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Evaluating empirical evidence of human capital disclosure on firm profitability in Nigeria

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Abstract

This study evaluated the empirical evidence of Human Capital Disclosure HCD on firm profitability in Nigeria. The study employed HCD indicators as (employee remuneration cost ERC; training/development cost TDC; retirement benefit cost RBC), as the independent variables; while the dependent variable Profitability is proxy with Return on Asset ROA. Population included all firms listed in Nigerian Stock Exchange Group NSG (2017-2021); while purposive sampling techniques selected five firms, one from each of the listed five sectors. Cross sectional and time series data was collected from the annual returns of the five listed firms from the NSG, Fact Book, 2021. The analyses methods included Descriptive Statistics, Unit Root Test, Co-integration Test, Pearson Correlations and OLS Regression. Findings indicate that: the adjusted R^2 is 56.5% and these accounts for the systematic variation in the dependent variable ROA; while the remaining 43.5% are accountable by other factors outside the scope of this study. The overall finding shows that HCD is significant on ROA and this agrees with the idea of Resources Based Theory RBT; that the competitive position of a firm depends on its specific assets inputs and not duplicated assets inputs. Other, specific findings show that all the independent variables: ERC; TDC and RBC are all positive and statistically significant on ROA of the pooled sectors. The study contributes with the empirical evidences for academia and the modernized models of HCD. Recommend is that since HCD is significant, firms' managers should start identifying, measuring and disclosing human capital. Study findings' implications show the need for listed firms to recognize and treat human capital and disclose same as an intangible asset in published accounts.

Keywords: Human Capital Disclosure, Employee Remuneration Cost, Training/Development

Introduction

Human capital disclosure pertains to how human beings contributions in terms of physical or mental activity in organization's realization of its goals/objectives and how they are recognized and shown in financial statement of a firm. Judging firms' outstanding growth can point to the ability of the human capital to effectively and efficiently manipulate other capital resources which includes: land, equipment and money that are made available for the operations of the firm. Thus human capital is among other capitals such as material and monetary elements that are used in the turning of "goods and services" to achieve organisational goals. Human capital requirements employ or manage other human capital resources such: skills, creative abilities, innovative thinking, intuition, imagination, knowledge and experience. Onyeukwu, Ihendinihu and Nwachukwu, (2021) ^[62] argue that the success of any organization depends upon the quality, caliber and character of its human capital effectiveness. The modern business management that is facing more challenges in application of new technologies would have more crises if it does not have the required human capital to properly handle its affairs.

For firms to optimize their objectives, they need to regularly evaluate the human capital factors which includes staffing strength, numbers of staff by function, location, grade, experience, and qualification, remuneration, existing rate of staff loss, overall standard of training and specific training standards, (Bontis, 2008) ^[19]. Regular evaluation of HC is not enough until it is properly transformed adequately recognition and disclosed in the financial statement. Adebawojo, Enyi and Adebawo, (2015) ^[7] argued that any financial reporting without proper reports of human capital is distorted and devoid of a true organisations' performance and is thereby misleading. Such disclosures also fall short of former accounting standard, (Kieso & Weygandt, 1992; IFRS. Obara and Gabriel (2013) ^[53], pointed that HCD assist firms to find out how much they earn from an individual as human assets are often worth three or four times the tangible book value. Thus, HCD is a necessary element on financial report, (Westphalen & Nychas, 1998); because the treatment relates to the long-term value- creation expectation of firms, (Roselender & Fincham, 2003) ^[67]. Proper valuation of human capital helps firm managers to cope with the development "in its quantum and quality", (Abdullahi & Kirfi, 2012).

HCD has been at focus in academia research since the late 1960's (Aduinis & Kraiger, 2009). But, prior literature by Enofe, Mgbame, Sunday and Ovie (2013) ^[25], indicates that human capital disclosure by corporate organizations is on foundation in Nigeria. There is so much awareness shown by corporate governance as it pertains to environmental and corporate behavior responsibility and this awakens concerns on human capital reporting, (Enofe, Sunday & Ovie, 2013) ^[25] ^[25]. From the foregoing, little attention has been paid to human capital disclosure in Nigeria, which is evidenced in the lack of regulation in reporting on HC and other means of stewardship reporting, Oyewo (2013) ^[63].

Existing literatures have shown conflicting evidences as regards HCD and firm returns. Syed (2009) ^[73] argue firm's more profit should be the higher HCD but this tends not to be so. Enofe, *et al.*, (2013) ^[25], discovered positive relationship of the financial performance and HCD; while, Ezejiofor, John-Akamelu and Iyidiobi (2017) found staff salary and staff retirement benefits to be positive on organizational profitability. Then, Ekundayo and Odhigu (2016) ^[24] found welfare and training cost and size of employee positive on efficiency and profitability of the firm. Omodero, Alpheaus and Ihendinihu (2016) ^[9] show that cost benefits have positive and significant effect on Profitability. Conversely, Williams (2001) found inverse relationship between firm intellectual capital disclosure and performance. Omodero, *et al.*, (2016) disclosed that personnel benefit costs has no significant effect on firm turnover; Edom, Inah, and Adanma (2015) ^[23] expressed that staff number is not significant on bank profit.

Comparing and contrasting the above literatures on HCD shows a gap to carry out this study from the varied opinions on the issue of HCD which demands more reporting (Enofe, *et al.*, 2013) ^[25]; and little attentions are geared towards organizations HCD, (Oyewo, 2013) ^[63]. From the foregoing, we embark on this research: Evaluating Empirical Evidence of Human Capital Disclosure on Firm Profitability in Nigeria. The study hopes to find solutions to the research questions, find empirical evidence, make contributions to knowledge, recommendations and state the implications of the results. The broad objective of this study is to evaluate the empirical

evidence of human capital disclosure on firm profitability in Nigeria. Other specific objectives are to:

Evaluate the empirical evidence of employee remuneration cost ERC; training and development cost TDC and retirement benefit cost RBC on firm profitability in Nigeria.

Research questions formulated are as follows

How do we evaluate the empirical evidence of: ERC; TDC and RBC on firm profitability in Nigeria?

The study posited these null hypotheses

Ho1: Evaluating the empirical evidence of employee remuneration on firm profitability in Nigeria is not statistically significant.

Ho2: Evaluating the empirical evidence of Training and development cost on firm profitability in Nigeria is not statistically significant.

Ho3: Evaluating the empirical evidence of Retirement benefit cost on firm profitability in Nigeria is not statistically significant.

Empirical Literatures

Concept of Human Capital Disclosure HCD and Firm Profitability

These days much emphasis on environmental and social responsibility reporting has created awareness that HCD is valuable for organizations to provide information about efficiency and effectiveness of their human resource practices to management and society. This also, creates benefit not only for employees, but also has a good influence on corporate reputation and impact on firm profitability, (Onyeukwu, *et al.*, 2021; Brown, Tower & Taplin, 2005; Dominguez, 2011) ^[20, 62, 21]. Olayiwola, (2016) noted that the success of any organisation, reveals the quality of the work force of human capital as evidence of their importance in any corporate organization. If hC is not disclosed on firm's statement of financial position, it shows distortions and is not a true and fair position of the state of affairs. The concept of HC is the basis for HCD in financial statement. The significance of HC in organization has also been recognized in the prior literatures, management theories and practice history; however the accounting process focuses on financial and physical resources. In this argument, Obara and Gabriel (2013) ^[53] indicated that the value of enterprise individual fixed assets as measured within traditional balance sheets is a reflection of the enterprise's whole assets; likewise the contributions of all individual human capitals are measured as assets. Obiora and Gabriel, (2013) ^[53] traced the wide gap of differences between market and book value of the owner equity in many corporations to manager's inappropriate decisions due to lack of information about the firm's human assets. HCD has been seen as the process of identifying, measuring and communicating information about human resource in order to facilitate effective management within any organization, (Edom, Inah & Eyisi, 2015) ^[23]. Also, Jasrotia (2004) ^[43] view HC as a measurement and reporting of the cost and value of people as firm capital. More so, Enofe, *et al.*, (2013) ^[25] stated that it is the process of identifying and measuring data about HC and communicating this information to interested parties. It relates to the quantification in monetary terms of HC utilized by firm and ensures that a well-developed system of HC accounting could contribute significantly to internal decisions by management and external decisions by investors, (Okpala & Chidi, 2010)

[57]. HCD is the identifying, recording and reporting the contributions of HR which were not accounted for in the conventional accounting practices, (Ezejiofor, John-Akamelu and Iyidiobi, 2017). Seth (2009) [72] argues that it is a form of accounting for peoples' original resources; while Edom, *et al.*, (2015) [23], say it is an information system that shows management the changes that took place within the accounting period in HC within the organisation. Further, Newman (1999) [49] asserted that "HCD measures the abilities of all employees of a company to produce value from their knowledge and the capabilities of their minds. In summary, HCD should be treated as capital expenditure as it yields benefits which can be derived for a long period of time and could be measured in monetary terms like any other capital.

Training/Development Cost TDC Disclosure and Firm Profitability

Training and development TD describes the formal, ongoing efforts of organizations to improve the performance and self-fulfillment of their employees through a variety of methods and programs. The word training refers to the acquisition of know-how, knowledge and skills derived from technological or practical skills and information related to specific functional competencies, (Guest, 2002) [34]. TD is the means by which firms develop more firm specific human capital resources (Aguinis & Kraiger, 2009 [10]. Prior literatures have indicated that sometimes, employers may target the information and skills they want their employees to acquire by tactically providing TD opportunities for their staff (Absar, Dhar, Mahmood & Emran 2021; Glaveli & Karassavidou, 2011) [2, 33]. Firms strongly believe that training of employees improves employees' efficiency and increase average production per labour and impact profitability. Some literatures have shown that employees that have received proper training indicate both quantity and quality functions in work force in any firm, (Garcia, 2005; Wexley & Latham, 1991) [32, 74]. Thus when labour of any calibers are effectively trained, there will be less wasting of time, money, and other resources. Firms seek to improve labour productivity and employ for methods to retain staff on board in light of the potentially costly consequences of employee turnover, (Aragón, Barba & Sauz, 2003) [15]. Abubakar (2008) shows that TDC include formal training cost; on the job training cost; special training cost and development program cost.

Evidences have shown that investments in human capital are cost-effective and projected profitability is more than the costs of acquisition, (Absar, Dhar, Mahmood & Emran 2021; Andersén, 2021) [2, 14]. Thus, the accurate determinant of the effectiveness training operation is solely based on its costs, (Nyberg, Moliterno, Hale & Lepak, 2014) [52]. Some have viewed it that increasing the worker's efficiency in productivity shows an investment in resources (Becker, 2009; Fatima, Ahmad, Jabeen & Li, 2019; Absar, Orazalin & Mahmood, 2012; Lee & Bruvold, 2003) [18, 28, 2, 47]. While others suggest that investment in human capital relates to the skills and experience that labour requires and provides to strengthen their ability to carry out tasks of economic importance (Kraaijenbrink, 2011; Lepak & Snell, 1999) [45]. Fraser, Storey, Frankish and Roberts, (2002) [30] applied a panel-data approach to estimate the effect of the employee training framework on business development and find a positive relationship on small firms. On the other hand, Garcia, (2005) [32] links training policies and business

performance; while Aragón, Barba & Sauz, (2003) [15] connect training tools and business results. Employee turnover may be reduced by investing in their TD. Then, Garcia, (2005) [32] indicated that training accounted for the fastest-growing category of reasons for voluntary turnover, with an increase of 117% in the past three years. Glaveli and Karassavidou found that 70% of employees in the USA believe they are at least somewhat likely to quit their present job and seek a new position with an employer that invests in training and development.

Concept of Employee Remuneration Cost ERC Disclosure and Firm Profitability

A wage and salary policy must be aimed at, attracting, retraining and motivating employees at all levels, to enable firms to retain their employees and make them input their optimum ability in the organization. There is the need to ensure that any policy allows for a systematic approach to ensure that all employees are remunerated in a logical and equitable way for the particular work that they perform, (Ojemba, 2010). The word remuneration is seen as base salary or pay plus bonuses, commissions, and other payments or benefits paid to an employee under the terms of an employment contract. Employee remuneration ER is a reward or compensation paid to employees for work performances. It is a means of attraction to employee to perform job efficiently and effectively. ER is what employees receive in exchange for their work, these includes pay and benefits (total remuneration) or just pay cash remuneration (Stone, 2008). An opinion indicates that it helps to facilitate the achievement of firm strategic business objectives, (Stone, 2008). ERCs include basic pay, dearness allowance, city compensatory allowance, house rent allowance, conveyance allowance, etc. Olayinka and Olayiwola (2016) found that salaries and wages have significant impact on corporate earnings. Basseyy and Tarpang (2012), found that ERC is an important determinants of expensed human resources cost and does significantly influence corporate productivity and thus should be disclosed. Agbiogwu, Ihendinihu and Azubike, (2016) [9] found that staff cost significantly affects profitability measures such as earnings per share, net profit margin, and return on capital employed of banks. Ezejiofor, John-Akamelu and Iyidiobi (2016) [27], found that the level of increment in staff has influence on organizational profitability and thus proper disclosing such is not misleading in financial statement. Ifurueze, Odesa and Ifurueze (2014) [40], found that there is a positive relationship between profitability and ERC. Olayiwola (2016) found that salaries and wages have a positive and a substantial relevance to share price; while, Omodero, Alpheaus and Ihendinihu, (2016) [9] found that personnel benefit costs have positive and significant effect on profitability and no significant effect of personnel benefit costs on firm turnover.

Concept of Employee Retirement Benefit Cost Disclosure and Firm Profitability

Dugguh and Iliya, (2018) [22] indicated that the continual increase in working population implies that the number of employee who retire from active services will continue to increase and as such there is the need for such workers to find a source of income on which they can rely upon. Piquart and Schindler, (2007) says that retirement is a complex phenomenon that involves procedural to preparation for retirement and, it is frequently seen as an abrupt switch from

being employed one minute to total ceasing of work activity in the next minute. Therefore there is an evidence that suggests that it is a more complex and progressive transition. Thus, the issues of retirement programs are more important, because employees must rely on some benefits to support them for the rest of their lives, after they retire from work. Many firms and government ministries and parastatals have established some type of employee pension plan which are designed to provide individuals with a sufficient and consistent source of income after retirement. In Nigeria, there is a poor administration of retirement benefits that led the formation of Pension Reform Act of 2004, (Ugwu, 2021; Agba & Nwosu, 2011). The reform is contributory in nature with the intent of ensuring that every person who has worked in either the public or private sector organisations receives his or her retirement benefit as in when due. Employees' benefits have formed a contemporary business and organizational focus, since the reward system dictates the pace and direction of performance, (Hatice, 2012) ^[37]. Employee benefit is a form of reward provided by the organization other than routine remunerations that are paid for in whole or in part by the employer. In Nigeria contexts, retirement benefit cost and profitability have not attracted much in human resources literature. Furtado *et al.* (2009) ^[31], said employee turnover will be reduced when corporations define their employee benefits to the understanding of their employee with timely implementation. Olayinka and Olayiwola, (2017) found that retirement benefit cost has significant impact on corporate earnings. Ezejiofor, John-Akamelu and Iyidiobi (2016) ^[27], found that staff retirement benefits cost have positive effect on organizational profitability. Previous studies found out that there is a strong relationship between rewards and employee performance (Agwu, 2013) ^[5].

Profitability

Profit is an excess of revenue over associated expenses for an activity over a period of time. But, profitability is associated with such terms with similar meanings as: "firm performance", "earnings", "income", and "margin". In every financial cost that firms incur, the motive has always focused on profitability, (Ugwu, 2021). Profitability has also been defined "as ability to make profit from all the business activities of an organization, company, firm, or an enterprise Ezejiofor, John-Akamelu and Iyidiobi (2017). Profitability is an evidence of how efficiently any management can make profit by using all the resources available in the market, which includes human capital. Harward and Upton (2012) see profitability as "the ability of a given investment to earn a return from its use". Edom, Inah and Eyisi (2015) ^[23] defined profitability "as the ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. Edom, *et al.*, (2015) ^[23] stated that "profitability is an index of efficiency; and is regarded as a measure of efficiency and management guide to greater efficiency". Financial ratios have always been a means of measuring profitability, returns and the economic condition of any firm. These measures relate to either sales, assets or shareholders equity and are usually given in percentages. From literatures, profitability proxies are: Net Profit Margin, Return on Investment, Return on Assets ROA and Return on Owners' Equity, (Ikoku, 1993). Return on asset measures the effectiveness of the economic unity in using its assets to generate profit, the

higher this ratio, the better the economic unity of them as it indicates the management efficiency in using its assets to generate. ROA can be obtained by dividing net profit with total assets. Micah, Ofurum and Ihendinihu (2012) ^[48] stated that (ROA) is measured as Profit before Tax/Average Total Assets. ROA is a measure of profitability that takes into consideration the assets necessary to produce income. This study is on how effectively firm management measures human capital cost: (Remuneration cost; Training cost and Retirement benefit cost), to impact on profitability ROA. The higher the ROA, the higher it reflects higher managerial efficiency in proper utilization of human capital to earn profit.

Theoretical Framework

This study employs Resources Based Theory RBT introduced by Wernerfelt (1984) which was formalized by Barney (1991) ^[16]. This theory brought the views of resource position barriers in the positioning school. This theory is centered on firm resources applied to gain and maintain market competitive advantage. Thus, human capital still remains one of the capitals of organizations and hence an important function in contribution to firms resources. Human capital greatly drives the organizations' resources and assists to gain competitive advantage. The major idea of RBT has been that the competitive position of a firm depends on its specific asset inputs and not duplicated assets inputs. The most specific and not duplicated asset that firm has is its human capitals and their interdependent knowledge. Such knowledge and contributions shows why some firms are more productive than others especially in the application of technology to make a difference. This argument shows the potential usefulness of human capital information to external decision-makers than just for firm's internal use. Thus this study test of the posited hypotheses will be in line with this theory as well as the result findings.

Empirical Review

Some evidences of empirical literatures in Nigeria show that Alekhya and Lakshmi, (2021) examined the "human resource accounting (HRA) and organization's bottom line and top-line growth". They collected secondary data from five firms. Their analysis applied bivariate correlation and the result were that both the top line and bottom-line growth are significant on HRA. Research on the same issue HRA, Onyeukwu, Ihendinihu and Nwachukwu, (2021) ^[62], focused on its impact on financial performance of microfinance banks, using secondary data sourced from two listed banks. The simple linear regression analysis, found that personnel costs has significant effect on both net profit margin and return on equity; while return on assets was insignificant. On the same banking industry, Olaoye and Afolalu, (2020) ^[60] studied Human capital account HCA and Earning per Share (EPS) of deposit money banks of sixteen deposit money banks. Analysis and result show that pension and training and development are related with EPS; while salaries and wages are not; and director's remuneration has insignificant negative relationship with EPS. Also, Ezejiofor, John-Akamelu and Iyidiobi, (2016) ^[27] studied human resource accounting HRC on profitability of banks. They collected data from (10) commercial banks in Nigeria, and analyzed it with t-test. They found that increase in staff salary is positive and show that the level of increments and retirement benefits are positive on profitability. More on banks, Ijeoma and

Aronu, (2013) ^[41] examined the effect of (HRA) and reporting on Zenith Bank human capital. They collected primary data and interview and analyzed them with Kruskal Wallis test statistic. Result found that HRA improves financial position; non-application of HRA affects the future investment of bank. Amahalu, Abiahu, Obi and Okika, (2016) ^[13] examined the effect of HRA of commercial banks financial performance. After the analysis of the secondary data using correlation and OLS regression, their findings show that: HRA is positive and statistically significant on banks profitability. Further, Edom, Inah, and Adanma, (2015) ^[23] examined the impact of HRA on the profitability of Access banks in Nigeria. The time series data they collected was analyzed with OLS. The study found that HRA indicators: “training cost, development cost and number of staff” are positive on the bank profitability; while a specific significant relationship exists between training cost, development cost and bank profit and finally, non-exists between the numbers of staff.

More empirical from Nigeria: show that Lekan, Emerole and Rachel, (2018) ^[46], examined the impact of employees' benefits EMB on firm returns using sampled manufacturing firms. Their analysis with regression, found that EMB induces firm performances. The works of Olayinka and Olayiwola, (2016) centered on HCR impacts earnings. They employed time series data collected from 50 manufacturing firms. The method of analysis employed pooled least square. After their analysis, they found that human capital cost has positive and significant impact on earnings; while total earnings is positive on human capital, salaries, wages and labour turnover. Izedonme, Odeyile and Kuegbe, (2013) ^[42] also focused HRA and firm performance. The authors used secondary data sourced from (30) firms and methods of analysis was multiple regression. They discovered that human capital and intangible asset had positive and insignificant impact on firm returns. Also, Ekundayo and Odhigu, (2016) ^[24] investigated the determinants of HCA in Nigeria. They utilized secondary data sourced from 30 firms. OLS regression was used and the result show that size of employee is positive and significant on HCA; while welfare and training cost are also significant on human capital. Ifurueze, Odesa and Ifurueze, (2014) ^[40] examined the impact of aggregated cost of human resources on firms return. The regression result shows that profitability is positive on human resource cost. Olayiwola, (2016) focused on HCA and firms' value of manufacturing firms. The study employing pooled OLS on the secondary data gathered from 50 firms. They stated that HCC is positive and has a substantial relevance; while investment on HR tends to boost ROE and also improve firms' images. Ojokuku and Oladejo, (2016) ^[54] investigated HRA of manufacturing firms. They collected data from thirty seven (37) firms and the results of the analysis show that firm turnover has no significant influence on HRA; while firm age; market size and employees numbers are significant on HRA.

Researches from other firms show that Adeyinka, Kayode and Ojo, (2019) ^[8] collected primary data on 100 staff of firms to determine how capitalizing human resources cost relate to firm profitability. This study was analysed with ANOVA and the result found that sustainable equity position is significant on firm's network and increase in profit and firm's growth; while increase in firm size is also significant on share price. Ilemona and Oyedokun, (2020) ^[70] investigated on how (HRA) relates to seven agro-allied profit. The secondary data collected was analysed with OLS and the

result discovered that costs of HRA is positive and insignificant on firm profit.

Eniola, Abiodun and Dorothy, (2020) ^[26] studied Human Capital Efficiency profitable on the returns of seven oil and gas firms in Nigeria. The analysis of the secondary data collected with regression model shows that both HCE and Value added intellectual capital VAIC are positive and significant on ROA. In other areas, Obuah, Wali, Chikwuchehia and Turakpe, (2020) ^[50] investigated staff costs and profitability of 5 oil and gas companies. Their statistical tools applied descriptive, correlation and regression models on the data collected, and the results were that both salaries and training costs are positive on profit margin; while medical expenses is negative; training cost is also significant on profitability. Dugguh and Iliya, (2018) ^[22] focused on effect of retirement plans on workers performance using cement industry. The authors applied questionnaires on 266 staff of the firm and applied statistical method of regression. Result found that good retirement plans increase employee output in cement companies. Omodero, Alpheaus and Ihendinihu, (2016) ^[9] investigated HRC and firm financial profitability. Applying data collected from ten firms with OLS, the result indicates that personnel benefit costs PBC are positive and significant on firm returns but is non-significant on PBC and firm turnover. Again, Okpako, Atube and Olufawoye, (2014) examined HRA and firm performance applying 260 questionnaires on workers. They used quantified principle component analysis and also adopted performance indicator of return on equity ROE. The results were that HRA is positive on firm ROE. More in Nigeria, Amahalu, Agbionu and Obi, (2016) examined the effect of HRA on profitability of selected telecommunication firms. The outcome of the result of the collected secondary data shows that HRA is significant on ROE and return on capital employed ROCE.

Some empirical researches from other countries show that, Rahman and Akhter (2021) investigated “investment in human capital on bank performance in Bangladesh”. They collected primary data from 261 participants. After their analysis using structural equation modeling, they found that investment in training, knowledge level and skills were positive to bank performance; while employee's educational level does not affect bank. Riza and Harjum, (2021) investigated the effect of intellectual capital (IC) on state owned enterprises (SOE) in Indonesia. Sample size applied eighty seven (87) observations which was analysis with multiple regression, and the results showed that IC as measured by the Value Added Intellectual Coefficient (VAIC) variables showed that all VAIC components had a significant positive effect on profitability; while firm size moderated the effect of IC on profitability. More, Fatma, Arzuskan and Emel, (2020) examined HRD in corporate annual reports of insurance companies in developing country. They employed reports of 54 insurances in Turkey and analyzed the data they collected with correlation and OLS. They discovered that employee numbers, foreign ownerships and company type have effect on HRD. More-so Nguyen, (2020) examined the impact of human capital HC, capital structure choice and firm profitability of 48,673 in Vietnamese and found that more debt in capital structure is positive on the ROA, but increases and declines at a time; HC is positive on firm activities; larger size firms boost ROA; while firm location is positive on ROA in high city, and finally, industrial park is positive on ROA. Finally, Zohreh

and Safar, (2011) studied the effects of HC on profitability and market value in 60 firms from eight industries in Tehran Stock Exchange. After the regression analysis, the results indicate that human capital value HCV relates with market values of firms; while there is no correlation between HCV and profitability.

Research Methods

Research Design, Population and Sample Size

The study design comprised cross sectional and time series data collected from 2016 to 2020 from Nigerian Stock Exchange NSE Fact Books as at the end of December, 2021, (Fact Books are published listed firms annual reports)

The Population of this study included all quoted firms on the NSE as at 2017 (numbered about one hundred and ninety five), (194).

Purposive sampling methods was applied to select five 5 firms of interest out of the entire population in Nigeria to suit the purpose of this research.

Variables' Definitions

This study employed Human Capital Disclosure HCD indicators as (employee remuneration cost; training/development cost; retirement benefit cost) as the independent variables; while Profitability is the dependent variable and is indicated by Return on Asset ROA.

Profitability is proxy by (ROA) as in Ugwu, (2021). ROA is a measure of profitability that takes into consideration the assets necessary to produce income. (ROA) is measured as Profit before Tax/Average Total Assets.

The indicators of HCD; Employee Remuneration Cost ERC were measured as in Olayiwola (2016); Omodero, Alpheaus and Ihendinihu (2016) ^[9] and ERC is represented as total amount expended on employee wages and salaries as shown in the annual reports and account and measured by Log of ERC;

Training/Development Cost (TDC) is as found in Riza and

Harjum, (2020) and TDC is represented by the amount expended in employee TDC programs for each accounting year and this was measured as the Log of TDC.

Retirement Benefit Cost (RBC) is as indicated in the works of Olayinka and Olayiwola (2017); Ezejiolor, John-Akamelu and Iyidiobi (2016) ^[27], and this is measured by Log of RBC.

Study Model Specification

This study adapts the model of: Olaoye and Afolalu, (2020) ^[60] as follows:

$$Y_{it} = B_0 + B_1PC_{it} + B_2TC_{it} + B_3DR_{it} + B_4SW_{it} + U_{it} \quad (1),$$

Model of Fatma, Arzu and Emel, (2020) as follows:

$$HRDS_{it} = \alpha_0 + \beta_1ROA_{it} + \beta_2ROE_{it} + \beta_3LEV_{it} + \beta_4SIZE_{it} + \beta_5NEP_{it} + \beta_6AGE_{it} + \beta_7BIST_{it} + \beta_8FOREIGN_{it} + \beta_9TYPE_{it} + \beta_{10}YEAR \text{ DUMMY} + \epsilon_i \quad (2)$$

These two models are now Modernizes as follows

$$ROA_{it} = HRD_{0sit} + B_0 + B_1ERC_{it} + B_2TDC_{it} + B_3RBC_{it} + \mu_{it} \quad (3)$$

Here, we define the working model variables as follows:

ROA_{it} = Return on Asset; HCD_{0sit} = the human capital disclosures of company i , between 2017–2021 (the natural logarithm of total sentence number linked to the employee issues in the company's annual report), indicated as β_0 = Constant term (intercept) of the study model;

β_1 – β_3 = Explanatory variables Coefficients of HCD Human Capital Disclosure; μ_{it} = Component of unobserved error term of the firms, i in period t ; ERC_{it} = Employee Remuneration Cost; i in period t ; TDC_{it} = Training/Development Cost i in period t ; RBC_{it} = Retirement Benefit Cost, i in period t ; while $t = 5$ years, (2017–2021).

Analyses Methods

The analyses methods applied Descriptive Statistics, Unit Root Test, Cointegration Test, Pearson Correlation and OLS Regression.

Data Presentation, Analysis, Interpretation, Discussions and Summary of Findings Descriptive Analysis

Table 1: Descriptive Statistics

	HCD Indicators			
	ROA	ERC	TDC	RBC
Mean	0.13278	108052	13134.52	5187.80
Median	0.07800	72542.0	405.0000	2489.00
Maximum	0.77800	406992	78074.00	18648.0
Minimum	0.00100	3973.00	108.0000	165.000
Std. Dev.	0.16695	1038680	23906.85	5837.34
Skewness	2.46714	1.34241	1.820587	1.29042
Kurtosis	9.95328	4.16534	4.828068	3.11168
Jarque-Bera	75.7245	8.92333	17.29165	6.95144
Probability	0.00000	0.01153	0.000176	0.03092
Sum	3.31970	270131.	328363.0	1296950
Sum Sq. Dev.	0.66903	2.59E+11	1.37E+10	8.18E+0

Source: Researcher's Computation, (2022)

Note: HCD=Human Capital Disclosures, ROA=Return on Asset, ERC=Employee Remuneration Cost, TDC=Training/Development Cost, RBC=Retirement Benefit Cost

The descriptive statistic shows that the indicators of HCD's mean values as: ERC=108052, TDC= 13134.52, RBC=5187.80 and the dependent variable ROA= 0.13278. Median values show the robust measures of the study central distribution values from the model. They appear to be higher than means, implying reasonable variations among the study

variables applied in the study. The standard deviation value of ROA is so small showing closeness to the mean; while the values of the indicators of HCD are very high and shows reasonable spread out of values among all the independent variables ERC, TDC and RBC.

Skewness is a measure of asymmetry and distribution around

the mean, and from the above table, they are positively skewed if measured to right and also shows that the right tail is longer than the left tail. The values of the Kurtosis measures for all the variables ROA, ERC, RBC, TDC, are (Kurtosis > 3) and this seems to be fat tailed from the table figures. The Jarque-Bera values indicate that all the variables are respectively normally distributed and are thus suitable for the analysis.

Unit Root Test

Table 2: Result of the Unit Root Test

Variables	ADF	Integration Orders	Significance
ROA	-7.84798	1(1)	5% (0.05)*
ERC	-5.06057	1(1)	5% (0.05)*
TDC	-4.47110	1(1)	5% (0.05)*
RBC	-3.92500	1(1)	5% (0.05)*

Source: Researcher’s Computation, (2022)

Note: ROA=Return on Asset, ERC=Employee Remuneration Cost, TDC=Training/Development Cost, RBC=Retirement Benefit Cost, * significance

Time series data are known to have stochastic trends and they can be removed by differencing. The Unit Root Tests Dickey – Fuller approach with an intercept term to is applied to determine the stationary properties of these variables. This tested the stationary or non-stationary of series data in this model to determine whether the relationships among these variables are spurious. We did this by adding the lagged values of the dependent variable so that the error term is serially uncorrelated. Our Test result shows a probability value that is lower than the critical value at any level of significance, in order to reject the null hypothesis. From the table, it shows that ROA, ERC, TDC, RBC were differenced to achieve stationary. Thus, this study rejects the null hypothesis which states that the data is not stationary.

Co-integration Test

Table 3: Johansen Multivariate Cointegration Test

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Traced	5%/0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Values	Probabilities**
None *	0.97128	182.945	95.7535	0.000
At most 1 *	0.93201	101.275	69.8187	0.000
At most 2	0.56385	39.4464	47.8562	0.241
At most 3	0.38317	20.3611	29.7971	0.397
At most 4	0.30454	9.24797	15.4946	0.342
At most 5	0.03813	0.89436	3.84145	0.343
Trace test indicates 2 cointegrating eqn(s) @ 0.05 level				
* denotes rejection of the hypothesis @ 0.05 level				
**MacKinnon-Haug-Michelis, (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	5%/0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Probabilities**
None *	0.97128	81.6692	40.0774	0.000
At most 1 *	0.93201	61.8301	33.8767	0.000
At most 2	0.56385	19.0852	27.5842	0.407
At most 3	0.38317	11.1131	21.1315	0.635
At most 4	0.30454	8.35361	14.2645	0.342
At most 5	0.03813	0.86436	3.64145	0.342
Max-eigenvalue test indicates 2 cointegrating eqn(s) @ 0.05 level				
* denotes rejection of the hypothesis @ 0.05 level				
**MacKinnon-Haug-Michelis p-values				

Source: Researcher’s Computation, (2022)

The Model 3 above shows that both trace statistics and Maximum Eigen value statistics has (2) as co-integrating equation. The trace statistics and Eigen value statistics shows a long run relationship among the whole variables. The result shows that co-integration of these variables has canceled out

the stochastic trend in the distribution and thereby preventing the generation of false regression results. We conclude that there is a long run relationship among dependent and the explanatory variables in the models above.

Correlation Analysis

Table 4: Pearson Correlation

	ROA	ERC	TDC	RBC
ROA	1.00000			
ERC	0.02570	1.00000		
TDC	0.14647	0.64333	1.00000	
RBC	0.23338	0.06067	0.06535	1.00000

Source: Researcher’s Computation, (2022)

Based on the rule of thumb or norm of Pearson interpretation which is 0.80, the correlation result shows that the dependent and independent variables is low or moderate and this

suggests the absence of Multicollinearity among the variables. Thus there is no Multicollinearity among the variables.

Regression Model

Table 5: Ordinary Least Square Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.80887	14.1446	0.12788	0.0005
ERC	0.26622	0.37861	0.70315	0.0004
RBC	0.67743	0.37398	0.81136	0.0058
TDC	0.56485	0.420301	0.34392	0.0347
R-squared	0.63931	Mean dependent var		-2.86618
Adjusd R-sqrd	0.56545	S.D. dependent var		1.636467
F-statistic	32.5170	Durbin-Watson stat		1.963804
Prob(F-statistic)	0.00072			

Source: Researcher's Computation, (2022)

From the model above, the F-probability is significant given its value as 0.00072 which is less than 0.05 and this shows that the independent variables have joint significant on the dependent variable. The R^2 is about 63.9% and shows how the independent variables jointly explain the variations in the dependent variable; while the R^2 adjusted is about 56.5%. This also accounts for the systematic variation in the dependent variable ROA, and the remaining values of 43.5 are accountable by other variables outside the scope of this study. The test of serial correlation from Durbin Watson D-Statistic shows there is no autocorrelation as well.

Test of Hypotheses

H0₁: Evaluating the empirical evidence of employee remuneration on firm profitability in Nigeria is not statistically significant

The test of hypothesis shows ERC coefficient values of (0.26622) seems to be positive on ROA with the probability values of ERC as [0.0004] and these shows that the probability is less than the 5% significance level; and by this the study shows that ERC is significant on ROA. The study rejects the null hypothesis and states that ERC is positive and statistically significant on ROA

H0₂: Evaluating the empirical evidence of Retirement Benefit Cost RBC on firm profitability in Nigeria is not statistically significant

The test of hypothesis two shows RBC coefficient value of (0.67743) seems to be positive on ROA with the probability values of RBC as [0.0058], this result shows that the p-value is less than the 5% significance level and proves that RBC is significant on ROA. The study states that RBC is positive and statistically significant on ROA.

H0₃: Evaluating the empirical evidence of Training/Development Cost TDC on firm profitability in Nigeria is not statistically significant

The test of hypothesis three shows TDC coefficient value as (0.56485), and this is positive on ROA; and the probability value is [TDC = 0.0347]. From the result, the p-value is less than the 5% significance level and this shows that TDC is significant on ROA. By this, we reject the Null hypothesis three and state that TDC is positive and statistically significant on ROA of the pooled firms in Nigeria

Discussions of the Findings

The of HCD is positive and statistically significant on ROA

The findings of this study hypothesis shows that employee remuneration cost is positive on firm profitability, agrees with the findings of the following authors: (Olayinka & Olayiwola, 2016; Olayiwola, 2016; Onyeukwu, *et al.*, 2021; Obua *et al.*, 2020) [58, 59, 62] who found ERC positive on ROA; but disagrees with the result of the followings (Olaoye & Afolalu, 2020 and Ejiofor *et al.*, 2016) [60], who found negative and this disagreed with our findings.

The result that RBC is positive on ROA agrees also with the result of the followings: (Ejiofor *et al.*, 2017; Olayinka & Olayiwola, 2017; Omodero *et al.*, 2016; Ejiofor *et al.*, 2016; Olaoye & Afolalu, 2020 and Lekan, *et al.*, 2018) [61, 60, 46], who found positive impact.

While, Training/Development Cost TDC is positive and statistically significant on ROA

of the pooled firms agrees with the findings of the followings (Ekundayo *et al.*, 2016; Eniola *et al.*, 2020; Agbiogu *et al.*, 2016; Dugguh & Iliya, 2018; Rahman & Akhter, 2021; Riza & Harjum, 2021; Obua *et al.*, 2020; Zohreh & Safar, 2011; Ekundaya & Odhigu, 2016; Olayiwola, 2016 and Edom *et al.*, 2015) [24, 22, 60, 58, 59]. The overall findings that Human Capital Disclosure is positive on ROA of the pooled firms agrees with the following authors (Enofe *et al.*, 2013; Amahalu *et al.*, 2016; Ifurueze *et al.*, 2014; Ilemona & Oyedokun, 2020; Olayinka & Olayiwola, 2016; Izedonme *et al.*, 2013; Ijeoma & Aronu, 2013; Okpako, *et al.*, 2014) [25, 40, 41, 70], but, the result did not agree with the findings of Williams, (2001), Ojokuku and Oladejo, (2016) [54].

Summary of Findings, Conclusions, Contributions, Recommendations and Implications

Summary of Findings

Summary of the findings of this study indicate that the R^2 adjusted is about 56.5% and this accounts for the systematic variation in the dependent variable ROA and the remaining 43.5% are accountable by other variables outside the scope of this study.

The finding of hypothesis one shows that the P- value is less than the significance value and by this, the study rejected the

null hypothesis and states that ERC is positive and statistically significant on ROA.

The second hypothesis indicates that the p-value is less than the 5% significance level and by this the study rejects the null hypothesis and states that RBC is positive and statistically significant on ROA.

The third hypothesis shows that the P-value is less than the significance level and this shows that TDC is significant on ROA and by this we reject the Null hypothesis and state that TDC is positive and statistically significant on ROA of the pooled sectors

Conclusions

This study is on empirical evidence of HCD on firm profitability using five firms' annual reports and accounts that are listed in Nigeria Stock Exchange from 2017 to 2021. The study extracted data of employee remuneration cost ERC, training and development cost TDC, retirement benefit cost RBC, and profitability (ROA). The findings show that HCD is significant on ROA of the pooled firms in Nigeria and this agrees with the major ideas of Resources Based Theory RBT (Wernerfelt, 1984 and Barney, 1991) ^[16], which says that the competitive position of a firm depends on its specific asset inputs and not duplicated assets inputs. Specific findings show that: ERC is positive and statistically significant on ROA; RBC is positive and statistically significant on ROA and TDC is positive and statistically significant on ROA of the pooled firms.

Contribution to Knowledge

The research contributes with the evidence of empirical evaluations of human capital disclosure, the modernized model of HCD and the findings of the study in Nigeria.

Recommendations

The study recommends that firm managers in Nigeria should identify measure and disclose human capital in financial reporting.

Implications of the Study

The implications of the results are the need for listed firms in Nigeria to recognize and treat human capital and disclose it as an intangible asset in published accounts

Suggestions for Further Study

Further study should be carried out on HCD using more firms and including other variables outside those employed in this study.

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