

**HUMAN CAPITAL DISCLOSURE AND MAXIMISATION OF SHAREHOLDERS'
VALUE IN SELECTED LISTED MANUFACTURING COMPANIES IN NIGERIA**

BY

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CERTIFICATION

This is to certify that OLAYIWOLA JOHN AYOBAMIBO carried out this research work under my supervision in Accounting in the Department of Management and Accounting, Faculty of Administration, Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria.

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This work is dedicated to God Almighty, the author and giver of all knowledge, wisdom and understanding.

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ABSTRACT

This study investigated the level of human capital disclosure; and assessed the relationship between human capital reporting and earnings potentials. It also evaluated the relevance of human capital accounting information on the market capitalization of quoted manufacturing companies in Nigeria. These were with the view to providing information on how capitalization of human capital investments gives insight into the financial position of Listed Manufacturing companies in Nigeria.

This study employed primary and secondary sources of data collection. A sample of 50 quoted manufacturing companies out of 105 listed manufacturing companies in Nigeria were purposively selected based on availability and disclosure of human capital information in their annual reports over a period of 2007-2013. Year 2007 was chosen as base year because this was the year when the global capital market experienced a financial turmoil whose impact was felt all over the world including Nigeria. Primary data on the extent of Human Capital Disclosure in quoted manufacturing companies in Nigeria were sourced through the administration of questionnaire to three members of staff, one of whom was a management staff and two other senior members of staff in the human resource Department of selected quoted manufacturing companies making a total of 150 respondents. Secondary data on salaries and wages, retirement benefit costs, other employees' costs and labour turn over were obtained from the audited Annual Reports of the selected companies. Data collected were analyzed using content analysis, bar charts, analysis of variance and econometrics techniques.

The results showed that the level of human capital disclosure was below 35% indicating a relatively low level of disclosure in listed manufacturing companies in Nigeria. The results



further showed a positive and significant relationship ($r=0.54793$, $t=2.45$; $p<0.05$) between the total value of human capital reported and earnings potentials of companies. Finally, the results showed that the human capital accounting information had a positive and significant relevance ($\beta=0.02$, $t=2.42$; $p<0.05$) to market capitalization.

This study concluded that capitalization of human capital investments in company's financial report had the aptitude of increasing the future earnings and the shareholders' fund of listed manufacturing companies in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The drive for accounting for a firm's labour force is borne out of the quest of finding new ways and explicit method of recording and reporting corporate financial commitments to its personnel in the annual report. It is no gainsaying that the way to a firm's success lies in the real, loyal, dedicated and productive human resource available to the organization. Business enterprise acquires human resource in order to generate future revenue (Sviely, 1997) and that competitive advantage of a firm depends largely on its specific and not duplicated assets which is its human assets (Fairborn and Raiashekar, 2011). Human resource is as important as any other factors of production (Land, Capital, and Entrepreneur) without which other corporate resources cannot be blended and coordinated to achieve the corporate goal.

In today's dynamic business environment, companies do heavily invest in human capital. In Nigeria for instance, Unilever plc, invested over ₦250Million in 2009 on the training of its employees besides other in-house programmes and arrangements designed for the purpose of staff development (Annual Report 2009). Also, in 2007 Access bank plc, began a construction of Access university of Banking Excellence where new staff intake could be exposed to the nitty gritty of banking practices, while Wema bank plc., has the culture of sending each member of staff to relevant training for at least 80 hours in each year (Leyira, Clifford and Ihendinihm, 2012).

Regardless of the huge importance and amount expended on human assets in an enterprise, conventional accounting systems still treat investment/cost associated with the selection, recruitment and training of personnel in an organization as an expense charged against the income statement, which is also used to reduce profit unlike any other physical assets such as Plant and Machinery, Furniture and Fittings, etc., whose cost of acquisition are capitalized in the statement of financial position and only a depreciable amount being charged against the statement of comprehensive income every financial year. The amount of intangible/intermediate assets are also capitalized in the statement of financial position and are amortized for a respective number of years.

Financial accounting system perceives organization's commitments to its human resource as a recurrent expenditure which should be matched with the revenue made and be reported in the statement of comprehensive income in the period of incurrence. To a cost accountant, labour costs which are traceable to a particular job or production process or incurred as a direct magnitude of a particular activity are treated as marginal costs which are well thought-out relevant to managers in the process of making decisions, while those expenses on labour but not perceptible nor incurred as a direct consequence of a particular job are considered sunk costs which are immaterial for making decision in a particular organization.

Moreover, given this era of globalization and increasing awareness to shift attention from an economy characterized with physical based assets like Land and Building to a knowledge based assets such as human and intellectual properties, human capital reporting has become a crucial dynamic to a corporate feat. There is therefore an increasing need to determine, measure and

report company's investment in its work force. That is companies should capitalize on the statement of financial position the investments made on human resources. Alongside these investments in human resource, the active and resourceful application of the labour capital in the achievement of the financial results in a given period ought to be measured and reported together with other physical assets in the statement of financial position. This process of computing and reporting investments and contributions of employees and managements in a firm to interested parties has come to be known as "Human Resource Accounting".

However, Human Resource Accounting does not only involve measurement of all costs or investments connected with the recruitment, placement, training and development of employees, but also the quantification of the economic values of staff members in an organization (American Accounting Association's committee on Human Resource Accounting, 1973). Human capital reporting is not a totally new concept after all, as some developed economies like USA and some part of Europe do have a formalized system of Human Resource Accounting in the annual report of their companies. However in developing economies like Nigeria, it is still a nascent phenomenon, as CAMA'90, LFN 2004 and other relevant statutes and professional standards in the country did not mandate it for companies in Nigeria to report their Human Assets. Thus any company in Nigeria that reports investments made on its work force does so at will. Moreover, the concept of componentization of assets is being increasingly advocated in the International Financial Reporting Standards (IFRS), which is being adopted by many countries, capitalization and componentization of human capital may be considered for inclusion in the foreseeable future.

Despite these tinted importance of human asset disclosure, there are countable challenges militating against its total embracement in relevant stations. Prominent among these challenges is the suitable method to be adopted in quantifying the expertise, knowledge, competence and contribution of these human assets, since they are not tangible assets of the company. Monetary unit assumption of accounting does not even give room for reporting the value of company's labour force in the annual report, relatively because they are difficult to accord economic values (Syed, 2009). To this end, companies all over, may show amounts

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