Reconceptualising Human Resource Accounting for Shareholder Wealth Maximization: A Theoretical Perspective

Abdulkadir Ahmed Hammayo[1] & Riku Biki Riku[2]

[1, 2]Department of Accounting, Federal University Wukari &

Email: aahammayo@fuw.edu.ng

Phone: +234-8032783743

ABSTRACT

This study presented a conceptual study on the relationship between human resource accounting and wealth maximization. The study is based on the modern approach that views human resource accounting as an asset unlike the traditional approach which views human resource accounting as an expenditure. The study is mostly based on literature review, research papers, and materials of professional accounting bodies as well as seminars, workshop, and conferences, papers. The findings revealed that even though human resource has been widely accepted to be an asset there is no widely accepted technique of valuation of human resources for accounting purposes. This is as a result of different opinions and views by different scholars on how to analyse human resource accounting. This study recommended that there should be a widely accepted method by which human resource accounting will be analysed. Secondly, organizations should fully embrace the modern concept of human resource accounting by which human resource are capitalized in the statement of financial position instead of being expensed in the statement of profit or loss account as an expense which will reduce the profitability of an organisation.

Keywords: Human Resource Accounting, Wealth Maximization, Human Resource, Shareholder.

1 INTRODUCTION

Globally human resource accounting (HRA) approach is gaining recognition, as businesses realize the strategic value of their personnel. However, the absence of statutory regulations and the difficulty of quantifying some aspects of human capital make it difficult to standardize HRA processes and incorporate them into financial accounts. In addition to typical accounting techniques that treat employee-related costs as expenses, human resource accounting sees human capital as a valuable asset to a business and seeks to assess and report on its value.

According to the traditional finance paradigm, theory, and training, maximizing shareholder wealth is the primary goal of corporate management (Diepiriye, 2018). A key managerial role that requires both tactical and strategic approaches to be successful is maximizing shareholder wealth (Diepiriye, 2018). One indicator of a firm's profitability is the wealth of its shareholders. It evaluates the effectiveness of management in producing returns on assets, return on investment, return on investors' capital, earnings per share, profit after taxes, and net profit margin, profit after taxes, and net profit margin (Ngerebo-a & Lucky, 2016).

Increasing the wealth of shareholders has always been a primary goal of corporate entities globally. Therefore, when the value of the company's common stock increases, shareholders' wealth is maximized, which is regarded as a more important business objective than profit maximization. Modern finance theory is based on the idea that a company's only objective should be to maximize the wealth of its owners or the market value of its shares. To improve the shareholders' wealth, the market value per share might be raised. Therefore, in order to achieve this goal, every business choice should eventually maximize the share's market value (Khan & Hussanie, 2018).

The industrial era's view of plants and machines as an organization's primary assets gave way to the knowledge economy's view that human resources are an organization's most valuable asset. The information, core competencies, expertise, and innovation that help firms achieve their goals are kept safe by their personnel, or human resources. These measurable resources that human resources possess apply to both market and non-market scenarios (Adewoye et al., 2024).

In order to support responsible problem solving and informed decision making, HRA comprises a process for recording all expenses, benefits, costs, and other matters related to to human assets or resources working in an organization. This is done by making sure that these issues are appropriately recognized, documented, displayed, deciphered, and conveyed to entities and interested parties. Unlike the conventional accounting, which views human resource costs as ordinary expenses that tend to lower the reported profit, human resource administration has accounting practices for human resource-related expenses in the business (Babarinde et al., 2024).

The goal of HRA is to locate and disclose investments made in the human capital of a company that have not previously been taken into consideration when analyzing accounting procedures (Raghavendra, 2022). It functions essentially as an information tool that provides management with updates on shifts in the organization's human resources across time, together with the cost and relevance of the human capital to the business. By offering investors, lenders, and other external stakeholders insights into the organization's investment in and utilization of human resources, the system can help both internal and external users. This information can be used by management (internal users) to make decisions about hiring, training, and other aspects of development (Raghavendra, 2022).

Human resources, considered the most valuable asset of any organization, have not been adequately addressed in traditional accounting systems, where all investments in human resources are expensed in the year they are incurred (Afolalu & Ezeala, 2022). This gap highlights the need to explore the relationship between Human Resource Accounting (HRA) and the maximization of shareholder wealth, which is the focus of this study.

2 CONCEPTUAL REVIEW

2.1 CONCEPT OF SHAREHOLDER'S WEALTH

The market value of the publicly traded company gauges the wealth of shareholders. Market capitalization is a product of the amount of outstanding shares of the equity shares and price of shares at that specific moment of calculation. Market capitalization is net worth of company determined in capital markets. The market capitalization is computed as the sum of the physical assets that is owned by the company and the residual revenues that would be generated by the company in the future and that the business can either retain or put towards distributing pay in the form of dividends. In such a manner, the future dividend flow is considered in the calculation. Other things equal, higher common stock (equity) earnings per share will tend to raise the market value of individual shares (and thereby the market value of the firm) and in theory, will allow either an increase in dividends or an increased amount of investment in profitable projects (a gain) (Boatright & Windsor, 2010).

An inconvenience related to market capitalization definition is that this conception of the market is referred with the artificial component of the subjective pricing between the buyers and the sellers. Fake bubbles exist especially when it comes to commodities and real estates. The price earnings ratio rises in a bubble and it can rise explosively. Shareholder wealth maximization principle is fairly successful in achieving a demand on the part of investors and supply on the part of the management to act in ways that will lead to increased share price overtime. This opposition can be seen when making comparisons between similar management operations, e.g. subjective valuation process in capital markets. The free cash flow is computed by net operating cash flow less capital investments, this occurs in product market where decisions affecting the free cash flow is directly under the management. This is then used to capture opportunities which lead to shareholder value additions. The real free cash flow is more difficult to manipulate as compared to accounting profit. Yet there can be no doubt, that at any given time capitals markets will independently determine how much they think there is actually to be had by the free cash flow, the earnings per share or whatever. Although the management actions and information can have an impact on such an evaluation, it remains outside the management control. Actually, management is itself at the mercy of disciplining or possible dismissal depending on the so called market of control of the firm (Boatright & Windsor, 2010, p. 440).

The definition of shareholder wealth maximization as a specific corporate objective, along with the methods to measure whether wealth has increased or decreased, remains a contentious issue. There are three primary approaches to measuring this concept: accrual accounting, cash flow, and market value added, each offering a different perspective on how shareholder wealth is assessed.

2.2 CONCEPT OF HUMAN RESOURCE ACCOUNTING

The convergence of HRA is taking place all over the world and it is something that is attracting a lot of attention in both the intellectual and the professional community of the accounting world. Therefore, a move towards the traditional direction of HRA is considered as a consideration given to human resources with respect to cost worldwide. As thus, the prime objective of the modern art of HRA is to classify human resource as assets than to be linked with an expense. This was hence contributing to the different forms through which the human resource is been tapped. Edom et al., (2015) analyzed HRA on Human training & development cost. Nonetheless, Omodero & Ihendinihu (2017) gave an alternative form of identification and matched HRA with human training and development, as well as cost of motivation whereas Ogwuche et al., (2022) equated HRA with cost of safety, health care and training programs. The training costs have been of great importance in the performance of an organization and the same has been confirmed in all the studies, but none of the studies considered the index of the training cost as separate like these On-the-Job Training (OJT), Special Training (ST) and Development Program Costs (DPC) (Venus & Ibarra, 2016). Moreover, it is possible to note that all three such costs that are mentioned and presented in this paper in order to justify the assigned growth of organizational learning programs can be rightly been referred to as the costs of learning since all the studies mentioned above were focused on the investigation of privatized companies.

Saxena and Verma (2021) define HRA to be the cost of labor that entail cost of practicing of classification, budget and communication of labor cost and the investment done by a given organization. It involves such labor expenses that are not factored yet or utilized in the calculation and accounting. The most important element of explaining this concept of HRA according to Saxena and Verma (2021) is that this will enable in estimation and forecast of human capital and the value it is going to create. The reason is that the property, plant and equipment, furniture, plants and machines, the land and the buildings are considered and valued and they are in the books. Computation and recording of the human resources and then releases of the same in the financial reports should also be computed to show the actual understanding of the financial statements. According to the white paper, success of any organization solely rests on the manner in which the organization handles the matters and how well the position makes use of the talent.

The Following the American Accounting Association's definition of HRA as the process of identifying, quantifying, and reporting financial data, HRA was examined utilizing the expenses associated with hiring, developing, evaluating, and rewarding staff. They believe that this human resource measurement will assist managers at all levels in maximizing the performance of their staff (Ofurum & Adeola, 2018; Sunil & Priyanka, 2018). By identifying and quantifying the benefits that investments in human resources provide to the company, the American Accounting Society Committee on HRA goes beyond the standard practice of matching expenses and revenues. The traditional matching of costs and revenues is negated by HRA, which also identifies and quantifies the advantages that the firm receives from the costs expended in its human resources (Amahalu *et al.*, 2017). Thus, HRA's stance is still that employee costs here, known as learning costs should be capitalized to show that they are valued as organizational assets. These expenses are incurred in order to enhance workers' competencies, expertise, and performance characteristics within the company. These expenses were identified in this analysis as learning costs even if they are associated with training (Venus & Corazon, 2016).

2.3 HRA APPROACHES

The procedures of capturing a HRA were innovated in 1691. The next phase and the next approach was of post-1691 to 1960 which had the following approach. There are two approaches in HRA. The approach or model used in the cost method is commonly referred to as the human resource cost accounting method, the equal method, or the acquisition and replacement cost method. The value methodology comprises competitive bidding model, discounted model of the salary to be earned in future and the present value of the future earnings.

2.3.1 Cost Approach

An acquisition cost model is also such strategy. These include hiring, acquisition, formal and informal training and familiarization, experience and development which are some of the models that have been used in measurement of how an organization has invested on its employees. Under this method, expenses should be capitalized under the financial position statement as opposed to total profit/loss account statement. Capitalization involves recognition of an item of expenses as the asset. Given the case of human resource management, amortisation of capitalised amount is to be done gradually. Therefore in this instance, even after employing the employee, his age shall also be put into consideration when he wants to retire. There are those workers who may leave the organization before they have reached the level of retirement. This is the single problem approach to HRA which can be founded on good accounting practice and principles.

2.3.2 Replacement Cost Approach

This method calculates the expense of replacing a worker. Recruitment, selection, remuneration, and training costs (including lost wages during the training period) are all included in replacement costs, according to Likert (1985). The information obtained using this approach might be helpful in choosing whether to terminate the appointment of the employee or replace the employees.

2.3.4 Present Value of Future Earnings Approach

Lev and Schwartz (1971) assert that employees should be valued economically based on their future earnings' current value, modified by the likelihood that they would retire, get divorced, or pass away. This method helps determine the present worth of a worker's prospective future contribution.

2.3.5 Value to the Organization Approach

According to Hekimian and Jones (1967), if a corporation had several divisions competing for the same people, the highest bidder should get the person, and the winning bid should be added to the A division's investment base is influenced by factors such as the value of a professional athlete's services, which, in a free market, is typically determined by the amount a team is willing to pay for the athlete's skills.

2.3.6 Intellectual Capital Approach

In the twenty first century, intellectual capacity of the employees is a great influence factor in the production of an organization. In industries such as software, communications, education, and healthcare, which account for 79 percent of all jobs, the success of these sectors is largely attributed to the knowledge and expertise of their employees (Quinn et al., 1996). But what does intelligence mean, and how is it measured? Intellectual capital refers to knowledge that can be formalized, acquired, and transformed into a valuable asset. It can be seen as the "brainpower" that drives innovation and success within employees and part of it is described in patient lists, as well as in the skill inventories. This importance of intellectual capital was explained and prioritized by Quinn et al. (1996):

i. Cognitive knowledge (know what)
ii. Advanced skills (know how)
iii. System understanding and trained institution (know why)
iv. Self-motivated creativity (care why)

The employers have better pay to the smart people. In America, males who have undertaken post graduate studies receive 130 percent better salaries as compared to non-high school male (Quinn et al., 1996). The lag in the payment between men with such different education has been increasing since 1980. The qualities that make the intellectual resource unique as compared to any other type of assets. First, intellectual assets augment on being exploited. Any individual who has come back to school or completed some training program knows that there are even more new things posed by the performance of just obtained knowledge and learning. Intellectual capital is communicative and un-exhaustive. The sharing creates further feedbacks, and new knowledge and transformation and changes of the already existing knowledge.

3 EMPIRICAL LITERATURE

Babarinde and Idera (2024) investigated the relationship in the profitability of listed deposit money banks (DMB) and Human Resource Accounting (HRA) in Nigeria, 2010 to 2020. They applied the Panel Granger causality test and the Panel Autoregressive Distributed Lag (P-ARDL) model to study secondary data of the annual financial statement of nine DMBs listed under the Nigerian Exchange group. The results revealed that salaries and wages positively but not significantly influenced the Return on Assets (ROA) whereas retirement benefits, expenses, and the compensation to the directors had positive and significant effect. Moreover, the research found that there is a causation relationship between ROA, salaries and wages and the size of the bank that were unidirectional. The researcher came to a conclusion that investments in a human resource have a positive impact in determining the profitability of Nigerian banks and these factors also determine how the banks manage in paying their employees. The study advises that the banks should further invest in human resource, especially take care of secure retirement benefits and very large rewards to directors and employees.

Adewoye et al. (2024) examined how human resource accounting influences the performance of organizations, especially about costs associated with learning, including on-job training and dedicated training plans, which supposedly affect the performance of employees. Data was obtained through use of both secondary and primary data and 310 respondents were involved using purposive and random sample. The study established that on-the-job training and development program costs had significant and positive influence on the competence of the employees. Nevertheless, special training costs did not affect much. Generally, the analysis came to the conclusion that the human resource learning costs positively and significantly influenced performance of organizations.

Prabha (2023) has reviewed objectives, procedures, techniques, restrictions, and frameworks of Human Resource Accounting (HRA). As stated in the paper, the effectiveness of human resources of any organization is the determinant of the success of any organization in its usage of any other resources. Important human characteristics like aptitude, enthusiasm, teamwork and decision making skills play a very significant role in establishing the efficiency of an organization. High quality of human resources is capable of delivering organizational success and is to a large extent reliant on efficient utilization of concrete assets. The paper also examines how it is possible to implement HRA and the issues surrounding it.

Raghavendra (2022) has used one sample T-test and percentage analysis to determine the effect of HRA practices on management performance through the answers of 50 HRA professionals who were working in reputed companies in

Bengaluru, Karnataka. The results pointed at the huge roles played by HRA practices in the management exhibitions and organizational performance which demands mandatory implementations of HRA as a means of improving organization valuations and developments. The authors discussed the recent development in Human Resource Accounting (HRA) that indicates the historical perspective of the view that the costs involved in the development of human capital should be expenses (Gaur et al., 2021). Modern approach indicates that these costs be capitalize because they have measurable financial returns. HRA is defined in the paper as a process of valuing and quantification of the cost of managing human resources that also covers recruitment, training and development. HRA has been defined by the American Accounting Association as deciding and distributing the data on human resources to the concerned parties. The paper identifies the complexity of the intangible asset accounting especially within the learning institutions, where intellectual capitals are very essential in growth. By carrying out HRA, the study implies that the reputation and efficiency of education institutions can yield an effect through the effectiveness of the teachers and the institution goodwill.

4 THEORETICAL REVIEW

4.1 THE HUMAN CAPITAL THEORY

It can also be noted that the issues with employee contribution were evidenced in the early 60s when Becker and Schult invented the Human Capital Theory (HCT) that states that employees as well as capital equipment are the assets of the organization. Under this theory it is found that the employees are more productive in their ability when they receive education, acquire skill and any other forms of learning. The scholars mention the superseding value created during the course of an activity as an emerging capital of an organization.

The cost (i.e., an investment of labor) which this theory requires in order to increase the performance of businesses is rather expensive, yet it pays off in the long run as well. It is potent in that it yields to excellence in the performance of the staff as an offshoot of human capital development. When the employers train the employees to make them better than this will tend to inspire them when doing the works and this may reflect in their devotion to work. This is the aspect by which the theory is highly applicable to the research.

Performance within a well-defined field of application is undoubtedly impacted by additional degrees and professional credentials, specialized training, and the acquisition of certain unique skills. HCT provides a general opinion on the necessity of investing in human capital, but it may not be able to represent the specific needs of a company (Adewoye et al., 2024).

For both small and large businesses, investing in human capital—which includes staff education, training, and general skill development—is a major source of value creation. At the micro level, it improves worker performance, increases output, and lowers attrition, which raises profitability and competitiveness. By encouraging innovation, propelling technical improvements, and raising total worker productivity, human capital investment supports economic growth on a macro level.

Since employees are viewed as assets by human capital theory, all expenses should be focused on increasing their productivity and should be viewed as investments. In other words, the theory views education and training as tools for boosting worker productivity by providing them with practical knowledge and skills that will enhance their future earning potential (Adebawojo et al., 2015). The theory applied in this study is human capital theory, which asserts that human capital costs and expenditures should be treated as investments that can enhance the productive capacity of employees. Consequently, the proper accounting treatment of these costs as human assets in financial records is an integral aspect of the philosophy behind Human Resource Accounting (HRA).

5 METHODOLOGY

This study seeks to review the reconceptualising human resource accounting for shareholder wealth maximization. The review includes peer-reviewed journals, conference proceedings, and reports from professional accounting bodies published between 2000 and 2024. The databases searched include Scopus, JSTOR, and Google Scholar, using keywords such as 'HRA,' 'wealth maximization,' and 'intangible assets valuation. The study employs a qualitative, exploratory research design based on a systematic review of literature concerning human resource accounting and its link to shareholder wealth maximization.

6 CONCLUSION

Providing a theoretical foundation on how HRA improves the link with wealth maximization is the aim of this study. HRA is thought to be one of the organization's special assets for maximizing wealth. Therefore, the companies' ability to use such precious resources could be a means of achieving positive relations with their many stakeholders. The idea of wealth maximization as the fundamental goal of organizational activity in this regard will help organizations recognize the significance of different stakeholders to the extent that, had the corporate board decided to implement the contemporary HRA approach at the corporate level, this would also maximize wealth for shareholders. Although the idea that human resources are considered assets has been developed extensively, the findings all point to the lack of a standard method for valuing HRA (Prabha, 2023). This is a result of various viewpoints and perspectives held by various academics over how one should approach HRA. In one instance, the determination is based on past expenses or asset replacement costs; in the other, it is based on the present value of future revenues, as well as costs for learning, development, and training, to name a few. The study recommed that organization should be exhaustive about the prevailing concept of

HRA where human resource are capitalised as opposed to being charged as an expense in the statement of profit or loss accounts as an expense that will reduce the profitability of an organisation. Secondly, HRA must be recorded homogenously and transparently in the financial statement as stated by IAS 38 that in fact even states the standards on the recognition, measurement and disclosure of any intangible assets in the financial statement. However, this study suggest an empirical research for future study giving more emphasis on HRA and wealth maximization in the context of industry case studies.

AUTHOR'S CONTRIBUTION STATEMENT

A A Hammayo conceived the idea, took the lead in writing the manuscript, and developed the concept, design and execution. While

Riku Biki contributed to the final version of the manuscript aided in the supervision and interpretation.

REFERENCES

Adewoye, J. O., Oroge, C. A. & Agboola, O. S. (2024). Human resource accounting and performance of civil servant in Osun state, Nigeria. *Open Access Journal of Management Sciences Research*. *2*(1), 37-47.

Adebawojo, O. A., Enyi, P. E. & Olutokunbo, A. O. (2015). Human asset accounting and corporate performance. *American International Journal of Contemporary Research*, *5*(1), 45-52.

Afolalu, A. B., & Ezeala, G. (2022). Human resources accounting and shareholders' wealth of deposit money banks in Nigeria. *International Journal of Trend in Scientific Research and Development*, *6(*2), 1443-1450.

Amahalu, N., Agbionu, E. C. & Obi, C. J. (2017). *Contemporary issues in business management: Effect of human resource accounting on profitability of selected quoted telecommunication firms in Nigeria*. SCOA Heritage Publishers.

Asha, S. (2012). Impact of human resources accounting on organizational performance. *Journal of Business and Management*, *5*(1), 25-31.

Babarinde, G. F., Abdulmajeed, T. I. & Okunola, O. T. (2024). Human resource accounting and banks profitability: Evidence from deposit money banks listed on the Nigerian exchange group. *Journal of Public Administration, Finance and Law, 3*(1), 46-63.

Boatright, J. A. & Windsor, D. (2010). *Finance ethics critical issue in theory and practice: Shareholder wealth maximization* (1st ed.). Wiley publisher.

Diepiriye, D. S. (2018). Human resource accounting and shareholders wealth maximization: empirical study of Nigeria quoted manufacturing firms. *International Journal of Business and Management Future*, *2*(1), 2575-7911.

Gaur1, Y., Singh, S. & Poonia, G. (2021). Appraisal of human resource accounting practices in selected public and private sector companies in India. *International Journal of Recent Advances in Multidisciplinary Topics, 2*(2), 2582-7839.

Hekimian, J. S. & Jones, H. C. (1967). Put people on your balance sheet. *Harvard Business Review*.

Khan, Z. A. & Hussanie, I. (2018). Shareholders wealth maximization: Objective of financial management revisited. *International Journal of Enhanced Research in Management and Computer Applications, 7*(3), 739.

Lev, B. & Schwartz, A. (1971). On the use of the economic concept of human capital in financial statements. *Accounting Review*, *46*, 103-112.

Ngerebo-a, T. A. & Lucky, A. L. (2016). Interest rates and deposit money bank's profitability: Evidence from Nigeria. *International Journal of Empirical Finance, 5*(1), 22–35.

Ofurum, C. O. & Adeola, S. O. (2018). Human resource accounting and profitability of Quoted firms in Nigeria. *International Journal of Advanced Academic Research Accounting and Economic Development, 4*(2), 2488-9849.

Quinn, J. B., Anderson, P. & Finkelstein, S. (1996). Leveraging intellect. *Academy of Management Executive, 10*, (3).

Raghavendra, K. S. (2022). The review of contemporary scientific and academic studies human resource accounting practices and its impact on managerial performance: A study. *An International Multidisciplinary Online Journal, 2*(8), *2583*-1380.

Prabha, G. L. (2023). Human resource accounting- a conceptual study. *International Journal of Engineering, Management and Humanities, 4*(4), 263-267.

Saxena, S. & Verma, D. (2021). Human resource accounting: Challenges in India. *International Journal of Advanced Research in Commerce, Management & Social Science, 4*(2), 41-44.

Sunil, K. & Priyanka, A. (2018). Human resource accounting and organizational performance. *Indian Journal of Accounting, 50*(1), 21-27.

Venus, C. I. & Corazon, A. C. (2016). Awareness of human resource accounting practices and costing: Evidence from the Philippines. *Global Journal of Business Research, 10*(4), 27-42.