectives of the company.

How much productivity can be improved by effective human resource development has been studied by Okoye and Ezejiofor (2013). Data was gathered from 38 firms in Awka through questionnaires. The hypotheses formulated were tested using z-test statistical tool. Based on the analysis, the study found that human resource development is very vital to any organization be it small or large scale.

A cross-sectional study has been done by Izedonme, Odeyile, and Kuegbe (2013) on 30 companies from the Nigeria Stock Exchange fact book (2009). Regression result indicated that capital and intangible asset had a positive but insignificant impact on organizational performance.

Another Nigerian banking sector-based study had been conducted by Ismaila (2013). Two hypotheses stating that Human capital efficiency has no significant impact on the EPS of Nigerian banks and Human capital efficiency has no significant impact on the ROE of Nigerian banks were tested. Efficient utilization of human capital does not have any significant impact on the return of equity of banks as well as the size of a bank has no significant impact on it return on equity, while the return on equity of banks cannot be predicted by human capital efficiency and size of the banks.

A random sample of 43 staff, drawn from the branches of Zenith Bank Plc in Awka Town, Nigeria had been studied by Ijeoma, Bilesanmi, and Aronu (2013) to check how HRA affects financial performance.

Fifty (50) listed firms in the Nigerian Stock exchange had been studied by Enofe, Mgbame, and Ovie (2013) to determine the connection between firms' financial performance and human resource accounting. Regression technique had been applied on the secondary data sources. This study reveals that positive relationship exists between the financial performance of a company and its level of human resource accounting disclosure. Financial companies are disclosing human resource accounting information more than non-financial companies and that company's profitability positively influences companies to report the human resource accounting information in their annual report were another two important findings.

Financial data of 52 companies across all sectors as listed on the Nigeria stock exchange from 2005-2009 had been studied by Micah, Ofurum and Ihendinihu (2012). Result reveals that 75.9% of the variation in Human Resource Accounting Disclosure (HRAD) with an F– ratio 3.581 has been caused by Financial Performance with 5% level of significance.

Bassey and Tapang (2012) study capitalized human resource cost and its effect on corporate productivity. They collected data with a help of a questionnaire from 10 companies listed on the Nigeria Stock Exchange. They used Multiple regression for the analysis of data. The result of the study indicates that there exists relatively strong support for the existence of a positive relationship between human resource cost and the performance of Nigerian corporations. The statistical findings also reveal that capitalized human resource cost is an important determinant of corporate performance and development or training cost is highly and significantly related to the performance of corporate entities in Nigeria.

Corporate performance of 12 Modaraba companies and its impact on corporate performance had been studied by Rehman, Rehman, and Zahid (2011). The study examines the performance of three main components of Value-Added Intellectual Coefficient (VAIC), human capital efficiency (HCE), structural capital efficiency (SCE) and capital employed efficiency (CEE) and its impact on corporate performance by employing the predictive analysis.

5. Conclusion

From the reviews, it can be deduced that HRA will result in a better assessment of the effectiveness of efforts and expected performance therefore, investment in the development of human resource will surely have a direct impact on the bottom line of enterprises. That notwithstanding, some researchers found no significant relationship between HRA and corporate performance. Also, different authors used different metrics to approximate HRA. This is because there is lack of precision in current measurement practices and sensitivity around what should be reported about HRA or what constitutes it. Also, majority of the studies were done in the banking sector making use of a relatively small size. In addition, most of the studies examined the connection between HRA and performance in general and not specific on financial performance. Arising from the gaps identified in literature, we suggest that more researches be done in this area to fill in the gaps in Literature.

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