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HUMAN RESOURCE VALUATION AND THE PERFORMANCE OF SELECTED BANKS IN NIGERIA

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ABSTRACT

This study examines human resource valuation and the performance of selected banks in Nigeria. Human resources are the only factor of production that is not recognized in the reporting mechanisms, despite an interest dating back to the 1960s. In other to investigate the above issues, the researcher gathered data from Nigerian banks listed in the Nigeria Stock Exchange (NSE) using a survey design. The data were then tabulated and analyzed using Ordinary Least Square (OLS). The study revealed that all the variables of human resource valuation used are statistically significant. Conclusively, human resources cost approach to corporate performance measurement which have gained substantial attention and use in recent years provides further opportunities for utilization of human resource accounting measures. The study therefore, recommended that banks should use career management programs to assist their employees in career planning. A well-functioning company career planning system would encourage employees to take more responsibility for their own development, including the development of skills viewed as significant in the bank. Finally, banks should note that career planning system not only helps ensure that employees have the skills they need to advance in the bank, but also may help ensure that employees possess the mix of skills that the firm believes is important for its future success.

KEYWORDS: Human Resources, Human Asset, Cost Based Valuation, Economic Valuation and Market Based Valuation

1.0 INTRODUCTION

Human Resource Valuation is not a new issue in the arena of business. It is true that knowledge is a key determinant of economic and business success, but most companies focus on 'Return on investment (ROI)', with very few concrete steps taken to tract 'Return on Knowledge'. However, what is needed in this concept is a measurement of the abilities of all employees in a company, at any level, to produce value from their knowledge and capability.

The concept of human resource valuation can basically examine from two dimensions: the investment in human resources and the value of human resources. The expenditure incurred for creating increasing and updating the human resource quality is known as investment in human resources. Such investment yields fruitful results like higher productivity and higher income to the organization. The yield that the investment in human resources generates will be considered as the basis of human resource value.

The American Accounting Association (AAA) defines human resource accounting as "measuring data of human resources and communicating the information to the interested

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parties". It has rightly pointed out that human resource accounting would measure all the data relating to the people of an organization, and this data, when reported to either the shareholders; manager, government or any other agency, will be helpful in making the relevant decisions.

Human resource valuation is aimed at depicting the human resources potentials in money terms while casting the organization's financial statements, with the emergence of the knowledge economy, recognition of human capital as an important part of the enterprises, total value has gained importance.

Statement of the problem

Human resources have been identified as one of the main sources of competitive advantage by many organizations in today's economy (Edvinsson & Malone, 1997; Stewart, 1997; Sveiby, 1997; Mayo, 2001; DTI, 2003; Verma & Dewe, 2004). This is true not only of knowledge intensive organizations, which are based on services and Intangible outputs, but also increasingly of more traditional organizations, both in the private and public sectors. However, human resources are still not recognized in the reporting mechanisms, despite an interest dating back to the 1960s in techniques such as human resource valuation (Fincham & Roslender, 2004; Roslender & Dyson, 1992; Mourtisen, Cheek & Fombrun, 2001).

The economic environment has shifted from industry based with a focus on physical assets such as factory, machines and equipment to a high technology, information, innovation based environment with a focus on the expertise, talents, creativity, skills and experience of people – the company's human capital. However, despite the human capital intensive economy, traditional accounting continues to focus on traditional assets to the exclusion of the more important human assets.

Moreover, there are divergent opinions on Human Resource Valuation in Nigeria banking industry as its impacts are insignificant and not felt. However, in the past, employers of labour have been complaining that employees perform their work efficiently when they are newly employed but over time, their efficiency and performance decrease. Hence, employees have attributed the decrease in efficiency and productivity to the fact that employers do not provide adequate incentives, motivation and training to enable them put in their best. This study would ascertain whether human resource valuation methods actually take place in the banking sector and if so, which of these valuation methods plays a prominent role. It will also ascertain if human resource valuation impacts significantly or not, with respect to banks performance in Nigeria.

Objectives of the study

The main objective of this study is to examine human resource valuation and the performance of Nigerian banks.

The specific objectives of the study are as follows:

1) To examine the effect of cost based valuation of human resource on the performance of Nigerian banks.
2) To examine the effect of economic valuation of human resource on the performance of Nigerian banks.
3) To examine the effect of market based valuation of human resource on the performance of Nigerian banks.

Research hypotheses

The formulated null research hypotheses of this study are as follows:

1) Ho: Cost based valuation of human resource does not significantly affect the performance of Nigerian banks.
2) Ho: Economic valuation of human resource does not significantly affect the performance of Nigerian banks.
3) Ho: Market based valuation of human resource does not significantly affect the performance of Nigerian banks.

Significance of the study

Human resource valuation is undeniably regarded as a relevant aspect in accounting; it is a truism that an empirical work on the essence of human resource valuation on the performance of Nigerian banks will attract considerable attention. It is in the light of the foregoing that one takes a look at the subject with a view to determining the essence of the subject matter given a defined profile on corporate performance. It is hoped that a study of this nature could douse the uncertainty surrounding human resource valuation.

Indeed, a discovery of knowledge of the protracted problems of the subject matter and policy recommendations from this study would enable management, employees, customers, government, investors and the general public to make adjustment where necessary.

Since, scanty attention has been given to research of this kind in Nigeria, the study comes as a welcome relief to uncover knowledge already in existence thereby creating an area of reference or review for future researchers and establish the indispensability of corporate performance.

2.0 THEORETICAL FRAMEWORK

The belief that individual employee performance has implications for firm-level outcomes has been prevalent among academics and practitioners for many years. Interest in this area has recently intensified; however, as scholars have begun to argue that collectively, a firm's employees can also provide a unique source of competitive advantage that is difficult for its competitors to replicate. For example, Wright and McMahan (1992), drawing on Barneys (1991) resource-based theory of the firm, contended that human resources can provide a source of sustained competitive advantage when four basic requirements are met.

Wright and McMahan's (1992) work points to the importance of human resources in the creation of firm-specific competitive advantage. At issue, then, is whether, or how, firms can capitalize on this potential source of profitability. Bailey (1993) contended that human resources are frequently "underutilized" because employees often perform below their maximum potential and that organizational efforts to elicit discretionary effort from employees are likely to provide returns in excess of any relevant costs. He argued that Human Resource Management (HRM) practices can affect such discretionary effort through their influence over employee skills and motivation and through organizational structures that provide employees with the ability to control how their roles are performed.

Human resource management practices influence employee's skills through the acquisition and development of a firm's human capital. Recruiting procedures that provide a large pool of qualified applicants, paired with a reliable and valid selection regimen, will have a substantial influence over the quality and type skills new employees possess. Providing formal and informal training experiences, such as basic skills training, on-the-job experience, coaching, mentoring, and management development, can further influence employees' development.

The effectiveness of even highly skilled employees will be limited if they are not motivated to perform. However, and HRM practices can affect employee motivation by encouraging them to work both harder and smarter. Examples of firm efforts to direct and motivate employee behaviour include the use performance appraisals that assess individual or work group performance, linking these appraisals tightly with incentive compensation systems, the use of internal promotion systems that focus on employee merit, and other forms of incentives intended to align the interests of employees with those of shareholders (e.g. profit-and gain-sharing plans).

Finally, Bailey (1993) noted that the contribution of even a highly skilled and motivated workforce will be limited if jobs are structured, or programmed, in such a way that employees, who presumably know their work better than anyone else, do not have the opportunity to use their skills and abilities to design new and better ways of performing their roles. Thus, HRM practices can also influence firm performance through provision of organizational structures that encourage participation among employees and allow them to improve how their jobs are performed. Cross-functional teams, job rotation, and quality circles are all examples of such structures.

Thus, the theoretical literature clearly suggests that the behaviour of employees within firms has important implications for organizational performance and that human resource management practices can affect individual employee performance through their influence over employees' skills and motivation and through organizational structures that allow employees to improve how their jobs are performed. If this is so, a firm's HRM practices should be related to at least two dimensions of its performance. First, if superior HRM practices increase employees' discretionary effort, we would expect their use to directly affect intermediate outcomes, such as productivity over which employees have direct control. Second, if the returns from investments in superior HRM practices exceed their true costs, then lower employee turnover and greater productivity should in turn enhance corporate financial performance. Therefore, in anticipation of an estimation model that focuses on these dependent variables, our review of the empirical literature concentrates on prior work examining the influence of human resources cost (HRC) on corporate productivity.

Transaction cost theory

This theory assumes that business enterprises choose governance structures that economize transaction costs association with establishing, monitoring, evaluating, and enforcing agreed upon exchanges (Williamson, 1979 and 1981). Predictions about the nature of the governance structure an enterprise will use incorporate two behavioural assumptions: bonded rationality and opportunism (i.e. the seeking of self-interest with guile). These assumptions mean that the central problem to be solved by organizations is how to design governance structures that take advantage of bonded rationality while safeguarding against opportunism. To solve this problem, implicit and explicit contracts are established, monitored, enforced, and revised. The theory has direct implications for understanding how HRM practices are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees (Wright & McMahan, 1992). For example, organizations that require firm specific knowledge and skills are predicted to create internal labour markets that bind self-interested and bounded rational employees to the organization, while organizations that do not require these skills can gain efficiencies by competing for self-interested and bounded rational talent in an external labour market (Williamson, 1981). Contextual factors, in turn, partly determine whether the types and amounts of skills and knowledge a firm needs are likely to be available in the external labour market, the costs of acquiring them from the external market, the organization's capability for developing them internally, and the costs of doing so.

Resource-based theory

The resources based theory of the firm blends concepts from organizational economics and strategic management (Barney, 1991). A fundamental assumption of this view is that organizations can be successful if the gain and maintain competitive advantage (Porter, 1985). Competitive advantage is gained by implementing a value-creating strategy that competitors cannot easily copy and sustain (Barney, 1991) and for which there are no ready substitutes. For competitive advantage to be gained, two conditions are needed: First, the resources available to competing firms must be variable among competitors, and second, these resources must be immobile (i.e. not easily obtained). Three types of resources associated with organizations are:

(a) Physical (plant; technology and equipment; geographical location);
(b) Human (employees' experience and knowledge); and
(c) Organizational (structure; systems for planning, monitoring, and controlling activities; social relations within the organization and between the organization and external constituencies).

Human resource management greatly influences an organization's human and organizational resources and so can be used to gain competitive advantage (Schuler & Macmillan, 1984). Presumably, the extent to which human resource management can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate (Wright et al., 1994). For example, in some industries, technologies can substitute for human resources, whereas in others the human element is fundamental to the business to illustrate contrast labour intensive and knowledge-intensive industries. The latter context may be more conducive to the use of human resource management as a means to gain competitive advantage.

Human capital theory

In the economics literature, human capital refers to the productive capabilities of people (Becker, 1964). Skills, experience, and knowledge have economic value to organizations because they enable it to be productive and adaptable; thus people constitute the organization's human capital. Like other assets, human capital has value in the market place, but unlike other assets, the potential value of human capital can be fully realized only with the co-operation of the person. Therefore, all costs related to eliciting productive behaviours from employees including those related to motivating, monitoring, and retaining them-constitute human capital investments made in anticipation of future returns (Flamholtz & Lacey, 1981). Organizations can use human resource management in a variety of ways to increase their human capital (Cascio, 1991; Flamholtz & Lacey, 1981). For example, they can "buy" human capital in the market (e.g. by offering extensive training and development opportunities). Investments of either type have associated costs, which are justifiable only to the extent the organization is able to productively utilize the accumulated capital (Tsang et al., 1991). In human capital theory, contextual factors such as market conditions, unions, business strategies, and technology are important because they can affect the value of the organization's human capital and the value of the anticipated returns, such as productivity gains (e.g. Boudreau & Berger, 1985; Russell et al., 1993).

General system theory

This theory is propounded by Von-Bertalanffy in 1950. In general, system theory unit of analysis is understood as a complex of interdependent parts. An open versus closed system is dependent on the environment for inputs which are transformed throughout to produce outputs that are exchanged in the environment. Open systems models seldom address organizations or large units within organization. According to Katz & Kahn's (1978), the social psychology of organizations is an exception in that it treats human resource management has been developed further by Wright & Snell (1991), who used it to described a competent management model of organizations. Skills and abilities are treated as inputs from the environment; employee behaviours are treated as throughout; and employee satisfaction and performance are treated as outputs. In this model, the HRM subsystem functions to acquire, utilize, retain, and displace competencies. Similarly, Snell's (1992), description of human resource management as a control system is based in open systems theory. In a more narrow discussion Kozlowski and Salas (1994), presented a multilevel organizational systems approach for understanding training implementation and transfer.

VALUING PEOPLE AS ASSETS

There are three criteria for defining any asset:

• It must possess future service potential.
• It is measurable in monetary terms.
• It is subject to the ownership and control of the company, or it is rented or leased.

Traditional methods of coming to a valuation include:

1. **Cost-based**. This method typically looks at acquisition or replacement cost. The costs of recruiting an employee can be assessed and then depreciated over the expected future service of the person hired. Alternatively the person's gross remuneration can be used as a base.
2. **Market-based**. The price to be paid in an open market must be a reflection of the value of a person. Value is very difficult to assess, however, and does not take account of the value of service continuity in itself.
3. **Economic-based**. The cash inflows expected by the organization related to the contribution of the human asset, calculated as the present value of the expected net cash flows. This is good for individuals whose efforts are directly related to identifiable income.

3.0 METHODOLOGY

An analytical survey approach is used. Secondary information has been obtained from specialized studies, and scientific sources, while primary information was generated through a questionnaire.

The studied population consists of 21 commercial banks listed in the Nigerian Stock Exchange (NSE) out of which a sample of ten (10) constituting 47.62% was selected.

On the basis of previous studies, a Likert quintuple (five points) measurement scale was used to show the opinions of the study sample members on the questionnaire items. In order to find the arithmetic means of the opinions of sample members, weights were designated in agreement with the significance of each paragraph of the questionnaire, where the weight (5) was designated to the case of "strongly agree," (4) to the case of "agree," (3) to the neutral case (average), (2) to "disagree," and (1) to "strongly disagree." The items here were positively and negatively worded. Foremost, to ease the process of data preparation, each retrieved instrument of the study was assigned a numerical value on each respondent, in each of the banks. Then a key was developed which served as guide for coding the data collected from the research instrument – HRVPAS.

The items on the questionnaire were alright according to the variables they were meant to measure. After coding of each returned instrument, the codes/scores were extracted and stored in persons by item matrix table data chart/or data bank. It was from this matrix table that the data was arranged according to each respondent as well as each hypothesis. The data was collated and then extracted and arranged in means, standard deviations and percentages where necessary. This enabled the determination of the statistical analytical technique to be employed for each research hypothesis of the study.

Model Specification

The specified model for the study is stated thus:

PERF = $B_0 + B_1$CBVHR + B_2EVHR + B_3MBVHR + U

DEFINITION OF VARIABLES

PERF = Performance

CBVHR = Cost Based Valuation of Human Resource

EVHR = Economic Valuation of Human Resource

MBVHR = Market Based Valuation of Human Resource

B_0 = Unknown constant to be estimated

B_1, B_2, B_3 = Unknown coefficients to be estimated

U = Stochastic Error term

$B_1, B_2, B_3 > 0$

4.0 DATA ANALYSIS

Table 1: Regression results of human resource valuation and the performance of Nigerian banks

DEPENDENT VARIABLE: Productivity (PERF)

VARIABLE	ESTIMATED COEFFICENTS	STANDARD ERROR	T-Statistic	P- Value
Constant	10.301	.192	5.567	.000
CBVHR	.005	.002	1.920	.003
EVHR	.254	.004	2.229	.001
MBVHR	.002	.007	2.361	.000
R	= .996			
R-Square	= .992			
Adjusted R-Square	= .989			
SEE	= 15.499			
F – Statistic	= 18.270			
Durbin Watson Statistic	= 2.612			

Source: Researcher's Estimation, 2012

Table 1 shows the Regression results of human resource valuation and the performance of Nigerian banks The regression results showed that the estimated coefficient of the regression parameters have positive sign and thus conform to our economic a-priori expectation. The implication of these signs is that the dependent variable Performance (PERF) is positively influenced by the indices of human resource valuation (CBVHR, EVHR and MBVHR). This means that an increase in the independent variables will bring about credibility in the dependent variable Performance (PERF).

The coefficient of determination R-square of 0.992 implied that 99.2% of the sample variation in the dependent variable Performance (PERF) is explained or caused by the explanatory variable while 0.8% is unexplained. This remaining 0.8% could be caused by other factors or variables not built into the model. The high value of R-square is an indication of a good relationship between the dependent and independent variables.

The value of the adjusted R^2 is 0.989. This shows that the regression line captures more than 98.9% of the total variation in productivity and is caused by variation in the explanatory variables specified in the equation with less than 1.1% accounting for the stochastic error term.

Testing the statistical significant of the overall model, the F-statistic was used. The model is said to be statistically significant at 5% level because the F-statistics computed of 18.270 is greater than the F-statistics table value of 2.60 at df1=3 and df2=396.

The test of autocorrelation using Durbin Watson (D/W) test shows that the D/W value of 2.612 falls within the inconclusive region of D.W partition curve. Hence, we can clearly say that there exists no degree of autocorrelation.

5.0 CONCLUSION AND RECOMMENDATIONS

Just as the field of human resource valuation has grown globally, significant interest in Human Resource Valuation has expanded and crossed over in to fields others than accounting including economics, organizational management and organizational culture and inspired related research. This study has explored how human resource accounting valuation incorporated corporate performance measurement system can help an organization define and orchestrate its strategy for success. The human resources valuation approach to corporate performance measurement which has gained substantial attention and used in recent years provides further opportunities for utilization of human resource accounting measures. A growing number of studies have attempted to show the link between human resources and performance. We believe that though the case is not watertight, due to a number of methodological reasons, the weight of evidence is beginning to look compelling.

In the context of this study's objectives and findings, it is the opinion of the researcher to recommend that banks should use career management programs to assist their employees in career planning. When the company provides this service, one important aim is to identify sequences of job assignments that help employees gain the skills and knowledge viewed as important in the bank. A well-functioning company career planning system may also encourage employees to take more responsibility for their own development, including the development of skills viewed as significant in the bank. It should be noted that a career planning system not only helps ensure that employees have the skills they need to advance in the company, but also may help ensure that employees possess the mix of skills that the firm believes is important for its future success. In other words, the provision of career planning assistance may have a positive effect on the level and type of skills and knowledge in the bank.

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