Human Capital Cost and Financial Reporting Quality of Money Deposit Banks in Nigeria

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Abstract
This study investigated the influence of Human Capital cost on financial reporting quality of Money Deposit Banks in Nigeria. The specific objective of the study was to investigate the extent to which Human capital cost affect Financial reporting quality of money deposit Banks in Nigeria. A total of Ten (10) Banks were selected for the study, time series data used were obtained from annual report of the deposit money banks from 2006-2019. Accrual model was used to compute the proxy for financial reporting quality, while Human Capital cost is proxy by the Salaries and Benefit of Employee in the year which is taken from annual report of the selected money deposit Banks. The ordinary least square techniques were used to analyse the data. The result indicated a positive impact on financial reporting quality. The study therefore concludes that Human capital costs are significant to influence financial reporting quality in the posture. The study recommended putting more resources in the areas of Human capital cost will increase the quality of financial reporting in the Banking Industry in Nigeria.

Keywords: *Human Capital Cost; Money Deposit Banks; Financial Reporting Quality; Accrual model and Annual Report*

Introduction:

Every organisation in the world needs capital whether Human or Physical capital for it to be in business, they invest in capital so that it maximises shareholders value.

Human capital is getting wider attention with increase globalisation and also the saturation of the job market due to recent downtown in the various economic of the world. Developed and developing countries put emphasis more on human capital development toward accepting the economic growth by devoting necessary time and effort, Maran, Lawrence &Maimunah(2009).

According to Robbins (2001), the characteristic that differentiate successful organisation from their contemporaries in almost all sectors in the quality of the people there are able to get and retain. Therefore, money spent on employees trainings and development is generally viewed as one of the critical investment that organisation could make and that such investment be treated as capital expenditure, Omodero, Alpheaus& Ihendiulu(2016).

Carregie(1919:3) as sited by Yusuf that the only unduplicable capital on organisation possesses is the knowledge and ability of its people. The productivity of that capital depends on how effectively people share their competence with those who can use it. It is logical therefore that competitive agree in the 21st century has shifted from process and technology to quality of human capital.

Human capital also known s human resource has been severally referred to as a key factor of production. Many organisation have explicitly acknowledged the vital place of their human capital by designating it as their most valuable
asserts. Onyekwelu, Osisioma & ugwuayi(2015).They days are gone when firms focus only on the physical capital with little or no attention to their Human capital and still build huge profit, competition in business today has become so intense that managers utilize every recourses
Of their disposal to edge others out of Business, Oko,Ondi&Tapang(2018).According to them to build a relevance and increase profit which will attract investors in line with their quality of financial report. Banks in Nigeria nowadays engage mostly University graduates who are outstanding in their employment policies, thereby giving credence to the fact that human capitals significantly affect their reporting quality. This one step has paid in promoting huge transformation within the financial sector in Nigeria. The Boost of Education workforce gives rise to huge reporting quality.

According to Bell (2009) accounting is believed to be and information infrastructure used by economic units to achieve various economic decisions. This means that accounting is an information system that is used for communication purpose and for the purpose of aiding decision making. Financial reporting of a corporate entity constitutes a combination of qualitative and qualitative financial reports, it is from there that various stakeholders take their decisions relative to a company's performance and position based on the information supplied by its annual financial statement.

Financial reporting by companies is effected via the preparation and publication of financial statement. These statements are required to exhibit certain degree of quality in terms of their information content and for a financial statement to be highly of good quality and good content; the organisation must invest in huge human capital. When Financial statement discloses quality information the decision of the users (investors, Management, Government employees Creditors analysts) will go a long way to improve their business and help the firm.

A human capital expense refers to all financial commitments to human recourses of an organisation from Recruitment to training and development. According to Oracle (2007) service organisation of all types, recognize the critical impact of human resources on their strategic and operational success. It is because the fact that growth in serve origination round the world including Nigeria, Shifts is now from Managerial to trained skilled employment of their employee .Obe, (2000). This is due to the fact that employees are much more important in their organisation compared with the other assets, that is base of this reaches work to find out if human capital cost has any significant on Financial reporting quality of money deposit Banks in Nigeria,

2.1 CONCEPTUAL REVIEW

Concept of Human Capital:

Husin and Ismni(2012) defined Human Capital as employee's competence in crating both tangible and intangible asset by contributing in the continuous generating of knowledge and ideas .Pulic(2000) looked at it as the knowledge held by employees which are the primary source of value creation so therefore employees expenses should be seen as investment rather than cost, Schmidt(2004) defined human capital as a form of intangible assets that competencies of front-line employees and organisational capacities. Daranport(1999) as quoted in Yusuf(2013) that human capital allows people to be more highly valued, according to him it permits the model where employees are investors in business paying in human capital and expecting a return on their investment. Ahangar(2011) human capital is recognised as the largest and the most important intangible asset is an organisation which ultimately provides the goods and for service that customers require or the solution to their problems which includes the collective knowledge competency experience skill and fallouts of people with an organisation. Human capital represents a high value corporate asset and out of three components, human capital is accepted as a prime in intellectual capital frame work.

Human capital has been identified as a key element in improving a firm assets and employees in order to increase productive as well sustain comparative advantage which leads to enhance higher financial performance, Schults(1993).

Concept of Financial Reporting Quality.

Biddle, Hilany and Veidi (2009) define financial reporting quality as the precision with which financial reports convey information about the firms operations, in particular and its cash flows in order to inform the equity investors. Tang, Chen and Zhijun (2008) define financial reporting as the extent true and fairs information about the underlying performance and financial position.
Jones and Balanced (2000) defines financial reporting quality as full and transparent financial information that is not designed to obfuscate or mislead users. Financial reporting quality according to Anumala 2010 is defined as the process that creates stewardship assertions in the form of financial and non-business information statements reflecting the results of activities and transaction of an entity for a period of time. He further argues that financial reporting is to a large extent a studied assessment of the operational performance of an entity expressed in financial terms to reflect the economic exercise of financial obligation. Financial statements are defined to be subset of financial reporting, but no limits are provided on a number of elements of financial reporting that one may include in financial statement.

2.2 Empirical Review:

Akinlo& Olayinola(2017) Examined Human Capital reporting and corporate earnings: Evidence from Nigeria, The study investigated the influence of human capital reporting on earnings of quoted manufacturing companies in Nigeria. The study used secondary data from 2007 to 2017 collected from selected annual report and accounts of 50 listed manufacturing companies. Pooled least squares were used in the analysis. The result indicates that total earnings preset a positive relationship with all the components of human capital but a significant one with salaries and wages and labour turnover. The study suggests that capitalization of corporate investment on its human recourse has the aptitude of increasing its total earnings of quoted manufacturing companies in Nigeria,

Ijeoma, Bilesanmi & Aronu(2013) Carried out a study on deterring the contribution of Human resource accounting on financial statement of Nigeria Banks using the mental test Analysis. The study made use of Field survey method which involved the use of questionnaire and interview. From the finding it was observed that they exit strong positive resemblances between the rezones of zenith Bank staff and responses of fist bank plc staff with an association of 98.43%. It was concluded that Human capital is being seen as an asset to be maximized rather than expenses or be minimized which will lead to greater productivity in most key areas that guarantees the success of the institution.

Soetan, Asein & Ajibade(2018) Did a work on Human recourse Accounting's Panacea to Quality financial reporting Practice. The study made use of exploratory research design; It reviewed relevant literature on human resources and financial reporting to shed more light to it. They review of literature indicated that due to the inapposite recognition of human asset in financial statement, the information in Financial statement has not been very useful to different users of financial statement. It was established that inappropriate recognition of human asset in a statement of comprehensive income and on the statement of financial position. The study concluded that expenditure on the employees are investment and not expenses it went further to recommend that the expenditure on human asset should be recognised and recorded in the statement of financial position as intangible assets and not as expenses in the statement of comprehensive income.

Ismaila(2013) Investigated the Relationship between human Capital efficiency and financial performance: An empirical investigation of Quoted Nigeria Banks. The study made use of 2hypothoses which were tested. The study found out that efficiency utilization of human capital does not have any significant impact on the return on equity of banks, also the size of banks has no significant impact on it return on equity while the return on equity of banks cannot be predicted by human capital efficiency and size of Banks.

Ailemem,Taiwo&Oyero(2016) did a study on Evaluation of investment in Human Capital Development on Performance of Microfinance Banks in Nigeria. The study adopted a purposive sample of sixteen (16) micro finance banks out of 34 exiting in Ogun state was investigated. While random sampling was used to select respondent in each micro finance Banks cutting across Directors, Employees and shareholders of micro finance Banks. The data was analysed using appropriate parametric and non-parametric techniques. The study find out that human capital has positive impact on overall performance of micro finance Banks. The study recommends that training and retaining of employees should be give top priority for suitability.

Meshack, Paymaster, Lyndon(2013) Examined an assessment of Human resource capital and Goodwill: study of selected Commercial Banks in Nigeria. The made us of a survey of ten (10) commercial Banks quoted in the Nigeria Stock exchange, Data were obtained from annual report and accounts of selected Banks. The result of the study revealed that there is a positive and significance relationship between Human Resource capital and Goodwill in the Banking sector. The study went further to recommend that Human resource capital value should be included in the Financial reports of Nigeria companies.

Darabi(2012) Investigated the impact of intellectual capital on Financial reporting quality. Evidence from Tehran stock exchange, from 2004 to 2009 was selected. The study made use of co-relanatural research, while coordinal analysis and multiple linear regressions were the statistical methods used in the study. The result of the study shows that Intellectual capital has significant positive effect on financial reporting quality.

Obulor and Ohaka(2019) Did a work on Training cost and Financial performance Nexus:Sector analysis of quoted manufacturing firms in Nigeria, with panel data spanning from 2008 to 2017 and adopting expost-factor design with 20 quoted manufacturing firms, the operational zed variables are training cost, return on equity and earnings per share. The result of the study shows that human resource cost has significant effect on financial performance of quoted manufacturing firms in Nigeria.

Adabawojo,Enyi & Adebawo(2018) Examine the effect of human resource cost on Financial performance of quoted companies in Nigeria, Using pay data regression analysis. The study revealed that human resource cost have positive effect on Financial performance of quoted companies in Nigeria.

Jeroh(2013) Did a work on Human Capital Accounting and the comparability of Financial statement in Nigeria. A validated self structured questionnaire was used in gathering data for the study. A total of 145 respondents compressing of investors in Nigeria capital market practicing accountants and academics in Tertiary Institutions in Nigeria took part in the study. The study found out amongst others that there is a signifant relationship between human capital accounting and comparability of financial statement in Nigeria. Based on the finding the study recommend that appropriate steps must be taken by regulatory bodies to develop uniform acceptable standard and models from computation of the valve of human capital such that can same be rejected in the financial statement of entities in Nigeria.

Abubakar(2011) Investigated human resource accounting and the quality of financial reporting of quoted service companies in Nigeria. The data were analysed using Kendall's coefficient of concordance (KCC), person's chi-square technique and the use of tables and percentages, KCC was used to find the concordance of selected experts regarding the nature and characteristics of human resource expenditure and necessity for their capitalization. Pearson's chi-square was used to know the perception of questionnaire respondent on the significant effect of that reporting human resource value would have on the ability of financial statement users to make informed decisions. The study established that the value relevance of financial reporting of quoted service companies in Nigeria will improve by the application of the developed model; thereby boosting the informed decision making abilities of the multiple users of accounting information.

2.3 Theoretical Review.

This study is anchored on the Human Capital Theory.

Human capital theory was propounded by Schultz in 1961 and further developed by Becker in 1964. The recognizes the important of investment on the individual employees and their productivity. A further expectation is that widespread investment in human capital creates in the labour force the skill-base in dependable for economic growth. The survey of the human capital resources was said for example, to explain the rapid reconstruction achieved by the defeated powers. Human capital arises out of any activity able to raise individual worker productivity. Investment in human capital for workers involves both direct cost and cost in foregone earnings. According to this theory, workforce that is more educated and possessing the relevant skills make it easier for a firm to adopt and implement new technologies which in other worse means return on investment on employees education and training, Izushi&Haggins(2004). The knowledge and skills gained by the employees during the education, training and development programs will help the employees to perform their job better as the performance of the employees will be increased. That is the increment in employees performance will then result in the improvement in performance of the organisation. It also indicted that knowledge and skills gained by the employees would increase the future income of the employees as a result of the increment in their lifetime earnings. The theory also recognized that the individual employee who do not improve their knowledge and skills through education trainings and development will have less skills and knowledge that educated ones and therefore less productive, Mccraken, Mclvor, Treacy & Wall(2017).

3.0 Research Method.

The research design adopted in this study is a cross sectional survey which involves a survey of existing data (secondary data).

3.1. Method of Data collection and Technique of Analysis.

Time series annual data was employed ranging from 2006-2019 with a sample size of 10 money deposit Banks. The research instruments used in collection of data for this study were mainly secondary data from annual reports published by the selected Banks.

Proxy for financial reporting quality is the ACCURAL which is calculated using the Jones model of 1991. Human Capital cost is proxy by the Salaries and Benefits of Employee in the year which is taken from the annual report of the selected Money Deposit Banks,

Model specifications

HC=f (FRQ)... (1)

LOGHC= $\beta + \beta_1$ + LOG FRQ

Where

HC= Human Capital Cost

FRQ= Financial Reporting Quality

β intercept

β = estimation of coefficient

μ= zero term

4.0 Results and Discussion

Dependent Variable: ACC
Method: Least Squares
Date: 09/16/21 Time: 21:23
Sample: 1 140
Included observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
HC	0.704228	0.083791	8.404632	0.0000
C	2.091380	0.445793	4.691372	0.0000

R-squared	0.338567	Mean dependent var	5.742098
Adjusted R-squared	0.333774	S.D. dependent var	1.453538
S.E. of regression	1.186417	Akaike info criterion	3.193935
Sum squared resid	194.2467	Schwarz criterion	3.235958
Log likelihood	-221.5754	Hannan-Quinn criter.	3.211012
F-statistic	70.63784	Durbin-Watson stat	0.651485

Prob(F-statistic)	0.000000

There is no significant relationship between Human capital and financial reporting quality of money deposit banks in Nigeria

The value for the coefficient for HC (i.e β_1) is 0.704228, while the constant intercept, c is 2.091380. The value of 2.091380 for c represents what financial reporting quality of money deposit banks in Nigeria will be without Human capital.
The value 0.704228for β_1 implies that holding all other factors constant, a unit increase in HC (Human Capital) will lead to 0.704228increases in financial reporting quality of money deposit banks in Nigeria. R^2 tells the percentage variation in financial reporting quality of money deposit banks in Nigeria explained by Human Capital. By implication, the value of 0.338567 means that about 34% of total variation in financial reporting quality of money deposit banks in Nigeria is as a result of changes in Human Capital while 66% is unexplained. This remaining percent could be caused by other factors or variables not built in the model. The estimated F-value is significant at 1% level (because the p value is zero) we can strongly reject the null hypothesis that there is no significant relationship between Human capital and financial reporting quality of money deposit banks in Nigeria. We therefore conclude that there is a significant relationship between Human capital and financial reporting quality of money deposit banks in Nigeria.

5.0 Conclusion and Recommendation

This paper examined the influence of human capital cost on financial reporting quality of money deposit Banks in Nigeria. Findings revealed that Human capital cost have significant impact on financial reporting quality of Money deposit banks in Nigeria, which therefore implies that the capitalization of human resources investment in the annual report has the propensity to increase financial reporting quality.

The policy implication of the findings is that Banks in Nigeria need to recognise and treat human capital a intangible asset in their financial statement with a certain amount amortized over a certain number of years, Akinlo & olayinola(2017). NSE should enforce capitalization of human resources cost in the annual report of companies since such capitalization has impetus to increase earnings and performance of companies.

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