

Effect of Human Resource Accounting (HRA) on Financial Statement of Nigerian Banks

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ABSTRACT

This study dealt with the effect of human resource accounting on financial statement of Nigerian Bank using Zenith Bank Plc as a case. The main objective of this Study is to determine whether accounting for human resources will influence the financial position of Zenith Bank Plc and to examine if the non-application of Human Resource Accounting measures, affect future investment of Zenith Bank Plc in human capital. The method of data collection used in this study is field survey method which involved the use of questionnaire and interview. From result of the Kruskal Wallis test statistic used in analysing the data collected it was observed that accounting for human resource will improve the financial position of Zenith Bank Plc if applied. Equally, Non-application of human resource accounting measures was found to affects the future investment of Zenith Bank Plc. Also, it was concluded that accounting system in Zenith Bank Plc is still based on an industrial paradigm where only fixed assets such as land, buildings, and motor vehicles are considered assets, such that every naira spent on training and or development of employees are treated as expenses which affects the profitability of the firm.

Keywords: Investment, Zenith Bank, Asset, Capital, System, Employees, Questionnaire

1 INTRODUCTION

“Our main asset is our people” How true is this often repeated statement made by management of organizations? The success or otherwise of an organization depends on how best the scarce physical resources are utilized by the human resource. What is important here is that the physical resources are being activated by the human resources as the physical resources cannot act on their own. In spite of the important role played by human resources in organizations, accounting is still based on an industrial paradigm in which only physical and tangible property is considered asset. It is in the light of the above that accountants began research into the area of Human Resource Accounting (HRA). Although, it is relatively a new field, its development has already passed through several discernible stages. The first stage of development from 1960 to 1966 was marked by interest in human resource accounting and the derivation of the basic HRA concepts from related bodies of theory. The initial impetus for the development of HRA came from a variety of sources including; the economic theory of human capital, organizational psychologists’ concern for leadership effectiveness, and a concern for human assets as components of corporate goodwill. [1], believes that the human resource is the most vital part of any organization, as it makes sure there exists a symbiosis between financial and all other physical resources towards the achievement of organizational objectives and goals. Conveniently, financial assets are accounted in the books of accounts as per the general principles of accounting, but does not account for the human asset. Although many efforts have been made by many thinkers in this area, proper/appropriate and fully validated model of performance based on human resource accounting is not yet available. However, some authors have been able to put writings in the

area. Human Resource Accounting is a process of identifying and measuring data about human resource and communicating this information to interested parties. Therefore, it is an attempt to identify and report investment made in resources of an organization that are not presently accounted for under conventional accounting practices. Moreover, human resource accounting helps to measure the value of employees, which helps the management take vital decisions related to human resources in order to increase production. It requires the measurement of the performances of an organization and the optimum use of the resources under the direct and indirect control. Hence, the overall valuation is important for decision-making in order to achieve the organizational objectives and improve the output. According to [2] HRA aims at depicting the human resources potential in money terms while casting the organization’s financial statements.

The traditional accounting procedures which have been practiced since long have come to stay as acceptable norms. As a result whenever a new accounting system is developed, it is pitted against the strength of the traditional system, which is considered to be comparatively objective and free from any bias. [3], expressed that human measures is the profit lever of the knowledge economy. [4], argues that employees interact together and transform other resources of the organization so as to add value and that what results from this transformation is reflected in the profit of the organization. He further posits that high priority and constant appraisal need to accrue to human resources as increased moral will result to better transformation and higher reflection of profit. In their contribution, [5] concluded that human resource accounting can be used as a political tool to demonstrate mismanagement of human resources, this is a situation which could negatively impact on

performance and consequently on profit. Also, they added that it could be used as a pedagogical instrument for analyzing and structuring and thus better understanding, personal problem from the applied perspective and thus being better able to balance applied values against other values.

In spite of these views and findings, human resource of an organization is yet to be recognized in the balance sheet. Auditors make a true and fair opinion on the financial statements despite the fact that it does not reflect the values of these 'soft asset' often referred to as our greatest assets. Shouldn't this traditional valuation be called into question as human capital is an increasingly important part of an enterprise's total value? This practice seems to have negative effect on the competitive position of an organization. It could equally hamper the performance of the employee ([4]; [5]). This traditional practice could again influence the financial position of an organization. The current accounting system has not been able to provide the actual value of employees' capabilities, knowledge and experiences. This seems to indirectly affect future investments of a company as each year the cost on human resource development and recruitment increases. Haven't the Accounting Standard Setters seen the need to legislate HRA or do they see it as lacking symmetry with traditional resource. All these are the worries of this present study. It is against this backdrop that this research work intends to make a formal study on these issues with a view to proffering solution. Hence, this study tends to access the effects of human resource accounting (HRA) in financial statements in order to discover its significance on the position of Nigerian Banks using Zenith Bank Plc Nigeria as a case.

1.1 Managerial Accounting Perspective of HRA

[6], suggested that the value of human capital should be more fully considered when making decisions about the acquisition and disposal of people and noted that the accounting practices currently employed by companies can have an undue influence in driving the strategic decisions of these companies. He also noted that there are parallels between the process of acquiring an employee (a human capital asset) and that of acquiring a fixed capital asset. However while most companies acknowledge the contributions of its employees, they do not think of the acquisition or disposal of human capital assets in the same way or with the same thoughtful planning or strategic thinking as they do fixed capital assets. According to [7] utilized the HRA measure of expected realizable value, and found that employees' participation in a management development program increased the value of the individuals to the firm. In addition he noted that the HRA measures provided upper level management with an alternative accounting system to measure the cost and value of people to an organization. Thus HRA represented either a paradigm or way of viewing human resource decisions, and the set of measures for quantifying the effects of human resource management strategies upon the cost and value of people as organizational resources. [8], indicated that too many business leaders have no generally accepted definition or accounting procedure for tracking training investments, and stated that a lower training

investment is not automatically better for an overall return on investment. [9], reported that expressing human resource interventions in financial terms and or cost benefit terms is more effective than using soft accounting information such as data on job satisfaction. Because the classical function of accounting is the determination of the value of the economic activity, performing analysis with hard numbers such as cost-benefit analyses helps us determine how resources should be used by human resources for various interventions. In their view, [2], opined that, personnel working for a determined enterprise are actually participating in a value creation process. That is, any economic activity makes the firm incur cost. One traditional classification takes into account the cost categories of raw materials, industrial plants, and personnel. They further explained that, when adding income flow to an organization's market, goods and services, if it is superior to the cost flow, it becomes value added. This value is a consequence of the interaction between materials and human resources in production.

2 MATERIAL AND METHODOLOGY

2.1 Data Collection

The method of data collection used in this study is field survey method; this involved the use of questionnaire and interview. The purpose is to give a clear understanding of the concept of human resource accounting in an organization. The study covers the two branches of Zenith Bank Plc in Awka Town. The total population of study was 49 staff and a random sample of 43 staff was drawn from the branches of Zenith bank Plc in Awka. This includes both management and administrative staff of the bank. The statistical tool used in analysing the data was the Kruskal Wallis Test with aid of SPSS 17.0 Package.

2.2 Data presentation (see Appendix)

2.3 Research Hypotheses

H₀₁: Accounting for human resources does not improve the financial position of Zenith Bank Plc.

H₁₁: Accounting for human resources improves the financial position of Zenith Bank Plc.

H₀₂: Non-application of human resource accounting measures does not contribute significantly to the future investment of Zenith Bank Plc

H₁₂: Non-application of human resource accounting measures contributes significantly to the future investment of Zenith Bank Plc

H₀₃: Accounting for human resource will not improve employees' performance

H₁₃: Accounting for human resource will improve employees' performance

3.0 DATA ANALYSIS AND RESULT

3.1 Kruskal-Wallis Test for testing that accounting for human resources does not improve the financial position of Zenith Bank Plc

Table 4: Ranks

Options	N	Mean Rank
Response 1 1.00	8	28.44
2.00	8	19.00
3.00	8	6.31
4.00	8	12.25
Total	32	

Table 5: Test Statistics^{a,b}

	Response 1
Chi-Square	24.999
df	3
Asymp. Sig.	.000

- a. Kruskal Wallis Test
- b. Grouping Variable: Options

3.2 Kruskal-Wallis Test for testing that Non-application of human resource accounting measures does not contribute significantly to the future investment of Zenith Bank Plc

Table 6: Ranks

Options	N	Mean Rank
Response 2 1.00	8	28.50
2.00	8	20.44
3.00	8	8.31
4.00	8	8.75
Total	32	

Table 7: Test Statistics^{a,b}

	Response 2
Chi-Square	26.354
df	3
Asymp. Sig.	.000

- a. Kruskal Wallis Test
- b. Grouping Variable: Options

3.3 Kruskal-Wallis Test for testing that accounting for human resource will not improve employees' performance

Table 8: Ranks

Options	N	Mean Rank
Response 3 1.00	8	27.31
2.00	8	21.06
3.00	8	7.69
4.00	8	9.94
Total	32	

Table9: Test Statistics^{a,b}

	Response 3
Chi-Square	23.669
df	3
Asymp. Sig.	.000

- a. Kruskal Wallis Test
- b. Grouping Variable: Options

4 DISSCUSSION

It was observed from Table 5, that accounting for human resources improve the financial position of Zenith Bank Plc, since a Chi-square of 24.99 was obtained and a corresponding

p-value of 0.000 which falls on the rejection region of the hypothesis assuming a 95% confidence interval level ($p\text{-value} = 0.00 < \alpha=0.05$). Also, Table 4, showed that majority of the respondents Strongly Agreed (1) and Agreed (2) that accounting for human resources can improve the financial position of Zenith Bank Plc with a corresponding mean rank of 28.44 and 19.00 respectively. Table 7, showed that non-application of human resource accounting measures contributes significantly to the future investment of Zenith Bank Plc, since a Chi-square measure of 26.35 and a p-value of 0.00 was obtained. Hence, the null hypothesis was rejected since the Chi-Square measure of 26.35 is large and the p-value= 0.00 is less than the $\alpha=0.05$. Also, Table 6, showed that majority of the respondents Strongly Agreed (1) and Agreed (2) that non-application of human resource accounting measures contributes significantly to the future investment of Zenith Bank Plc with a corresponding mean rank of 28.50 and 20.44 respectively. In addition, a Chi-Square measure of 23.66 and a p-value of 0.00 was obtained on Table 9, this result implies that accounting for human resource will improve employees' performance. Since, Chi-Square measure of 23.35 is large and the p-value= 0.00 is less than the $\alpha=0.05$, thus the null hypothesis was rejected. Also, Table 8, showed that majority of the respondents Strongly Agreed (1) and Agreed (2) that accounting for human resource will improve employees' performance with a corresponding mean rank of 28.50 and 20.44 respectively.

5 CONCLUSIONS

The issue of accounting for human resource accounting has continued and will continue to fuel discourse in our nation and globally. Based on the discussions of findings, the study concludes that accounting for human resources will affect the organization positively in general and also affect the employees in particular. The finding implies that accounting system in Zenith Bank Plc is still based on an industrial paradigm where only fixed assets such as land, buildings, and motor vehicles are considered assets, such that every naira spent on training and or development of employees are treated as expenses which affects the profitability of the firm. Hence, we recommend the need for banks stop considering every naira spent on training and development of employees as expenses to be minimized. Also, by application of human resource accounting measures, we strongly believe that employees will improve on their performance since they know that their contributions and performance will be assessed and valued at the end of the accounting period in this vein we suggest that management should embark on long-term planning exercise which will help them to identify a potential lay-off decision that might have long-term effects on the organization.

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Appendix

Table 1: Distribution of Responses on whether Accounting for Human Resources improve the financial position of Zenith Bank Plc.

S / N	QUESTIONS	S (1)	A (2)	S (3)	D (4)	Total
1	Expensing values of human capital development/training might lead to lower investment consequently leading to lower return on investment.	30	6	2	5	43
2	When the cost of HR is capitalized like other physical assets, the profitability position will improve which will in turn enhance the market value of the firm	23	10	0	10	43
3	Inclusion of human resource in the financial statement will make the organization to be valued at its true potential	25	12	3	3	43
4	The assets of an organization as measured within the conventional accounting is not a complete reflection of the organization's asset	35	5	0	3	43
5	The true financial position of the organization can only be ascertained when the human resource asset is included in the balance sheet	15	10	8	10	43
6	Accounting for human resource will improve the financial position of the firm	32	8	0	3	43
7	Treating human resource as expenses to be minimized distort the financial statement.	25	10	3	5	43
8	Application of HRA measures would aid management to acknowledge the fact that investments in a company's human resource will result in long-term profit for the organization; thus enhancing the financial position	22	15	3	3	43

Non-Application of Human Resource Accounting on the future investment of Zenith Bank Plc

S/ N	QUESTIONS	S (1)	A (2)	S (3)	D (4)	Total
1.	Treating human resource as expenses would make management to always want to minimize investment in this area.	30	8	3	2	43
2.	If human resource is treated as asset it will encourage management to invest more on it.	20	14	5	4	43
3.	Treating human resources as expenses will reduce the training and development exercise of an organization in order to reflect higher profit in the Profit & Loss account	26	11	3	3	43
4.	Expensing HR would eventually reduce skills and competence in the organization	22	16	3	2	43
5.	Non-investment in human capital would lead to qualified labour force turnover.	20	9	8	6	43
6.	Career development in an organization would reduce if human capital is always expensed.	32	9	1	1	43
7.	Application of HRA measures would aid management to make decisions that treat the company's employees as long-term investment of the company.	30	9	1	3	43
8.	With the use of HRA measures management is better likely to see the hidden cost in a potential lay-off decisions.	30	9	1	3	43

Table 2: Distribution of Responses on the contribution of
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Table 3: Distribution of Responses on effect of Accounting for Human Resource on improvement of employees' performance

S / N	QUESTIONS	S A (1)	A (2)	S D (3)	D (4)	T ot al
1	Some firms are more productive than others in almost similar conditions as a result of approach and competence.	30	11	0	2	43
2	Investment in human resource capital influences directly or indirectly the human resources and the productivity of the organization.	28	10	2	3	43
3	Long-term planning of human resources can lead to greater benefits in the long-run.	25	15	1	2	43
4	The success of an organization wholly depends on the quality of its human resources.	10	15	11	7	43
5	Given the same physical assets and similar technology, the quality of human resources is what will account for difference in performance of two different organizations.	31	10	0	2	43
6	The quality of human resource capital has direct impact on the overall productivity of the firm	30	11	1	1	43
7	Human resource accounting is a panacea for optimum performance of employees of an organization	15	18	3	7	43
8	Investments in human resources are considered essential in terms of quality customer service delivery.	25	10	3	5	43