

TRAINING AND DEVELOPMENT COST AND NET PROFIT MARGIN OF LISTED INDUSTRIAL GOODS MANUFACTURING FIRMS IN NIGERIA

Okpolosa Matthew Onyebuchi (PhD)

Department of Accounting, Faculty of Management Sciences

Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Rivers State, Nigeria.

Email: Onyebuchi,okpolosa55@gmail.com

ABSTRACT

The study was to determine the relationship between training and development cost and net profit margin of listed industrial goods manufacturing firms in Nigeria. The theory underpinning this study is Human capital theory. Ex-post facto research design was considered suitable for the study. The population of this study was thirteen (13) industrial goods manufacturing companies listed on Nigeria Exchange Group. Sample size of ten (10) firms representing about 76% (percent) of listed industrial goods firms in Nigeria was obtained. The non-probability sampling technique was adopted in this study. The findings of this study showed that; Employee training and development costs showed positive and significant relationship with net profit margin. The study concluded that employee training and development costs have a significant positive relationship on return on assets, indicating that investments in enhancing employee skills and capabilities lead to improved asset utilization efficiency. Firms should strategically allocate resources towards enhancing employee training and development programs.

Keywords: Training, Development, Cost, Net Margin, Financial Performance

INTRODUCTION

Organizations depend on their employees as their primary strength. The value of employees is not always adequately represented in the financial statement of an organization. The success or failure of an organization depends on how well the scarce physical resources are utilized by the human resource, which is human capital. Shareholders equity, employee on human and physical assets are expected to generate revenue. According to the classical economist, there are four factors involved in production: money, machines, materials and people. Human capital (men) is one of those assets. An organization's statement of financial position recognizes the first three, but does not include the fourth M (men). Intangible and tangible assets are the two types of assets that are recognized in every organization's financial statement (Brummet, 1970). In the statement of financial position, physical assets are treated as just two (2) non-current and current assets, while human assets are excluded. Non-current assets include goodwill, patents, copyrights, etc. A company's human capital is not taken into account at all. Physical assets includes assets such as motor vehicles, generators, plants and machineries, furniture and equipment are also included in this category. Cash and other bank accounts, stocks, debtors. prepayments are also included as current assets (Anuonye, 2015). Human resource accounting aims to measure the benefits of human resource costs, but conventional accounting does not attempt to quantify them. It can only acknowledge the worth of human resources as a form of benevolence, it treats them as a one-time expense and charges them against current-period revenue, causing income measurement to be distorted. The impact of categorizing human resource costs as expenses is that expenses are inflated and current profit is underrepresented. By eliminating the most significant asset, the human asset, the investment base is undervalued, causing return on investment measures to be distorted. A company is only as good as its employees, and human capital costs is a significant factor for many organizations. Although it is widely acknowledged that establishing a talented and committed workforce is critical for success, the cost of labour is frequently viewed as a financial strain on the company and a detractor from business outcomes. But what exactly do we mean when we say that the impact of labour costs and

productivity is critical on financial outcomes? We simply mean that labour costs and productivity are not evaluated in terms of generating bottom-line efficiencies for the company. In the new data-driven era, we can use algorithms to understand human capital efficiencies and advise management on how to change or improve human capital decisions that ultimately affect financial outcomes. Concerning the importance of labour efficiencies, it is critical to understand why this variable is frequently the difference between a mediocre business and a thriving organization.

Research Hypothesis

HO₁: There is no significant relationship between employee training and development cost and net profit margin of listed industrial goods manufacturing firms in Nigeria

Employees Training and Development Cost: Employees training and development cost is a payment made to assist employees in learning a specific skill as well as knowledge in order to improve their productivity and performance in their current organization or job role. It improves future performance and assists in focusing on more employee growth. Companies with an effective training and development programme and process can retain more employees, increase profitability, and have more engaged employees. Furthermore, it assists the organization in avoiding the costs associated with talent loss.

Employee skill development and training are courses designed to help people develop skills that will be useful in their jobs (Blundell *et al.*, 1999; and LI, 2014). According to Huselid (1995), employees' improvement practices in an organization have an economic and statistical impact on intermediate employee outcomes and financial performance measures. Human asset investment in the firm is a strategy for achieving high performance and productivity (LI, *et al.*, 2014). Investment in human capital has a significant impact on the three performance metrics of survival, profits, and generated employment (Bosman *et al.*, 2004). It is widely assumed that an organization's survival and success are dependent on employees' reactions to their work activities, which is the goal of achieving the firm's mission and strategy (Collins and Smith, 2006). Previous human resource researchers contended that companies can effectively influence employee behaviour through various human resource practices (Huselid, 1995). Collins and Smith (2006) tested a theory on how human resources can influence organizational social climate conditions by facilitating knowledge management and firm performance in their study. According to Collins and Smith (2006), commitment in human resource practices, organizational social climate, and exchanged knowledge lead to higher revenue by improving sales in manufacturing firms, which in turn increases firm performance and growth. Currently, it is widely agreed that training is an important tool for assisting companies in developing competitive advantages based on their human resources in order to maintain their sustainability (Aragon-Sánchez *et al.*, 2003).

There is a link between organizational performance and human resource strategies that outline investing in human capital; researchers have outlined human resource incentives such as employee training and job security that pays and builds trust by encouraging employee commitment (Batt, 2002; and Huselid, 1995). According to Huselid (1995), an increase in market performance and financial performance is related to human capital, which is the combination of employees' knowledge, skills, and capabilities to succeed at work. As a result, the researchers clearly indicate that brand value and human capital are the most important assets in companies, and management should invest in these assets to ensure the company's sustainability.

Net Profit Margin: The net profit margin, also known as the net margin, is a percentage of revenue that measures how much net income or profit is generated. It is the ratio of a company's or business segment's net profits to revenues. Net profit margin is commonly expressed as a percentage, but it can also be expressed in decimal form. The net profit margin shows how much of a company's revenue is converted into profit per dollar of revenue collected.

A net profit margin of more than 10% is generally considered excellent, though this varies depending on the industry and business structure. When combined with the gross profit margin, you can calculate the total amount of selling, general, and administrative expenses (which are located on the income statement between the gross margin and the net profit line items).

The net sales part of the equation is gross sales minus all sales deductions, such as sales allowances.

The formula is:

$(\text{Net profits} \div \text{Net sales}) \times 100 = \text{Net profit margin}$

The net profit margin is affected by a number of factors, including the following:

- **Comparability:** This is because inventory turns over so quickly in one industry, such as groceries, a low net profit margin may be acceptable. In other industries, on the other hand, a high net profit margin may be required just to generate enough cash flow to buy fixed assets or fund working capital.
- **Leverage Situations:** A company may prefer to grow through debt financing rather than equity financing, in which case it will incur significant interest expenses, reducing its net profit margin. As a result, a financing decision affects the net profit margin.
- **Accounting compliance:** A company may accrue revenue and expense items to meet various accounting standards, but this may result in an inaccurate picture of its cash flows. As a result, even if cash flows are high a large depreciation expense may result in a low net profit margin.
- **Non-operating items:** The presence of unusually large non-operating gains or losses can significantly skew the net profit margin. For example, a large gain on the sale of a division could result in a large net profit margin even if the company's operating results are poor.
- **Focus on the short term:** In order to increase the net profit margin, company management could deliberately cut back on expenses that impair the company's ability to compete in the long run such as equipment maintenance, research and development and marketing. These are referred to as discretionary expenses.
- **Taxes:** A company's net profit margin can be increased if it can apply a net operating loss carry forward to its before-tax profits. Alternatively, management could try to accelerate the recognition of non-cash expenses in order to reduce the amount of tax liability that must be recorded in the current period. As a result, a specific tax-related scenario can have a significant impact.

The relationship between employee training and development cost and net profit margin

Employee training and development costs can exert a significant influence on net profit margin by enhancing employee skills, productivity, and satisfaction, ultimately contributing to improved operational efficiency, reduced turnover rates, and increased customer satisfaction, thereby positively impacting the bottom line. Employee training and development costs are a critical investment for businesses, as they directly contribute to the skill enhancement and professional growth of employees (Newstyle & Major 2022). By providing comprehensive training programs, companies can equip their workforce with the necessary knowledge and competencies to perform their roles effectively. This leads to improved productivity levels, as employees become more adept at their tasks and are better equipped to handle challenges efficiently. Additionally, investing in employee development fosters a culture of continuous learning and innovation within the organization, which can result in the generation of new ideas and solutions to improve processes and products.

Moreover, employee training and development initiatives play a crucial role in employee retention and satisfaction. When employees perceive that their company is invested in their growth and development, they are more likely to feel valued and engaged in their work. This, in turn, reduces turnover rates and associated costs such as recruitment and onboarding expenses. Furthermore, a skilled and satisfied workforce is better equipped to deliver high-quality products and services,

leading to increased customer satisfaction and loyalty. From a financial perspective, while the upfront costs of training and development programs may seem substantial, they can yield significant long-term benefits for the organization's bottom line (Xiao-Bing et al., 2021). Improved employee performance and efficiency directly contribute to cost savings through reduced errors, waste, and operational inefficiencies. Additionally, highly skilled employees are better positioned to identify opportunities for process improvements and innovation, which can further enhance the company's competitiveness and profitability. Overall, the relationship between employee training and development costs on net profit margin is multifaceted. While these investments may initially impact profitability, the long-term benefits in terms of enhanced employee performance, retention, customer satisfaction, and operational efficiency can ultimately lead to a positive impact on the bottom line (Olaoye & Afolalu 2020). Therefore, businesses should view training and development expenditures as strategic investments that contribute to sustainable growth and success.

Employee training and development costs play a crucial role in shaping the net profit margin of a company in various ways. Firstly, investing in employee training and development enhances the skills and competencies of the workforce, thereby improving their overall performance and productivity. When employees are well-trained and equipped with the necessary knowledge and skills, they can carry out their tasks more efficiently and effectively, leading to increased output and reduced operational costs. This improvement in productivity directly contributes to higher revenues and profitability. Moreover, employee training and development initiatives contribute to employee engagement and job satisfaction. Employees who feel supported by their organization through opportunities for learning and growth are more likely to be motivated and committed to their work (Rufus et al. (2022). This increased job satisfaction can lead to lower turnover rates and associated costs, such as recruitment and training expenses for new hires. Furthermore, engaged employees are more inclined to go the extra mile to provide exceptional service to customers, leading to enhanced customer satisfaction and loyalty.

Additionally, investing in employee training and development can result in innovation and process improvements within the organization. Well-trained employees are better equipped to identify inefficiencies in existing processes and suggest innovative solutions to address them. This culture of continuous improvement can lead to cost savings, increased operational efficiency, and a competitive edge in the market, all of which positively impact the company's bottom line. However, it is essential to consider the upfront costs associated with employee training and development programs (Nwauzor & Longjohn 2020). These costs may include expenses related to training materials, instructor fees, and employee time away from regular duties. In the short term, these costs may impact the company's net profit margin. However, it is crucial to view these expenses as long-term investments in the company's human capital and future success. While employee training and development costs may initially impact the net profit margin of a company, the long-term benefits far outweigh the upfront expenses. By investing in the skills, knowledge, and engagement of employees, companies can improve productivity, reduce turnover, enhance customer satisfaction, and drive innovation, all of which contribute to a healthier bottom line in the long run. Therefore, businesses should prioritize employee training and development as a strategic investment in their future growth and success.

Human-Capital Theory

Human capital theory is defined as a modern extension of Adam Smith's explanation of wage differentials by the so-called net (dis) advantages between different employments by the Dictionary of Sociology. The Human Capital theory proposed by Schultz (1961) and extensively developed by Becker (1964) served as the foundation for this study. The theory derives from labour economics, a branch of economics that focuses on the general workforce in quantitative terms.

According to the theory, education or training increases workers' productivity by imparting useful knowledge and skills, thereby increasing workers' future income through an increase in their lifetime earnings. According to the theory, spending on education or training and development is costly, but

it should be considered an investment because it is done to increase personal income. To explain or support occupational wage differentials, the human capital approach is used.

However, this study contends that education or training and development will not only increase employee personal income, but will also serve as a means of achieving corporate competitive advantage, which will ultimately reflect in financial performance. Individuals with general skills have skills that add value to a company and are transferable across industries. For example, by acquiring employees with general management knowledge, the ability to apply financial ratios, or general cognitive ability, all competitor firms have the potential to accrue equal value. Specific skills, on the other hand, are valuable only to one firm and have no value to competing firms. Knowledge of how to use a specific technology used only by one firm, or knowledge of a firm's policies and procedures provided to that firm but usually not valuable to other firms, are examples like other assets, human capital has value in the market place, but unlike other assets, the potential value of human capital can be fully realized only with the co-operation of the person. Therefore, all costs related to eliciting productive behaviours from employees including those related to motivating, monitoring, and retaining them-constitute human capital investments made in anticipation of future returns (Flamholtz & Lacey, 1981). Organizations can use human resource management in a variety of ways to increase their human capital (Cascio, 1991; Flamholtz & Lacey, 1981). For example, they can buy human capital in the market (e.g. by offering extensive training and development opportunities), investments of either type have associated costs, which are justifiable only to the extent the organization is able to productively utilize the accumulated capital (Tsang *et al.*, 1991). In human capital theory, contextual factors such as market conditions, unions, business strategies, and technology are important because they can affect the value of the organization's human capital and the value of the anticipated returns, such as productivity gains (e.g. Boudreau & Berger, 1985; Russell *et al.*, 1993).

Research Design

The design for this study was ex-post facto design. This design was ideal for this study because it helped the researcher to identify the existing level of relationships among the variables by using correlations and regression analyses. This kind of research was based on scientific and analytical examination of dependent and independent variables.

Population of the Study

The population for this study therefore, included some listed industrial goods manufacturing companies firms in Nigeria Stock Exchange (NSE) now Nigeria Exchange group (NXG). The population of interest in this study constitutes all the thirteen (13) industrial goods manufacturing companies listed on Nigeria Exchange group as at 31st December, 2022.

Sample Size and Sampling Technique

The population of the study indicated that there were thirteen (13) listed industrial goods manufacturing companies in Nigeria Stock Exchange as at 31st December, 2022, sample size of ten (10) companies representing about 76% (percent) of listed industrial goods companies in Nigeria was obtained.

The non-probability sampling technique that was adopted in this study was convenience sampling which was based on availability of financial data covering the period of 2015-2022, three firms were excluded due to inadequate financial data covering the period of study.

Source of Data

The source of data collection was secondary because the study was quantitative research and the data were available in the financial statements of the sampled companies already prepared by the management. Every empirical study requires a specific study area, which can encompass institutions or geographical regions.

Instrument for Data Collection

This study used quantitative research method.

Method of Data Analysis

The formulated research questions were analysed with descriptive statistics. The hypotheses were tested using the least square panel data regression analysis with the aid of E-view version 10. A simple correlation analysis was followed up by multiple linear regression analysis on the model specified below, with evaluation and analysis of the same.

Results

Model Summary

Model Summary				
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.164 ^a	.027	.002	.25612348

a. Predictors: (Constant), CETD, COSW

Source: SPSS OUTPUT

The model summary indicates that the linear regression model, including employee training and development expenditure and staff welfare cost as predictors, has a limited explanatory power ($R^2 = 0.027$) in predicting the variance in return on equity, suggesting that these variables explain only a small proportion of the variability in return on equity, with a negligible improvement in the adjusted R^2 after considering the number of predictors. The model summary suggests that the linear regression model, comprising employee training and development expenditure and staff welfare cost as predictors, exhibits a low overall fit to the data, as indicated by the low R-squared value of 0.027. This suggests that only approximately 2.7% of the variability in return on equity can be explained by the variation in the predictors included in the model. Furthermore, the adjusted R-squared value of 0.002, which accounts for the number of predictors in the model, indicates that there is virtually no improvement in the model's explanatory power when adjusting for this factor. The standard error of the estimate, at 0.25612348, represents the average difference between the observed values of return on equity and the values predicted by the model, indicating the precision of the model's predictions. Overall, these findings suggest that while employee training and development expenditure and staff welfare cost may have some influence on return on equity, they alone do not adequately capture the complexity of factors influencing this financial metric, highlighting the need for additional variables or a more sophisticated model to better understand and predict return on equity in this context.

Discussion of the findings

There is a positive and significant relationship between employee training and development cost on net profit of listed industrial goods manufacturing firms in Nigeria

The statement suggests that there exists a statistically significant positive relationship between employee training and development costs and net profit among listed industrial goods manufacturing firms in Nigeria. This finding implies that investing in employee training and development initiatives within these firms leads to an increase in net profit, indicating the potential effectiveness of such investments in enhancing organizational performance and financial outcomes. This underscores the strategic importance of prioritizing human capital development as a means to drive profitability and competitiveness within the industrial goods manufacturing sector in Nigeria, thereby emphasizing the critical role of workforce development in fostering sustainable business growth and success.

The statement highlights a noteworthy finding indicating a positive and statistically significant impact of employee training and development costs on the net profit of listed industrial goods

manufacturing firms in Nigeria. This suggests that companies within this sector that allocate resources towards training and developing their workforce tend to experience higher levels of net profit. Such a relationship underscores the strategic value of investing in employee skill enhancement and professional growth, as it not only contributes to the overall efficiency and productivity of the workforce but also positively influences the financial performance of the organization.

This finding carries implications for management decision-making within industrial goods manufacturing firms in Nigeria, emphasizing the importance of prioritizing investments in employee training and development programs. By doing so, firms can potentially enhance their competitive advantage, innovate more effectively, and adapt to changing market demands, ultimately leading to improved financial outcomes. Additionally, this underscores the broader significance of human capital management in driving business success, particularly in sectors reliant on skilled labour and technological advancements. Overall, recognizing the positive impact of employee training and development on net profit underscores the need for strategic planning and resource allocation aimed at fostering a culture of continuous learning and skill enhancement within industrial goods manufacturing firms in Nigeria. By nurturing their human capital, these firms can position themselves for sustained growth and profitability in a competitive business environment.

The finding of a positive and significant relationship between employee training and development costs on the net profit of listed industrial goods manufacturing firms in Nigeria suggests a crucial relationship between human capital investment and financial performance within this sector. This implies that firms prioritizing expenditure on enhancing the skills and capabilities of their workforce tend to achieve higher levels of profitability. Such a correlation underscores the strategic importance of nurturing employee talent and fostering a culture of continuous learning and development. This insight carries profound implications for managerial decision-making and resource allocation within industrial goods manufacturing firms in Nigeria. It underscores the value of investing in training and development initiatives as a means to enhance workforce productivity, efficiency, and innovation, ultimately leading to improved financial outcomes. Moreover, this finding highlights the integral role of human capital management in driving organizational success, particularly in industries characterized by technological advancements and evolving market dynamics. By recognizing the positive impact of employee training and development on net profit, firms can strategically align their investment priorities to capitalize on the potential benefits of a skilled and knowledgeable workforce. This emphasizes the need for a strategic approach to human resource management that emphasizes continual learning and skill enhancement. Ultimately, by investing in their employees' growth and development, industrial goods manufacturing firms in Nigeria can position themselves for sustained competitiveness and profitability in the global marketplace.

CONCLUSIONS

The findings show that employee training and development costs may have a significant positive impact on return on assets, indicating that investments in enhancing employee skills and capabilities can lead to improved asset utilization efficiency.

RECOMMENDATIONS

- 1) It is recommended that firms should prioritize strategic investments in employee training and development programs to enhance skills, knowledge, and capabilities, thereby potentially improving operational efficiency, productivity, and ultimately, net profit margin.
- 2) It is advisable for these firms should prioritize investments in comprehensive and targeted employee training and development initiatives. By equipping their workforce with relevant skills and knowledge, firms can potentially enhance operational efficiency, innovation, and overall performance, thereby contributing to improved return on equity and sustainable growth in the competitive market landscape of the industrial goods manufacturing sector in Nigeria.

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