

Chapter 10

Human Capital Investment and the Financial Performance of Deposit Money Banks in Nigeria

Abolo, Aseinimieyefori Pereowei, Ph.D

Department of Accounting, Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Nigeria

Email: perestic@yahoo.com

Abstract: *The paper is of the view that management of human capital in any organizations is very much important from accounting point of view. Valuation of human capital investment, 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 employees' productivity. Accounting for human capital investment in deposit money banks in Nigeria involves recognizing and measuring the costs and benefits associated with investments in developing and enhancing the knowledge, skills, and abilities of employees.*

Keywords: *Human Capital Investment, Financial Performance, Organisation*

INTRODUCTION

In today's competitive business environment, organizations recognize that their employees are valuable assets and that investing in their development can have a significant impact on organizational performance and financial outcomes. This is particularly relevant in the banking sector, where human capital plays a crucial role in delivering high-quality services, driving customer satisfaction, and ultimately influencing the financial performance of deposit money banks (Tucker 2018). Nigeria's banking sector is a critical component of the country's economy, serving as a catalyst for economic growth and development. Deposit money banks, also known as commercial banks, play a pivotal role in facilitating financial intermediation, mobilizing savings, and providing credit to individuals, businesses, and government entities. Maintaining sustainable performance and competitiveness is one of the main challenges that organizations have to address in order to attain success, especially in the light of the highly dynamic nature of contemporary business environments. Achieving sustainable performance is important for achieving organizational success. It is related to the achievement of profitability and protection of the market share. However, improving performance sustainability is a considerable challenge; it requires that the organization modifies its strategies in order to adapt to changing conditions (Chukwu et al., 2022).

The financial performance of deposit money banks is a key measure of their success and sustainability. It encompasses indicators such as profitability, return on investment, asset quality, liquidity, and market share. The efficient utilization of human capital has the potential to positively impact these financial performance indicators, leading to improved competitiveness and long-term viability (Mahruzal & Muammar, 2020). Rosikah, et al. (2018) see a company's financial performance as a factor perceived by prospective investors as a determinant for investment. Financial performance of a business is actually an objective measure of exactly how effective a firm is able to utilize its assets in its main economic operations to produce revenues. This particular phrase is likewise used as a broad measure of a firm's general economic health within a

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certain time period and may be utilized in order to evaluate identical firms across the identical business or maybe to evaluate sectors or industries within the general business environment. Verma (2021) viewed financial performance as the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period of time and used to compare similar firms across the same industry. The firm's level of goal achievement in terms of shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015).

Human Capital Investment

Human capital investment recognizes that individuals are valuable assets and that investing in their development can lead to numerous benefits for organizations and societies as a whole. It involves strategies to attract, recruit, train, develop, and retain talented individuals, as well as creating an environment that fosters their growth and well-being. The conventional economics describes human resource as the translating and coordinating effort which drives other resources towards efficient attainment of the organizational goals (Obulor & Ohaka, 2020). Kimberlee (2019) described human resource as the most important resource in an organization because it controls and directs the other organizational resources. It is often seen as a vital asset in an organization because stakeholders need resources that are able to get job done. However, human resource come at a cost, which is often referred to as human resource costs. Human capital cost is the total value of human capital in a business. It is the cost of replacing a set of services provided by one person with an equivalent set to be provided by another. It is highly related with whether or not a business can maintain sustainable growth (Ogujiofor et al., 2021). Cost of human capital typically includes costs of recruitment, selection, hiring, placement, orientation, and on-the-job training. Expenditures on employees are investments which are aimed at improving the quality of a firm's employees through increased motivation and creativity (Craig et al., 2020). Human capital cost information of an organization is a very important factor to decision makers in the era of knowledge-based economy. The main goal for any business is simple: Invest capital so that it maximizes shareholder value. However, in modern times, this is a necessary but not sufficient condition because execution of successful strategies depends on access to intellectual and operational know-how, customer and supplier relationships, a committed workforce, and other such intangibles. At the heart of making these intangibles come alive is the firm's investment in human capital (Adeyinka et al., 2019).

Information on human capital investment of an organization is a very important factor in decision making in the era of knowledge-based economy. As a result, each organization takes serious attempt to disclose its HRC information to insider and outsider decision makers. In fact, it is becoming an integral part of Management report. Human resource accounting considers human capital as equivalent to other assets in the organization. They require investment over time to make them productive. Such investment relates to the hiring, training, and development costs, which are capitalized and amortized over an assumed productive life for the human capital, taking into account attrition and eventual deterioration (Ogujiofor et al., 2021). Human capital investment is an accumulation of the skills and abilities of employees obtained from experience, training, and education during the working period to create quality human resources with an added value known as human capital (Vizano et al., 2019).

Staff Cost

The cost of labour is the sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer. The cost of labour is distinguished into direct and indirect (overhead) costs. Direct costs include wages for the employees that produce a product,

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including workers on an assembly line, while indirect costs are associated with support labour, such as employees who maintain factory equipment (Chappelow, 2019). Staff cost comprises of the benefits paid or payable to the employees of an entity, whether permanent, or temporary for the services rendered by them. Remuneration is about the satisfaction that workers get for the work done which includes all forms of payment or rewards and adding to the satisfaction; moreover, this supports the organization to acquire, keep up and hold a beneficial workforce (Onyekwelu et al., 2020). Staff cost includes payments made in cash or kind. It includes the following; (i) Wages and salary; (ii) Allowances and incentives; (iii) Payment for overtimes; (iv) Employer's contribution to Provident fund and other welfare funds; (v) Other benefits (leave with pay, free or subsidized food and leave travel concession) (Onyekwelu et al., 2020).

Training and Development Cost

Measurement of cost and value of the people to organizations is highly important, costs incurred in training and development of employees along with their economic values are very much relevant for Human Resource Accounting (Ndum & Oranefo, 2021). Investment in training and development is desirable from both personal and social perspective. From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. This view is supported by Obulor and Ohaka, (2020) who opined that a firm's human capital has two dimensions which are value and uniqueness. The firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in comparison with the associated costs. In this sense, the firm's human capital can add value if it contributes to lower costs, thereby leading to increased workers' performance.

Financial Performance

Financial performance is the outcome of different activities undertaken by an organization (Obiero, 2016). Financial performance of a business is actually an objective measure of exactly how effectively a firm is able to utilize its assets in its main economic operations to produce revenues. This particular phrase is likewise used as a broad measure of a firm's general economic health within a certain time period and may be utilized in order to evaluate identical firms across the identical business or maybe to evaluate sectors or industries within the general business environment. Financial Performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Verma (2021) viewed financial performance as the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period of time and used to compare similar firms across the same industry. Financial performance is a term that is used also as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Financial performance is seen as the level of results achieved by an entity over a specified period of time, expressed in terms of overall profits, losses, efficiency, sales growth or growth in shareholders' wealth during that time. It is also a way of measuring or assessing a firm's profits, sales growth and growth in market and shareholders' value. Evaluating the financial performance of a business enables decision makers to judge the results of business strategies and activities in monetary terms (Nangih, et al., 2020). Chepkemoi (2013) opined that financial performance highlights the status of an organization's financial output, emanating from management decisions which are executed by the personnel in various departments. The firm's level of goal achievement in terms of

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shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015).

The measures of financial performance fall into two broad categories: Investor returns and accounting returns. The basic idea of investor return is that, returns should be measured from the perspective of shareholders for instance value for money, economic satisfaction and increased welfare. Accounting returns of companies moreover focus on how the firm's earnings respond to different managerial policies example return on asset and return on equity (Munene, 2014). In addition, the financial performance of a company is derived from the financial statement.

Financial performance is compared using ratio analysis like net profit margin, return on asset, return on equity etc. Financial ratios represent a relationship between two or more economic sizes and allow comparison of business operations of different sizes (Sedlacek, 2015; Novy-Marx, 2013; Imrohorglu & Tuzel 2013; Pervan & Visic, 2012). However, the use of financial measures is fraught with many limitations, including their focus on short-termism, which is problematic where management makes short-term decisions that are accomplished at the expense of the long-term sustainability of an organization. Osoro and Muturi (2013) assert that an enterprise's performance can be prudently measured by variables such as profitability, sales level, production level and employment level among other factors.

Return on Assets

Return on assets (ROA) shows how efficient a company is in the utilization of its assets to yield the required income. It reflects how efficient the management of a company in generating net income from all the resources of the institutions (Khravish, 2011). Analysts use ROA to assess a firm's operating performance relative to investments made without considering whether the firm used debt or equity capital to finance the investments (Masa'deh et al., 2015).

Return on assets is important to keep in mind because it's how a company's managers and outside analysts determine how effectively a company is using its financial resources. ROA is closely related to other measures used to gauge company success, like return on investment (ROI) and return on equity (ROE) (Birken & Curry, 2021). A higher percentage of the return on asset reveals a better and efficient utilization of assets while a lower percentage show non-efficient utilization or underutilization of asset. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry. Companies that require large initial investments will generally have lower return on assets. ROA over 5% are generally considered good (Hayes, 2021).

Return on Capital Employed

Return on capital employed (ROCE) is a financial ratio that is used in assessing a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use. The ROCE ratio is one of several profitability ratios financial managers, stakeholders, and potential investors may use when analyzing a company for investment (Hayes, 2021). According to Singh and Yadav (2013) return on capital employed is a measure of efficiency of management in the application or use of the organization's funds or resources in a given financial period. It is a financial ratio that can be used in assessing a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use (Hayes, 2021). Furthermore, Hayes (2021) opined that return on capital employed is a measuring tool that measures the efficiency and profitability of capital investments undertaken by a corporation. Return on capital employed ratio also indicates whether the company is earning sufficient revenues and profits in order to make the best use of its capital assets. High return on capital employed is a validation of a company's competitive advantage. It indicates that the company has

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something special to offer -products or services that command a high return. Return on capital employed compares a company's earnings from its primary operations with the capital invested in the company and can serve as a reliable measure of corporate performance (Bourne & Bourne, 2011). Return on capital employed is used to prove the value the business gains from its assets and liabilities. Companies create value whenever they are able to generate returns on capital above the weighted average cost of capital (WACC) (Fernandes, 2014)

Human Capital Theory

Human Capital theory was proposed by Schultz (1961) in his article published in the American economic review titled "Investment in Human Capital." and extensively developed by Becker (1964) a famous economist from Chicago school. The theory has its roots from labour economics which is a branch of economics that focuses on general work force in quantitative term. According to this theory, education or training raises the productivity of workers by imparting useful knowledge and skills, thus raising workers' future income as well, through increase in their lifetime earnings. The theory postulates that expenditure on education or training and development is costly, and should be considered as investment since it is undertaken with a view to increasing personal incomes. Human resource approach is used to explain or support occupational wage differential.

Becker (1964) asserts that human resource or capital is similar to physical means of production like factories and machines. One can invest in human resource through education, training and even medical treatment while one's output depends partly on the rate of return on the human capital one owns. The Human Capital theory is relevant to this study because it stresses the significance of education and training as the key to participation in the new global economy and to attain competitive edge. So, firms that invest in the education and training of its employees will definitely gain more productivity and enhanced financial performance.

CONCLUSIONS

By prioritizing human capital investment, the banking sector in Nigeria aims to build a skilled, engaged, and resilient workforce that can adapt to market dynamics, deliver exceptional customer service, drive financial performance, and maintain a competitive edge in the industry. The effectiveness of human resource development depends on the degree of participation of employees' and hence, reflects in the intended business outcome. The extent to which, human resource development affect organizational growth and performance has emerged as the central factor in the development of an organization. (Ogujiofor et al., 2021).

Management of human capital in any organizations is very much important from accounting point of view. Valuation of human capital investment, 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 employees' productivity (Krishna et al., 2018). Accounting for human capital investment in deposit money banks in Nigeria involves recognizing and measuring the costs and benefits associated with investments in developing and enhancing the knowledge, skills, and abilities of employees.

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