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Human Resource (HR) Valuation and Organizational Performance (OP): Incorporating a Suggested Corporate Ethical Culture (CEC) Metric

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ABSTRACT

Over the years, Human Resources (HR) have been measured or valued based on some proposed models. But their alienation of some other considerations in arriving at HR vale may render these models inadequate. One of these alienated considerations is Corporate Ethical Culture (CEC) compliance ability of HR. To gain more research evidence that HR's compliance to CEC can be a veritable tool in the hands of organizations for competitive edge, the research firstly aimed to examine for any significant relationship between CEC compliance by HR and Organizational Performance (OP). In the study, this relationship was, both theoretically (the critical review of literatures) and statistically (the result of One-Way ANOVA test from SPSS v.25), found. Thus, the study questioned the non-formulation of HR CEC compliance-ability metric, and incorporation into the valuation process of HR. The methodology included survey and descriptive designs. The study, as a way of filling the aforementioned research gap, and contributing to the coherent body of knowledge, among others, developed and suggested a metric/model for the measurement and incorporation of CEC compliance ability of HR, to the valuation process of HR.

***Keywords*:** Human Resource (HR), Human Resource (HR) Valuation, Human Resource Accounting (HRA), Corporate Ethical Culture, Ethics, Organizational Performance.

1.0 INTRODUCTION.

We often hear of the lamentation and regret of inmates of correctional centres, of having acted against their wishes in the crime committed. That tells us something. That tells us what psychologist like Sigmund Freud would refer to as the tension between *'id'* and *'superego'*. That equally tells us of the conflict inherent in the heart of every human: when we would wish to act rightly, something else is pulling on us to act otherwise. This conflict is as evident in the cries of a Latin Poet – Ovid: *'I see and approve the better things of life, but the evil things I do'* (Carson, 1998, p.358). The renowned Black-American civil right activist, Martin Luther King Jr. spoke of how, the great Philosopher, Plato, would liken that as the Charioteer with two headstrong horses, fusing to go in opposing direction (Carson, 1998).

Interestingly, organizational employees (Human Resources, HR) are also human, as such, are not immune to this *conflict*. And to manage this conflict optimally to the benefit of organizations, various researches have already revealed the pivotal place of *Corporate Ethical Culture (CEC)* compliance. Hence, and firstly, this study wishes to examine for any significant relationship between *HR CEC compliance* and *Organizational Performance (OP).* And if this relationship exists, this research would argue: shouldn't there be extra value placed on CEC complaint HR; shouldn't it be part of the metrics of the existing and proposed HR valuation models? That is to say, shouldn't HR ethical culture compliance capability constitute part of the metrics for HR valuation, other than the sole, discrete, and conventional metric of historical cost of hiring and training HR; the present value of future benefits HR would accrue to an organization; or some sought of assessment based on employees technical and productive efficiency alone?

The critical evaluations of the already proposed and major HR valuation models have revealed their neglect, or disregard, for this ethical culture compliant consideration. This further renders HR valuations based on these models inadequate. This creates a gap in literature.

In Human Resource Accounting (HRA), there are prior and robust researches that have already described the HR as the most

valuable 'asset' of organizations; expressed the dearth of suitable models or metrics for its accurate and holistic measurement and valuation; and pointed the continual failure of accounting practices to recognize and disclose this 'asset' in reported financial statements. Even though this gap still hold true, rarely have other prior studies attempted to emphasize, or propose the formulation of a metric for the inclusion of Corporate *Ethical Culture (CEC) compliance* consideration into the equation. Hence, contributing to the formalization and structuring of coherent literature that could help fill this gap, would be a great accomplishment of this research.

2.0 THEORETICAL FRAMEWORK.

2.1 MODELS AND METRICS FOR MEASURING AND VALUING HR.

Prior researches have expressed how CEC compliance can be a wielder of competitive edge for organizations. James (2002) in Ombanda & K'Obonyo (2019) demonstrated and pointed how unethical practices of HR can entail negative goodwill and cost to organization, e.g high unemployment of skilled manpower, business liquidation and bankruptcy, increased litigation cases, HR retrenchment, involvement in kickbacks, etc. This makes the consideration of CEC compliance ability in the valuation of the worth of HR inconsequential.

Dawson (1994) as cited in Arkan (2016), tried and discussed the different metrics and models (e.g, Hermanson model, Hikimian & Jones model, Lev & Schwartz model, Pyle and Falmholtz model, Stochastic-Flamholtz model, Likert model, Likert model, Mayers & Flowers model, Morse model, Ogan model, Likert and Flamholtz model, etc) put-forth for measuring and valuing HR:

2.1.1 Flamholtz Model (Historical Cost Model).

This model determines the value of HR by considering the actual cost of recruitment, hiring, training, and development of the employees (Dawson 1994 as cited in Arkan 2016). The major feature of this model is that their value is depreciated as their efficiency declines; and that capital expenditures on HR are amortized over their expected life span. Whenever an employee is exiting early, according to Arkan (2016), any unrecovered expense on HR, will be charged to the *Income Statement*, and treated as a loss. Alongside other vital limitations of this model, as widely identified by other researches in this field, this research however query why this model takes into account only the acquisition cost of employees in measuring and valuing HR; it does not take into account the potentiality of human assets increasing in value as they get fine-tuned in ethical cultural practices of the organization.

2.1.2 Likert and Flamholtz Model (Replacement Cost Model).

This model suggests that HR should be measured and valued by the cost an organization would sacrifice in replacing existing employees with another with a similar technical competences, productive efficiencies, and experiences. According to Arkan (2019), this cost includes those incurred when present employees are turned over, and that for acquiring their replacement. However, not just that this model excluded ethical considerations, in reality, no two HR may have exactly similar competencies, and ethical culture compliance rating and records.

2.1.3 Hekimian and Jones Model (Opportunity Cost Model).

Here, HR value is computed bases on the concept of *Opportunity Cost* (the value of HR asset when there are alternative uses for them). According to Jones (1990) as cited in Arkan (2019), this *Opportunity Cost* is arrived at on the consideration of efforts made by different organization's departments. One major characteristics of this model is that, only scarce HR are considered for measurement and valuation. Hence, this research suggests that, this feature may render this model defective, as HR with scarce technical skills may not always have higher and/or better records and ratings of ethical culture compliance than the readily available ones.

2.1.4 Lav and Schwartz Model (Present Value of Discounted Future Earning Model).

This model measures and values HR by first ascertaining the sum total of all the future earnings (wages) of employees', up to their expected service lifes, and further obtain HR's present value by discounting such sum with a predetermined rate. The developer of this mode as cited in Arkan (2019), Lav and Schwartz (1971), suggested the following formula for determining this HR value:

$$\mathrm{E}(Vy) \quad = \sum_{y=1}^{T} \mathrm{Py}\,(\mathrm{t}+1) \sum_{Y=1}^{T} Ii\,/(1 \quad + y)^{t-y}, \qquad (1)$$

Where:

$E(V_y)$ = expected present HR value at Y age, and T retirement benefit age,
$P_y\,(t)$ = probability of lost of HR to death
T = time
Ii = expected earnings for HR in period i,
Y = expected cost of capital (discount rate).

However, despite Arkan (2016) pointing out of the major limitations of this model – of HR's real worth not solely determined by the wages they are paid (as a high unemployment rate in the region of this research, had, and is still, forcing many to accept work that pays less than they actually worth) – this research observes, and adds, that this model again ignores other consideration, like the better value an ethical-complaint HR may command. For it is possible, that an employee paid so highly in an organization can turn to be the worst in terms of complying with its C.E.C, and vice versa.

2.1.5 Stochastic and Flamholtz Model (Future Reward Valuation Model).

This model measures HR mainly through their expected realizable value – based on the assumption of having zero correlation between the cost inquired on HR, and their value to the organization. According to Arkan (2016), this model is an improvement on Lav and Schwartz's Present Value of Discounted Future Earning Model, in that, it takes into cognizance the probability of HR moving from one role to another, or exiting an organization earlier than when death or retirement could call. Flamholtz (1971) as cited in Arkan (2016) suggested the following equation for arriving at the present value (discounted at a predetermined rate) of the future services that HR are expected to provide during the period they remain within the organization:

$$\mathrm{E}(RV) \quad = \sum_{i=1}^{n} [\sum_{i=1}^{m} Ri - P(ri) \,/(1 \quad + R)^{K}\,], \qquad (2)$$

Where:

Ri = value of *R* group of HR
P(ri) = probability that a HR will occupy specific statues
n = case of exiting organization
R = cost of capital (discount rate).

Just like the aforementioned model, this didn't consider the extra value accruable to an ethically astute HR.

2.1.6 Morse Model (Present Value of Net Benefits Obtained Model).

This model, according to Arkan (2016), was proposed by Morse (1973) - who suggests that the value of HR is the present value of net benefit derived by an organization, from the services rendered by employees. The equation below has been put forth for this measurement:

$$A \quad = \sum_{i-1}^{N} \int_{y}^{\mathrm{N}} \frac{Ii(t)}{(1+r)^{t-y}}\,\mathrm{dt} + \int_{Y}^{T} X(t) \,/(1 \quad + r)^{t-y}\,]\,\mathrm{dt}, \qquad (3)$$

Where:

A = Value of HR – Asset,

N = number of employees presently in the organization,
y = present time,
T = highest time at which employee exit the organization,
$I_{i(t)}$ = net value of employee's services rendered - *i* at time - *t* to the organization,
R = cost of capital (discount rate).

Also, this model ignored the ethical compliance worth of some HR, by failing to factor this consideration in the determination of value of HR.

2.1.7 Ogan Model (Certain Equivalent of Net Benefit Model).

This model is an improvement on Morse model, in that, it recognizes the certainty with which the net future benefits will accrue to the organization, in the process of determination of the value of HR. The proponent of this model - Pekin Ogan (1976), as cited in Arkan (2016), suggested this equation for the measurement or determination of value of HR:

$$K_{kj} = [\,\sum_{i=1}^{n} \sum_{k=t}^{l-t} I \,/(1 \quad + r)^{K}\,] \times V_{aj,} \qquad (4)$$

where:

K_{kj} = total adjusted net present values of HR,
$_{L}$ = finishing time of existing HR in an organization,
I = chain of existing HR in the job 1, 2, 3, … n,
V_{aj} = net certain benefits generated by the existing HR in the organization,

This also was silent on the extra value an ethical compliant HR brings on board.

2.2 ORGANIZATIONAL PERFORMANCE (OP).

The term OP has been used by some other studies as *Business Performance (BP)*. However, this research would not want to opt for 'Business' against 'Organizational', because, according to Franco-Santos et al. (2007), the former is deliberately used as a delimitation to alienate public and non-profit sector from the discourse. OP can be used as a means of monitoring the operational activities of organizations (Zulkiffli, 2014). As such, different researches have defined OP differently.

Al-Tarawneh (2020) defined OP as reflecting the organizational ability to particularly attain long-term objectives like growth, and survival. In Zulkiffli (2014), Smith & Reece (1999) and Venkatraman & Ramanujam (1986) were cited as defining OP as, the operational ability of an organization meeting the goals of its major stakeholders, and as a subset of organization's all-inclusive concept of effectiveness, respectively.

Over the years, the questions here have been: how should OP best be measured? What indicators can help monitor OP? According to Wood (2006), most academia and practitioners utilize accounting (financial)-based measurement (e.g, Return on Investment, Return on Assets, Earnings per Share, turnover, and Number of Customers).

However, Feng, Terziovski, & Samson (2008) argued that the greater domain of OP covers also market share, sales growth, profitability, marketing and financial aspect. This argument aligned well with that of Venkatraman & Ramanujam (1986) when they opined that a broader conceptualization of OP would recognize or incorporate, in addition to financial performance, non-financial (i.e., operational performance) indicators or measures, as market-share value, new product line introduction, product quality improvement, marketing effectiveness, manufacturing value-added, and technological efficiency.

2.3 CORPORATE ETHICAL CULTURE (CEC) IN ORGANIZATIONS.

In the past, different studies have used different terms for CEC. Examples are: Organizational Ethical Culture, Business Ethical Culture, Perceived Ethical Culture, Ethical Culture, etc (Chadegani & Jari, 2016). Studies like Bayraktaroğlu & Yılmaz (2012) and Al-Tarawneh (2020) both used the term *Business Ethics*. Ahmed, Aluku, & Mustafa (2021) rather used the term - *work Ethics*. However, researches on this subject, according to Chadegani & Jari (2016), are gradually drifting from the definition of terms and concepts, to putting up 'dimensional' and 'multidimensional' metrics or models for measuring and/or valuing CEC among HR.

As cited in Chadegani & Jari (2016)**,** Hunt, Wood, & Chonko (1989) explain CEC as the composite of the individual HR's ethical values, and both the formal and informal policies of organization. Ardichvili, Mitchell, & Jondle (2009) in Chadegani & Jari (2016) defined 'Business Ethical Culture' as the ability or expectation of individual HR to distinguish or judge 'right' from 'wrong', and concomitantly be capable of going beyond the minimum expectations to implement ethical behaviours and decisions. Chadegani & Jari 2016 on their own defined CEC as the aspect of the organizational culture having two dimensions: promoting ethical conducts, and preventing unethical conducts.

Generally, the literature critically reviewed by this research, on the subject of C.E.C, revealed one common belief: that when CEC are strongly upheld and shared by the HR of organizations, there could be an enhanced organizational performance/success. That is to say, organizations with HR that upheld strong C.E.C could outperform organizations with HR that are weak in C.E.C compliance (Amah, Nwuche, & Chukwuigwe 2013). Hence, C.E.C has been proven, even by prior researches (e.g Denison, 1990 cited in Chadegani & Jari, 2016), to be a suitable and veritable tool organizations can utilize for improving performance/success, vis-à-vis directing HR in achieving organizational goals.

2.4 RELATIONSHIP BETWEEN CEC AND OP.

A study of 489 private companies - that are published in 2008 Fortune Magazine's *Fortune 500 Turkey*, found a high positive correlation (r = 0.77) between ethics practices in HR Management (HRM) and OP (Bayraktaroğlu & Yılmaz, 2012).

Ombanda & K'Obonyo (2019) and James (2002) shared similar position when they both pointed how unethical HR practices can cause serious legal, societal and HR behavioural problems that can effect organizations negatively in many ways: high rates of HR turnover, negative goodwill or reputation, and increased litigation costs.

Buckley et al (2001) referred to this *unethical practices* as *unethical cultures*, and posited that they can become a 'crisis', because they may bring to fore attitudes that are 'antithetical' to organizational vision. That study identified the possible consequences of unethical cultures as: Cynicism; destructive politics; workplace aggression and violence.

There are other research evidences to prove that HR with greater and strong CEC compliance could be valued highly. Buckley et al (2001) cited Fombrun, 1996; Belkaoui & Pavlik, 1992; and Harrell-Cook & Ferris, 1997, to have found that greater organizations with HR that are strong in ethical culture and compliance can benefit from greater stock price valuation in the capital and other investment markets. According to these studies, HR that are strong in ethical cultures and compliance send the signal of a well managed organization, appreciable investment in human assets, and give the positive reputation of doing well in all parameters.

3.0 METHODOLOGY.

3.1 GENERAL DEMOGRAPHIC DISTRIBUTION.

3.1.1 Companies' Location.

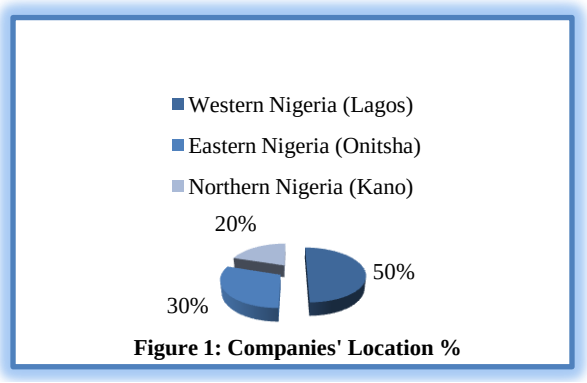

Figure 1: Companies' Location %

Figure 1 shows that the three major regions (West, East, and North) of the country, Nigeria, are well represented in the case companies selected for this study. This was done to see if geographical peculiarity could alter the trend of responses and overall result. It revealed that half (50%) of the total respondents are situated in the biggest commercial city and market in Nigeria, Lagos (west); 30% are in the biggest commercial city in the east, Onitsha; and 20% are located in the biggest commercial city in the north, Kano.

3.1.2 Respondents' different sectors %

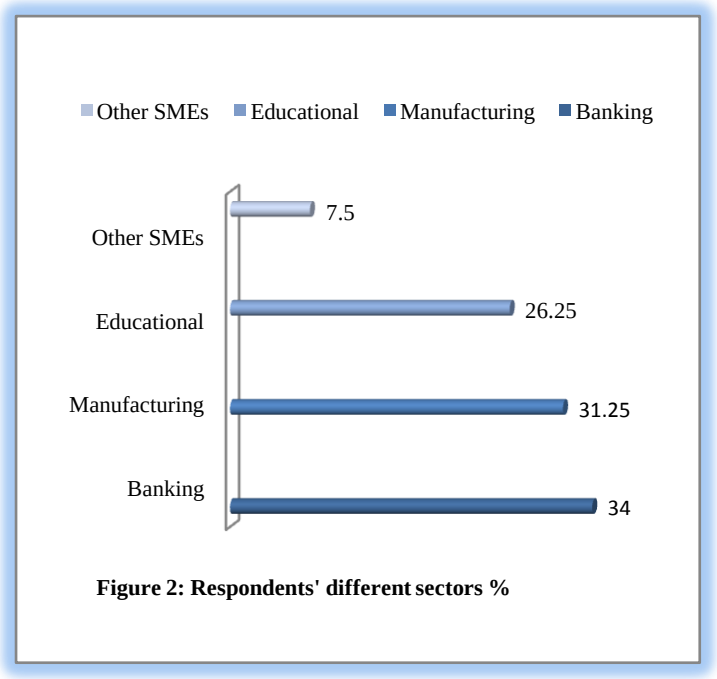

Figure 2: Respondents' different sectors %

As depicted in **figure 2**, 34% of respondents are from organizations in the *Banking Sector, 31.25% are* from organizations in the *Manufacturing Sector;* 26.25% are from organizations in the *Educational Sector, and* 7.5% are from *Other Small and Medium-Scale Enterprises (SMEs).*

3.1.3 Level of Experiences %

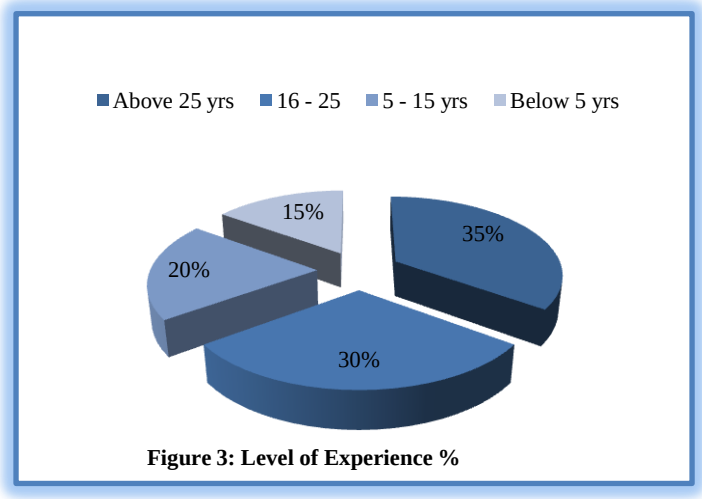

Figure 3: Level of Experience %

Figure 3 shows that the majority of the respondents are well experienced on the job, with 35% of them having over 25 years experience; 30% have between 16 – 25 years of experience; 20% have between 5 – 15 years on the job; and 15% are relatively new (i.e, below 5 years) on the job.

3.1.4 Educational History %

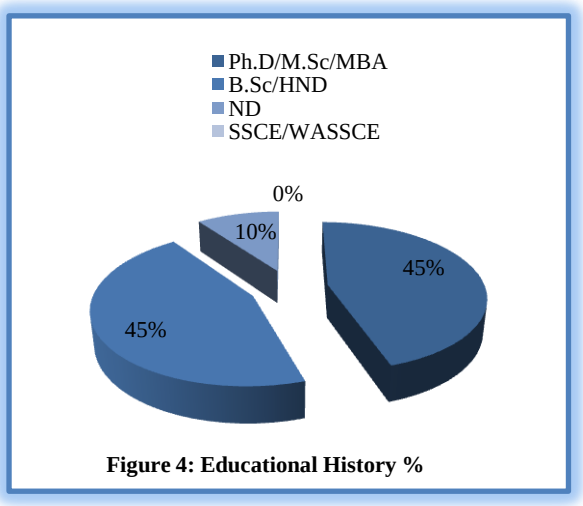

Figure 4: Educational History %

The data analyzed by **Figure 4** indeed attest that the majority of the respondents are of a managerial position and/or heads of departments, with about 90% having a minimum of B.Sc/HND: 45% having postgraduate qualifications (Ph.D/M.Sc/MBA), and 45% having degree or higher diploma level qualification (B.Sc/HND). Only 10% have a diploma level (ND) qualification. None (0%) have a secondary school level qualification (SSCE/WASSCE).

3.2 DATA ANALYSIS AND TEST OF HYPOTHESIS

Questionnaires were the main source of data collection. These were sent to the 100 sample respondents (that are of varied sectors as depicted in Figure 2 above, and are staff of Managerial cadre, and/or designated within the Human Resources Department of their respective organizations) via the combination of physical delivery, proxy, and mail. 80% retrieval rate was recorded in all. The chief of the close-ended questions in there, which is of greater paramount for this study, is: *'there is a significant relationship between CEC compliance by HR and Organizational Performance?'*

Figure 5 below shows how the respondents answered across the different sectors selected:

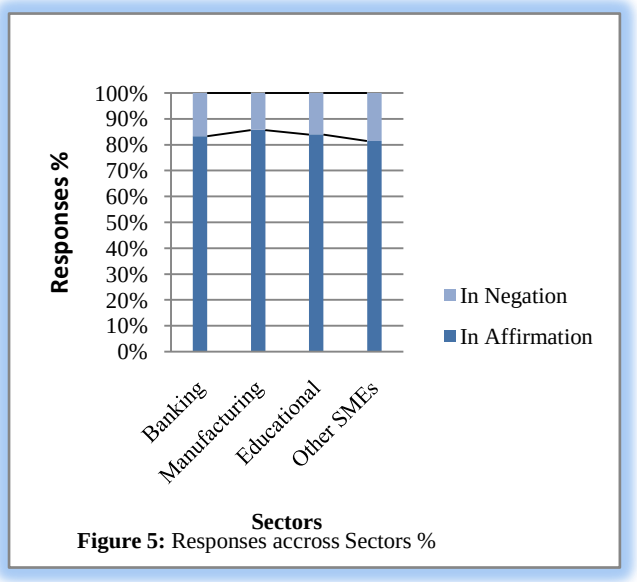

Figure 5: Responses accross Sectors %

The data collected were vital in the test of the main hypothesis: $\mathbf{H_o}$: *There is no significant relationship between C.E.C compliance by HR and Organizational Performance.* The test of hypothesis was carried out using SPSS (V. 25)'s One-Way ANOVA, so to equally help to test for any significant difference in the responses of respondents across their different sectors. The results of this test are better presented in the tables below:

Table 1. One-way Descriptive table that provide useful descriptive statistics

Responses

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Banking	2	3.0000	2.82843	2.00000	-22.4124	28.4124	1.00	5.00
Manufacturing	2	10.5000	10.60660	7.50000	-84.7965	105.7965	3.00	18.00
Educational	2	12.5000	12.02082	8.50000	-95.5027	120.5027	4.00	21.00
Other SMEs	2	14.0000	11.31371	8.00000	-87.6496	115.6496	6.00	22.00
Total	8	10.0000	8.75051	3.09377	2.6844	17.3156	1.00	22.00

Table 1 provides a useful description of data, including the mean, standard deviation and 95% confidence interval for the responses for each distinct sector, as well as the total sectors (Banking, Manufacturing, Educational, and Other SMEs).

Table 2. ANOVA Analysis

Responses

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	143.000	3	47.667	.485	.711
Within Groups	393.000	4	98.250		
Total	536.000	7			

Table 2 tests for significant difference between the means across sectors. The analysis reveals a significant value (p value) of 0.711, and f value of 0.485. With P › 0.05, it entails a statistically insignificant difference in the mean of responses between the different sectors.

Table 3. Post Hoc Tests' Multiple Comparisons

Dependent Variable: Responses

Tukey HSD

(I) Sectors	(J) Sectors	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Banking	Manufacturing	-7.50000	9.91211	.870	-47.8508	32.8508
	Educational	-9.50000	9.91211	.779	-49.8508	30.8508
	Other SMEs	-11.00000	9.91211	.704	-51.3508	29.3508
Manufacturing	Banking	7.50000	9.91211	.870	-32.8508	47.8508
	Educational	-2.00000	9.91211	.997	-42.3508	38.3508
	Other SMEs	-3.50000	9.91211	.983	-43.8508	36.8508
Educational	Banking	9.50000	9.91211	.779	-30.8508	49.8508
	Manufacturing	2.00000	9.91211	.997	-38.3508	42.3508
	Other SMEs	-1.50000	9.91211	.999	-41.8508	38.8508
Other SMEs	Banking	11.00000	9.91211	.704	-29.3508	51.3508
	Manufacturing	3.50000	9.91211	.983	-36.8508	43.8508
	Educational	1.50000	9.91211	.999	-38.8508	41.8508

As a way to validate the result of table 2, this **table 3** further tests if; any specific sector differed from each other. The table revealed that the responses obtained from the banking sector is statistically not different from that obtained from the *manufacturing sector* (p = 0.870); responses obtained from the banking sector is statistically not different from that obtained from the *educational sector* (p = 0.779); responses obtained from the banking sector is statistically not different from that obtained from the *other SMEs* (p = 0.704); and *etcetera*.

Table 4. Homogeneous Subsets
Responses

Tukey HSD[a]

Sectors	N	Subset for alpha = 0.05 1
Banking	2	3.0000
Manufacturing	2	10.5000
Educational	2	12.5000
Other SMEs	2	14.0000
Sig.		.704

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 2.000.

Table 4 above demonstrated which sector have similar or different mean. However, p(0.704) › 0.05 means that none of the sectors have a significant different mean of responses from the other.

4.0 DISCUSSION AND CONCLUSIONS.

From the one-way ANOVA table 2, the analysis $F(3,4)$ reveals the significance value (i.e., p = 0.711) to be greater than 0.05, and this tells us that there is no statistically significant difference in the mean of responses across the different sectors of organizations. This decision is corroborated by the *Multiple Comparison Table* above - that shows the results of *Turkey Post hoc test*, and test if any specific sector differed in their responses. The range of their P value (from *p = 0.704 – 0.999*), affirmed that they were no statistically significant differences between the responses of all the sectors. With no significant difference reported by this analysis, the test of *effect size* may be irrelevant, thus will be ignored. Hence, we reject the null hypothesis, and accept the alternative hypothesis that state: '*there is significant relationship between C.E.C compliance by HR and Organizational Performance.'*

The above result and finding is consistent with the research findings of Jin & Drozdenko (2010), Eskandari & Irandust (2016), Akhavan, Ramezan, Moghaddam, & Mehralian (2014), Quraishi & Krishna (2020), Al-Tarawneh (2020), Ombanda & K'Obonyo (2019), Buckley et al (2021), Ahmed, Aluku, & Mustafa (2021), and Bayraktaroğlu & Yılmaz (2012).

5.0 CONTRIBUTION AND RECOMMENDATIONS.

This research has already established the place of CEC compliance by HR in fostering organizational performance. Little wonder why Buckley et al (2001) cited Hosmer (1994) when he concluded that *'Ethics do pay.'* Thus, it is based on the findings of this research that the following contribution and recommendations were put forth:

1. The recognition of CEC compliance-ability of HR in the valuation process of HR. But the question remained: how can CEC-compliance-ability be measured, for inclusion in HR valuation? This study proposed this metric for HR CEC-compliance-ability measurement, and incorporation into HR valuation models:

$$\mathbf{HR_{VCEC} = HR_{(VModel)} \times P_{CEC}(N_1 + N_2 + N_3 \dots N_n),} \qquad (5)$$

Where:
$\boldsymbol{HR_{VCEC}}$ = Human Resource valuation after incorporating CEC-ability,
$\boldsymbol{HR_{(VModel)}}$ = HR value as per chosen or adopted HR valuation model,
$\boldsymbol{P_{CEC}}$ = the probability of HR complying with CEC for the period HR stays within the organization,
$\boldsymbol{N_1 + N_2 + N_3 \dots N_n}$ = the period HR stays before resigning, retiring, or taken out by other eventualities, e.g death.

This research suggests that, data on P_{CEC} can be obtained reliably, by including a section for CEC compliance rating (maybe at the scale of 10) in the confidential and formal request sent to HR's former employer(s) for *Employer's Rating*.

The main implications of this proposed metric are:

a. HR that have records of unethical behaviours, that could be inimical to the organization, would have a relatively decreased valuation, irrespective of his/her technical competencies;
b. HR with better records of ethical behaviours (CEC compliance ability) would have a better and relatively full valuation;
c. academia and practitioners are offered the choice to choose from the already existing HR valuation models for this valuation; and
d. ultimately, that CEC compliance ability has been recognized in the valuation process.

2. Organizations should create an extra unit or department that will be called: *CEC Unit/Department*. This unit/department should be saddled with the responsibility of handling, policing, or monitoring ethical matters as it affects organization, HR, and the surrounding environment. The unit/department will also help to increase emphasis on its HR's CEC compliance as a veritable and effective tool for competitive advantage, and for improving organizational general performance. Also, this is the unit/department that should assist the organization in obtaining data on P_{CEC}, and feeding other organizations with similar data about its past HR.

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