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HUMAN RESOURCE DISCLOSURES AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Human resource is now widely accepted as one of the most important assets possessed by organizations. However, obstacles encountered in the recognition of human resource as an asset rests largely on its characteristic, quantification in monetary terms and the mode of reporting. Therefore, the objective of this study is to examine the relationship between Human Resources Disclosures and the Financial Performance of Deposit Money Banks in Nigeria. Five years financial data (2007 – 2011) of twenty two banks in Nigeria as was listed on the Nigeria Stock Exchange (NSE), of which twelve were selected using the simple random sampling technique. The collected data was analyzed with the aid of the SPSS statistical package (Version 16.0). Two models were examined and both showed a strong and positive relationship between Human Resource Disclosure Index (HRDI) and Return on Assets (ROA) on the one hand and Return on Equity (ROE) on the other hand with an F-ratio of 9.431 and 14.681 being significant at both 5% and 1% confidence level respectively. The study concludes that human resource information is an important factor for management decision making, as there

is growing evidence of interest and demand amongst stakeholders for information about firm relationship human capital. Therefore, the study recommended that standards should be provided for the identification and measurement of human resource disclosures in Nigerian banks. Similarly, *banks in addition to preparing its traditional financial statements should be encouraged to prepare a separate statement pertaining to its human capital assets.*

Keywords: *Human resource disclosure index, human capital, return on assets, return on equity.*

1. Introduction

Human resources *(HR)* are the energies, skills, talents and knowledge of people which are or which potentially can be applied to the production of goods or the rendering of useful services. Therefore, Human Resource Accounting *(HRA)* is thus the process of identifying and measuring data about human resource and communicating this information to interested parties. Human resource is now widely accepted as one of the most important assets possessed by organizations. However, initial obstacles encountered in the recognition of human resource as an asset rest largely on its characteristic, quantification in monetary terms and the mode of its reporting (Rao, 1993; Lev, 2001; Ramakanta & Khatik, 2003; Roslender, 2004; Kodwani & Tiwari, 2007).

Sveiby (1997) contended that human capital, intellectual capital and structural capital concepts are similar to other assets. He also argued that organizations acquire human resources to generate future revenues, therefore human resources should be considered when valuing a company by capitalizing rather than "expensing" it in the current period. Hence, human resources is seen largely as an integral part of the firms' value-creating process, as well as creating and maintaining a competitive advantage (Coff, 1997; Becker, Huselid & Ulrich, 2001; Bullen 2007). Therefore, companies invest very large amounts in human capital assets, but the problem however is that these investments are either immediately expensed in the Income Statement or are arbitrarily amortized, as such they are not fully reflected on the Statement of Financial Position *(SFP)* of the firms'. Consequently, the book values of the companies with significant amount of human capital investments are thus not related to their market values (Cascio, 1998; Ali, Ahmed & Henry, 2004; Boedker, Mouristan & Guthrie, 2008).

However, information of human capital are not adequately presented on the *SFP* or other financial statements, because no regulations need to be met. There is also a strict recognition criterion for intangible assets which does not allow human resource to be shown as an asset in the *SFP* (Flamholtz, Bullen & Hua, 2002). Therefore, the objective of this study is to examine the human resource disclosures and its relationship with the financial performance of Deposit Money Banks *(DMB)* in Nigeria. To achieve the above objective, the following hypotheses are tested:

$H0_1$: There is no significant relationship between Human Resource Disclosures and the Return on Assets of Deposit Money Banks in Nigeria.
$H0_2$: There is no significant relationship between Human Resource Disclosures and Return on Equity of Deposit Money Banks in Nigeria.

2. Review of Related Literature

Becker, Huselid and Ulrich (2001) argued that human capital refers to the productive capabilities of people. Their skills, experiences and knowledge, all of which have an economic value to the organization enable the organization to be productive and adaptable. Thus, people constitute the organization's human capital assets (Bassey & Arzizah, 2012). However, the controversy is the method of reporting human capital assets as to whether it is value-relevant to be considered as an asset, even though its association with a company's expected future benefit is not certain. One school of thought considers it as what people owned from learning, experiences and skills. Another school of thought delineated it as human capabilities that is directly linked to duties performed (Bassey, 2012), thus, recent emphasis on Intellectual Capital *(IC)* and human capital disclosures can be attributed partly to the interest on enhanced voluntary corporate disclosures of non-financial information (IASB, 2000; FASB, 2001; DMSTI, 2003).

In Nigeria, the Companies and Allied Matters Act (*CAMA*) 1990 and supplemented by the Nigeria Accounting Standards Board *(NASB)* sets the general framework for financial accounting and basic minimum requirements with regards to financial reporting by registered companies in Nigeria. Nigeria did not have an accounting standard on intangible assets until the issuance of *SAS, 22* on Intangible Assets in 2006 (Bassey & Arzizeh, 2012). Though *SAS, 22* is directly related to intellectual capital drivers, human capital was treated as an "expense" in the Income Statement. Furthermore, the Central Bank of Nigeria

(CBN) did not issue any specific guidelines on *HR* disclosures for banks for the preparation of Annual Financial Statements.

The relatively low importance placed on human capital information can be attributed to the method by which human capital is conceptualized and operationalized in intellectual capital disclosure researches. Sveiby (1997) conceptualization of employee competence as the stock of knowledge embodied in the organization's employee has a strong link with human capital theory which states that an individual's skills, experience and knowledge generates economic value (Coff, 1997). Intellectual capital resource that includes human capital are an increasingly important factor for the successful achievement of organizational objectives (Guthrie and Petty, 2000), as such, it is important that financial reports adequately reflect all resources utilized and methods developed to further the organization's achievements (Boedker, Mouristan & Guthrite, 2005).

The study by Williams (2001) predicted that a positive relationship exists between a bank's level of performance and its level of intellectual disclosure. However, contrary to this prediction, the study found a statistically significant inverse relationship between the level of a bank's intellectual capital disclosure and its level of performance, and thus concluded that once a bank reaches a certain level of performance, it may reduce its level of disclosure to conceal from competitors strategically significant information in an effort to maintain its competitive advantage. Syed (2009) also examined the relationship between corporate characteristics and human resource disclosure. The study indicated that companies with higher profitability tend to disclose more human resource information, because a healthy financial position increases the credibility of the information released by the company, and as a result of the increased credibility the value of the company is enhanced (Grojer, 1997; Dobija, 1998; Flamholtz, 1999; Bullen, 2007). Therefore, the credibility of the human resource information disclosed in the financial statements adds to the value of the company as the details released assists in reducing the risk associated with investments decisions. This presupposes that if human capital is not reported, there is a risk that it is not receiving sufficient attention from management and other stakeholders, thereby reducing company's value (Jones, 2000).

3. Methodology and Model Specification

Five years financial data (2007 – 2011) of twenty two banks in Nigeria as were listed on the Nigeria Stock Exchange *(NSE),* of which twelve were selected using the simple random sampling technique. Secondary data was collected from the

sampled banks' Annual Financial Statements, and these where analyzed with the aid of the SPSS statistical package (Version 16.0).The Human Resource Disclosure Index *(HRDI)* was measured by constructing an index comprising of fifteen discretionary human capital disclosure items. This is in line with the methodology adopted by Syed (2009) using the following formula:

HRDI = Total Score of Individual Bank x 100 / Maximum Possible Score Obtainable

Table 1: HRD Variables

No	Disclosure Items
1.	Separate HRA statement
2.	Total value of Human Resource (cost of HR maintenance)
3.	Number of Employees
4.	Human resource policy
5.	Training & development
6.	Management succession plan
7.	Employment Report
8.	Employee s value creation
9.	Human Resource development fund
10.	Retirement benefits
11.	Performance Recognition
12.	Pension fund

Source: Syed (2009)

Table 2: Variables Measurement

Variables	Definition	Measurement
ROA	Return on Asset	Profit before Tax /Average Total Assets
ROE	Return on Equity	Profit before Tax/Average Common Equity

Source: Syed (2009)

The strength of the relationship between the variables was ascertained by employing the Pearson Product Moment Correlation coefficient, thus specifying our models as:

$$ROA = f(HRDI) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (i)$$

$$ROE = f(HRDI) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (ii)$$

Expressing equations (i) and (ii) in explicit form, we have

$$ROA = a0 + \beta 1(HRDI) + et \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (iii)$$

$$ROE = a0 + \beta 1(HRDI) + et \ldots\ldots\ldots\ldots\ldots\ldots \quad \text{(iv)}$$

$\beta 1 > 0$;

Where:
HRDI= Human Resource Disclosure Index
ROA= Return on Asset
ROE= Return on Equity
a0 = Intercept of the regression line
β = Coefficient
et = Error term

4. Results and Discussion of Findings

Table 3 presents the distribution of Human Resource *(HR)* reporting levels in terms of number of items disclosed as a percentage of the total disclosure items. The total class of *HR* disclosure items 20% to <40% indicates that a maximum of seven banks *HDR* level is below 40%. The table also shows that *HRD* of about 63.46% of the sampled banks are less than 40% of the disclosed items. The remaining 36.54% of the banks had *HRDI* of between 40% to<80%. This implies that the level of human resource reporting for the sampled banks was low.

Table 3: HR Reporting Levels

Score Range	No. of Banks (N)	Bank (%)	Cumulative (%)
20% to < 40%	7	63.46	63.46
40% to < 60%	3	32.69	26.15
60% to < 80%	2	3.85	10.39
Total	12	100	100

Source: Researcher (2012)

The table 4 shows that 57.41% of the total disclosed human resource information is reported through Notes of Annual Financial Reports, and 16.73% is reported through Director's Report. Similarly, 11.41% of *HR* information was reported formally through the banks' Income Statements, while 7.60% is disclosed through the Chairman's Report, and 3.05 % are through the banks' business profile.

Table 4: Medium of Human Resource Reporting

Medium of Reporting	No. of Information Reported	(%)
Profit and loss amount	30	11.41
Notes	151	57.41
Director's report	44	16.73
Managing Director's report	10	3.80

Chairman's report	20	7.60
Profile of business	8	3.05
Total	263	100

Source: Researcher (2012)

The descriptive statistics contained in table 5 and 6 shows that the mean values are greater than the standard deviation values. This indicates that there is absence of outliers from the data. The average mean value for *HRDI* is 0.58 for *ROA* and 0.58 for *ROE*.

Table 5: Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Asset	12	.00	.04	.04	.0179
Human Resource Disclosure Index	12	.00	1.00	.5833	.51493
Valid N (Listwise)	12				

Source: SPSS (16.0)

Table 6: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Equity	12	.08	4.35	1.5270	1.46250
Human Resource Disclosure Index	12	.00	1.00	.5833	.51493
Valid N (Listwise)	12				

Source: SPSS (16.0)

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The results from table 7 show that *HRDI* has a t-value of 3.071 with significant value of 0.012 at 5% level of significance. It therefore shows that the *HRDI* has a strong and positive relationship with *ROA.* This implies that for every unit increase in the *HRDI* the *ROA* will increase by ₦3.071, and this agrees with the study of Syed and Mamun (2009).

Table 7: Coefficients Statistics

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	beta			Tolerance	*VIF*
1. (Constant) *HRDI*	.009 .015	.004 .005	 .697	2.589 3.071	0.27 0.12	 1.000	 1.000

Source: SPSS (16.0)

Furthermore, the table 8 below shows that the *HRDI* has a t-value of 3.832 with significant value of 0.003 at 1% level of significance. Therefore, *HRDI* has a strong and positive relationship *ROE*. It therefore follows that for every 1 unit increase in *HRDI*, the *ROE* will increase by ₦3.832. Again the results are in line with the study of Syed and Mamun (2009).

Table 8: Coefficients Statistics

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	beta			Tolerance	*VIF*
1. (Constant)	.249	.437		.571	.581		
HRDI	2.191	.572	.771	3.832	.003	1.000	1.000

Source: SPSS (16.0)

Cumulatively, the R-square shows that *HRDI* explained about 49% of *ROA* and 60% *ROE*. The F-statistics of 9.431 with a significant value of 0.012 at 5% level of significance for *ROA* and 4.681 with a significant value of 0.003 at 1% level of significance shows that both models are well fitted. The Durbin Watson *(DW)* of 1.826 and 2.054 also shows an absence of serial correlation amongst the data of the two both models. AS such the study rejects the null hypothesis HO_1 which states that there is no significant relationship between *HRD* and *ROA*. Similarly, the study also rejects hypothesis HO_2 which states that there is no significant relationship between *HRD* and *ROE.*

5. Conclusion and Recommendations

The study suggests that there exists a strong and positive relationship between banks' financial performance metrics as measured by *HRDI* and its level of *ROA*, which indicates the bank's overall profitability. When investments on human capital development are expensed, the result will be that both assets and earnings will be understated, which thus will motivate banks with a low level of earnings to provide relevant information to investors and stakeholders regarding investments in human capital that are not reflected on the Statements of Financial Position. Similarly, the study revealed existence of a strong and positive relationship between *HRDI* of the sampled banks and their levels of *ROE*. This is because an increase in *ROE* encourages the banks managements in reporting human capital information so as to establish trustworthiness with stakeholders and employ a valuable marketing tool and enhance external reputation (Dobija, 1998; Flamholtz, 1998; Flamholtz, Bullen & Hau, 2002; Bassey & Arzizeh, 2012).

The *HRDI* is an important factor as such each bank should disclose its *HR* information as an integral part of management report. The findings of this study also show that the traditional financial reporting model has failed to provide investors with value-relevant information with regards to the reporting of human resource information. Hence, the focus for policy should be to develop best practice guidelines for human capital reporting and encourage compliance with such guidelines. In addition, considerable encouragement should be directed at banks to provide additional information on human resource disclosures.

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APPENDIX A

Variables Entered/Removed[b] Table 1

Model	Variables Entered	Variables Removed	Method
1.	Human Resource Disclosure Index[a]		Enter

a. All requested variables entered.
b. Dependent Variable: Return on Asset

Model Summary[b] Table 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin – Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1.	.697[a]	.485	.434	.00812	.485	9.431	1	10	.012	1.826

a. Predictors: (Constant), Human Resource Disclosure Index
b. Dependent Variable: Return on Asset

Anova[b] Table 3

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	.001	1	.001	9.431	.012[a]
	Residual	.001	10	.000		
	Total	.001	11			

a. Predictors: (Constant), Human Resource Disclosure Index
b. Dependent Variable: Return on Asset

Correlations Table 4

		Return on Asset	Human Resource Disclosure Index
Return on Asset	Pearson Correlation	1	.697*
	Sig. (2-tailed)		.012
	N	12	12
Human Resource Disclosure Index	Pearson Correlation	.697*	1
	Sig. (2-tailed)	.012	
	N	12	12

*Correlation is significant at the 0.05 level (2-tailed).

APPENDIX B

Variables Entered/Removed[b] Table 1

Model	Variables Entered	Variables Removed	Method
1	Human Resource Disclosure Index[a]		Enter

a. All requested variables entered.

b. Dependent Variables: Return on Equity

Model Summary[b] Table 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin – Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1.	.771[a]	.595	.554	.97635	.595	14.681	1	10	.003	2.054

a. Predictors: (Constant), Human Resource Disclosure Index

b. Dependent Variable: Return on Equity

Anova[b] Table 3

Model		Sum of Squares	df	Mean Square	F	Sig.
1.	Regression	13.995	1	13.995	14.681	.003[a]
	Residual	9.533	10	.953		
	Total	23.528	11			

c. Predictors: (Constant), Human Resource Disclosure Index

d. Dependent Variable: Return on Equity

Correlations Table 4

		Return on Asset	Human Resource Disclosure Index
Return on Asset	Pearson Correlation	1	.771**
	Sig. (2-tailed)		.003
	N	12	12
Human Resource Disclosure Index	Pearson Correlation	.771**	1
	Sig. (2-tailed)	.003	
	N	12	12

**Correlation is significant at the 0.01 level (2-tailed).