

EFFECT OF STAFF TRAINING AND DEVELOPMENT ON RETURN OF CAPITAL OF LISTED MONEY DEPOSIT BANKS IN NIGERIA

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ABSTRACT

The study examined the effect of staff training and development effect on return capital of listed deposit money bank in Nigerian Exchange group. The ex post facto research design was adopted for the study with population of 13 listed deposit money banks on the Nigeria Exchange group in 2023. The study was census in nature, Date was retrieved from the annual reports of the deposit money banks for the period 2015 to 2021. Multiple regression analysis was used to analyzed the data. The study revealed a negative and significant relationship between staff training and development cost. The study concluded that there is a significant effect on human capital investment and financial performance of listed deposit banks in Nigeria. The study recommended that director and manager of listed deposit money banks should critically evaluate their human capital investment to identify areas where additional investment is needed to promote efficiency.

Keywords: Staff Training and Development, Return of Capital, Financial Performance

INTRODUCTION

The relationship between human capital investment and the financial performance of deposit money banks in Nigeria presents a significant area of concern and investigation. While human capital is recognized as a valuable asset in organizations, including banks, the specific impact of human capital investment on the financial performance of deposit money banks in Nigeria requires further exploration and analysis.

The problem lies in the need to understand the extent to which investments in human capital, such as training, development, and retention initiatives, affect the financial outcomes of deposit money banks in Nigeria. The Nigerian banking industry operates in a dynamic and competitive environment, characterized by evolving customer demands, technological advancements, and changing regulatory frameworks. These factors necessitate a deeper understanding of the specific mechanisms through which human capital investment affects financial performance in deposit money banks.

Some deposit money banks in Nigeria lack comprehensive and effective training and development programs for their employees. This can hinder the acquisition of essential skills and knowledge needed to meet the evolving demands of the banking industry. Also, inefficient recruitment and selection processes can result in the hiring of

individuals who may not possess the necessary qualifications, competencies, or cultural fit for the bank. This can lead to suboptimal human capital utilization and hinder the achievement of desired financial outcomes.

Furthermore, weak performance management systems that lack clear goals, regular feedback, and recognition mechanisms can hinder employee development and motivation. This can negatively impact individual and organizational performance, ultimately affecting financial outcomes. Some deposit money banks in Nigeria overlook the importance of diversity and inclusion in their human capital investment strategies. Failing to foster an inclusive workplace environment can lead to reduced innovation, limited perspectives, and decreased employee engagement and productivity. These problems have been the discussion among scholars and researchers alike in the area of human capital investment, cost and accounting. Addressing these problems and implementing effective human capital investment strategies can contribute to the improved financial performance and overall success of deposit money banks in Nigeria. There are limited research and empirical evidence that specifically focuses on the relationship between human capital investment and financial performance in the context of deposit money banks in Nigeria. While studies exist on human capital investment in general (Etable et al., 2016; Edom et al., 2015; Inua & Oziegbe, 2018; Adewole et al., 2019; Ifurueze et al., 2014; Kharal et al., 2014; Perera & Thrikawala, 2012; Al-Sharafat 2017; Iqbal, 2013; Vizano et al., 2020), there is a need for research that specifically examines the unique dynamics and challenges within the Nigerian banking sector. By exploring this relationship, the study aims to fill the existing research gap and provide insights into the strategies and practices that can optimize human capital investment and drive financial success in the Nigerian banking sector. Therefore, this study will empirically examine the effect of human capital investment on financial performance of listed deposit money banks in Nigeria.

Hypothesis

Ho₁: There is no significant effect of staff training and development cost on return on capital employed of listed deposit money banks on the Nigerian Exchange Group.

Training and Development Cost

Measurement of cost and value of the people to organizations is highly important, costs incurred in training and development of employees along with their economic values are very much relevant for Human Resource Accounting (Ndum & Oranefo, 2021). Investment in training and development is desirable from both personal and social perspective. From the organizational level, human capital plays an important role in the strategic planning on how to create competitive advantages. This view is supported by Obulor and Ohaka, (2020) who opined that a firm's human capital has two dimensions which are value and uniqueness. The firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of effective management, value focuses on increasing profits in

comparison with the associated costs. In this sense, the firm's human capital can add value if it contributes to lower costs, thereby leading to increased workers' performance. Staff training and development are seen as expenditures incurred on staff or employees for capacity building in order to maximize performance (that is profit). It is also seen as the most important formation of any competent management. Capacity building entails investment in human capital, institutions and practices necessary to enhance human skills, overhaul institutions and improves procedures and systems (Nangih, et al., 2020).

Training and development increase the overall performance of the organization (Shepard & Robert, 2003). Although it is costly to give training to the employees but in the long run it gives back more than it took (Flynn et al., 1995). Every organization should develop its employees according to the need of the time so that they could compete with their competitors (Carlos, 1995). Employees aren't 100 percent productive from the moment they start. So, it's necessary to invest time and resources for training, and development.

Return on Capital Employed

Return on capital employed (ROCE) is a financial ratio that is used in assessing a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use. The ROCE ratio is one of several profitability ratios financial managers, stakeholders, and potential investors may use when analyzing a company for investment (Hayes, 2021). According to Singh and Yadav (2013) return on capital employed is a measure of efficiency of management in the application or use of the organization's funds or resources in a given financial period. It is a financial ratio that can be used in assessing a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use (Hayes, 2021).

Furthermore, Hayes (2021) opined that return on capital employed is a measuring tool that measures the efficiency and profitability of capital investments undertaken by a corporation. Return on capital employed ratio also indicates whether the company is earning sufficient revenues and profits in order to make the best use of its capital assets. High return on capital employed is a validation of a company's competitive advantage. It indicates that the company has something special to offer -products or services that command a high return. Return on capital employed compares a company's earnings from its primary operations with the capital invested in the company and can serve as a reliable measure of corporate performance (Bourne & Bourne, 2011). Return on capital employed is used to prove the value the business gains from its assets and liabilities. Companies create value whenever they are able to generate returns on capital above the weighted average cost of capital (WACC) (Fernandes, 2014).

The term 'Return' means the profits available. Thus, the return on capital employed ratio points out the relation between the volume of capital invested and the amount of

profits earned on such capital. Speaking otherwise, this ratio explicit the profitability of a firm by establishing relationship between profits and capital invested. It is probably one of the most frequently used ratios for assessing performance of organizations. Return on capital employed, a member of the Return on Investment ratio, can be determined taking profits and capital employed of a given firm. Return on capital employed highlights the earning potentiality of a firm's assets indicating the nature of profit earning capacity of a firm in response to its long-term sources of capital employed in the acquisition of its assets. It provides substantial clues to the nature of utilization of long-term funds made available to the firm by owners and creditors. It also helps in evaluating how efficiently the funds are being managed by the management. The higher the ratio, the more efficiently the funds have been used by the management. In other words, a high return on capital employed achieved for a consecutive year indicates that the firm has a stable financial position with sound future prospect. Return on capital employed provides an indication of the economic productivity of capital. Thus, it provides a standard measure of operating efficiency, which is very often applied regardless of the type of business or subdivision within a single organization in as much as it is not affected by the long-term capital structure and other factors external to the influence and immediate management (Hayes, 2021).

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It is express mathematically as

$$\text{ROCE} = \frac{\text{Earnings Before Interest \& Tax}}{\text{Capital Employed}} * 100$$

There are two components required to calculate return on capital employed: earnings before interest and tax and capital employed.

EBIT, also known as operating income, shows how much a company earns from its operations alone without regard to interest or taxes. EBIT is calculated by subtracting the cost of goods sold and operating expenses from revenues.

Capital employed is very similar to invested capital, which is used in the ROIC calculation. Capital employed is found by subtracting current liabilities from total assets, which ultimately gives you shareholders' equity plus long-term debts. Instead of using capital employed at an arbitrary point in time, some analysts and investors may choose

to calculate ROCE based on the average capital employed, which takes the average of opening and closing capital employed for the time period under analysis (Hayes, 2021).

Agency Theory

The proponents of the agency theory are Jensen and Meckling in 1976. This theory involves the principal (shareholder) and the agent (management). As opined by Jensen and Meckling (1976), an agency relationship occurs when the principal delivers decision-making authority to an agent to perform some services on the behalf of the principal. Shareholders (and debt holders) act as principals in seeking to obtain maximum utility from the actions of management (who serve as the agents).

However, both parties in the relationship are utility maximizers and it is reasonable to believe that the managers will not always act in the best interests of the shareholders but will pursue self-interest creating the agency problem. As a result of having conflicting aspirations, both shareholders and managers incur monitoring and bonding costs respectively, known as agency costs. Ross (1973) identified the main agency problem in an economic situation as that of reaching a compromise by agents or managers and principals or owners on the compensation system that could pattern the behavior of agents to be consistent with the preference of the principals. Such process often results into conflict between the parties due to inadequate incentive to transparently trust each other to promote their shared interest. Thus, the origin of information asymmetry between the parties. In the context of the current study, agency theory expounds the consolidated benefit of spending to sustain desired quality of human resource and showing same on the annual financial report of business organizations, as a means of lowering the conflict of interest often caused by information discrepancies between principal or owners and their agent or managers. Specifically, the more the engagement in HR expenditure and disclosure in the financial report by a firm, the greater the expected cooperation between its shareholders and managers, the wider its scope of acceptability by variety of users, and the better its outlook in the capital market. Therefore, investing in human resource and disclosing same in the annual financial report can in turn attract more fund from the capital market to the management for business stability and further expansion. As incentive to the management, The higher human capital disclosure by firms, the narrower the information asymmetry, the lower the agency cost, and in turn the more investment from the capital market (Uyar & Kiliç, 2012).

This theory was corroborated by various researchers (Darussamin et al., 2018, Alotaibi, 2014, Walid & Ameer, 2013). This theory is relevant to this study because it highlighted the issue of agency cost and how best it can be address for enhanced financial performance. Therefore, investing in human resource and disclosing same in the annual financial report can in turn attract more fund from the capital market to the management for business stability and further expansion.

Results

Test of Hypothesis 1

Ho₁: There is no significant relationship between staff training and development cost and return on capital employed of listed deposit money banks on the Nigerian Exchange Group.

Regression on the relationship between staff training and development cost and return on capital employed.

No. of observation =						
50						
F(4, 45)= 21.03						
Prob> F = 0.0000						
R-squared =						
0.0705						
Root MSE= 21.753						
roce	Coefficient	Robust Standard Error	T	P> t	[95% Conf. Interval]	
Sc	-1.32e-07	7.80e-08	-1.70	0.097	-2.90e-07	-2.12e-08
Stdc	-.0024565	.0035387	-0.69	0.491	-	.0046709
fs	.0008349	.0000976	8.55	0.000	.0006382	.0010315
Constant	-.2650433	2.956831	-0.09	0.929	-	5.69032
					6.220406	

Source: output from STATA version 12

Table above shows the regression result on staff training and development cost and return on capital employed. The table revealed the existence of a negative and insignificant relationship between staff training and development cost and return on capital employed of listed deposit money banks on the Nigerian Exchange Group (p-value= 0.491). It means that a 1% increase in staff training and development cost will bring about a 0.0024565% decrease in return on capital employed all other variables held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant relationship between staff training and development cost and return on capital employed of listed deposit money banks on the Nigerian Exchange Group."

Staff training and development cost and return on capital employed.

The study revealed the existence of a negative and insignificant relationship between staff training and development cost and return on capital employed of listed deposit money banks on the Nigerian Exchange Group (p-value= 0.491). This finding is in line

with the finding of Ofurum and Adeola (2018) that revealed no significant relationship between Human Resource Accounting and the profitability of quoted firm.

This finding is in contrast with the finding of Abomaye-Nimenibo et al. (2018) that revealed organizational staff training, organizational staff development and organizational staff education programmes exhibited significant relationship with organizational survival. It further disagrees with the finding of Perera and Thrikawala (2012) that revealed a significant relationship between investment in human capital and firm financial performances. This finding is supported by the human capital theory.

CONCLUSIONS

Management of human capital in any organizations is very much important from accounting point of view. Valuation of human capital investment, recording the valuation in accounts and fair disclosure of such information in financial statements are the demand of the stakeholders in the context of enhancing managerial performance and employees' productivity (Krishna et al., 2018). Accounting for human capital investment in deposit money banks in Nigeria involves recognizing and measuring the costs and benefits associated with investments in developing and enhancing the knowledge, skills, and abilities of employees.

A negative but significant between staff training and development cost, return on asset and return on capital employed of listed deposit money banks, and that the moderating effect of firm size on the relationship between human capital investment and financial performance is not statistically significant.

RECOMMENDATIONS

The following recommendations are made in respect to the findings of the study

- i. Director and managers of listed deposit money banks should critically evaluate their human capital needs to identify areas where additional investment is needed to promote efficiency.
- ii. Deposit money banks should imbibe the culture of training and development of employees to ensure sustainability of its financial performance.
- iii. Deposit money banks should not be limited by the size of their work force but should carry out human resource investment as it revealed in the study that firm size measure by number of employees do not significantly moderate the relationship between human capital investment and financial performance.

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