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Human Resources Accounting (HRA) in Nigeria: An Analysis of Challenges

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Abstract
This paper analysed the effects of the major challenges to accounting for Human Resources in Nigeria. This study employed the survey method of data collection and adopted a quantitative approach to data analysis. Primary data were collected via a survey instrument from accounting experts selected from among individual Professional Accountants who are registered members of the Association of National Accountants of Nigeria (ANAN) and the Institute of Chartered Accountants of Nigeria (ICAN). Three hypotheses were formulated. The Binomial Logistic Regression, an inferential statistical tool was used to test the null hypotheses at a five per cent level of significance. The principal factors identified as challenges were categorised into three, namely Asset Recognition Criteria (ARC), Disclosure Requirements (DR) and Existing Social Order (ESO). Based on statistical analysis of data collected, the results showed that asset recognition criteria and disclosure requirements were highly responsible for the non-accounting for Human Resources in Nigeria even on a voluntary basis. Existing social order on the other hand, was statistically significant at 5% but does not hinder accounting for Human Resources in Nigeria. Following the demand for monetary information on human resources by stakeholders, the Accounting Standards and Regulatory Bodies need to re-visit and make pronouncements on HRA. This paper expands literature on HRA by quantitatively analysing the effects of major challenges namely, Asset Recognition Criteria; Disclosure Requirements and Existing Social Order on HRA in Nigeria.
Keywords: Human Resource Accounting; Asset Recognition Criteria; Disclosure Requirements; Existing Social Order

1. Introduction

Human Resources Accounting (HRA) is an accounting tool developed to account for people as organisational resources by providing information on the estimated value and the cost of investment on the human resources in an organisation to the stakeholders. It was developed to overcome the weakness of the traditional accounting system, where all investments in human resources are written off as expenses in the year it is incurred. Consequently, the human resource function has no direct presence on the books and Managers cannot be appraised on the effectiveness of human resource policies and practices by stakeholders. This practice also creates an information gap between management and investors and some other stakeholders like analysts that need such information for decision making and analysis of performance. HRA evaluates the worth of human resources of an organization in a systematic manner and records them in the financial statement or annual report to communicate their worth, changes in time and results obtained from their utilization to the users of the financial statements. The importance and the need for HRA as a means of evaluating human resources has been widely recognised and it is increasingly being adopted for use in many countries despite the impediments (Islam, Kamaruzzaman, & Redwanuzzaman 2013).

The application of HRA varies across organisations and countries (Boedker, Mouritsen & Guthrie, 2008). Some organisations adopt a valuation method suitable for the measurement of their human resources and report such information as additional information or provide supplementary statements in the annual reports. Swedish companies measure and report some of their intangibles such as human resources and intellectual capital according to Swedish models. Large Finnish Companies provide information on training and staff development in their corporate annual reports. United Kingdom through a business committee of practice referred to as MARIA (Managing and Reporting Intangible Assets) identify; value and report on their intangibles. India is one of the countries noted for HRA. Literature provides that a number of entities in both the public and private sectors of the country, takes interest in monetary valuation of their human resources(Pandey, 2014 & Orjha, 2013) Some companies in India particularly, INFOSYS LIMITED value and report the worth of its human resources publicly. However, there is no publicly available literature on HRA in Nigeria. The following questions are to be answered:

i. How does Asset Recognition Criteria (ARC) affect HRA practice in Nigeria?
ii. What is the effect of Disclosure requirements on HRA practice in Nigeria?
iii. What is the effect of the Existing Social Order (ESO) on HRA practice in Nigeria?

The main objective of this study is to analyse the effects of major challenges on HRA in Nigeria. Other specific objectives are to:

i. Analyse the effect of Asset Recognition Criteria (ARC) on HRA practice in Nigeria,
ii. Establish the effect of Disclosure Requirements (DR) on HRA practice in Nigeria; and
iii. Ascertain the effect of the Existing Social Order (ESO) on HRA practice in Nigeria.

A number of factors hindering HRA abound in the HRA literature. These factors include the incompatibility of investments in human resources as an intangible asset with the Generally Accepted Accounting Principles (GAAP); measurement issues which have to do with the standardization of models, abuse of HRA by managers, awareness and acceptance of the subject through accounting education, uncertainty and maintaining the status quo. The basic ground for the argument against HRA is the absence of market price and the absence of an objective valuation for the investments in human resources in an organisation (Machlup, 1984) (cited in Organisation for Economic Corporation and Development, 1996). However, the case for HRA is that human resources as value drivers may not be owned as such but the investments in human resources is examined from the perception of the convention of substance-over-form which argues that what matters in a transaction is the economic substance not the legal form (Michael, 2013). Therefore, in order to enable recommendation on HRA in Nigeria, for better understanding and for the purpose of analyses, the factors identified from HRA literature as challenges were categorized into three broad groups namely: Asset Recognition Criteria (ARC); Disclosure Requirements (DR) and Existing Social Order (ESC). ARC comprises ownership, control and future economic value while DR consists of all the requirements of the Statement Accounting Standards (SAS); Companies Act, International Financial Reporting Standards (IFRSs) and Generally Accepted Accounting Principles (GAAP). Secrecy, Awareness and Acceptance, Dynamism of some industries, Traditional measures, External factors and Ethics constitute the ESO.

2. Conceptual Review

2.1 Asset recognition criteria (ARC)

IFRS 38 defines an asset as a resource which is controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (IAS 38.8). An intangible asset is an identifiable non-monetary asset of the entity without physical substance. In practice, a large number of intangible items exist but not all of them are intangible assets. The IAS 38 Intangible Assets (IASC 2000) has established the requirements that companies are expected to meet in order to report assets as intangibles. The requirements are: (1) the intangibles are controlled by the company; (2) they are expected to generate revenues in the future; (3) the company should expect to be able to have an advantage of the return on the investments in these assets; and (4) if the value could be evaluated in a confident way. Investments in human resources meet all but the fourth criteria because to distinguish the human asset from other assets is problematic since human resources are often integrated in business processes and other techniques. Rimmel (2003) argues that several of these requirements are difficult to fulfil. However, to overcome this limitation, Butt (2013) suggests the use of the same discounting rate used for physical assets. The subject should be considered along with other risk matters by each company's risk management committee.

2.2 Disclosure requirements

The information to be disclosed and the extent of disclosures are usually stipulated by the prevailing Statement of Accounting Standards (SAS), International Financial Reporting Standards (IFRS) and the Companies Act which provides the legal backing for the activities of incorporated firms. The existing standards under the conventional accounting system have no provision for reporting human resources as assets therefore there is no disclosure index. At the moment, it is difficult to communicate cost and value of human resource in a standardized form due to restrictive legislations. This limitation can be overcome where the government or accounting bodies are interested in reporting human resource investments. This can be done voluntarily by adopting a model and introducing a policy. It is to this effect that Kristensen and Westlund (2003) argued for a new and improved reporting system to provide relevant and reliable information on intangible assets such as human resources.

2.3 Existing social order (ESO)

The existing social order which is the freedom to act on traditional measures such as turnover, profits, and earnings affects HRA practice. Managers resist the collection of human resource data because it is assumed to be an apparent breach of existing accounting standards as observed by Butt (2013). According to Srikanth and Shenog (2010) there is no legal compulsion to depict human resource in the balance sheet (Statement of Financial Position). Therefore, providing the financial metrics on human resources of an entity publicly amounts to altering the existing social order of any business setting. Similarly, Gates (2002) and Akinsoyinu (1992) opine that the problems of HRA rest mainly on the reporting companies themselves. This is because being held accountable for performance in an area not previously measured can be very threatening to a manager, whose good performance record may have been achieved at the expense of neglecting human resource data. Resistance can be expected because these data potentially lead to restrictions on the freedom to act on such traditional measures as sales and profits. One major factor that constitutes existing social order is secrecy. Information required to be disclosed under HRA is considered confidential. Disclosure of sensitive information may give important insight to competitors or it may be negatively interpreted to the detriment of the reporting entity. This conforms to Grojer's (1997) observation that HRA measures are successful only when it suits the social order in organizations. It therefore means that for

HRA to be practiced, the existing social order must be redesigned to accommodate HRA variables.

3. Methodology

The study is explorative in design. It made use of primary data collected via a survey instrument and adopted the quantitative approach to data analysis. Primary data were collected from a survey of eighty accounting experts selected from among individual Professional Accountants who are registered members of the Association of National Accountants of Nigeria (ANAN) and the Institute of Chartered Accountants of Nigeria (ICAN). Three hypotheses were formulated.

1. **H_0**: HRA in Nigeria is not significantly affected by Asset Recognition Criteria (ARC).
2. **H_0**: HRA in Nigeria is not significantly affected by Disclosure Requirements (DR)
3. **H_0:** HRA in Nigeria is not significantly affected by the Existing Social Order (ESO).

The Binomial Logistic Regression, an inferential statistical tool was used to test the null hypotheses at a five per cent level of significance. The independent variables are Asset Recognition Criteria (ARC); Disclosure Requirements (DR) and Existing Social Order (ESO). The dependent variable is human resource accounting.

4. Results and Findings

IBM SPSS (Version 21) was used to run regression on the data collected via questionnaires and the results from the analyses are discussed below.

Analysis of Data on the Effect of ARC on HRA in Nigeria

The results of the analysis of data on the effect of ARC on HRA in Nigeria are displayed in table 1. From table 1 the variable ARC shows that there is a negative relationship between Asset Recognition Criteria and HRA in Nigeria inasmuch as, the relationship is weak and insignificant. This indicated that asset recognition criteria have exposed non-practice of human resource accounting in Nigeria. The predictor variable ARC shows that about (1-0.558)*100= 44.2% of human resource accounting is less likely to be practiced in Nigeria. The result shows an insignificant relationship at a 5% level of significance since the p-value (0.270) is greater than the alpha of 0.05. In order to make generalization the first hypothesis is tested at a 5% level of significance with the aid of logistic regression model.

H_0: HRA in Nigeria is not significantly affected by Asset Recognition Criteria (ARC)

$$L_i = In\frac{P_i}{1-P_i} = \beta_1 + \beta_2 ARC + ui \qquad \text{... (1)}$$

Where:
L is the logit.
P_i, the probability of positive, is given in 1 = practice of Human resource accounting
(1 - P_i), the probability of negative response, in 0 = non-practice of Human resource accounting
Ln = log
ARC= Asset recognition Criteria
β_1= Intercept of the model
β_2= Coefficient of Asset recognition Criteria
u_i= error term
In its testable form it is stated as:

1. **H_0**: $\mu=0$
2. **H_A**: $\mu\neq0$
3. $\alpha = 0.05$
4. Calculated value $(p) = 0.270$
5. Decision rule: If $p - value$ is less than the level of significance at 5%, $i.e. (\rho < \alpha)$ we reject the null hypothesis; otherwise we fail to reject the null hypothesis.
6. Decision: Since the $p - value$ of the test, 0.270 is greater than 0.05, there is at least 27% chance that the relationship between Asset Recognition Criteria and HRA in Nigeria is due to chance. Hence, we fail to reject the null hypothesis **($H_0$1)** and conclude that HRA in Nigeria is not significantly affected by Asset Recognition Criteria (ARC).

Table 1: Variables in the ARC Equation

		B	S.E.	Wald	Df	Sig.	Exp (B)
Step 1[a]	**ARC**	-.584	.529	1.217	1	.270	.558
	Constant	-1.010	.765	1.745	1	.186	.364

Source: Analysis of Data Collected (Field study 2015).

Analysis of Result on the Effect of Disclosure Requirements (DR) on HRA in Nigeria

From table 2, the second variable DR shows that there is a negative and strong relationship between disclosure requirements and HRA Nigeria. This means that disclosure requirement's effect is less likely to promote the practice of human resource accounting in Nigeria. It indicates that DR accounts for about (1-0.359)*100= 64% of HRA not being applicable in Nigeria. The relationship also shows a significant effect because the p-value (0.006) is less than 0.05.

In order to make generalization, the second hypothesis is restated and tested at a 5% level of significance with the aid of logistic regression model.

H$_0$: HRA in Nigeria is not significantly affected by Disclosure Requirements.

$$L_i = In\,\frac{p_i}{1+p_i} = \beta_1 + \beta_2 DR + ui \qquad \ldots (2)$$

Where:

L is the logit.

P_i, the probability of positive, is given in 1= practice of Human resource accounting

(1 - P_i), the probability of negative response, in 0 = non-practice of Human resource accounting

Ln = log

DR = Disclosure Requirement

β_1= Intercept of the model

β_2= Coefficient of Disclosure Requirement

u_i= error term

In its testable form it is stated as:

1. H$_0$: μ=0
2. H$_A$: μ≠0
3. $\alpha = 0.05$
4. Calculated Value (p) = 0.006
7. Decision rule: If $p - value$ is less than the level of significance at 5%, $i.e. (\rho < \alpha)$ we reject the null hypothesis; otherwise we fail to reject the null hypothesis.
5. Decision: Since the $p - value$ of the test, 0.006 is less than 0.05, there is less than 1% chance that the relationship between disclosure requirements and HRA in Nigeria is due to chance. Hence, we reject the null hypothesis **(Ho2)** and conclude that HRA in Nigeria is significantly affected by disclosure requirements..

Table 2: Variables in the DR Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	**DR**	-1.024	.374	7.480	1	.006	.359
	Constant	.057	.670	.007	1	.932	1.059

Source: Analysis of Data Collected (Field study 2015).

Analysis of Data on the Effect of Existing Social Order (ESO) on HRA in Nigeria

From table 3, ESO has a positive effect on HRA in Nigeria. The result means that existing social order is more likely to facilitate human resource accounting in Nigeria. This is possible by 1.038 times. The P-value (0.859) indicated an insignificant relationship because it is higher than 0.05.

In order to make generalization the third hypothesis is restated and tested at a 5% level of significance with the aid of logistic regression model.

H$_0$: HRA in Nigeria is not significantly affected by the Existing Social Order (ESO).

$$L_i = In\,\frac{P_i}{1-P_i} = \beta_1 + \beta_2 ESO + ui \qquad \ldots (3)$$

Where:

L is the logit.

P_i, the probability of positive, is given in 1= practice of Human resource accounting

(1 - P_i), the probability of negative response, in 0= non-practice of Human resource accounting

Ln = log

ESO= Existing Social Order
β_1= Intercept of the model
β_2= Coefficient of Existing Social Order
u_i= error term

In its testable form it is stated as:

1. H_0: μ=0
2. H_A: $\mu \neq 0$
3. α =0.05
4. Calculated value $(p) = 0.859$
8. Decision rule If $p - value$ is less than the level of significance at 5%, $i.e. (\rho < \alpha)$ we reject the null hypothesis; otherwise we fail to reject the null hypothesis.
5. Decision: Since the p-value of the test, 0.859 is greater than 0.05, there is at least 86% chance that the relationship between the Existing Social Order and HRA in Nigeria is due to chance. Hence, we fail to reject the null hypothesis **($H_0$3)** and conclude that HRA in Nigeria is not significantly affected by the Existing Social Order.

Table 3: Variables in the ESO Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	**ESO**	.037	.208	.032	1	.859	1.038
	Constant	-1.934	.718	7.252	1	.007	.145

Source: Analysis of Data Collected (Field study 2015).

5. Conclusion

This paper examined the major impediments to HRA in Nigeria. The specific objectives of the study were to analyse the effects of Asset recognition criteria; disclosure requirements and existing social order on HRA in Nigeria. Primary data were collected and analysed using the binomial regression analysis statistical tool. Asset Recognition Criteria (ARC) was found to be negatively related to HRA practice therefore, discouraging HRA in Nigeria. Disclosure Requirements (DR) was also negatively related to HRA in Nigeria, with a very strong and significant relationship. This means DR discouraged HRA in Nigeria. Existing Social Order (ESO) on the other hand, was found to be positively related to HRA and more likely to accelerate HRA in Nigeria.

For the fact that the human resource is fundamental to the value creation process and a source of sustainable competitive advantage, the authors of this study recommend that the accounting profession through the Accounting Standards and Regulatory bodies should consider developing guidelines for the application of HRA. This will encourage accounting for human resources by entities and disclosure of HRA information. This will bridge the information gap created by non-disclosure of human resource information and provide a fair representation of useful information for the purpose of decision-making.

This study contributes to knowledge in the field of accounting and specifically HRA literature by analysing the effects of major impediments to HRA.

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