



IMPACT OF HUMAN CAPITAL REPORTING ON THE SUSTAINABLE FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

IMEOKPARIA A. Lawrence, OJO David Folorunso and ORAKA K. Fred

Economics, Accounting and Finance Department, Bells University of Technology
Correspondence: laeimeokparia@bellsuniversity.edu.ng; laeimeokparia@gmail.com

Abstract

This study aimed to investigate the influence of human capital reporting on the sustainable financial success of deposit money banks listed on the Nigerian Stock Exchange. Three indicators of financial performance, namely profit after tax (PAT), return on equity (ROE), and earnings per share (EPS), were examined, with personnel cost expenditures and leverage used as proxies for human capital reporting. The research employed an ex-post facto research design and conducted multiple regression analysis. Secondary data from audited financial reports of ten specified deposit money banks between 2012 and 2021 were analyzed. The results indicated that human capital expenditure reporting had a significant positive impact on the profit after tax (PAT) indicator, as evidenced by a coefficient of 0.462111 and a statistically significant p-value of $0.0000 < 0.05$. Similarly, human capital reporting positively influenced the return on equity (ROE) indicator, with a coefficient of 0.024380 and a significant p-value of $0.0001 < 0.05$. However, there was no significant relationship found between human capital reporting and earnings per share (EPS), indicated by a negative coefficient of -0.130747 and a non-significant p-value of $0.8503 > 0.05$. On the other hand, leverage significantly contributed to an increase in the EPS indicator, with a positive coefficient of 86.01165 and a statistically significant p-value of $0.0000 < 0.05$. The adjusted R-squared values indicated that human capital reporting and leverage explain a substantial portion of the variations in the performance of deposit money banks in Nigeria, with values of 68.83% for the PAT model, 51.66% for the ROE model, and 46.59% for the EPS model. In conclusion, the study found that disclosing and reporting human capital development expenditure has a positive and significant impact on the profit generation capability of selected banks. It emphasizes the importance of incorporating human capital spending into financial statements to enhance bank profitability and highlights the need to consider sustainability in financial performance assessments. Therefore, it is recommended that organizations disclose and report human capital spending as assets in their financial statements, to be amortized over a reasonable period.

Keywords: Human Capital, Assets, Banks, Employees, Financial Performance.

1. Introduction

The concept of "human capital resources" refers to the workforce comprising a business entity's labor force, and it has gained significant global recognition. Today's businesses rely on the innovation, creativity, expertise, and in-depth knowledge of individuals, which contribute to the efficient production of goods and provision of services. Recognizing the importance of human resources, business owners invest in their employees to build human capital, with the goal of increasing productivity and fostering innovation.

Human capital investment represents the expenditure on employees' knowledge, skills, experience, principles, engagement, and training. In financial terms, it encompasses the monetary resources that companies contribute or spend on their workers, taking into account their experience, expertise, education, and dedication (Imeokparia et al., 2020). Human capital is a critical force that generates economic growth, helps companies develop and sustain a competitive edge, and creates wealth (Abdel-Aziz, 2013). Without human resources, other



factors of production such as money, materials, machines, and methods cannot effectively operate (Enofe et al., 2013).

Human resources reporting is a process through which firms track factors related to their workers and labor force. This reporting enables HR managers to analyze data and discover critical statistics about their organization. Human capital reporting, on the other hand, involves delivering informed data about the workforce, HR operations, and organizational trends that support business growth. It includes the corporate organization chart, employee information, their knowledge and abilities, pay, and firm policies, among other aspects. It requires revealing the estimated value of the firm's intangible human capital.

Notable researchers such as Osemeke (2017), Babalola et al. (2020), and Afolabi (2014) have noted that while many firms recognize their workers as their most valuable resources, only a few have effectively utilized models and concepts for quantifying human capital in their annual financial reports. This lack of recognition and measurement of human capital in financial statements leads to the disclosure of costs related to human capital as expenses in the statement of comprehensive income, rather than recording them as assets (Kirfi et al., 2012). This includes quantifying costs incurred for recruitment, selection, hiring, coaching, and development of workers, as well as appraising their economic worthiness to the company.

Challenges arise in quantifying human capital in monetary terms and analyzing it within financial reports to ensure reasonable Human Capital Accounting Disclosure (HCAD) (Akintoye et al., 2015). Organizations have invested significant amounts of money in training and upgrading the skills and talents of their workers to improve performance and achieve corporate goals in terms of financial performance. However, these investments often fail to reflect as assets in financial reports due to the lack of accurate information and policies for valuing and recording human capital (Edom et al., 2015). Researchers such as Nana et al. (2013) emphasize that the overall performance of any organization is subject to providing good salary packages to employees and increasing staff retirement benefits, as these factors motivate employees and boost their morale, thereby improving financial performance. Similarly, Sowumi et al. (2015) affirm the importance of manpower capital evolution on the financial performance of deposit money banks, highlighting the significance of recognition, regular salary payments, effective training policies, staff welfare, and pension schemes in motivating employees to achieve corporate objectives. Furthermore, Babalola et al. (2020) assert that a bank's financial performance can be evaluated from the perspective of profits after tax, earnings per share, customer deposit base, return on assets, and return on equity.

Statement of the Research Problem

The research problem addressed in this study relates to the challenges and lack of recognition in quantifying and reporting human capital in the financial statements of organizations, particularly in the context of sustainability. While human capital is acknowledged as a critical resource for driving economic growth and maintaining competitiveness, there is a limited application of models and concepts for quantifying and reporting human capital in annual financial reports. Instead, expenses related to human capital are often recorded without recognizing them as valuable assets. Furthermore, the absence of a regulatory framework for reporting on human capital in financial statements exacerbates the issue. This lack of standardized measurement and reporting impedes the assessment of Human Capital Accounting Disclosure (HCAD) from a sustainability perspective. Addressing this problem requires the development of accurate information and policies to appropriately value and document human capital as a valuable asset within financial reporting.

Objectives of this Study

The primary aim of this research is to evaluate the impact of human capital reporting on sustainable financial performance of DMBs measured by profit after tax (PAT), return on equity (ROE), and earnings per share (EPS). The study specifically aims to achieve the following objectives:

1. Determine if a significant relationship exists between human capital reporting (HCR) and profit after tax (PAT).
2. Examine whether there is a significant relationship between human capital reporting (HCR) and return on equity (ROE).
3. Investigate whether there is a significant relationship between human capital reporting (HCR) and earnings per share (EPS).

Research Hypothesis

Three research hypotheses stated in their null form will be tested in this work. They are:

1. Null Hypothesis (H_0): There is no significant relationship between human capital reporting (HCR) and profit after tax (PAT).
2. Null Hypothesis (H_0): There is no significant relationship between human capital reporting (HCR) and return on equity (ROE).
3. Null Hypothesis (H_0): There is no significant relationship between human capital reporting (HCR) and earnings per share (EPS).

2. Literature Review

Concept of Human Capital Reporting

Human capital reporting refers to the practice of systematically measuring, disclosing, and communicating information about an organization's human capital resources and their impact on the organization's performance and value creation. It involves capturing and reporting data on various aspects of human capital, including employee skills, competencies, experience, diversity, training, development, and engagement. (Hasas et al., 2013).

Human capital, as a valuable resource for organizations, should be recognized and reported as an asset in financial statements (Akintoye et al., 2016). However, it has been observed that many organizations claim in their annual reports that their employees are their most valuable asset, while their financial statements do not reflect this recognition. Instead, all human capital expenditures are treated as expenses (Micah et al., 2012).

The expenses related to human capital include various costs such as recruitment, selection, hiring, placement, promotion, training, salaries, bonuses, healthcare, and development. These expenditures create long-term benefits that extend beyond the current accounting period, as employees contribute value to the organization (Bullen et al., 2010).

Comprehensive reporting of human capital resources in financial reports allows stakeholders to better understand the unique characteristics and significance of human capital (Hasas et al., 2013). By recognizing and reporting human capital as an asset, organizations can enhance the quality of management decisions and promote the effective utilization of this valuable resource.



Theoretical Framework

The theoretical framework adopted in this study is the human capital theory, developed by Chambers (1996) and expounded by Charles E. Ezeagba (2016). This theory posits that labor, which refers to humans as a resource, is the main driver of wealth for a country or organization, as argued by the classical economists. While acknowledging the importance of other factors of production such as capital and land, the theory asserts that people are the most valuable resource of a country or organization. Sowumi et al. (2015) note that human resources form the ultimate foundation for a country's wealth.

The human capital theory further suggests that people have an infinite amount of talent, knowledge, and abilities that can be developed and harnessed to ensure the survival and advancement of an organization. The theory emphasizes the significance of formal education as a means of improving a population's production potential. According to Aliyu et al. (2014), human capital theorists contend that an educated population is a productive population

Empirical Review

Beattie and Smith (2010) conducted a research study titled "Human Capital Value Creation and Disclosure" in which they examined the impact of human capital on thirteen listed companies in Glasgow, United Kingdom, using questionnaire surveys. Their findings revealed that employee skills, education, commitment, positive attitudes, behaviors, and motivation were believed to contribute to the value creation of an organization. They recommended that these factors should be reported in the statement of financial position as an asset.

Fariborze et al. (2011) conducted research on a few Iranian companies in Asia and found that the lack of human capital accounting disclosure in financial statements left consumers uninformed. They concluded that including human capital accounting data in financial reports gradually affects individuals' investment decisions in stocks.

Nana et al. (2013) conducted research on manpower training and profitability of Zenith Bank Plc. Their study affirmed a positive link between manpower education and the profitability of Zenith Bank. They emphasized that organizations seeking success and progressive growth must prioritize the training and development of their workforce.

Similarly, Isola et al. (2015) applied Lev & Schwartz's model of present value of future cash inflows to analyze human resources valuation in Zenith Bank Plc. They found that measuring human resources and disclosing human value in financial statements as an asset can increase investment in a business firm, as it assures investors that their investments will be efficiently managed.

Babalola et al. (2020) conducted research on human resources accounting and its effect on the financial performance of deposit money banks in Nigeria. Their findings showed a positive and statistically significant relationship between human capital spending and financial performance. They recommended that human capital spending should be capitalized and amortized over the estimated period of service.

Adebawojo et al. (2015) employed an ex-post facto research design to study human capital accounting and corporate performance in First Bank Nigeria Plc. Their empirical research revealed that accounting for human capital expenditures significantly influenced the bank's performance. They also found that understating the firm's profit had a detrimental impact on return on assets, earnings per share, market value per share, and shareholders' funds.

Micah et al. (2012) conducted a study on the correlation between a firm's financial success and human resource accounting disclosure of business firms in Nigeria. Their findings, based on five years of financial data, demonstrated that financial performance accounted for 75.9% of

the changes in human resource accounting disclosure. The positive relationship between Return on Equity and Human Resource Accounting Disclosure indicated that an increase in Return on Equity motivated businesses to disclose information about their human capital, enhancing stakeholder confidence and external reputation.

These studies collectively provide empirical evidence supporting the importance of human capital reporting and its positive impact on organizational performance and financial indicators. They highlight the need for recognizing human capital as a valuable asset and incorporating it into financial reporting frameworks.

3. Methodology

This study employed an ex-post facto research design and focused on ten major deposit money banks listed on the Nigeria Stock Exchange as of June 2022. The selected banks included Access Bank Plc, First Bank Nig Ltd, Union Bank, Zenith Bank, Guaranty Trust Bank, United Bank for Africa (UBA), Fidelity Bank, Wema Bank, FCMB, and Unity Bank Plc.

The study utilized ten years of financial statements (2012-2021) from these banks to examine the impact of human capital. Secondary data was obtained from publications on the website of the Nigerian Stock Exchange (NSE) and audited financial reports of the listed deposit money banks. Multiple regression analysis was conducted using panel data from 2012 to 2021, covering a period of ten years for the ten listed deposit money banks.

Model Specification

In this study, the model developed by Imeokparia et al. (2020) and Charles Ezeagba (2016) was be adopted. The model is represented as follows:

$$\text{Financial Performance (FPER)} = f(\text{HCR, LEVR}) \quad (1)$$

Based on equation (1), the study will examine the impact of human capital reporting, measured by Human Capital Expenditure Reporting (HCR), on three different measures of financial performance: Profit After Tax (PAT), Return on Equity (ROE), and Earnings per Share (EPS). Leverage (LEVR) will be included as a control variable.

The models for this study are as follows:

$$\text{PAT} = \beta_0 + \beta_1\text{HCR} + \beta_2\text{LEVR} + \mu \quad (2)$$

$$\text{ROE} = \beta_0 + \beta_1\text{HCR} + \beta_2\text{LEVR} + \mu \quad (3)$$

$$\text{EPS} = \beta_0 + \beta_1\text{HCR} + \beta_2\text{LEVR} + \mu \quad (4)$$

Where: PAT = Profit After Tax (Net Earnings) EPS = Earnings per Share ROE = Return on Equity HCR = Human Capital Expenditure Reporting LEVR = Leverage (Control variable) β_0 = Constant β_1 = Coefficient of HCR μ = Stochastic Error Term.

These models will be used to analyze the relationship between human capital reporting, leverage, and the financial performance indicators.

4. Results And Discussion

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Deviation	Minimum	Maximum
PAT	100	48506.46	61219.51	819.0000	244558.0
ROE	100	0.117708	0.113344	0.002995	0.800411
EPS	100	5.984400	15.90066	0.000000	127.6200
HCR	100	24066.90	17123.34	58.00000	55077.00

Source: Authors Computation (2022)

The descriptive statistics for the datasets used in this study are displayed in Table 1. The table shows that the average value of PAT, ROE, EPS, and HCR are 48506.46, 0.117708, 5.984400 and 24066.90 respectively. The standard deviation reflects the degree of deviation of the series from its actual mean. In this instance, PAT (61219.51) and EPS (15.90066) deviate from its actual mean while ROE (0.113344) and HCR (17123.34) were discovered not to deviate from the actual mean. This shows that the majority of the banks made better use of their resources to advance their workforce's human capital development

Table 2: Multiple Regression Results

	PAT		ROE		EPS	
	P-Value	Co-efficient	P-Value	Co-efficient	P-Value	Co-efficient
HCR	0.0000*	0.0023*	0.000*1	0.1114	0.8503	0.0000*
LEVR	0.462111	-3.212542	0.024380	- 0.144111	-0.130747	86.01165
Constant	0.0000	5.914972	0.0956	-0.95175	0.8023	-1.643468
Observations	100		100		100	
R-Squared	0.688333		0.516621		0.465958	
Adjusted R-Squared	0.611875		0.418699		0.399203	
Prob. F-Statistic	0.000004		0.020458		0.000000	

Source: Authors Computation (2022)

In table 2, the coefficient for HCR being 0.462111 for PAT model is positive with P-values of 0.0000 < 0.05 showing existence of a significant positive relationship while the coefficient for LEVR concerning PAT being -3.212542 is negative but with a statistically significant p-value of 0.0023 < 0.05. This shows that human capital expenditure reporting significantly contributes to an increase in the PAT indicator of deposit money banks in Nigeria

Furthermore, the coefficient for HCR with respect to ROE being 0.024380 is positive with p-value of 0.0001 < 0.05 indicating a significant positive relationship. In the same vein the coefficient for leverage amounting to -0.144111 is negative, with p-values 0.1114 > 0.05 level of significance. This reveals that HCR significantly contribute to increase in ROE indicator for the banks in Nigeria

In addition, the coefficient for HCR in relation to EPS being -0.130747 is negative with p-value 0.8503 > 0.05 level of significance thus indicating no significant relationship. Similarly, the coefficient for leverage in terms of EPS being 86.01165 is positive with p-values 0.0000 < 0.05 which is statistically significant. This indicates that HCR has no significant impact on EPS performance, but leverage significantly contributes positively to increase in EPS indicator of Nigeria deposit money banks.

The adjusted R-squared value is PAT model 68.83%, ROE model 51.66% and EPS model 46.59%. This shows that human capital reporting and leverage could explain the changes in the performance of deposit money banks in Nigeria.

5. Conclusion and Recommendations

In conclusion, this study highlights the significance of human capital reporting (HCR) for the sustainable financial performance of Nigerian deposit money banks (DMBs). The findings indicate that effective disclosure and reporting of human capital development expenditures have a positive and significant impact on the profit after tax (PAT) and return on equity (ROE) of DMBs. This implies that incorporating human capital as a valuable asset in financial statements promotes the sustainable growth and success of banks.

However, it is noteworthy that there was no significant impact on earnings per share (EPS), which aligns with previous research by Charles E. Ezeagba (2016) and Yusuf (2011). Nonetheless, Yusuf (2013) found a positive relationship between human capital and earnings per share in the Nigerian banking and industrial foods sector. These contrasting findings suggest the need for further exploration to fully understand the role of human capital reporting in driving sustainability in the banking industry.

Based on the study's findings, it is recommended that:



- i. Deposit money banks (DMBs) in Nigeria incorporate human capital spending as a part of their sustainability reporting. This involves disclosing and reporting human capital investments as assets in the financial statements, amortized over a suitable period. By doing so, DMBs can provide stakeholders with valuable information about the organization's commitment to investing in human capital and its long-term impact on financial performance.
- ii. In addition, organizations should prioritize the proper documentation and tracking of all human capital development expenditures to ensure accurate disclosure and reporting. This will enable DMBs to demonstrate their efforts in developing and nurturing their workforce, which contributes to their sustainability goals.

By adopting these recommendations, DMBs can enhance transparency, accountability, and sustainability in the banking sector. Investors and stakeholders will have a clearer understanding of the value and potential returns associated with human capital investments. Moreover, by recognizing human capital as a critical asset, DMBs can align their strategies and decision-making processes to prioritize the development and well-being of their employees.

Further research can expand on this study by exploring additional sustainability-related variables and considering a larger sample size. This would provide a deeper understanding of the relationship between human capital reporting, financial performance, and overall sustainability in the Nigerian banking industry.

REFERENCES

- Abubakar, S. (2009). A Critique of the concept of Human Resource Accounting, *Nigerian Journal of Accounting and Finance*. 1(1). 93 – 105
- Abdel-Aziz, A. S. (2013). The Relationship between Human Capital and Jordanian Pharmaceutical Organizations' Business Performance: *International Journal of Academic Research in Business and Social Sciences*, 3(1), 260 – 279
- Adebawojo, O. A., Enyi, P. E. & Adebawo, O. O. (2015). Human asset accounting and Corporate Performance. *American International Journal of Contemporary Research*. 5(1)
- Afolabi, (2014). Human Resources Accounting and Disclosure in Financial Statement. *Journal of finance and Accounting* 5(22)
- Akintoye, I. R., Olowolaju, P. S. & Odewusi, O. O (2015) Accounting for Human Assets in the Statement of Financial Position. How Realistic is the Lev and Schwarz Model? *British Journal of Arts and Social Sciences*. 20(11)
- Akintoye, R., Jayeoba, O., Awoniyi, O., and Ifayemi, M., (2016). Improvement on Human resources Accounting Disclosure Practice in Financial Statements through IFRS; Evidence from Nigerian Banks. *International Journal of business and commerce* 5(7), (1-17)
- Aliyu, M. G., Suhal, K., and Suriyani, M. (2014). Investing in human resource development: empirical evidence from banking institutions of Malaysia and Nigeria. *Journal of Economics and Sustainable Development*, 5(12).
- Azmir, H. and Nazma A. (2014). An Empirical Analysis on Importance of Human Resource Accounting Practices in the organizations. *International Journal of Ethics in Social Sciences* 2 (2)
- Babalola Oluwayemi Oginni, Johnson Kolawole and Adisaomotayo Ikotun (2020). Human Resource Accounting and Financial Performance of Deposit Money Bank in Nigeria, *Nigeria Defence Academy Journal of Economics and Finance Vol 4(1)*, 329- 339
- Beattie, V, and Smith, S. (2010). Human Capital, Value Creation and Disclosure. *Journal of Human Resource Co and Accounting*, 14 (4), 262-285



- Bullen, M.L., and Eyler, K.A. (2010). Human Resources Accounting and International Developments: Implications for Measurement of Human Capital. *Journal of International Business and Cultural Studies*. 3 (3), 1-16.
- Charles, E. E. (2016). Effect of Human Capital Development on the Financial Performance of Banks in Nigeria: A Study of Selected Public Quoted Commercial Banks: *Journal of Advance Research in Business, Management and Accounting*, 3 (11), 1-32.
- Edom, G.O., Inah, E.U. & Adanma, E.S. (2015). The Impact of Human Resource Accounting on the Profitability of a Firm: Empirical Evidence from Access Bank of Nigeria Plc. *European Journal of Accounting, Auditing and Finance Research*. 3(7), 76-94
- Enofe, A.O., Mgbame. C. Otuya S. and Ovie C. (2013). Human Resources Accounting Disclosures in Nigeria quoted firms. *Research journal of Finance of Accounting*, 4(3)
- Fariborz, A. and Raisahekar, H. (2011). Decision Making based on Human Resource Accounting Information and its evaluation method. *Asian Journal Finance and Accounting, Macro Think Institute*. 3(1), 32-31
- Hasas, Y., Rahimiyan, N., and Tavakolnaya, E., (2013). *The study of the valuation of Human Capital Reporting*, National conference on valuation of human capital.
- Imeokparia L. and Oyinloye J. B. (2020). Effect Of Human Capital Investment on Financial Performance of Deposit Money Banks in Nigeria. *Journal of the Social Sciences*. 10(3), ISSN 1595-2738. © Faculty of Social Sciences, Usmanu Danfodiyo University, Sokoto Online ISSN 2384-7654
- Ishola, R. A., Olowolaju, P. S., and Odewusi, O. O. (2015). Accounting for Human Asset in the Statement of Financial Position: How Realistic is the Lev and Schwarz Model? *British Journal of Arts and Social Sciences*. 20 (11)
- Kirfi, M. M and Abdullahi, A. (2012). “Human capital accounting: assessing possibilities for Domestication of practice in Nigeria”. *Research and Journal of Finance and Accounting*. 3(10), 57-63
- Micah, L. C., Ofurum, C. O. and Ihendinihu, J. U. (2012). Firms Financial Performance and Human Resources Accounting Disclosure Banks in Nigeria. *International Journal of Business and Management*, 7(14).
- Nana, B., Okpara, F., and Abubakar (2013). Manpower training and development: A tool for higher productivity in Zenith Bank plc. *European Journal of Business and Management*. 5(28).
- Ofurum and Adeola (2018). Human Resource Accounting and Profitability of Quoted firms in Nigeria. *International Journal of Advanced Academic Research / Accounting and Economic Development*, 4(4), 21-30.
- Osemeke M. (2017). Human Resources Accounting: Issues, Benefits and Challenges *International Journal of Economics, Finance and management Sciences* 5(3), 129 -138.
- Prosvirkina, E. (2014). Human resources effectiveness in the Russian banking industry. *Humanity & Social Sciences Journal*, 54 (3), 11-17. doi: 10.7763/IPEDR. [21].
- Sowumi, S.O., Eleyewo, I.O., Salako, M.A. and Oketokun, F.O. (2015). Human Resource Development as a correlate of Performance of the Banking Industry in Ogun State, Nigeria. *Journal of Economics and International Finance*. 7(5). 112- 126
- Yusuf, I. (2011). An Assessment of the Impact of Investment in Human Capital on the Performance of Nigerian Banks. (Master's Thesis, Ahmadu Bello University, Zaria, Nigeria.). Retrieved from Pro Quest Dissertation and Thesis.



- Yusuf, I. (2013). The Relationship between Human Capital Efficiency and Financial Performance: An Empirical Investigation of Quoted Nigerian Banks. *Research Journal of Finance and Accounting*, 4(4).