

EFFECT OF HUMAN RESOURCE COST ON PERFORMANCE OF QUOTED BREWERY FIRMS IN NIGERIA

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Abstract

This study examined the effect of human resource cost on the performance of quoted brewery firms in Nigeria. Data were extracted from annual reports and accounts of the sampled firms from 2009 to 2019. The formulated hypothesis was tested with regression analysis SPSS version 20. The result revealed that staff cost has a positive significant effect on the return on equity of quoted brewery firms could have strong positive effects on the financial performance of firms. Based on the findings, the study recommended that the chief accountant should educate and convince the stakeholders on the benefits accruing from capitalizing and reporting of human resource expenditure that is capital in nature as intangible assets in the statement of financial position.

Keyword: Human resource accounting, performance, and Return on equity

INTRODUCTION

The origin of Human Resource Accounting could be traced to the work of Rensis Likert, a social psychologist who first used the term "Human Assets" in the late 1950s, which was subsequently replaced by the term "Resources" by later scholars. The crux of his work was the intuitive expression of human resources in accounting terms. This ideal by Likert came at a time of increasing awareness of behavioral problems of accounting systems in particular and changes in social values in general (Ezeagba, 2014).

Human capital has long been recognized as a vital asset and value creator to companies. More recently, it refers to as core competence, knowledge creation, and innovation creating value over and above physical and financial resources (Izedonme, Odeyile & Kuegbe 2013). To develop a competitive advantage, it is important that firms truly leverage the workforce as a competitive weapon. 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 long-term survival and sustainability. To accomplish this undertaking, firms will need to invest resources to ensure that it is a common economic fact that modern organizations operate within a competitive economic environment which require that their management make timely, effective, and efficient decisions driven only by the intellectual capacity of the human capital to ensure survival, success, and performance enhancement.

It is very unfortunately, that little or no recognition was given to this intellectual capability of human resources in the annual report. However, the post-industrial economy emphasizes intellectual capability as the core of organizational survival in a

competitive economic environment. For post-industrial era as confirmed by Flamholts (1999) the potential success of an organization lies in its intellectual capabilities rather than in its physical assets.

The growth of any business is unconditionally dependent on the skillful deployment of its human resources, which is globally recognized. Even in the present situation any business, by owning adequate financial properties and acquire physical properties with the latest technology as it needs, found it hard to manage its affairs, if the human of a business is not adequately strong. Though, the other problem of HR is that in Nigeria most of the companies do not recognize it properly, despite its significant contribution. Its major contribution is also in the area of internal and external management decisions. There have been many studies conducted on human resource accounting, such studies include: Okpala and Chidi (2010); Fariborz and Raiasheka (2011); Islam, Kamruzzaman & Redwanuzzaman (2013); Ezeagba, (2014); Edom, Inah, Adanma, (2015); Nwosu & Eze, (2016); and Ezejiofor, John-Akamelu and Iyidiobi (2017) Ezejiofor, Nwakoby and Okoye (2015), but most of them focus only on accounting aspects of human resource, without considering the cost aspect. Secondly, as it is also observed that none of the researchers conducted studies on brewery firms. It is against this backdrop, this study assesses the effect of human resource accounting on the performance of Conglomerate firms in Nigeria.

REVIEW OF RELATED LITERATURE

American Accounting Association (1973) has defined Human Resource Accounting (HRA) as "the process of identifying and measuring data about human resources and communicating this information to interested parties". Human resources are the set of

individuals who make up the workforce of an organization, business sector or, economy. "Human capital" is sometimes used synonymously with human resources (Akintoye, 2012). Financial reporting is presenting financial data of a company's operating performance, position and funds flow for an accounting period while effective financial reporting has to do with making financial reports clear enough to the understanding of users (Andrew & Higson, 2008).

Ashton(2005) in his paper on Intellectual Capital and Value Creation observed that while the realization of the potential of a company to creating value is increasingly emphasized, there seems to be a marked shift in emphasis towards the "intangible value drivers" in place today that will position the firm for value realization tomorrow. Dwelling extensively on the Skandia Model of Intellectual Capital, Ashton concluded that the Skandia Navigator and related framework has sometimes served as a foundation for external reporting of non-financial information, and that its understanding may be useful for not only the understanding value creation(and research on value creation) but also for communicating value creation activities to interested stakeholders.

Akintoye (2005) opined that essential accumulation of goodwill in firms can be a function of a well-managed business environment by well-experienced managers who have spent enough time to understand organizational policies, politics, and ethical values. From the above assertions, it can be said that the human element is one of the most valuable inputs in an organization. A team of competent, devoted, and motivated persons can convert a sick concern into a successful one. Bullen and Eyler (2010), state that 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 profit. Woodruff (1973) defined Human Resources Accounting as the identification, accumulation, and dissemination of information about Human Resources in dollar or Naira term. He further explained 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 to assist them to make better decisions than they would have been able to make without such additional information (Enyi & Adebawojo, 2014).

Raghav (2011), states 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) referred to 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. Going by the various definitions above, human resource accounting in simple terms is accounting for the value of people in the organization to enhance information for decision making by the users of financial information.

STAFF COST

Organizations compensate its employee to promote their image in the environment just to remain friendly as a corporate entity. Supplements to wages and salaries consist of employer payments that are made on behalf of employees but are not included in the regular wage payments provided directly to employees specifically, employer contributions for employee pension and insurance funds, and employer contributions for government social insurance. Because these payments are made for the benefit of employees and because the value of the contributions is typically determined, in some

fashion, by their labor, they are treated as compensation. Two measures of compensation are compensation earned by all of the employees of the residents. And the one earned by none resident. That is, it excludes compensation received from the rest of the world, and it includes compensation paid to the rest of the world. "Compensation of employees" is the measure of the compensation paid by resident and non-resident employers to resident employees.

Employee compensation practices differ across employment units (e.g., organizations, business units, and facilities) on several dimensions (Gerhart, Milkovich, & Murray, 1992). The focus of the employee compensation literature has been on defining these dimensions, understanding why organizations differ on them (determinants), and assessing whether such differences have consequences for employee attitudes and behaviors, and organizational effectiveness. Staff Cost measures the total remuneration, in cash or in-kind, that accrues to employees in return for their work during the accounting period, regardless of when they are paid (Landefeld, Moulton, Platt & Villones, 2010).

FINANCIAL PERFORMANCE

Generally, performance could be regarded as one of the key determinant factors that are widely used in measuring the success or failure of organizations. Although several research works had been carried out on performance-related issues as it affects organizations or firms but its definition has been challenging to researchers. According to Roger and Wright (1998), performance is probably the most widely used dependent variable in organizational research today, yet it remains one of the vaguest and loosely defined constructs.

HUMAN RESOURCE ACCOUNTING AND RETURN ON EQUITY (ROE)

Return on Equity is a performance measure and two-part ratio in its derivation, because it brings together the income statement and the balance sheet when the net income or profit is compared to the shareholders' equity. The number represents the total return on equity capital and shows the firm's ability to turn assets into profits. To put it another way, it measures the profits made for each dollar from shareholders' equity.

RETURN ON EQUITY FORMULA

The following is the ROE's equation:

$$\text{ROE} = \text{Net Income} / \text{Shareholder's Equity}$$

ROE simplifies the comparison of returns. By comparing a company's ROE to the industry's average, something may be pinpointed about the company's competitive advantage. The ROE may also provide insight is how the management is using the financing from equity to grow the business. A sustainable and increasing ROE over time can mean a company is good at generating shareholder returns because it knows how to reinvest its earnings wisely, to increase productivity and profits.

In contrast, a declining ROE can mean that management is making poor decisions on reinvesting capital in unproductive assets. The market price is affected by the changes in the book value (shareholders' equity), so if ROE remains small even when the company is retaining those earnings then the market price will reflect that small change in the book value. This is not a good sign for the company.

Human resource accounting has a significant relationship with return on equity in the organization. This is because intellectual capital contributes significantly to organizational performance and enhances shareholders' equity.

Both existing and potential shareholder of a company is interested in information about the value of human resource assets of the organization this information assists them in the deciding on how to acquire, retain or dispose of stock of the organization. ROE can mean that management is making poor decisions on reinvesting capital in unproductive assets. The market price is affected by the changes in the book value (shareholders' equity), so if ROE remains small even when the company is retaining those earnings then the market price will reflect that small change in the book value.

EMPIRICAL REVIEW

Sarminah, (2013) carried out research work on assessing the contribution of human capital on business, to examine the relationship between human capital and business performance. The obtained data were analyzed using SPSS Version 20. The study found that human capital aspects are related to business performance. The findings indicated that human capital aspects of employees' competency and creativity emerged as the main factor that influenced business performance. Ijeoma and Aronu (2013) conducted a study on the effect of human resources accounting (HRA) on financial statement of Nigerian banks and found out that accounting for the human resources will improve the financial position of Zenith Bank Plc if applied. The study dealt with the effect of human resource accounting on the financial statements of Nigerian Bank using Zenith Bank Plc as a case. The method of data collection used in this study is the field survey method which involved the use of questionnaires and interviews. From the result, it was concluded that the 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 affect the profitability of the firm. Akinyomi and Olagunju, (2013) conducted a study on the effect of firm size on profitability: evidence from Nigerian manufacturing sector. The results of the study revealed that firm size, both in terms of total assets and in terms of total sales, has a positive effect on the profitability of the Nigerian manufacturing companies. It is recommended is for future researchers to investigate sector effects on the relationship between firm size and profitability in Nigeria. Okoye and Ezejiofor (2013) examined the appraisal of human resources development in organizational productivity and profitability. The Survey research design was adopted and data collected were analyzed by use of means, variance, and standard deviation, and the three hypotheses formulated were tested using a z-test statistical tool. Their study shows that human resource development is very vital to any organization ranging from small to large scale enterprise since it is well known that no business can exist entirely without human beings. Okpako, Atube, and Olufawoye (2014) conducted research work on human resource accounting and firm performance to determine the relationship between human resource accounting and firm performance. 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. The study reveals that human resource accounting variables impacted positively the level of firm performance. Ezeagba (2014) conducted a study on the Need for Inclusion of Human Resources Accounting in the statement of financial position. Today, increased attention is being focused on the keeping of an up-to-date inventory of current manpower stock in terms of skill, sex, etc. for effective human resources planning, control, and management. Ibok

and Ibanga (2014) conducted a study on the impact of human capital development and economic empowerment on the socio-economic development of Akwa Ibom state and found out that, aside from training, the government also embarked on elaborate empowerment programs which have helped so many people to become self-employed as well as employers of labors. The study revealed that from 1999 to 2012, the government being the foremost driver of the economy has made a positive impact on the training and re-training of workers in the public sector. Lakshmana (2014) examined human resource accounting: a framework for better financial accounting and reporting. Accounting is crossing its borders since the inception of the single and double-entry systems. The accounting concepts and conventions made a stronger contribution to the field of accounting. It concluded with the future road map for financial accounting to consider it as "Human Resource Financial Accounting". Odhon'g and Omolo (2015) carried out a study on the effect of Human Capital Investment on Organizational Performance of Pharmaceutical Companies in Kenya and found a positive significant relationship between human capital investment and organizational performance. The study also suggests introduction of Skill Development Fund to equip the communities and businesses with relevant skills required in the dynamic global marketplace. Oladeji (2015) examined impact of human capital development on economic growth in Nigeria and found a strong implication on educational and health policy in Nigeria Adebawojo, Enyi and Adebawo, (2015) conducted research work on human asset accounting and corporate performance and the result of the analyses confirmed that human asset accounting significantly affects the banks' performance at $F\text{-ratio} = 56.280$, $P \leq 0.05$, $R^2 = 0.193$. Human beings are the most critical assets in organizations as established in the available works of literature. Ezejiofor Nwakoby and Okoye (2015) examined the extent

at which Human Resource Management affect the performance of the business organization. The study used a survey research design and the data collected were analyzed with five-point Liker scale. The hypotheses were tested with simple regression analysis. From the analysis, this study found that Human Resource Management has an effect on the performance of the business organizations. This has to do with training and development, a good planning system, and proper management as a motivator. Edom, Inah, Adanma, (2015) examined the impact of human resource accounting on the profitability of Access Bank of Nigeria Plc, from 2003 to 2012 and found out that there is a positive relationship between the indicators of human resources cost (training cost, development cost, and number of staff) and the profit of the organization (Access Bank Plc).. Using the ordinary least square analytical technique, secondary data from Access Bank of Nigeria Plc were obtained. It was also discovered that there was a significant relationship between training cost, development cost and the profit of the bank. Nwosu and Eze, (2016) in their study which is an appraisal of Human Resource Accounting found out that the implementation of human resource accounting in an organization's annual financial report will go a long way in improving organizational performance An accounting system where people or human resources are treated as 'capital investment' will not only affect the preparation of financial statements but will ultimately affect organizational performance. Adeyemi and Ogunsola, (2016) conducted a study on the impact of human capital development on economic growth in Nigeria: ARDL approach which was sourced from the World Bank Indicator and National Bureau of Statistics and found out that there is a positive long-run relationship among secondary school enrolment, public expenditure on education, life expectancy rate, gross capital formation, and economic growth but it is statistically insignificant It was set out to

explore the relationship between human capital indices (education and health) and economic growth,... Olowolaju, (2016) carried out research work on the effect of human capital expenditure on the profitability of quoted manufacturing companies in Nigeria and found out that only expenditure on health can significantly predict net profit a 5% level of significance,... A sample of 10 listed manufacturing companies on the Nigeria Stock Exchange was used for the study. The study concluded that human capital expenditure significantly influenced the profitability of manufacturing.

Obialor, (2017) carried out a study on the effect of government human capital investment on economic growth in Sub-Saharan Africa: evidence from Nigeria, South Africa, and Ghana (1980-2013) to analyze the growth effect of three government human capital investment variables of health, education and literacy rate on the economies of these countries; Secondary data are sourced from World Development Indicators (WDI) online database and analyzed using Co-integration techniques and Vector Error Correction mechanism (ECM) at 1% and 5% significance levels. The results indicate that two out of the three human capital proxy variables; Health,(GIH), and Education (GIE), show a significant positive effects on growth only in Nigeria. The study, therefore recommends for SSA countries to prioritize skill development, increase budgetary allocations, as well as promote policies that enhance school enrolment in secondary schools in the sub-region. Ezejiofor, John-Akamelu, and Iyidiobi (2017) determined the adoption of Human Resource Accounting on the Profitability of Corporate Organizations. Data for the study were collected from selected ten (10) commercial banks in Nigeria. Data collected were analyzed and tested with a t-test statistical tool with aid of SPSS version 20.0 version. The study revealed that increase in staff salary has a positive effect on organizational profitability, also that the level of increment in

staff has an influence on organizational profitability. Another finding is that staff retirement benefits have a positive effect on organizational profitability.

Most of the prior studies focused only on accounting aspects of human resources, without considering the cost aspect. Secondly, as we can observe that none of the researchers conducted studies on brewery firms

METHODOLOGY

This research relied heavily on historical data which was obtained from a secondary source. Therefore, the study adopted an Ex-post-facto research design.

The population of the study is made up of breweries companies quoted on the floor of the Nigerian Stock Exchange (NSE) as of 2019 and have consistently submitted their annual reports to the NSE from 2009 to 2019.

Model Specification

$$Y = \beta_0 + \beta_1 PM + \beta_3 ROE + \mu e \dots \dots \dots 1$$

β_0 , are the intercepts; β_1 are the coefficients of the explanatory variables; are the coefficients of the moderating variables and μ = (are the error or disturbance term that absorbs the influence of omitted variables in the proxies used.

Where

FP = Financial Performance which is a dependent variable was Proxied as

ROE = Return on Equity

Human Resources cost (HRC) which is independent Variables will be proxied as

SC= Staff Cost

METHOD OF DATA ANALYSIS

The statistical technique employed in analyzing the data is regression analysis. Regression analysis is very relevant in investigating the predictable power of the independent variable on the dependent variable. The analysis was guided by the specified model in each hypothesis.

All the hypotheses were tested a 5% level of significance. Statistical Package for Social Sciences (SPSS) Version 20.0 was utilized in the data analysis of this study.

Table 1: Variable Measurement

Variables	Measurements	Type of Variable
ROE	Net income/ Shareholder's equity x 100	Dependent Variable
Staff Costs	Measures as all cost incurred on staff salary, training, other staff benefits.	Independent Variable

Data Analysis and Result

Test of Hypothesis

Staff cost has no significant effect on the return on equity of quoted brewery firms in Nigeria.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1				

1	.343 ^a	.118	.104	17.42868
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a. Predictors: (Constant), SC

The tables 2 above revealed an adjusted R² value of 0.104. The adjusted R², which represents the coefficient implies that 10% of the total variation in the dependent variable (ROE) of quoted breweries in Nigeria is jointly explained by the explanatory variable (SC).

Table 3: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2554.835	1	2554.835	8.411	.005 ^b
Residual	19136.809	63	303.759		
Total	21691.644	64			

a. Dependent Variable: ROE

b. Predictors: (Constant), SC

Table 4: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	20.121	3.181		6.325	.000
SC	7.877E-007	.000	.343	2.900	.005

a. Dependent Variable: ROE

From these tables above, which is ANOVA table tells if the model is statistically significant or not. This is because R^2 is not a test of statistical significance, it only measures and explains variation in Y from predictors. The F- ratio is used to test whether or not the R^2 occurred by chance alone. The F- ratio found in the ANOVA Table measures whether the staff cost has a significant effect on the return on assets of quoted brewery firms in Nigeria occurs by chance. Based on the Table above, we could see that the overall equation to be statistically significant by ($F=0.005$).

DECISION

We could see that the value of β is 0.343 (Which is positive and significant), t-value is 2.900 (which is less than standard 2.00) and P-value or significance level is 0.005 (Which is more than 0.05). Results illustrate that staff cost has a positive insignificant effect on the return on equity of quoted brewery firms in Nigeria. Hence we reject the null hypothesis and accept the alternate hypothesis which says that staff cost has positive and significant effect on the return on equity of quoted brewery firms in Nigeria.

DISCUSSION OF FINDINGS

This study is in disagreement with Omodero, Alpheaus, & Ihendinihu, (2016) whose results however reveal no significant effect of Personnel Benefit Costs on firm turnover. This result is consistent with the work of Okpako, Atube & Olufawoye (2014) which reveals that human resource accounting variables impacted positively the level of firm performance.

This study is in an agreement with Edom, Usang & Eyisi, (2015) which revealed 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, the number of staff does not have a significant effect on the profit of the bank.

CONCLUSION AND RECOMMENDATION

This study has examined the effect of human resource cost on the financial performance of quoted brewery firms in Nigeria. The link between financial performance and investments in humans is increasingly becoming an important, and interesting area of inquiry following fundamental shifts from breweries to knowledge-based economy. The positive staff cost has a significant effect on the return on equity of quoted brewery firms could have strong positive effects on the financial performance of firms.

Based on the findings, the study recommended that the chief accountant should educate and convince the stakeholders on the benefits accruing from capitalizing and reporting of human resource expenditure that is capital in nature as an intangible assets in the statement of financial position.

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