

Human Resource Accounting and its Impact on Return on Equity in Nigeria's Deposit Money Banks

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Abstract: This study looked at how human resource accounting affects the financial performance of deposit money banks in Nigeria, focusing on their return on equity. The researchers adopted an ex-post facto design and randomly picked ten deposit money banks listed on the Nigerian Exchange Group. Data were obtained from the banks' audited annual reports, covering the years 2020 to 2024. The regression analysis was used to dig into the data using SPSS version 23. The results indicated that both money banks spent on employee training and on staff salaries had a clear, positive link to their returns on equity. In other words, investing in people actually boosted the banks' financial performance. The study concludes that human resource accounting matters to the financial performance of deposit money banks, especially as it concerns returns on equity. The study suggests that banks should regularly invest in training their employees and be sure to reward hard work with fair pay.

Keywords: Human Resource Accounting, Employees' Training Cost, Employees' Remuneration Cost, Returns on Equity.

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I. INTRODUCTION

The importance of human capital is becoming more widely acknowledged in today's business environment as a key issue in financial statements as well as a factor in organizational performance. This scenario is actually true for the financial industry for which the banking sector falls under in Nigeria, where expertise, knowledge, and abilities are essential, particularly given how vulnerable these institutions are to cyberattacks. However, in curbing threats in the internet space, banks engage human resource personnel that are capable of monitoring and preventing any possible hacking. The role of human resources personnel cannot be ruled out in any organization, and its absence in the firm's statement of financial position has become a matter of discussion in the academic space in recent times. Human resource accounting, as a subject of growing interest to many stakeholders, has emerged as a

crucial tool for measuring and reporting the value of this human resource and its impact on the financial performance of firms. Human resource accounting is a process of identifying and measuring data about human resources and communicating this information to interested parties (American Accounting Association, 1973; Flamholtz, 1985). It is concerned with the quantification of the economic value of human capital by measuring the cost incurred by businesses to recruit, select, hire, train, and develop human assets (Flamholtz, 1999). Human resources are a vital asset to an organization and differ when compared to the physical resources of a firm. However, the proper utilization and coordination of the physical resources are the responsibility of the human resource personnel in any firm. Human resources are yet to be accounted for in the statement of financial position of firms, just like is the case for the physical resources whose values are reflected in the statement of financial position of firms. The partial or complete

absence of this vital and valuable asset from the annual financial statements of firms has been a serious concern for researchers and academia in the research space (Omisope, Olalere, Odewusi, Adesina, & Kolawole, 2024; Ogunbiyi, Alao, Aremu, & Olalere, 2023; Onyekwelu & Akani, 2021). Human resource accounting remains a managerial instrument that may be employed in gathering vital information in determining the costs that are associated with recruiting, hiring, compensating, and training employees (Appelbaum & Hood, 1993; Arkan, 2016), even though some organizations have not yet included it in their annual financial statements and reports. The adoption of human resource accounting in organizational practices can improve decision-making processes. This, in turn, boosts firms' performance through better resource allocation and investment in employee development (Bansal & Sharma, 2019). In less developed nations like Nigeria, human resource reporting by organizations is still in its infancy (Inua & Oziegbe, 2018; Rashid, 2024). A lack of accounting standards for measuring and reporting human resources in financial statements may delay the recognition of human resource accounting (Khan, 2021). The study sought to see how financial performance as concerns return on equity of deposit money banks were influenced by human resource accounting proxies by employees' training cost (ETC) and employees' remuneration cost (ERC).

➤ *Objectives of the Study*

The main goal here is figure out how human resource accounting affects the return on equity for Nigeria's listed deposit money banks. The study aims to:

- Find out if there's any link between what banks spend in training their employees and their performance financially with respect to return on equity.
- Look at how the remuneration banks pay their employees relates to performance financially with respect to return on equity.

➤ *Research Hypotheses*

This research is built around two assumptions:

- Ho₁: Employees' training costs do not have a significant impact on return on equity in Nigeria's deposit money banks.
- Ho₂: Employees' remuneration costs do not have a significant effect on return on equity in Nigeria's deposit money banks.

II. REVIEW OF RELATED LITERATURE

A. *Conceptual Review*

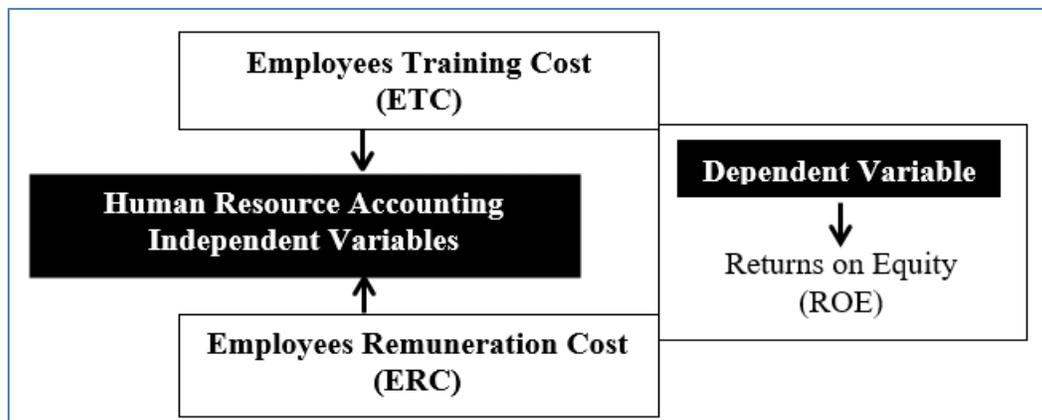


Fig 1 Conceptual Review
Source: Conceptualized by Researchers, 2025.

➤ *Human Resources Accounting*

Human Resource Accounting (HRA) is basically about putting a number on what people in an organization are worth, both in terms of cost and value. The main idea here is to give companies the tools they need to make smart decisions about investing in their people or employees. So, HRA is not just about personnel cost evaluation in terms of numbers; it is about recognizing that employees, along with their skills, experience, and knowledge, are real assets that drive growth and success. Through HRA, organizations try to capture the financial value of their workforce and include it in their financial statements. Human resources, in this sense, means everyone who makes up

the company's workforce (Tracey, 2003). It is not just about bodies in chairs, but about the energy, talent, skills, and know-how that go into producing goods or delivering services (Beida, 2024). Various studies break down human resource accounting as the practice of finding, measuring, and sharing information on these assets, and keeping track of all the costs tied up in investing in people's development (Abraham, Odobi, & Enwuchola, 2022; Akinjare, Idowu, & Sule, 2019).

➤ *Employees Training Cost (ETC)*

Giving employees the skills they need to take on challenging tasks and advance in their positions is the goal of employee training, which goes beyond simply teaching them how to perform their jobs. Armstrong (2015, cited in Beida, 2024) describes training as a formal process that changes how people behave by helping them learn through instruction, education, and real experience. As artificial intelligence (AI) continues to evolve in the corporate business environment, organizations everywhere are pushing for stronger skills, deeper knowledge, and more capable teams because that is what gives them an edge (ShuRung & Chun-Chieh, 2017). Therefore, it is the responsibility of human resource managers to provide training programs that ensure workers are not only prepared for their jobs but also perform exceptionally well at them. People who receive quality training are more committed to their work and are more knowledgeable with their responsibilities.

➤ *Employees' Remuneration Cost*

Remuneration really just means what employees get paid for their work. It covers a lot, such as basic pay, regular earnings, health and pension benefits, transit allowances, overtime pay, and even extra compensation for responsibilities. In this study, when we talk about remuneration, we are basically talking about wages and salaries. Salary and wages have been defined differently, usually to highlight the distinctions between the two concepts. On the other hand, a basic salary could be thought of as a monthly cash payment for non-manual workers that is typically expressed in annual terms and does not include productivity bonuses. A wage is the amount paid to manual labourers; it is always determined using hourly or piece rates. When it comes to compensation for work, wages and salaries are key. A wage is the amount paid to manual labourers; it is always determined using hourly or piece rates. When it comes to compensation for work, wages and salaries are a key component that employees emphasize (Abraham et al., 2022). Ojeleye (2017), cited by Chika and Jonah (2024), posited that remuneration is a monetary benefit a company gives its employees, like salaries, wages, bonuses, incentives, allowances, as a thank you for their services, dedication to the company, or reward for their employment.

➤ *Return on Equity*

Return on equity (ROE) shows how well a company turns its shareholders' money into profit. Basically, it measures how much money the company earns for every amount (Naira) investors put in. Shareholders pay close attention to ROE because it tells them if their investment is paying off after other financial obligations are settled. For banks, ROE is a quick way to see how their capital is performing.

B. Theoretical Review

This study is rooted in human capital theory, which sees people as valuable because of what they know and what they can do such as think, education, experience, and skills (Schultz, 1961). When organizations invest in training, education, or even employees' health, people become more productive and

earn more (Becker, 1993; Schultz, 1972). It really comes down to the fact that the more you invest in your people, the more they give back.

C. Empirical Review

Adu and Olomola (2024) took a close look at how human resource accounting affects financial performance in Nigeria's listed deposit money banks. They focused on how things like salaries, training, and health and safety impact capital employed in those banks. They pulled their data from secondary sources and picked ten banks using random sampling. They utilized regression analysis to examine the numerical data. Their results made it clear that investing in employees through better pay, more training, and stronger health and safety measures directly boosts a bank's capital. Based on these findings, Adu and Olomola said if bank managers want better financial performance, they need to step up for their employees. That means offering higher salaries, better training opportunities, and safer, healthier workplaces.

Beida (2024) studied how money spent on things like salaries and training affects investment choices in Nigerian insurance companies. He tracked return on investment (ROI) to see the actual impact, and made sure to consider the size of each company. He started with 23 companies but ended up focusing on 15, picking them carefully on purpose. All his data came from their annual reports over a ten-year stretch, from 2013 to 2022. Beida ran the numbers with panel regression analysis in EViews 10. The results showed that spending more on training and development boosts ROI for these insurance companies. He also found that personnel costs, which are basically spending on employees, positively and significantly affect ROI. So, based on what he found, Beida suggests that insurance companies in Nigeria should put more into staff training, development, and welfare if they want to get the most out of their people.

Omisoje and the team (2024) explored how human resource accounting affects the financial results of Nigerian deposit money banks. They focused on gross labor cost and how it influences both return on equity (ROE) and profit after tax (PAT). For this, they looked at data from 2011 to 2020, gathering information from the annual reports of ten banks listed on the Nigerian Stock Exchange. They ran a linear regression analysis using SPSS version 23. The results were clear: gross labour cost had a strong, positive impact on both ROE and PAT. In other words, investing in people really paid off. They leaned on decision-making theory to say, basically, if you want a company to do well financially, you need good people. Their advice? Put money into training and education for your staff, don't let too many people leave, and try to keep your employees around.

Akam and Ikegwuru (2023) looked into how human resource accounting affects the financial performance of pharmaceutical companies listed on the Nigerian Stock Exchange between 2013 and 2018. They focused on how

spending on personnel costs, employee benefits, and training influenced these firms' return on assets. They focused on things like personnel costs, employee benefits, and training expenses, and checked how these factors shape return on assets. To do this, they collected data from the companies' annual reports and ran multiple regression analyses to figure out how everything relates. Spending more on employees by paying better salaries, offering good benefits, or investing in training actually gave companies a solid lift in their return on assets. Every category - personnel cost, personnel benefit, and training cost all made a positive and significant influence. The study concludes by saying human resource accounting really matters for the financial health of these firms, and suggests that managers should start paying closer attention to how they invest in their workforce and make those practices part of their regular accounting. They believe doing so should put these companies in a stronger position for growth and better performance.

Eke and Okafor (2023) explored how spending on human resources affects how companies perform. They used an ex post facto research design and focused on 14 commercial banks listed on the Nigerian Stock Exchange. Out of these, they picked 10 banks based on their own judgment and pulled secondary data from their annual reports covering five years, from 2014 to 2018. For analysis, they went with panel data regression. They found that staff costs did not really have a significant effect on profit after tax, return on assets, return on equity, or earnings per share. Still, there was a positive relationship between staff costs and those performance variables. They conclude that human resources accounting does influence financial performance, but not significantly. The study recommends that banks should aim to build up their HRM practices and align their strategies to boost the areas of employees' skills, attitudes, reorientation, and behavior.

Abraham, Odoobi, and Enwuchola (2022) explored how human resource accounting affects the performance of Nigeria's deposit money banks. They wanted to know if spending on salaries, training, and health care makes a difference for employee safety and how well the banks do. To get real-world results, they grabbed data straight from the banks' annual reports listed on the Nigerian Stock Exchange from 2015 to 2019. Then they used multiple regression analysis and checked their findings against a 5% significance level. They found that staff salary, along with health care costs and safety, did not have a significant effect on a bank's market value using Tobin's Q (TQ). But investing in staff training did make a real difference, bumping up the market value of these banks. With these results, the authors conclude that banks should improve on staff remuneration, encourage staff to work harder for banks to perform even better.

Onyekwelu and Akani (2021) explored how human resource costs connect with company financial performance in Nigeria. They gathered panel data from the financial reports of companies listed on the Nigerian Stock Exchange and the Federal Inland Revenue Service, zeroing in on 2016 and 2017. To analyze their findings, they used a mix of tools, including multiple regression, lag models, the augmented Dickey-Fuller test, co-integration analysis, Granger causality tests, and an error correction model. Everything was run with E-Views version 12. Their results revealed that human resource costs have a clear and significant link to how well these companies perform financially. The researchers conclude that investing in staff will improve their performance. They recommend that companies offer attractive retirement benefits so they can lure top talent, and that management should also set up solid staff development programs if they really want to boost profitability and performance.

This study looked into how human resource accounting impacts the returns on equity for deposit money banks. We employed an ex-post facto research design since the data was already available in the financial statement and reports of the banks and there is no way for us to influence it. The population includes all deposit money banks listed on the Nigerian Exchange Group. Data spanning five years from 2020 through 2024 were gathered from the audited financial statements and reports of ten randomly selected banks, and analyze were analyze with the multiple regression model via SPSS 23. All our hypotheses were tested at the 5% significance level.

Functional relationship: $ROE = f(ETC, ERC)$ ----- (i)

Econometric transformation: $ROE = \alpha_0 + \alpha_1 ETC + \alpha_2 ERC + \mu_1$ ----- (ii)

Where:

ROE stands for Return on Equity, which we used as a proxy for financial performance.

α_0 = intercept coefficient

$\alpha_1; \alpha_2$ = coefficient for each of the independent variable for the various models

ETC = Employees' Training Cost

ERC = Employees' Remuneration Cost

μ_1 = Error term.

➤ Decision Rule:

At the 5% (0.05) level of significance (α) for the study, if the p-value is less than or equal to 0.05, we reject the null hypothesis (H_0), but if the p-value is greater than 0.05, then we fail to reject the null hypothesis (H_0).

III. DATA PRESENTATION AND ANALYSIS

The researchers examined the results of the analysis and explained what they discovered. We pulled data from the audited financial statements and annual reports of the deposit money banks we randomly selected for this study.

Table 1 Statistical Description

Variables	Observations	Mean	Standard Deviation
ROE	50	1.22	.1455
ETC	50	5.23	.2407
ERC	50	7.00	.3658

Source: Researcher’s Computation. ROE = Returns On Equity; ETC= Employees’ Training Cost ERC= Employees’ Remuneration Cost.

The above table 1 shows the Statistical description of the data mean and standard deviation obtained for the study.

Table 2: Correlation Analysis

	ROE	ETC	ERC
ROE	1		
ETC	.288	1	
ERC	.264	.576	1

Source: Researcher’s Computation at the 0.05 level

Table 2 above shows the correlation analysis among the variables of the study. The table revealed that ROE demonstrates a positive relationship with ETC (r = 0.288) and ERC (r = 0.264). The implication of these results is that an increase in employees’ training costs and employees’ remuneration costs would positively influence returns on equity of deposit money banks in Nigeria.

Table 3: Results of Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.		
	B	Std. Error	Beta					
(Constant)	.172	.468			.367	.716		
Log(ETC)	.139	.102	.203		1.200	.022		
Log(ERC)	.058	.067	.147		.147	.001		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Durbin-Watson
					R Square Change	F Change	Sig. F Change	
1	.312 ^a	.210	.200	.10994	.210	.512	.603	2.191

a. Predictors: (Constant), ETC, ERC) b. Dependent Variable: Returns on Equity

Source: Computation by researchers using SPSS 23.

Table 3 shows that the R² value is 0.210. This means that ETC and ERC - explanatory variables explain about 21% of the changes in return on equity in the banking sector. The other 79% comes from factors outside this model. This is relatively low but significant, as this is consistent with other previous studies in Nigeria suggesting that while human capital is vital, other macroeconomic and institutional factors heavily influence bank performance (Ogunbiyi et al., 2023; Onyekwelu & Akani, 2021). The regression result equally revealed that both ETC and ERC have a positive relationship with return on equity (ROE), as indicated by their coefficients of 0.139 and 0.055, respectively. This supports the findings of Omisope et al. (2024), who observed that increased investment in personnel training leads to a corresponding rise in the profitability of

listed deposit money banks. The relationships were statistically significant, too, because the p-values for ETC and ERC (0.022 and 0.001) were both well below 0.05. These results mirror those of Olaoye and Afolalu (2020), who established that staff costs and training significantly impact the earnings per share and ROE of Nigerian banks. This outcome implies that the two null hypotheses, which state that there is no significant relationship between the ETC, ERC, and returns on equity of deposit money banks in Nigeria, were rejected and their alternatives considered.

IV. DISCUSSION OF FINDINGS

The study randomly selected deposit money banks listed on the Nigerian Stock Exchange. The stated two hypotheses, which were developed in accordance with the objectives of the study, served as the foundation for the discussions of the findings. Hypotheses Ho1 and Ho2 of the study, respectively, state that there is no significant relationship between employees' training cost (ETC), employees' remuneration cost (ERC), and return on equity of deposit money banks in Nigeria. On the contrary, the regression results revealed that both ETC and ERC have positive and significant relationships with returns on equity. The findings of the study imply that both employees' training and remuneration have a significant positive influence on banks' returns on equity. The findings of the study were corroborated by previous studies (Beida, 2024; Omisope et al., 2024; Ogunbiyi, Alao, Aremu, & Olalere, 2023; Abraham, Odobi, & Enwuchola, 2022).

V. CONCLUSION AND RECOMMENDATIONS

The study examines the relationship between human resource accounting and financial performance, as measured by return on equity, among deposit money banks in Nigeria. Employees' training cost and employees' remuneration cost were used as proxies for human resource accounting. The researcher has reason to conclude that initiating the right employee training and also encouraging and compensating employees' hard work with adequate remuneration would go a long way to positively impact the return on equity of deposit money banks. The study recommends and encourages banks to embark on routine training of their employees. They are also advised to recognize employees' hard work and compensate them handsomely.

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