



Covid-19 Pandemic: Implication on Human Resource Accounting Practices

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Abstract

Covid-19 Pandemic is the new dilemma of the world forcing the whole world into a standstill. Quarantine and lockdown became the order of the day causing so many organizations into abrupt halt. As a result of this, cash flow became a problem which causes many organization to reduce the number of their Human Resource. Disengagement of qualified Human Resource serves as threat to the survival of the organization even after the end of the Pandemic. This study explore the need for Human Resource Accounting practices to make informed decision regarding HR especially during the crisis of this nature. The study recommend the need for each organization to adopt HRA practices in order to enable them to make informed decision about HR disengagement during a crisis like this to remain in business.

Keywords: Covid-19, Pandemic, Human Resource Accounting, Labour Turnover

1.0 Introduction

It is no longer news that Corona-virus disease 2019 (Covid-19) pandemic is the most worrisome infectious disease in this century. The virus originated from Hubei Province in Wuhan, China as the first case was reported with the patient showing the symptoms on 1 December 2019 (World Health Organization (WHO), 2020). The Covid-19 outbreak has since spread to over 300 countries and over 30,000,000 reported cases and 900,000 deaths have been recorded around the world (WHO, 2020). Beyond the tragic health hazards and human consequences of the COVID-19 pandemic, the economic uncertainties, and disruptions came at a significant cost to the global economy. Many countries and organizations experienced drop in revenue generation as a result of lockdown causing a sudden disengagement of human resource of most organization by the organization

(International Labour Organization, 2020). The United Nations Trade and Development Agency (UNCTAD) put the cost of the outbreak to more than \$2 trillion. Most central banks, finance ministries and independent economic experts around the world have taken solace in the prediction that the impacts might be sharp but short-lived, and economic activities would return to normal thereafter (International Labour Organization, 2020). However, the damage done cannot be over emphasized. The Covid-19 pandemic has serious implication on the economy of the world (affecting both developed and developing countries) and most organizations are still likely to live with the damage done by the pandemic even after the end of the pandemic.

Methodology

This paper presents the current situation in the world occasioned by the Covid-19



pandemic and its implication on Human Resource Accounting Practices. It is exploratory in nature and it ends with conclusion and recommendation. It is pertinent to know that there exists little or no study on covid-19 pandemic and human resource accounting practices.

Covid-19 and World Economy

Beyond its impact on human health (high rate of mortality), COVID-19 pandemic has both exogenous and endogenous effects on the world economy. The exogenous effect was as a result of direct trade links between continents affected by the Pandemic' tourism; the reduction in remittance from African in Diaspora and the Foreign Direct Investment to mention among others (African Union, 2020). The Endogenous effects were as a result of rapid spread of the virus in African countries linked to morbidity and mortality, and also to disruption of economic activities (African Union, 2020). Covid-19 pandemic has disrupt an interconnected world economy through global value chains, which account for nearly half of global trade, sudden falls in commodity prices, fiscal revenues, foreign exchange receipts, foreign financial flows, embargo on travels, restrictions on tourism and disruption of labor market.

The European Union, the United States and Japan economies are based on trade, services and industries, and also contribute half of the world's GDP (African Union, 2020). However, efforts to halt the pandemic have forced them to close their borders and drastically reduce economic activities; which will lead to recession in some of these developed economies. In developing countries however, the Chinese economy accounts for about 16% of global GDP and it is the largest trading partner of most African countries and the rest of the world (African Union, 2020).

In China, the production index in February declined by more than 54% from the preceding month's value (UNCTAD,2020) In addition to the impact on productive economic activities, consumers typically changed their spending behavior, mainly due to reduction or no income and household finances, as well as the fear and panic that come with pandemic. Service industries such as tourism, hospitality, and transportation are not left out, they suffered significant losses due to embargo placed on travelling (both Domestic and International). The International Air Transport Association projects a loss in airline revenue solely from passenger carriage of up to \$314 billion (*IATA Economics Report, 2020*). Restaurants and Bars, Travel and Transportation, Entertainment, and other manufacturing companies are among the sectors that were affected by the COVID-19 quarantine measures in US and other countries (Dey & Loewenstein, 2020). The advance seasonally adjusted insured unemployment rate in the US has already reached a record level of 11% for the week ending April 11, 2020 (OECD, 2020).

The OECD (2020) forecasts a decline in economic growth rates for these major economies as follows: China 4.9% instead of 5.7%, Europe 0.8% instead of 1.1%, the rest of the world 2.4% instead 2.9%, with world GDP falling by 0.412 from the first quarter of 2020. UNCTAD forecasts downward pressure on foreign direct investment from -5% to - 15%. The International Monetary Fund has announced on the 23 March 2020 that investors have withdrawn \$83 billion from emerging markets since the start of the crisis.

After the Black Monday episode (March 9), the main stock markets indices have just experienced one of the worst developments in their history in decades. The Dow Jones



lost almost 3000 points in one day. FTSE plunged by about 5% and losses are estimated at over \$90 billion, to name just two. The banking sector has lost almost 40% of its value in the last month and the trend is still bearish (African Union, 2020). In addition to marked health inequalities, especially in countries without universal healthcare coverage, the economic impact of the COVID-19 pandemic will be heterogeneous across the country's income distribution. Office workers now have flexible working arrangements during the restrictions, while many industrial, tourism, retail, and transport workers will suffer a significant reduction in work due to community restrictions and low demand for their goods and services.

Oil rich countries are also affected with the Covid-19 pandemic as current and potential future demand for oil leads to fluctuations in oil prices due to reduced economic activities in several countries driven by the COVID-19 pandemic. In response to support crude oil prices hit by the pandemic, major oil producers proposed to reduce production as people consume less due to travelling restrictions. The oil exporters group agreed to cut supply by 1.5 million barrel per day (bpd) until June but this did not happen as Saudi- Arabia announced that it would increase production which in turn leads to oil war between OPEC and non OPEC states resulting to tumbling oil prices (African Union, 2020). This excess supply was also responsible for significant price reductions. If lower than expected oil prices continue, many oil-dependent economies may contract following reductions in trade and investment. Shocks to the labor markets will be severe, especially for countries dependent on migration. Globally, migrant workers make important contributions to the labor markets, addressing imbalances in both high

and low-skilled occupations (Green, 1994 ; Castles, 2011). As there are restrictions on international travels as countries try to halt the spread of COVID-19, migration flows were limited, hindering global economic growth, and development (Rome, 2020) which in turn have a negative impact on labour turnover.

Covid-19 and Labour Turnover

Moreover, as a result of fall in stock market and economy caused by lockdown which hindered many labours from participating in their day-to-day activities, hundreds of millions of people have been left without work due to the impact of COVID-19 (United Nation's Work Agency, 2020). Current G7 jobless totals vary widely, from 30million in the United States to 1.76 million in Japan (International Labour Organization, 2020). Since the pandemic hit, claims for unemployment benefits have soared in some countries-notably in United State. The United Nation's International Labour Organization (2020), predicts 1.6 billion informal economy workers could suffer massive damage' to their livelihoods and in the second quarter of 2020, COVID-19 may cost the equivalent of 205 million full-time jobs.

In the United State for example, on 25th April 2020, 3.8 million Americans made an unemployment claim and also, the Payroll processor ADP says the US private sector shed more than 20 million jobs in April. Also, in Canada, the unemployment rate in April was 13%, up 5.2 % points on March (Canada Official Statistical Bureau, 2020). An evidence from developing country such as Nigeria revealed unemployment rate as at the second quarter of 2020 to be 27.1\$ (National Bureau of Statistics, 2020). This revealed 4% increase compare to the last publication of the Bureau.



Covid-19 Pandemic and Human Resource Accounting Practice

It is regrettable that after the Pandemic most of the companies affected by the pandemic might not resuscitate from the blow of the pandemic due to the fact that the qualified and well trained Human resource (HR) which serves as the engine room of most organizations have been disengaged as a result of the impact of the covid-19 pandemic on the organization. According to Olaniyan & Lucas (2008), human resource are the most valuable assets of any organization and include such things as the experience, judgement, and intelligence of the individual managers and workers in the firm, which are being used to optimise other resources efficiently and effectively. Human Resource (HR) is thus a crucial factor of production and is seen as the greatest asset at the disposal of businesses. This explains why the statement “our greatest assets are our people” is often a popular remark in the Annual Reports of majority of companies (Enofe, Sunday & Ovie, 2013). However, this qualified HR are been laid off because of the pandemic

It is in view of the above that, the implications of COVID-19 on Human Resource Accounting (HRA) Practices requires a serious attention. Human Resource Accounting seeks to identify, measure and communicate the energies, skills, talents and knowledge of people in an organisation, helps to measure the cost and value of employees in an organisation and provides management with important information that assists in making decision on human resources (Islam, Kamruzzaman & Redwanuzzaman, 2013; Enyi & Akindehinde, 2014).

Flamholtz (1999) defined human resource/capital accounting as accounting for people as an organizational resource. It

involves measuring the costs incurred by organizations to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organization (Okpala & Chidi, 2010). Woodruff (1973) also defines HR as “an attempt to identify and report investments made in human resources of an organization that are presently not accounted for in conventional accounting practice”. Basically, it is an information system that tells the management what changes over time are occurring to the human resources of the business. Similarly, human resources accounting is defined as a process of accounting which identifies, quantifies and measures human resources for the use of management to cope up with the changes in its quantum and quality so that equilibrium could be achieved in between the required resources and the provided human resources (Johanson, Eklov, Holmgren, & Mårtensson, 1998). Simply put, human resource accounting is the art of valuing, recording and presenting systematically the worth of human resources in the books of account of an organization.

Since almost every literature on human resources points at people in organization as the greatest assets of organizations and this fact is also declared in the organizations’ mission statements, annual reports and at companies annual general meetings, it therefore becomes imperative to look at the relationship between human resource and organization survival during and after pandemic. Since human beings controls and drives every other resources of organization, the quality of decisions made by them may either directly or indirectly reflects on the organization performance. The study of Becker & Huselid (1997) as referred to by Kajola & Adedeji (2011) corroborated this assertion when they found a strong



relationship between the quality of human capital and subsequent financial performance.

Herman & Mitchel (2008) also reported that a comprehensive treatment of expected cost from human resource policies would provide external and internal financial analyst with different and useful information. Flamholtz, Bullen & Hua (2003) found that human resource accounting provides the upper level management with an alternative accounting system designed to measure the cost and value of people to an organisation. According to Vatasoiu, Comescu, and Motoni (2008), the characteristics of HRA are: It is a system of accounting in which identification of human resources is made; Investment made in human resources is recorded; Measurement of costs and values are made; Changes occurring in human resources over a period of time are also recorded; Communicates information through financial statements to interested parties.

Objectives of Human Resource Accounting

According to Toulson & Dewe (2004); Sharma & Shukla (2010) the following summarizes the most important objectives of HRA: It provides companies with information about the cost and value of its human resources; It provides companies with a guide for human resource decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness; It motivates managers and decision makers to look at decisions through a human resource point of view; It allows management personnel to monitor effectively the use of human resources; It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved and it helps in the development of

management principles by classifying the financial consequences of various practices.

Importance of Human Resource Accounting

Human Resource Accounting provides useful information to the management, financial analysts and employees as stated below (Innes & Kouhy, 2009): Human Resource Accounting helps the management in the employment, locating and utilization of human resources ; It provides a basis for planning of physical assets vis-à-vis human resources ; It assists in evaluating the expenditure incurred for imparting further education and training in employees in terms of the benefits derived by the firm; It helps to identify the causes of high labour turnover at various levels and taking preventive measures to contain it ; It helps in locating the real cause for low return on investment, like improper or under-utilization of physical assets or human resource or both ; It helps in understanding and assessing the inner strength of an organization and helps the management to steer the company well through most adverse and unfavourable circumstances ; It provides valuable information for persons interested in making long term investment in the firm ; It helps employees in improving their performance and bargaining power. It makes each of them understand their contribution towards the betterment of the firm vis-à-vis the expenditure incurred by the firm on him.

Human Resource Accounting Requirements

In order to apply HRA effectively in an organization, some resources and aspects must exist and these include: Measurements must be designed to be highly relevant to the strategic direction of the company (Verma & Dewe, 2006). Also, the company's size should be large, because it is not economical



for small firms to apply it as it involves heavy costs (Narayan, 2010). Moreover, human resources information system should be developed which contains all personnel data, to be used in proper personnel administration (Pehkonen, 2000).

Resource Based Theory of Human Resource Accounting

The theory is a basis for competitive advantage of a firm. The theory indicates that a resource has to be valuable that is, it must enable a firm to employ a value creating strategy, it has to be rare, inimitable where the competitors are not able to duplicate this strategic asset and non substitutable therefore, human capital resources within a firm are valuable, unique and difficult to imitate and they provide the firms with competitive and investment advantage (Barney, 1991). Disclosure of information on human capital such as experience, qualifications, training, and leadership is essential since these help firms to create value in the capital market. These theories emphasize that human capital is critical due to its resourcefulness and the fact that human capital cannot be imitated by the competing organizations. It forms a vital component of intellectual capital and hence human capital combined with other components of intellectual capital accounting that is, structural capital and relational capital have a positive effect on business performance of firms (Barney, 1991).

Conclusion and Recommendation

In order to remain in business with reasonable working capital, most organizations laid off their quality HR with great experience (gotten through investment made by the company on them through training and development or other relevant qualifications added by the HR themselves), thereby exposing the organization to danger

of survival at the long run. Having highlighted the objectives and the importance of applying Human Resource Accounting practices, it is worth saying that the application of HRA practices is very important. Also having identified the HRA requirement, the study concluded that in any given situation requiring the need to make a decision regarding human resource, HRA practice will help in order not to make misinformed decision.

The study emphasized and recommends the need for each organization to adopt HRA practices in order to enable them to make informed decision about HR disengagement during a crisis like this to remain in business.

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