



## Human Capital Cost and Financial Performance of Listed Service Companies in Nigeria

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### ABSTRACT

*This study examined the effect of human capital cost on financial performance of listed service companies in Nigeria, while the specific objectives were to examine the effect of human capital cost on return on equity and return on assets of the companies under study. It was on these specific objectives that hypotheses were expressed and formulated. Using the service sector of companies quoted in the Nigerian Exchange Group as the population of the study, five of such companies were selected as the sample size, while the 2020 to 2024 annual reports of these companies served as the sole instrument of data collection. Findings indicated that whereas human capital cost has positive and significant effect on return on equity, the effect of human capital cost on return on assets was positive but not significant. It was therefore concluded that the effect of human capital cost on financial performance was positive but its significance is inconclusive. On the basis of this finding, it was recommended that service companies should invest more on human capital because it is believed that more investment would improve the financial performance of these companies.*

**Keywords:** Human capital cost, Human capital, Financial performance, Return on assets, Return on equity

### INTRODUCTION

Human capital is one component of intellectual capital and the most innovative feature for firms to act on according to environmental changes through their knowledge, experience and capabilities, which is applied to improve organizational profitability. Human capital has been coherently recognized in both old and recent literature on finance, accounting, economics and management because of its relevance to the success of any economic organization. According to Godwin and Udeh (2021), human capital is generally seen as one of the most essential drivers that contribute to the improvement of firm competitiveness and value generation in the knowledge economy, hence business organizations spend enormous sums of money and spare no effort in selecting, training, re-training and developing their managers/ employees to equip them adequately to meet the challenging tasks arising from internal and international developments. Equally, they recognize that human resources are costly to acquire and develop, and that substantial investments are required in order to build an effectively functioning human organization. As such, human capital is seen as the most important asset of an organisation as its success or failure depends on the calibre of people occupying strategic positions (Amahalu, Agbionu & Obi, 2017).

Basically, the concept of human capital cost arose from the transformation of individual competence into highly productive human capital with the effective input of education, health and moral value. Human capital is the mixture of human and capital. From the economic perspective, capital refers to factors of production used to create goods and services that are not themselves significantly consumed in the production process. Along with the meaning of capital in the economic perspective, Olowolaju and Oluwasesin (2021) stressed that the human is the subject to take charge of all economic activities such as production and consumption. Therefore, it can be deduced that human capital means one of the production elements that can generate added value through inputting it.

The recent challenge of globalization in the Nigeria economy is gradually shifting most companies to customer-oriented organizations where knowledge, skill and attitude count. This has given rise to importance in the way organizations invest on the human capital which runs them, largely because many organizations' expenditure on human capital has risen faster than those of non-human capital (Obialor, 2017). An upward shift in the organization's cost on human capital has led to an increased demand for its inclusion in the financial report to measure its effect on the overall profitability of quoted companies. Besides, most organisations increase the staff salaries and wages in order to motivate them and to ensure they put in their best for the achievement of the organizational goals. These efforts are expected to affect their profitability if the cost incurred would not be a waste. Ironically, the rate of increase in human capital cost to train and retrain quality staff in many of these quoted companies appears not to be commensurate with the rate of growth in their profitability. Thus, the objective of this study is to investigate the effect of human capital cost on profitability of companies.

According to Abubakar et al. (2020), human capital cost is generally seen as one of the most essential drivers that contribute to the improvement of firm competitiveness and value generation in the knowledge economy. It is in view of this that it can be argued that efficiency of human capital is a boost to firm productivity which translates visibly into increase in sales revenue, increase in assets base and increase in share value. Listed service firms, which is often said to be the backbone of the Nigerian economy, have been under increasing pressure which is posed by changes in the business environment, such as change in customer tastes, change in market demand and requirements, changes in marketing methods and production process. It is in a bid to remain competitive and respond to the above dynamism that listed service firms are pressured to improve the human capital asset of their firm, which are essentially drivers of and indispensable for competitive edge and value creation (Olaoye & Afolalu, 2020; Abubakar et al., 2020). Human capital cost, which is the measure of how well the human resources of a firm contribute to the process of adding value to the firm, is more emphasized in corporate literature because it is often believed to bring about innovations, creativity, work efficiency, work accuracy and strategic renewal in firm performance (Okoro et al., 2022). However, most listed service firms in Nigeria are yet to develop a good structure that values, measures and harnesses the human capital assets of the firm. It is presumed that efficient human capital management has the potentiality of increasing net profit after tax margin, gross profit after tax and profit before tax due to optimal utilization of the knowledge base, skills, and the intellect of the work force.

As a consequence, inefficiency in human capital has led to a number of challenges that have thwarted the growth potentials of firms in Nigeria. Such inadequacies have resulted in loss of customers' loyalty, increased cost of production, loss of market competitive edge, un-sustained profitability and decline in the rate of turnover (Ndum & Oranefo, 2021). Human capital inefficiency is an indicator of a thwarted corporate productivity, which signifies that the firm has failed to efficiently utilize the resources available to the firm in order to create more value for the shareholders. Ultimately, shareholders' wealth is often not maximized, and share price depreciates coupled with low financial performance (Abubakar et al., 2020). This has given rise to the need to examine how human capital cost impacts profitability of companies in Nigeria.

In relation to human capital cost and financial performance in Nigeria, there is a cup-full of local researches that have tilted towards the direction of the present study (Ndum & Oranefo, 2021; Egolum, 2021). However, to the best knowledge of the researcher, none of the local studies derived its evidence from the Nigerian listed service industry. It is against this backdrop that this present study examines the effect that human capital cost has on corporate performance of listed service firms in Nigeria, using staff remuneration as a measure of human capital cost, as well as return on asset and return on equity as proxies of financial performance.

## LITERATURE REVIEW

### Human Capital

Adetoun et al. (2020) recognized human capital as a significant factor for the sustainability of companies in the emerging knowledge based economy. Adewole et al. (2019) pointed out that human capital is an investment that people make in themselves to increase their productivity. Agbi et al. (2020) defined human capital to be an amalgamation of factors such as education, experience, training, intelligence, energy, work habits, trustworthiness, and initiative that affect the value of a worker's marginal product. From these perspectives, one can conclude that economic benefit can be generated

through making use of the stock of skills, knowledge and abilities embedded in an individual to perform. Also, Ofurum and Adeola (2018) defined human capital as the knowledge, skills, competences and attributes in individuals that facilitates the creation of personal, social and economic well-being. Abubakar et al. (2020) submitted that human capital comprises the knowledge, ability, attitude, expertise and professional qualities which an employee possesses. Human capital can as well be seen as the competence of an employee to create both tangible and intangible assets through contributing towards the continuous generation of ideas and knowledge. Human capital comprises the knowledge, experiences, skills, and abilities of staff. Udeh (2021) argued that some of this knowledge is unique to the individual staff while some may be generic to all the workforce. Unarguably, human capital is the largest and the most relevant intangible asset of a firm which ultimately provides the goods or renders the services which customers require. Human capital are the core resource that provides the solutions to customer problems using their (personnel's) collective knowledge, experience, competency, skills and talents. Furthermore, Ekundayo and Odhigu (2016) conceptualized human capital as the stock of knowledge, habits, social and personality attributes which comprise the creativities that are embodied in the ability to perform labour in order to produce some economic values.

In defining the concept of human capital, greater importance has to be given to education and training. This is because education and training are instrumental to the outcome of human capital which is uniqueness and value. Therefore, in order to dependently or independently generate the uniqueness and values embedded in human capital, learning through education and training must be given higher preference (Akinwunmi et al., 2014). Yahaya et al. (2022) characterized human capital as expandable, self-generating, transportable and shareable. The expandable and self-generating characteristics of human capital can be said to mean the possibility that the stock of knowledge increases individual human capital. While the transportable and shareable characteristics can be likened to the ability of an individual to be able to impact the knowledge acquired into others in form of training.

### **Components of Human Capital Cost**

#### **Staff Remuneration**

According to Omodero et al. (2016), staff remuneration (salaries & wages) is one of the major components of human capital cost. Thus, salaries and wages are the payment to the entire workforce of organizations. Wages and salaries are typically paid to staff in cash or in kind. In Obara (2015), salary is defined as a fixed sum paid to the employees at regular intervals due to their performance/productivity while wages are payments made on hourly basis to labour for the quantity of work completed daily. He said further that salaried individuals are involved in white collar jobs, meaning that they are well educated and skilled, are employed with a good social standing, while persons on wages are doing blue collar jobs, meaning that the person is engaged in a semiskilled/unskilled job where he/she is gets daily wages. Basse and Tapang (2015) stated that salary and wages are of great importance in Nigeria; and it should not only be sufficient but must exhibit equity element particularly from employees' point of view. Wages or salaries are of high importance and decisive due to the fact that if they are not sufficient, life becomes uncertain for the employee and the immediate members of his/her family. Wages and salaries are emphasized by employees because they occupy a venter stage in the scheme of things as regards compensation for work.

#### **Staff Training and Development Cost**

The expense on training and development improves employees' skills and the company's performance (Adetoun et al., 2020). According to Agbi et al. (2020), training and development are also fascinating since they help to build and reequip a diversified workforce which helps to provide the numerous skills needed to maintain and improve the company's performance. Amos and Oboh (2022) asserted that training and development are the most important aspects of human resource accounting. Formal training is a component of the training and development activities that help employees improve their skills and expand their knowledge beyond their current employment. According to Egolum (2021), training and development are the human resource skills that encompass both formal and informal knowledge outside the present positions for current employees. Employee performance is affected by the cost of training and development, which improves their skills, knowledge, behaviors, and dedication, as well as their decision-making when carrying out their responsibilities (Nmesirionye et al., 2020). In

Obara's (2015) opinion, country-specific differences influence keeping records of the cost of training and development, as well as anticipated differences and similarities in their magnitude. Adhering to Bassey and Arzizeh's (2023) opinion, it is a company's critical duty to offer an environment in which employees may complete their training.

### **Profitability**

Profit is one of the major reasons for venturing into business. Profitability therefore, means a state of producing a profit or the degree to which a business is profitable. Profitability is the primary goal of all business ventures (Adebawojo et al., 2023). Without profitability, the business would not survive in the long run. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Profitability is therefore identified as a criterion for organizational performance. According to Olowolaju and Oluwasesin (2021), profitability is a function of the stakeholders' point of view, hence there are several measures of profitability ranging from return on sales, return on equity, return on asset etc. Okoro et al. (2022) defined profitability as the ability of a company to earn profit. Profit is determined by deducting expenses from the revenue incurred in generating that revenue. Kankpang et al. (2024) pointed that profitability is therefore measured by incomes and expenses. Income is the revenues generated from activities of a business enterprise. According to Manukaji et al. (2019), there are several measures of profitability, which include, but not limited to: return on assets (ROA), return on equity (ROE) and return on investment (ROI), profit after taxation (PAT), profit before taxation (PBT).

### **Theoretical Framework**

#### **Human Capital Theory**

According to Ofurum and Adeola (2018), the human capital theory was introduced by Gary Becker and Theodore Schultz in 1961. The fundamental postulation of human capital theory stated that the investments on education and training could add to productivity which has become an increasingly important component of the workforce. Thus, human capital theory rests on the employees' finance of the expected returns on productivity. Ezejiofor et al. (2017) recognised that human capital theory holds competences, skills, data and skills of the personnel that contribute to the performance. He also stated that companies have an incentive to seek productive human capital and to add to the human capital of their existing employees. Subsequently, Ndum and Oranefo (2021) critiqued the human capital theory by pointing out the difficulty of measuring the future income and the central idea of human capital itself. Freeman stated that not all investments in education guarantee an advance in productivity as judged by employers or the market. According to Ndum and Oranefo (2021), human capital theory believes that the ability and competence of human capital in a firm influence how well the organization performs and of course determines the extent of financial growth the firm attains. Human capital, in line with the theory, effectively optimizes other resources in the firm with the view to achieving the corporate objectives of the firm.

#### **Empirical Review**

Kankpang et al. (2024) examined effect of human resource cost (HRC) on profitability of quoted oil and gas firms in Nigeria. The study adopted staff remuneration cost, staff size and staff training and development as proxies of HRC. Profitability on the other hand, was proxy by profit after tax (PAT). The study adopted an ex-post facto research design. Data for the study was obtained from secondary sources only. The population of the study comprised 15 oil and gas companies quoted on the Nigerian Stock Exchange as at 31<sup>st</sup> December, 2021. Staff remuneration cost was found to have positive significant relationship with PAT of firms. It was also found that staff size has negative effect on PAT of oil and gas companies while staff training and development cost have significant effect on PAT. Based on the findings, the study recommended that oil and gas companies should structure their pay system to be more attractive and competitive; and that oil and gas firm's staff size should be reduced to enhanced efficiency and cost minimization, while training and development programmes should be designed to enhance performance of staff, reduce operational cost and improve efficiency.

Gidado et al. (2023) reviewed existing research to ascertain the effect of human capital on growth, profitability and competitive success of Nigerian commercial banks. In view of this fact, the

objective of the paper was to determine the link between human capital and commercial bank's growth and profitability. Hence, the paper adopted a documentary and content analysis methodology to achieve its goal. Literature evidence found supported that investment in human capital has positive correlation with higher returns and better performance in the banking industry. In view of the positive link between human capital and growth and profitability, the paper recommended infusion of core bank staff into intensive software application sessions.

The study conducted by Amos and Oboh (2022) aimed at examining the impact of human capital (HC) reporting on the stock market performance of listed firms in the Nigerian services sector between 2016 and 2020, a sector of the Nigerian economy that has been quite starved of accounting academic research in contemporary times. The population of the study comprised twenty-four (24) quoted firms in the services sector of the Nigerian economy as at February, 2022. All but two firms listed on the Services sector of the Nigerian Stock Exchange (NSE) were selected for this study based on the availability their annual and/or sustainability reports during the five (5) year period under review. All data were analyzed with the aid of the fixed effects hierarchical regression technique. The study revealed a positive and significant impact of HC acquisition, training and development (HCATDR) reporting on firms' stock market performance. However, the study discovered a negative, although insignificant impact of HC remuneration and welfare reporting (HCRWR) on firms' stock market. Consequently, the study concluded that HCATDR has a positive and significant impact on the stock market performance of firms in Nigeria while HCRWR has negative but insignificant impacts on the stock market performance of firms in Nigeria. The study recommended that firms' management boards should re-strategize on their HC management policies especially as regards remuneration and welfare.

### RESEARCH METHOD

The research design employed in this study was *ex-post facto* research design because the study relied heavily on historical data. Basically, data was obtained from the secondary source. The population of the study is made up of five service companies quoted on the floor of the Nigerian Exchange Group (NXG) as at 2025 and have consistently submitted their annual reports to the NXG from 2020 to 2024. The data for this study were extracted from the published annual reports and accounts of the companies. The data extracted from this source are on return on equity (ROE) and return on assets (ROA) which represented the dependent variable, and staff remuneration (SR), representing the independent variable.

#### Model Specification

$$SR = \beta_0 + \beta_1 ROE + \beta_2 ROA + \mu$$

$\beta_0$  is the intercept;  $\beta_1$  and  $\beta_2$  are the coefficients of the explanatory variables and  $\mu$  are the error or disturbance term that absorbs the influence of omitted variables in the proxies used.

Where

FP = Financial performance which is dependent variable was proxy as:

ROE = Return on equity

ROA= Return on assets

Human capital cost, which is independent variable was proxy as:

SR= Staff Remuneration

#### Method of Data Analysis

The statistical technique employed in analyzing the data was the regression analysis. Regression analysis is very relevant in investigating the predictable power of the independent variables on the dependent variable. The analysis was guided by the specified model in each hypothesis. All the hypotheses were tested at 5% level of significance. Statistical Package for Social Sciences (SPSS) Version 20.0 was utilized in data analysis of this study.

### RESILTS AND DISCUSSION

#### Data analysis

**Table 1: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
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SR	25	36901.09	38047404.00	8591484.7552	8020832.25705
ROE	25	1.16	55.08	35.6963	13.45110
ROA	25	1.08	74.90	26.8889	18.41010
Valid N (listwise)	25				

Source: SPSS 20.0 Output

### Test of Hypotheses

**Hypothesis 1:** Staff remuneration has no significant effect on return on equity of quoted service companies in Nigeria.

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.328 <sup>a</sup>	.108	.093	12.80776

a. Predictors: (Constant), SR

Table 2 above revealed an adjusted R<sup>2</sup> value of 0.093. The adjusted R<sup>2</sup>, which represents the coefficient of multiple determinations imply that 9% of the total variation in the dependent variable (ROE) of quoted conglomerates in Nigeria is jointly explained by the explanatory variable (SR).

**Table 3: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1245.221	1	1245.221	7.591	.008 <sup>b</sup>
	Residual	10334.433	23	164.039		
	Total	11579.653	24			

a. Dependent Variable: ROE

b. Predictors: (Constant), SR

**Table 4: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std Error	Beta		
1 (Constant)	30.972	2.338		13.249	.000
SR	5.499E-007	.000	.328	2.775	.008

a. Dependent Variable: ROE

Table 3 above which is ANOVA Table tells if the model is statistically significant or not. This is because R<sup>2</sup> is not a test of statistical significance, it only measures and explains variation in Y from a predictor. The F-ratio is used to test whether or not the R<sup>2</sup> occurred by chance alone. The F-ratio found in the ANOVA Table measures whether the staff remuneration has weak significant effect on return on equity of quoted service companies in Nigeria occurred by chance. Based on the Table above, we could see that the overall equation to be statistically significant by (F=0.008).

It could be seen that the value of  $\beta$  is 0.328 (which is positive and significant), t-value is 2.775 (which is more than standard 2.00) and P-value or significance level is 0.008 (which is less than 0.05). Results illustrated that staff remuneration has positive significant effect on return on equity of quoted service companies in Nigeria. Therefore, the null hypothesis is rejected, and it is concluded that staff remuneration has positive and significant effect on return on equity of quoted service companies in Nigeria.

**Hypothesis 2:** Staff remuneration has no significant effect on return on asset of quoted service companies in Nigeria.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.166 <sup>a</sup>	.127	.092	15.87750

a. Predictor: (Constant), SR

Table 5 above revealed an adjusted R<sup>2</sup> value of 0.092. The adjusted R<sup>2</sup>, which represents the coefficient of multiple determinations imply that 9% of the total variation in the dependent variable (ROA) of quoted conglomerates in Nigeria is jointly explained by the explanatory variable (SR).

**Table 6: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	447.471	1	447.471	1.775	.188 <sup>b</sup>
	Residual	15881.977	23	252.095		
	Total	16329.448	24			

a. Dependent Variable: ROA

b. Predictors: (Constant), SR

**Table 7: Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std Error	Beta		
1 Constant	14.740	2.898		5.086	.000
SR	3.279E-007	.000	.166	1.332	.188

b. Dependent Variable: ROA

Table 6 above which is ANOVA table tells if the model is statistically significant or not. This is because R<sup>2</sup> is not statistical significance, it only measures and explains variation in Y from a predictor. The F-ratio is used to test whether or not the R<sup>2</sup> occurred by chance alone. The F-ratio found in the ANOVA Table measures whether the staff remuneration has significant effect on return on asset of quoted service companies in Nigeria.

From the above, it could be seen that the value of  $\beta$  is 0.166 (which is positive and significant), t-value is 1.332 (which is less than standard 2.00) and P-value or significance level is 0.188 (which is more than 0.05). Results indicated that staff remuneration has positive insignificant effect on return on assets of quoted service companies in Nigeria. As a result, the null hypothesis is accepted, which says that staff remuneration has no significant effect on return on assets of quoted service companies in Nigeria.

### Discussion of Findings

With respect to hypothesis one, the value of  $\beta$  is seen to be positive and significant, t-value is considered to be more than standard value of 2.00 and P-value or significance level is less than significant level of 0.05. in view of this, the result showed that staff remuneration has positive and significant effect on return on equity of quoted service companies in Nigeria.

In relation to hypothesis two, the value of  $\beta$  is considered to be positive and significant, t-value is less than standard 2.00, whereas P-value or significance level of 0.188 is more than significant level of 0.05. This therefore, means that staff remuneration has positive but insignificant effect on return on assets of quoted service companies in Nigeria. As a result, it is concluded that staff remuneration has no significant effect on return on assets of quoted service companies in Nigeria. The results of this study is consistent with the findings from the study conducted by Ndum and Oranefo (2021) and Omodero et al. (2016).

### CONCLUSION

Human capital is regarded as one of the most essential drivers that contribute to the improvement of firm competitiveness. It is for this reason that business organizations spend enormous sums of money and spare no effort in selecting, training, re-training and developing their managers/ employees to equip them adequately to meet the challenging tasks arising from internal and international developments. Moreover, the increasing technical complexity of modern business and the time required for personnel to gain skills, and experience and judgment in many vital areas makes brain power the critical resource in our economy. Therefore, human capital is seen as the most important asset of an organisation as its success or failure depends on how manpower is being treated in such an

organisation. It is expedient therefore, to note that for any organisation to be profitable, productive and successful, its human assets must not be treated with kid gloves. Based on the submissions of this study, the following recommendations are suggested:

- i. It is important for management of companies to invest judiciously in their knowledge assets so as to attain desired profitability. This will avail organizations to attain greater success and remain competitive to achieve their long term value creation and survival goals.
- ii. Companies should provide an enabling organization structure for qualified, experienced and skilled human resources to fully utilize their potentials and thus increase human capital efficiency. This will enable the organizations to achieve higher profitability, because the higher the human capital efficiency, the greater the profitability.

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