Conceptual Analysis of Policy Challenge of Implementing Human Resource Accounting in Nigeria

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Abstract

The importance of implementing human resource accounting (HRA) in an organisation has been given much attention in the literature but the challenges of implementing HRA requires more studies, especially within the Nigerian context. Within this purview, this paper examined the policy challenges of implementing HRA in Nigeria. Hence, the study takes an exploratory approach by reviewing extant literature on issues relating to policies involved in managing human resource. Outcome of the review of extant literature revealed that there are difficulties in implementing effective HRA in Nigeria as a result of the inadequacy of the policy framework guiding human resource valuation and reporting. This means that policies and skills required to tackle the technicalities involved in the implementation of HRA for effective management were not adequate. Therefore, the study recommends that relevant stakeholders should come together to draft a policy on how human resource can be effectively and adequately valued and reported for management internal decision making and for external use.

Keywords: 3 to 5 keywords

Introduction

The paradigm shift by any organisation to being a market leader depends on the value and investment on its human resource. In other words, the success of organisations can be said to depend adequate on planning for human resource and any organisation that fails to forecast and plan adequately for its human resource is doomed to fail both in the short run and long run. Conversely, organisations that engage in effective development of human resource and especially,that which take into consideration the relative worth of its human resource will acquire the required human resources needed for the accomplishment of its goals.

Realising the importance of human resources, the accountants, economists and human resource managers all over the world became conscious of human resource valuations which has led to the development and implementation of Human Resource Accounting(HRA) in the financial statements (Upasna & Reeta, 2012).

HRArefers to a way of depicting the human resources potential in monetary values while recording this value in theorganisation’s financial statements. There are several measurement models including the Brummet, Flamholtz and Pyle model (1968a, 1968b, 1969) as cited in Muhammed and Aminu (2012)which is based on historical cost method with provisions for appropriate depreciation and replacement cost of acquiring, training and developing the entire human resources; the competitive bidding method which proposes the capitalising of the additional earning potential of each human resource in the organisation and economic value added model which argue for present value of future benefits expected to be received from employees' service. Though, the origin and early development of approaches to human resource accounting was first developed in the United States of America in the year 1691, the next stage was during 1691-1960 and third phase post-1960 (Muhammed & Aminu, 2012).

Human Resource Accounting (HRA) helps management frame policies for human resources especially where it is necessary to identify measure and disclose data about the people within an organisation. This involves two areas of measurements: first, it measures the cost incurred by an organisation to recruit, select, hire, train and develop human assets, and secondly, it involves calculating the economic value of people to the organisation (Thomas, 2016).

This is pointing to the fact that as the society evolve to becoming a knowledge economy, the centre approach to valuing human resource has moved beyond the physical power and more concentrated in intellectual power, hence the need to view human resource as asset like all other assets of any given organisation.

However,the methods, policies and implementation of human resource accounting require a very close observation especially within the Nigerian context. As a result, it is important to examine the roles and the policy challenges of implementing human resource accounting, that is why Adebawojo, Enyi, and Adebawo(2015)argue that the essence of human asset or human resource accounting is to establish a generally acceptable model of valuation for human asset and ensuring that the value of human asset that drives the organisation for desired performance is adequately represented and disclosed in organisation's financial statement as intangible asset.

Statement of the Problem

It has been established that most organisation give qualitative pronouncement on the importance of human resource, very few make effort to disclose quantitative information about human resource and where it is being considered as investment, these investments are either immediately expensed in the financial statement or arbitrarily amortised and therefore are not fully reflected in the statement of financial position(Leyira, Clifford & John,2012).

The Nigerian practice of human resource accounting is lagging behind compared to other countries especially in terms of proper quantification and reporting of human resource in the financial statement of corporate citizens operating in the economy which has significantly discouraged the use of any or a combination of measurement technique(s) in properly quantifying human resource let alone reporting it (Mohammed &Aminu, 2012).Prior studies (such as) often recommend the need for policies on human resource accounting however, discussion on the challenges relating to effective implementation of HRA policies seems not to have attracted desire attention from researchers in Nigeria. This informed the researcher about the need to review extant literature on the challenges of implementing policies relating to human resource so as to understand the next level of policy framework required for the implementation of HRA after identifying the role of HRA in organisational performance.

Research aim and objectives

This study aims at contributing to HRA discourse in Nigeria. However, the following are specific research objectives;

i. To examine the role of human resource accounting in the performance of organisations in Nigeria; and

ii. To examine the policy challenges of implementing human resource accounting in Nigeria.

Research questions

i. What are the roles of human resource accounting in the performance of the organisations in Nigeria?

ii. What are the policy challenges of implementing human resource accounting in Nigeria?

Literature of Review

The Role of Human Resource Accounting in Firms Performance

Human resource accounting is an extension of accounting principles and practices of matching costs and revenues, and of organising human resource data to communicate relevant information in financial terms (Flamholtz, Bullen&Hua, 2003). That is, human resource accounting encompasses identification of revenue generated by human resource andthe related expenditure and report same as assets on the statement of financial position as opposed to the traditional accounting approach which treats costs related to a company’s human resources as expenses on the income statement that reduce profit which has significant impact on the performance of the organisation(Maria & Kel-Ann, 2010).

In order words, HRA can be considered both an internal and an external tool: Internal as a management tool and external, as a reporting tool. This is because human resources are viewed as assets or investments of the organisation and was originally defined as the process of identifying, measuring, and communicating information about human resources to facilitate effective management within an organisation (Muhammed & Aminu, 2012).

This suggests that human resource measurement is relevant to decision making by providing useful information to the management and relevant stakeholders such as financial analysts and employees. It provides a basis for the planning of intangible assets vis-à-vis human resources as well as in evaluating the expenditure incurred for imparting further education and training of employees in terms of the benefits derived by the firm among others(Maria & Kel-Ann, 2010). Also, if management has gone through the process of measuring and has HRA information available, it is likely that important management decisions such as those involving job cuts and layoffs of employees will be made (Flamholz, Bullen & Hua, 2002).For example in a potential layoff decision, with the use of human resource accounting measures in addition to traditional accounting measures, management is better likely to see the hidden costs to the company's human resources and the long term implications to the human assets(Maria & Kel-Ann, 2010). This is because human resource accounting views human resources as assets or investments which must be maintained for short run and long run productivity.

Also, investment in human resources always lead to organisational performance by giving value to existing HR supports which include: organisational development, job involvement, job satisfaction, motivation, high morale and sense of belongings to the organisation which will help the organisation to improve performance (Priyanka & Sunil, 2018).

Moore (2007) noted that the value of human capital should be more fully considered when making decisions about the acquisition and disposal of people and stated that the accounting practices currently employed by companies can have an undue influence in driving the strategic decisions of these companies.

Obisi and Ashionye (2014), and Adebawojo, Enyi, and Adebawo (2015)studies find positive relationships between human resource accounting and organisational performance and that capitalising on human assets would positively impact on the performance of organisations. Also, Bassey and Arzizeh (2012) study provides relatively strong support for the existence of a positive relationship between human resources cost and the performance of Nigerian corporations and the study revealed that capitalised human resources cost is an important determinant of company performance in Nigeria.

However, despite human capital and intangible assets had a positive relationship, there is insignificant impact on organisational performance (Prince, Lucky, & Kingsley, 2013).This is the reason McKenzie and Milling (2001) suggest that, if HRA is properly implemented, the human capital planning and budgeting process will become a key driver of strategy, in that strategic human capital planning and budgeting ensures that the best resources are mobilized for each internal process as well as organisational performance. That is, the implementation of human resource accounting through disclosure in organisation's annual financial report will go a long way in improving organisational performance(Nwosu & Eze-Nwosu , 2016)

Financial Policieson Human Resource Accounting and its Challenges

There is no gainsaying that human resources are a primary component of intangible assets, in other words, the stage is being set for a renewed interest in human resource accounting from a financial reporting perspective(Flamholtz, Bullen & Hua, 2002).

In recent years, the United States Generally Accepted Accounting Principles (GAAP) have been moving toward adoption of more complex measurement methods compared with the traditional historical cost approach to asset measurement and the strong growth of international financial reporting standards (IFRS) is another indication that the environment for financial reporting is one that potentially encourages the consideration of alternative measurement and reporting standards(Maria &Kel-Ann, 2010).

In abid to adopt a more complex measurement method in reporting intangible assets which accountant and others in the financial environment have become accustomed to, the International Accounting Standards Committee (IASC) was replaced by the International Accounting Standards Board (IASB) to oversee the issuance of the International Financial Reporting Standards (IFRS) which also adopted the existing International accounting Standards (IASs). Specifically, IAS 38allows for the recognition of the intangible assets, which indicates a willingness to allow for valuation of assets that are not traditionally tangible assets, such as goodwill. In the light of the definition of assets as specified in the conceptual framework issued by the IASB, Mary and Kolawole (2015)stated that IAS 38 for Intangible Assets 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)the value could be evaluated in a confident way. However, the fourth criteria distinguish the human asset from other assets which is problematic since human resources are often integrated in business processes and other techniques (Mary & Kolawole, 2015).

As part of the challenges of this requirement is the uncertainty regarding the lack of organisational ownership of intangibles relating to people. This would most likely hinders proper evaluation and reporting of human capital resources as well as contributes to the skepticism about relying on human capital disclosure as an indicator of actual HC practices and valueation(Ogunleye, Ashogbon & Soyemi,2013).This might be pointing to the fact that there is a gross neglect of human capital in the valuation of assets of an organisation that has invariably contributed to the undervaluation of assets components in the statementof financial position(Obisi &Ashionye, 2014). Further, Ogunleye, Ashogbon and Soyemi (2013) also notes that Nigerian listed firms do not emphasize human capital reporting as a device to communicate the value of their employees nor do they recognize the role of HC as a strategic tool for good performance.

In terms of disclosure requirements,Mary and Kolawole (2015)stated that the existing financial reporting standards under the conventional accounting system which include International Financial Reporting Standards (IFRS) and the Companies Act which provides the legal backing for the activities of incorporated firms in Nigeria have no provision for reporting human resources as assets, therefore, there is absence of disclosure index for HC. Among other challenges with this disclosure policy is that it is difficult to communicate cost and value of human resource in a standardised form due to restrictive nature of IFRS and the Company Act in Nigeria (Mary andKolawole, 2015).This implies that, in Nigeria, government, professional accounting bodies such as the Institute of Chartered Accountants of Nigeria (ICAN), Chartered Institute of Cost and Management Accountants (CICMA), Chartered Institute of Personnel Management of Nigeria(CIPMN) and other relevant stakeholders have not yet drafted standard policies to guide companies in accounting for human resources and reporting the value of samein the financial statement.

Also, the IFRS and IAS do not currently have specific standards and policies requiring and guiding human resource accounting, though it might be argued that they are moving closer to providing more flexible approaches to accounting measurements and reportingof human resource (Maria & Kel-Ann, 2010).

In the same vein, universality of policy on HRA is lacking. When they examined contemporary trends in “Enhanced Business Reporting” (EBR), which includes aspects of human resource accounting, from Europe, Australia, and the United States, Boedker, Mouritsen and Guthrie (2008) found a vast disparity in international EBR practice, including measurement and reporting models, and suggested the need for further research about the barriers to and consequences of harmonization.

Thomas (2016) summarized other challenges of implementing human resource accounting as follow:

i. Human resource professionals and accountants are sometimes unaware of the value or no clear return on investment of human resource.

ii. The level of awareness and acceptance of HRA is still low as many companies take little initiative to make the information available to shareholders despite availability of the data relating to human resource.

iii. The perceived dehumanisation of people where they cannot be viewed like other physical assets, or where their value might be publicly perceived to be low with serious psychological consequences.

iv. There is a political reason for labour to remain without absolute value as this might generate claims and higher rewards for work with different skill levels.

v. There is no universal model of gathering data for human resource and implementing human resource accounting.

Conclusion and Recommendations

The paper examined the role of human resource accounting in corporate decision making as it will affect financial performance and policy challenges of implementing HRA in Nigeria. The review of the extant literature revealed that HRA could be one of the significant drivers of corporate financial performance and that the implementation of effective HRA in Nigeria is fraught with difficulties such as the inadequacy of the policy framework guiding human resource valuation and reporting. However, the study recommends concerted synergetic efforts by all relevant stakeholders (both locally and internationally) that are involved in regulating accounting standards and human resource best practices to drafting policies that will serve as a framework for valuing and reporting human resource. Also, regulators of various tertiary institutions should incorporate models for and ways of establishing an effective human resource accounting in their curriculum in order to equip upcoming accountants and human resource managers with the nitty-gritty of reporting the value of human resource for both internal and external use.

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