HUMAN RESOURCE ACCOUNTING IN NIGERIA: ISSUE AND CHALLENGES

Eze Joseph Chukwudi
Department of Accountancy, Institute of Management and Technology (IMT) Enugu

Abstract:
Human Resource Accounting (HRA) is the process of identifying, measuring data about human resources and communicating this information to interested parties. The major objects of this paper are to x-ray the major characteristics of human resource accounting [HRA] along with the resulting benefits, issues and challenges in implementations. The study forms mainly the extensive review, review of rated literature. the major benefits of such accounting are that it develops effective managerial decision making, prevents misuse of human resource enhances human asset productivity, job satisfaction, quality management, creativity etc. The challengers and issues involve are that uncertainty of human resources creates uncertainty in valuation of human resources. Nature of amortization, valuation and its accounting treatments are also other difficulties as there is no specifics IAS/IFRS for such treatment. It was discovered that human resources has a positive effect on the profit and capital employed by organization Lending credence to the findings of Ashton [2003] that there is association between components of intellectual capital and firm –and-market level financial outcomes. It was recommended that the likely length of time an employee will spend in an organization should be considered during recruitment and such estimated human resource be capitalized and amortized overtime.

Key words: human resource, accounting treatment, management decision

Introduction
Human Resource Accounting (HRA) is a new branch of accounting. It follows the traditional concept that all expenditure on human capital formation is taken as a charge against the revenue of the period as it does not create any physical asset. Modern view is that cost incurred on any asset as human resources need to be capitalized as it provides benefits measureable in monetary terms. Measurement of cost and value of people to organizations is highly important, costs incurred in recruitment, selection, hiring, training and development of employees along with their economic values are very much relevant for Human Resource Accounting. 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”. Eric Flamholtz (1971) expressed a similar definition for Human Resource Accounting as “the measurement and reporting of the cost and value of people in organizational resources”. Moreover, Stephen Knauf (1983) defined Human Resource as “the measurement and quantification of human organization inputs such as recruiting, training, experience and commitment”. Amiral Islam et al (2013) opined that Human Resource Accounting is “the art of valuing, recording and presenting the work of all human resources in accounts of an organization”. It is an information system towards the changes in human resources of an organization.
The Objectives of the Study
To review the available model of Human Resources Accounting (HRA)

a) To understand the needs and significance of (HRA) in the context of business performance measurement.

b) To highlight the major characteristics of Human Resource Accounting along with the practical challenges and issues in implementation.

Rationale of the Study
The two main components of Human Resource Accounting are investment related to employees and the value generated by them. Management of human resources in any organizations is very much important from accounting point of view. Valuation of human resources, recording the valuation in accounts and fair disclosure of such information in financial statements are the demand of the stakeholders in the context of enhancing managerial performance and employee productivity. Investment in developing human resources in not revenue expenditure capitalizing human resource costs is conceptually more valid than the expensing approach. Its impact on developing the capability of employees provides benefits for a long period. Thus, there is a genuine need for reliable and complete information that can be used in improving and evaluating Human Resource Accounting.

The information concerning human assets is more relevant to a great variety of decisions made by external and internal users. Accounting for human asset constitutes an explicit recognition of he premise that people are valuable organizational resources and an integral part of a mix of resources. This study will be helpful for the different users of accounting information for their day to day decision making.

Review of Related Literature
Worldwide, the Human Resource Accounting had to respond to increased competition for globally mobile talents, changes in both workforce attitudes and composition, shifts in the employer/worker relationship. Human Resource Accounting (HRA) is an attempt to identify, quantify and report investment made in Human resources of an organization that are not presently accounted under conventional accounting practice.

However, during the two last decades, several advocates of Human Resource Accounting (HRA), including Herman and Mitchell (2008), Flamhottz et al (2003), Pekin Ogan (1988), Chris Dawson (1994) Flamholtz (2004), Levand Schwartz (1971) Elias (1972), Hendricks (1976) and others have suggested that Human Resource Accounting could benefit external users of financial statements. External decision makers must know the changes in human assets in order to evaluate properly assets and income. The conventional accounting profit maybe misstated and the asset base distorted, if the condition of human assets changes during the period (Flamboltz, 199).

Herman Theeke, John B. Mitchell (2008) discussed how reporting under a human resource liability paradigm fits into the traditional accounting frame work of contingent liabilities; examine the financial effects of such reporting on market valuation and internal planning, and explire measurement of human resource liabilities. From reviews of financial effects of human resource liability reporting the research logicallly extends those results to
support the proposed paradigm. The paper provides support for the feasibility and need to adopt a human resource liability paradigm for valuing, reporting and managing human resources.

Flamholtz et al (2003) utilized the HRA measure of expected realizable value, and found that employees. Participation in a management development programme – increased the value of the individuals to the firm. In addition the authors noted that the Human Resource Accounting (HRA) measures provided upper level management with an alternative accounting system to measure the cost and value of people to an organization.

Chris Dawson (1994) indicates relationship between two prescriptive model of Human Resource Accounting (HRA) – the Replacement Cost Model (RCM) and the Stochastic Rewards Valuation Model (SRVM). He investigates not only the operationalization of the two models, but also the reasoning used by managers in determining or arriving at the data. Goes on to discuss the general benefits and limitations of simulation methodologies and how they relate to prescriptive and descriptive approaches to the study of management.

Tomassini (1977) provided to a sample comprising of accounting students, traditional financial information and information containing human resources accounting. Human Resources accounting information led to remarkable differences in decision-making.

Hendriciks (1976) reformed a study using accounting and finance students as subjects. His simulated investors made two stock investment/capital allocation decisions, one with and one without human resource cost data. In this research, HRA had a meaningful impact on adopted decision statistically.

Pekin Ogan (1988) reported the results of a field experiment designed to assess the impact of Human Resource Accounting (HRA) information on layoff decisions made by managers. The findings of this study indicates that Human Resource Accounting information does make a difference in personnel layoff decisions and enables managers to increase their level of confidence regarding decisions of this sort.

Schwan (1976) considered the effects of human resource cost measures on banker decision – making. He found that the inclusion of HRA data in published financial statements resulted in, one, significantly different ratings of managements preparedness to meet future challenges and opportunities and, two, statistically different predictions of a firm’s net income.

Acland (1976) selected a sample comprising of 500 financial analysts and provided financial reports for some of them and reports containing behavioural indexes to some other analysts so that they can make decisions about investments in one or two companies. insertion of behavioural indexes caused that some analysts would make decision differently from those who had only financial information. This difference was visible in the analysists who had received HRA information with behavioral indexes.

Nabil Elias (1972) provided 2 groups of financial reports (one, traditional report and another, reports containing HRA information) in his research to the sample including accounting students, financial analysts and accountants. Research results showed that HRA information had meaning impact on decisions statistically, although the relationship between HRA information and the adopted decisions was not strong.

Flamholtz (1976) asked official accountants to select between two persons for occupying a position. He gave three kinds of information to the accountants, traditional information about function, non-monetary information about HRA and monetary information
about it. This information was given about three cases A, B and C respectively to the accountants. In contrary to Flamholtz’s expectation, non-monetary information had impact on decisions.

Allintoye (2005) opined that essential accumulation of good will in firms can be a function of a well managed business environment by well experienced managers who have spent enough time to understand organizational polices, politics and ethical values.

Ashton (2005) observed that while the realization of the potential of a company to creating value is increasingly emphasized, there seem to be a marked shift in emphasis toward the “intangible value drivers” in place today that will position the firm for value realization tomorrow.

Amoral Islam et al (2013) expressed that “Human Resources Accounting (HRA) information of an organization is very important factor to decision makers in the era of knowledge based economy”. They went further to highly that each organization takes serious attempt to disclose its Human Resources Accounting (HRA) to insiders and outsider decision makers. They said that HRA is becoming an integral part of management report.

Methods and Procedures Followed

The study is exploratory in nature based on extensive review of relevant studies done earlier and comparative examination of the various aspects of Human Resources Accounting (HRA) have been discussed to arrive at concluding remarks.

Findings and Observations

a) Issues and Trends in Human Resource Accounting in Nigeria: Traditionally the responsibility of the Human Resources Accounting has been centred primarily on recruitment, selection, training, job analysis and evaluation, performance etc, but in the modern time, some problems and issues have created a new dawn for the practice of accounting for investment in human resources. Some of these issues are heighted below:

i) Accounting for Expenses Rather than Assets: The practice of accounting for investments in human resources as expenses rather than assets results in distorted income statements and balance sheet. In the income statement, the figure designated ‘Net income’ is distorted because accountants treat all expenditure made to acquire or develop human resources as expenses during the period incurred, rather than capitalizing and amortizing them over their expected service life. A balance sheet is distorted because the figure labeled ‘total assets’ does not include the organization’s human assets.

ii) Neither Companies and Allied Matters Act (CAMA) 1990, as amended, or tax laws have any provision for implementing Human Resource Accounting. Tax laws do not recognize human resources as assets. CAMA is also silent on this issue.

iii) There is no generally accepted accounting principles based Uniform Human Resource Accounting (HRA) method available for adoption by different firms/companies. As a result, any attempt towards inter-firm comparison in this area might be erroneous.

iv) Legal Frame Work: The legal system can strongly affect Human Resource Accounting (HRA). Every firm that operates in the global economy must contend with the varying
employment laws in every country in which it operates as well as abiding by whatever international standards also exist (Blan Pain et al 2007). For instance, in Nigeria, there is regulations that dictate the process of Negotiation between unions and management. Further, the political – legal system states the requirements for certain Human Resource Accounting Practices such as training, hiring, firing compensation and lay offs.

v) Valuation Model: Researches in Human Resource Accounting have been slow and researchers are not yet able to develop a model which is free from major limitations. Hence there is need for developing suitable methods for valuation of HRA.


Human Resource Accounting in Nigeria Face Several Challenges namely:

i) Challenge of talent retention and their effective utilization in organizations

ii) Shallow priority to the utilization of indigeneous human resources and strangulation neglect of tertiary and research institutions.

iii) Lack of adequate support to key institutions on boards/commission in the country that support human capital development.

iv) Declining quality of outputs of development institutions.

v) High turnover rate of skilled and technical staff in public sector due to poor conditions of service and compulsory early retirement.

vi) Corruption and fraudulent practices, resulting in funds mismanagement and associated vices.

vii) There is no specific guideline for measuring the cost and value of human resources.

viii) The nature of amortization to be followed is yet to be fixed up.

Benefits of Human Resource Accounting:

i) It develops effective managerial decision making

ii) It enhances the quality of management

iii) It prevents misuse of human resources

iv) It helps the efficient allocation of resources

v) It increases human asset productivity

vi) It influences the individual behaviour, attitude and thinking in desired direction.

vii) It improves their morale, co-operation, job satisfaction and creativity.

viii) It facilitates good performance measurement assessing strengths and shortcomings of an organization.

ix) It ensures good monitoring of effective uses of human resources.

x) It provides good basis of human asset control

xi) The success of an organization depends on quality working force at all levels. It develops business success rapidly.

Steps in Accounting for Human Resources:

Amiral Islam et al (2013) discussed the steps involve in accounting for Human Resources as follows:
i) The first step is to determine what human resources costs are to be capitalized. They said this is essentially matter of classification HR costs into asset and expense components. Costs should be treated as assets if the expected benefits from them relate to further time period. It has future service potential.

ii) The second is to amortize the cost incurred by an organization on its employees for recruiting, hiring, orienting, familiarizing, training and developing them. They said that this involves measurement of that portion of the human assets service carrier, which is consumed during a particular accounting period. The main purpose behind amortization of human assets cost is to match the consumption of a human assets service with the utility derived.

iii) The third step is to appreciate the value of organization employees every year at a particular percentage rate. This is needed because human resources appreciate in value because of their experience over years. Amirual Islam and others expressed that the more an employee ages, the more he/she gains experience and value.

iv) The fourth step is to adjust human assets amounts. When a material change in an organization employees expected working life occurs (because of any of the factors, namely bad health, early retirement plan, technological obsolescence), the employees assets needs to be adjusted. The amortization of human assets is analogous to a write-off of physical assets. In certain cases, adjustment of human assets accounts becomes necessary.

Recording of Costs Related to Human Resources:
Amirual Islam et al (2013) went further to buttress on recording costs related to human resources. They pointed out that (i) Social cost (ii) acquisition cost including costs of recruitment, hiring, selection and placement of employees, (iii) orientation and on-the-job training costs, including salaries paid to the employees during their probationary period, (iv) formal training development costs of employees, (v) separation costs of employees (vi) costs incurred for gravid female employees (vii) rewards for extra-ordinary health costs needed to be “assetized” since the benefits from them are expected to be derived for more than one year.

The authors emphasized that to fulfill one vital accounting principle – “matching of costs and revenue” one is required to “assetize” the eight categories of costs mentioned above. They expressed that on the other hand, all the elements “maintenance expenses” need to be treated as revenue expenses and charged to revenue account of the periods concerned.

Human Resource Accounting (HRA) Models
Human Resource Accounting may be measured in terms of human resource cost or in terms of human resource value. Flamholtz (1999:P59), model for measurement of original human resource costs, opines that human resource costs may be explained in terms of the two major categories of acquisition costs and learning costs. Acquisition costs include the direct costs of recruitment, selection, hiring and placement and the indirect costs of promotion or hiring from within the firm. Learning costs include the direct costs of formal training and orientation and on-the-job training. In a human resource accounting system, these costs are reported in asset accounts with future economic benefits rather than as expenses.
Flamholtz (1999:P160) went to emphasize that the concept of human resource value is derived from the general economic value theory, and like all resources people possess value because they are capable of rendering future services. Flamholtz thus, observed that an individual’s value to an organization can be defined as the present value of the future services the individual is expected to provide for the period of time the individual is expected to remain in the organization. Flamholtz (1999:P.P 160 – 161) expressed that there is a dual aspect to an individual's value. First, the person’s “expected conditional value”. This is the amount the organization could potentially realize from his or her services if the person of his or her productive service life. Second, the person' “expected realizable value” is the amount actually expected to be derived, taking into account the person’s likelihood of turnover.

Highlighting the Flamholtz model, Flamholtz, Bullen & Hua (2003) x-rayed a practical method for calculating Return on Investment (ROI) on management development, and showed the incremental cash flows that an organization will receive due to investment in management development. The article concluded that the use of Human Resource Accounting as a tool to measure the value of management development enhances not only the value of human capital but also the value of management accounting.

Dobija (1998) propounded an alternate model for capitalization, where the rate of capitalization is determined through natural and the social conditions of the environment. Utilizing a compound interest approach, this method takes into account the three factors for valuing the human capital embodied in a person. These include the capitalized value of cost of living, the capitalized value of the cost of professional education and the value gained through experience. Turner (1996) refers to the framework issued by the International Accounting Standards Committee and recommended the use of the present value of the value added by enterprise, and measures assets by the four methods of historical cost, current cost, realizable value and present value.


According to this method, innovation commands a premium and therefore needs to be measured, for example by comparing gross profit margins from new products to the profit margins from old products. Employee attitudes predicting customer satisfaction and retention are an important indicator of human capital and therefore need to be measured, as well as measures of tenure, experience and learning.

Conclusion
International and national contributions made in the area of Human Resource Accounting have resulted in growth of both the field of Human Resource Accounting and Organisational Management. Human Resource Accounting is the method of identifying and measuring data about human resources and communicating the information to interested persons. Human resources are the potentials, knowledge and skills of people which are applied in rendering efficient services or to the production of goods.

The valuation of human resources in any firm has impact on the production of such firm and the presentation of the value of human asset in the financial reports tends to increase
investment in such firm, as investors have the assurance that their resources are in good hands which will be effectively and efficiently managed overtime to create wealth.

As the study shows, the use of HRA information in financial statements has incremental impact on individuals, decision-making process. Human resources information can play a crucial role in internal managerial decision-making, and measures can be used to show that investments in a company's human resources may result in long-term profit for the business concern.

Companies and Allied Matters Act (AMA) 1990 as amended does not provide for valuation of human resources, as a result, disclosure of such information has become voluntary to our business concern. Shallow priority to the utilization of indigenous human resources in our business enterprises and strangulation neglect of tertiary and research institutions pose serious challenges to HRA.

From the massive argument going on the adoption of IFRS in many countries of the world not Nigeria not excluded, it thus seems that the issue of Human recognition in international and national reporting as the failure of so man organizations is now pin-pointed to human failure/behaviour rather a failure of known traditional/conventional assets. The issue of Enron’s case is still fresh in mind of people.

Finally, the success of an organization depends on quality working force at all levels. Human Resource Accounting develops business success rapidly.

**Recommendations**

Human Resource Accounting helps in improving the efficiency of employees. The employees come to know of the cost incurred on them and the return given by them in the form of output, and so on, which will motivate them to increase their worth.

It will help the management in planning and executing personal policies. The management also makes use of its help in taking decisions regarding transfers, promotions, training, retirement and retrenchment of human resources.

Human Resource Accounting will give the cost of developing human resources in the enterprise. This will enable the management to ascertain the cost of labour turnover also.

HRA will enable management ascertain whether proper investment in human resources has been made in terms of money or not. If the investment is in excess, efforts should be made to control it. The return on investment can realistically be calculated only when the investment on human resources also is taken into account. The ROI may be good because there is an investment on human beings.
References


