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The Consequence of Firm Policies on Human Capital Accounting in Kenya

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Abstract

The purpose of this paper was to evaluate the moderating consequence of firm policies on Human Capital (HC) accounting implications among large and medium size listed firms in Kenya. The moderating power of firm policies can provide a good source of knowledge on whether Kenyan firms are able to account for their HC as material investments to be leveraged for improved firm market value. Using explanatory-mixed method cross-sectional survey, the study was conducted on a target population 165 Kenyan Chief Finance Officers (CFOs), from whom primary data was gathered by the use of questionnaire with both closed-ended and open-ended questions. The study variables were measured using both the ordinal scale and Likert-type of scale. The Partial correlation analysis, multiple linear regression analysis, and statistical tests such as the F-test and ANOVA were used. Multiple regression analysis was used to determine the moderating effect of firm policies on HC accounting frameworks such as: (i)the Human Resource Accounting (HRA) theory acceptability, (ii) financial measures considered in HRA accounting adoption, (iii) tenability of the existing HRA tools, (iv) usage of existing HRA tools, and (v) essessability of existing HRA tools. According to the study findings, the model was found to significantly predict ACC for HC Adoption as indicated by an F-value of 26.642 and a significant p-value of < 0.001. Accordingly, company policies would facilitate ACC for HC adoption in Kenyan medium and large organizations. On the other hand, the independent variables were found to explain 14.8% of the variation in ACC for HC adoption in Kenyan medium and large organizations without policies as the moderating variable. This implied that HRA discipline acceptability and positive impact of ACC for HC on firm value would enable Kenyan medium and large organizations to successfully adopt ACC for HC so long as ACC for HC tools' are tenable, applicable, assessable for efficacy, had requisite ACC for HC metrics, and key constituents in organizations were aware of the tools. However, the independent variables were found to explain 29.7% of the variation in ACC for HC adoption with policies as the moderating variable. This implied that company policies were a moderating variable of the

frameworks for HC accounting adoption in Kenyan medium and large organizations, and more than doubled their predictive power on the dependent variable by 14.9%.

In conclusion, firm policies were a profound ingredient in promoting HC ACC adoption to leverage the treatment of HC as material investments for improved firm market value in Kenya. This study recommended that Kenyan firms needed to focus more on robust firm policies if they hoped to achieve their HC ACC goals.

Keywords: Accounting, Human capital, Policies, Firm market value, Adoption

1. Introduction

International Accounting Standard No. eight (IAS 8) focuses on the use of Accounting (ACC) policies in organizations. International Financial Accounting Standards (IFRSs) are standards and interpretations adopted by the International Accounting Standards Board (IASB), and they compromise (i) International Financial Reporting Standards, (ii) International Accounting Standards (IASs), (iii) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standards Interpretation Committee (SIC), and are approved by the IASB. IAS 8 is an outline of how entities should design, structure, select and apply their ACC policies for improved reporting of their financial performance. The objective of IAS 8 is to prescribe the criteria for selecting, applying, and changing accounting policies, along with the accounting treatment and disclosure of changes in the policies. Accounting policies are the specific principles, bases, conventions, postulates, rules and practices applied by an entity in preparing and presenting financial statements.

The eleven ACC postulates in Figure 1 are broad assumptions on HC ACC practice, of the various putative ACC measurement bases or disciplines or tools; as well as the recognition techniques of economic transactions (IFRS Foundation, 2015) in the financial statements of firms, and are identified as the conceptual framework in the ACC practice. Practitioners, firms, and regulators select from among the bases to inform their legal stipulations, policies, or ACC standards that are applied in daily HC ACC adoption. The process is depicted in a ‘rocket’ (tool) analogy which would ‘kill’ (achieve HC ACC goals) the ‘enemy’ (payoffs or decision models) in ACC for HC adoption in organizations for enhanced firm market value.

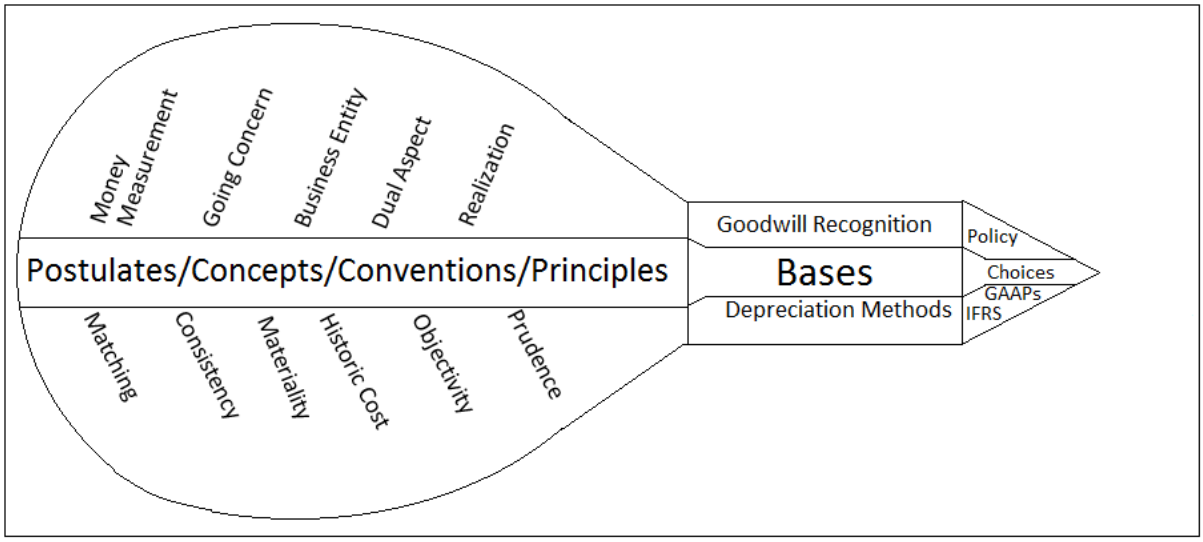

Figure 1. Rocket Analogy of the Postulates, Bases and Human Capital Accounting Choices

Source: Researcher, 2022

The study investigated the consequence of the use of organizational policies on HC ACC practice; and sought to specifically establish whether or not, the two were inextricably intertwined. This is because organizational policies direct management decisions in achieving their firm accounting goals and objectives. The target population constituted 165 CFOs from Kenyan Medium and Large Organizations (MLOs).

Empirical research works by Andrade and Sotomayor (2013), and Hansson (1997) established that the HC ACC practice, is a strategic policy tool in organizations.

2. Empirical Evidence

In a survey in six case study companies (two in Canada, two in Japan and two in the UK), and in 100 telephone interviews (40 in Japan, 30 in Canada and 30 in the UK), Kouhy, Vedd, Yoshikawa, and Innes (2009) found that management accountants and HR practitioners frequently engaged on key HC policies such as recruitment, training, job for life, teamwork, and organizational culture as the benchmarks of determining both financial and non-financial HC performance measures. Inevitably, HR and HC policies are equal. During the survey in Kouhy, et al., (2009), 62% of the interviewees responded that their organization tried to link specific HR policies with their organization's performance; with Japanese companies being at the forefront at 88%, Canadian entities at 53%, while the UK firms were at 37%. Wan (2007) conducted research to investigate the insight of desirable Human Capital Development (HCD) practices that HC practitioners could develop to create competitive advantage through their HC assets. He concluded that respondents in European based MNCs were generally more satisfied than respondents in Asian–owned MNCs with the HCD policies of the company. This implies that in both regions where the research was carried out, HCD policies were key in aiding HC accounting adoption which promotes HC performance measures. Tome (2005) established that countries that organized their HC market policies based on highly developed

and professional benchmarks, and were able to deal with the market evolution and guarantee the continuation of high standards in the HC field, were enviable by all the other countries in the world that did not. Understanding the complex relationship of HC and institutional policy environment may benefit from a more detailed and in-depth understanding of the HC accounting process promoted by regulatory institutions as this influences the active role of human agency in firm performance (Farndale &Paauwe, 2007).

Therefore, organizations' policies influence HC accounting adoption in organizations for improved financial performance.

3. Methodology

The study employed the critical realism philosophical view, centered on the explanatory-mixed methods research design, and was anchored on the cross-sectional sampling scheme. Combining qualitative, quantitative, action, and critical research (Mertens, 2007) has been brought to a level of legitimacy as a result of numerous outstanding documented works (Creswell, 2009). The key assumption of the study was that: The moderating efficacy of firm policies on HRA frameworks was inextricably linked to their practice. The target respondents were 165 CFOs in two strata as follows: The 100 Kenyan best medium firms in the year 2016 (as ranked by renowned KPMG on the basis of financial performance) and the 65 Kenyan large organizations listed at the NSE in 2016. The firms were selected for this study on firm policies consequence on HRA practice because of their all-embracing financial reporting. Primary data was collected from a sample of 116 CFOs through the survey strategy and a response rate of 51% was achieved. The criteria for medium firms in Kenya included: turnover in Kenyan shillings between 5-800 million ($50,000-$8,000,000) and employees between 50 and 99. These were part of the nominal quota of the data collection instrument. The data were collected using both hard copies (34) as well as web-based questionnaires (25) and A *t*-test was employed to analyze any disparities and it was found that there was no significant difference in the average scores of the variables between the two survey methods with a ($p>0.05$). The questionnaire was pre-tested on a pilot set of respondents from the technical staff of the Institute of Certified Public Accountants of Kenya (ICPAK) for comprehension, logic and relevance. All the aspects of the questionnaire were pre-tested including question content, question difficulty, layout wording, sequence, and form and instructions. The feedback obtained was used to revise the questionnaire before administering it to the study respondents. The study variables were measured using both the ordinal scale and Likert-type scale (*1= Very strongly disagree; 2= strongly Disagree; 3= Disagree 4= Not sure; 5= Agree; 6= strongly agree; 7= Very Strongly Agree*). The moderating power of firm policies on the HC ACC frameworks in predicting the HC ACC practice in Kenyan MLOs was modelled using the simple linear regression model:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_{5+} \beta_6 X_{6+} \beta_7 X_{7+} \beta_8 X_{8+} \varepsilon$$

Where:

Y_i = Dependent variable (HC ACC Practice)

β_0 = Constant or intercept which is the value of dependent variable when all the independent variables are zero.

β_{1-7} = Regression coefficient for each independent variable.

X_1 = HRA discipline acceptability

X_2 = Metrics in ACC for HC

X_3 = Impact of ACC for HC on firm market value

X_4 = Tenability of existing ACC for HC tools

X_5 = Applicability of existing ACC for HC tools

X_6 = Assessability for efficacy of existing ACC for HC tools

X_7 = Awareness of existing ACC for HC tools by key constituents' in Kenyan medium and large organizations

X_8 = Moderating effect of company policies

ε = Error term.

4. Results

4.1 Regression Analysis With Company Policies as the Independent Variable

A simple linear regression was conducted with ACC for HC Adoption as the dependent variable and company policies as the independent variable. According to the research findings in Table 1, it was found that the independent variable explained 32.2% of the variation in the dependent variable. The model was found to significantly predict ACC for HC Adoption as indicated by an F-value of 26.642 and a significant p-value of < 0.001. Accordingly, company policies would facilitate ACC for HC adoption in Kenyan medium and large organizations.

Table 1. Simple linear regression model with ACC for HC Adoption and company policies

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R^2	F-value (p-value)
	B	Std. Error	Beta				
(Constant)	9.596	2.094		4.583	.000	0.322	26.642
Square-policies	.501	.097	.578	5.162	.000		(<0.001)

From Table 1, the regression equation can be written as:

$$Y = 9.596 + 0.501\ X8$$

Where Y = Square ACC for HC Adoption and X8 = Square company policies

There was a positive and a statistically significant linear relationship between ACC for HC practice and company policies as indicated by a significant p-value (p = <0.001 < 0.05). A unit change in company policies increased ACC for HC Adoption by 0.501 units.

Table 2. Pearson's correlation coefficient between ACC for HC Adoption and the hypotheses measuring company policies

		Sqr_Adoption of HC	sqr_PL1	sqr_PL2	sqr_PL3
Sqr_Adoption of HC	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	56			
sqr_PL1	Pearson Correlation	.405**	1		
	Sig. (2-tailed)	.002			
	N	56	59		
sqr_PL2	Pearson Correlation	.445**	.228	1	
	Sig. (2-tailed)	.001	.085		
	N	55	58	58	
sqr_PL3	Pearson Correlation	.541**	.405**	.455**	1
	Sig. (2-tailed)	.000	.001	.000	
	N	56	59	58	59

* and ** means Pearson correlation value is significant at 5% and 1% level of significance respectively and that the model would significantly influence HC ACC adoption or practice.

4.2 Multiple Linear Regression Model Without the Moderating Variable

A multiple linear regression was performed with ACC for HC Adoption as the dependent variable and HRA discipline acceptability, ACC for HC metrics, Impact of ACC for HC on firm value, ACC for HC tools' tenability, ACC for HC tools' applicability, ACC for HC tools' assessability and ACC for HC tools' awareness as the independent variables. The research findings in Table 3 revealed that the model significantly predicted the dependent variable as indicated by an F-value of 2.263 and a significant p-value at 95% confidence level ($p=0.047 < 0.05$). The independent variables were found to explain 14.8% of the variation in ACC for HC adoption in Kenyan medium and large organizations. This implied that HRA discipline acceptability and positive impact of ACC for HC on firm value would enable Kenyan medium and large organizations successfully adopt ACC for HC so long as ACC for HC tools' were tenable, applicable, assessable for efficacy, had requisite ACC for HC metrics, and key constituents in organizations were aware of the tools.

Table 3. Multiple linear regression without Company Policies

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R^2	**F-value (p-value)**
	B	Std. Error	Beta				
(Constant)	16.031	4.140		3.873	.000	0.148	2.263
square_HRA	-.115	.127	-.156	-.905	.370		(0.047)
Square_HCmetrics	-.129	.174	-.113	-.744	.461		
square_Impact	.052	.107	.075	.484	.631		
square_tenability	-.008	.172	-.008	-.048	.962		
square_applicability	.328	.178	.429	1.849	.071		
square_assessability	.065	.190	.084	.342	.734		
square_awareness	.018	.134	.020	.133	.895		

From Table 3, the regression equation can be written as:

$$Y = 16.031 - 0.115X1 - 0.129X2 + 0.052X3 - 0.008X4 + 0.328X5 + 0.065X6 + 0.018X7$$

Where Y = Square ACC for HC Adoption, X1 = Square HRA discipline acceptability, X2 = Square ACC for HC metrics, X3 = Square Impact of ACC for HC on firm value, X4 = Square ACC for HC tools' tenability, X5 = Square ACC for HC tools' applicability, X6 = Square ACC for HC tools' assessability and X7 = Square ACC for HC tools' awareness.

4.3 Multiple Linear Regression With the Moderating Variable

A multiple linear regression was performed with ACC for HC Adoption as the dependent variable; and HRA discipline acceptability, ACC for HC metrics, Impact of ACC for HC on

firm value, ACC for HC tools' tenability, ACC for HC tools' applicability, ACC for HC tools' assessability, ACC for HC tools' awareness and company policies as the independent variables. The research findings in Table 4 revealed that the model significantly predicted the dependent variable as indicated by an F-value of 3.641 and a significant p-value at 95% confidence level ($p=0.003 < 0.05$). The independent variables were found to explain 29.7% of the variation in ACC for HC adoption. This implied that company policies were a moderating variable of the frameworks for HC ACC adoption in Kenyan medium and large organizations, and more than doubled their predictive power on the dependent variable by 14.9%.

Table 4. Multiple linear regression with the moderating variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	**R^2**	**F-value (p-value)**
	B	Std. Error	Beta				
(Constant)	13.288	3.880		3.424	.001	0.297	3.641 (0.003)
Square-HRA	-.055	.117	-.075	-.473	.639		
Square-metrics	-.258	.164	-.225	-1.571	.124		
Square-Impact	.068	.098	.099	.694	.491		
Square-tenability	-.114	.164	-.106	-.694	.491		
Square-applicability	.238	.165	.311	1.447	.155		
Square-assessability	-.144	.185	-.187	-.780	.440		
Square-awareness	.126	.128	.141	.982	.332		
Square-policies	.457	.141	.537	3.234	.002		

From Table 4, the regression equation can be written as:

$$Y = 13.288 – 0.055X1 – 0.258X2 + 0.068X3 – 0.114X4 + 0.238X5 – 0.144X6 + 0.126X7 + 0.457X8$$

Where Y = Square ACC for HC Adoption, X1 = Square HRA discipline acceptability, X2 = Square ACC for HC metrics, X3 = Square Impact of ACC for HC on firm value, X4 = Square ACC for HC tools' tenability, X5 = Square ACC for HC tools' applicability, X6 = Square ACC for HC tools' assessability, X7 = Square ACC for HC tools' awareness, X8 = Square company policies. Company policies was found to be statistically significant as indicated by a significant p-value of p=0.002. A one-unit increase in company policies increased ACC for HC Adoption by 0.457.

5. Discussions, Conclusions, and Recommendations

Firm policies were applied as a moderating variable in this study. Empirical evidence deduced from the study suggested that firm policies as variable was the strongest predictor of ACC for HC adoption in the Kenyan medium and large firms with an F-value of 26.642 and p-value of < 0.001. CFOs of the female gender were more agreeable with policies as a determinant of ACC for HC adoption than those of the male gender. CFOs who were members of the Institute of Certified Public Accountants of Kenya (ICPAK) were more agreeable with this observation than those in other professional associations. CFOs working in the manufacturing sector were more supportive of this belief when compared to those working in other sectors. Those working in medium firms which were not listed at NSE supported this view to a larger extent than those in large listed firms. When it came to experience in terms of the number of years CFOs had worked in the current position, those who had worked for more than five years were more agreeable with the view that firm policies would corroborate ACC for HC adoption in the Kenyan medium and large entities; an observation held by CFOs with expertise in HRA as well as those who specialized in other ACC disciplines besides costing. The null hypothesis was supported based on the empirical findings. These results imply that an ICPAK female CFO with more than five years' experience in a medium manufacturing organization, and who had worked in HRA related assignments preferred policies to influence ACC for HC adoption in Kenyan medium and large organizations for improved firm market value, even if she did not have costing expertise. Furthermore, earlier experience in HRA related assignments was instrumental in influencing the CFOs support for tenability, applicability, assessability, awareness, as well as firm policies as corroborators of ACC for HC adoption in Kenya for improved decisions which enhance firm market value.

5.1 Relationship Between Organizations Policies and ACC for HC Adoption in Kenyan Medium and Large Organizations

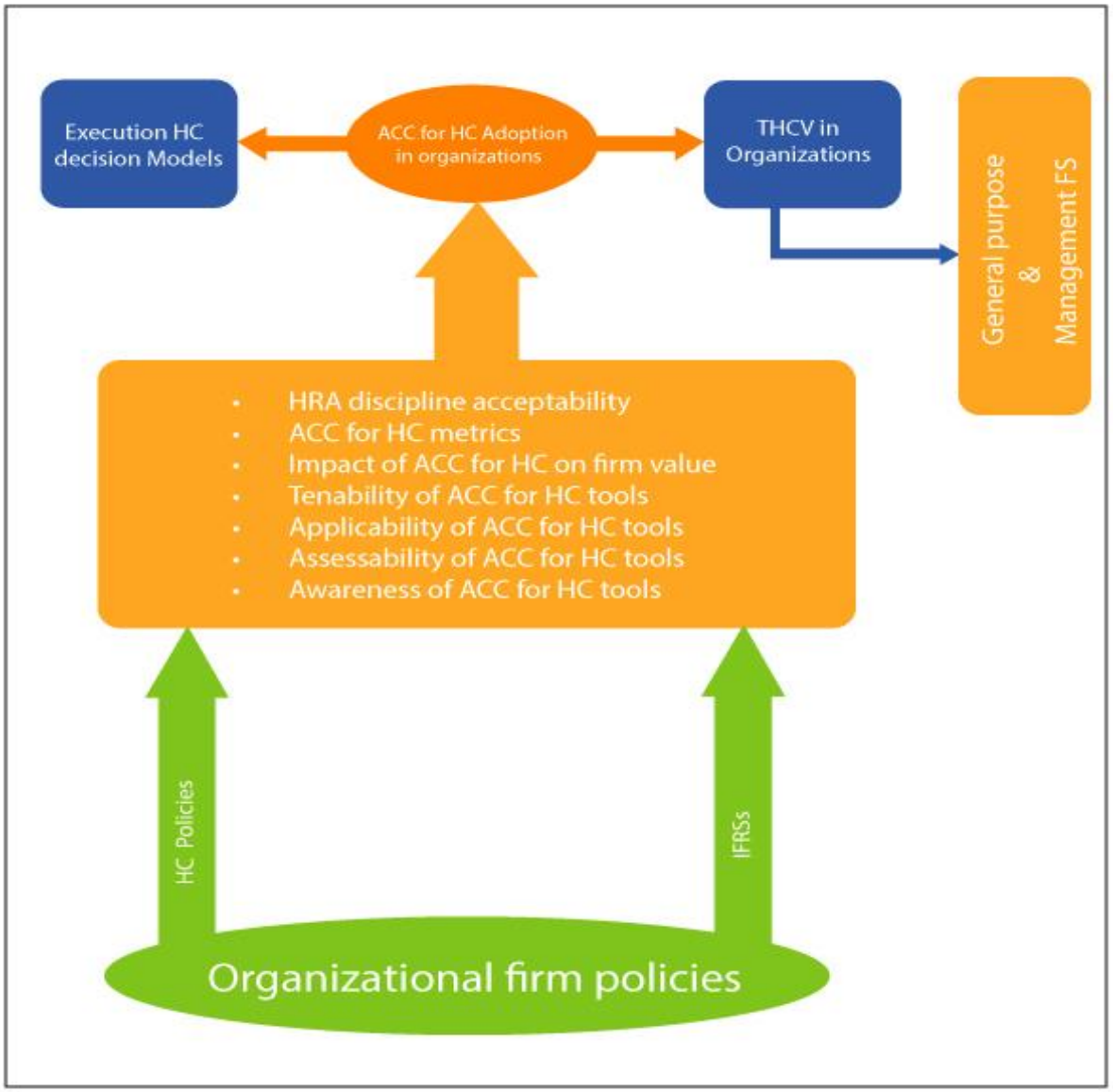

Figure 2. Organizational Policies as moderator of the study hypotheses

Source: Researcher 2022

As presented in Figure 2, organizations' policies were applied to moderate the hypotheses of the study to explain ACC for HC adoption in Kenyan medium and large organizations for improved firm market value.

Based on the research findings, correlation analysis revealed that firm policies had a strong and significant positive linear relationship with ACC for HC adoption in the Kenyan MLOs with r= 0.578. Regression analysis established a significant prediction F-value of 26.642 and a p-value of < 0.001. This implied that Kenyan MLOs' HC and/or HR policies would corroborate ACC for HC adoption in those organizations for improved firm market value.

Furthermore, empirical evidence from the study affirmed that organizations' policies were a strong moderating factor in explaining ACC for HC adoption for superior firm market value based on the study hypotheses.

Grouped multiple linear regression was performed on the dependent variable and the seven hypotheses without company policies as the moderating variable. The research findings revealed that the model was positively and significantly predicting the dependent variable as indicated by an F-value of 2.263 and a significant p-value at 95% confidence level ($p=0.047 < 0.05$). The independent variables were found to explain 14.8% of the variation in ACC for HC Adoption in Kenya.

However, when a grouped multiple linear regression was performed on the eight hypotheses including the moderating variable and the dependent variable, the study findings showed that the grouped independent variables were found to positively and significantly predict ACC for HC adoption for better firm market value, as the dependent variable, in the Kenyan MLOs with an F-value of 3.641 and a p-value of 0.003, at 95% confidence level. Furthermore, the grouped hypotheses doubled its predictive power on the ACC for HC adoption in Kenyan MLOs to 29.7%. This implied that, the HRA discipline acceptability, ACC for HC metrics, ACC for HC impact on firm value, ACC for HC tools' tenability, ACC for HC tools' applicability, ACC for HC tools' assessability, and ACC for HC tools' awareness by key constituents in organizations, were reinforced by company policies to corroborate ACC for HC adoption in Kenyan for improved firm market value according to CFOs in those organizations. Company policies had the greatest positive influence on ACC for HC adoption with a p-value=0.002. One-unit increase in company policies would increase ACC for HC adoption in Kenya by 45.7%.

Earlier research work by Kouhy, et al., (2009) on six case study companies found that management accountants and HR officers frequently engaged on key HC policies as the benchmarks of determining both financial and non-financial HC performance measures. In a study amongst UK organizations by Verma and Dewe (2008), 39% of the respondents identified company policies as facilitating ACC for HC adoption. These findings are in conformity with the study empirical evidence.

These findings affirm the importance of firm policies in corroborating ACC for HC adoption in firms for better decisions which improve firm market value. This led to the conclusion that Kenyan MLOs with HR and HC policies would easily adopt ACC for HC for superior firm market value. The study recommended that Kenyan MLOs should invoke their HC and HR policies to support ACC for HC frameworks for HC ACC adoption which leads to better firm market value.

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