

Earned Staff Cost and Financial Performance of Listed Pharmaceutical Companies in Nigeria

Horsfall, Kaine Anwuli

Department of Accounting, Faculty of Business Studies

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

Email: kainesjoy@yahoo.com

Abstract: *This study examined the relationship between earned staff cost and financial performance of listed pharmaceutical companies in Nigeria. The study employed correlation research design and an ex-post facto research design for the study with population of 14 listed pharmaceutical companies in Nigeria, with a sample size of six (6) listed pharmaceutical firms listed in the Nigerian Stock Exchange. The data were sourced for the period of 2000-2017. Pearson Product Moment Correlation and Linear Regression were used to answer the research questions, while Ordinary Least Square and Two-stage Least Square were used to test the null hypotheses at the 0.05 level of significance. The study found that there is a significant relationship between earned staff cost and net profit in listed pharmaceutical companies in Nigeria. The study concluded that the global demands of information on the financial performance of firms make it imperative for pharmaceutical companies and other corporate bodies to include human capital cost as part of the assets of the organization. Based on the findings of the study, it is recommended among others, that there should be constant training, retraining and development of employees of pharmaceutical companies in Nigeria. Also, Pharmaceutical companies in Nigeria should pay more attention in earned staff cost of their staff to enhance firm's performance, and finally, the management should make policies that will boost return on equity since this will invariably affect investor's interest.*

Keywords: *Earned, Staff, Financial, Performance, Organization*

INTRODUCTION

Many factors serve as deterrents to the application of HCC. According to Gates (2002) and Akinsoyinu (1992), the challenges of HCC rest majorly on the reporting companies themselves. Based on his research, he highlighted some of the problems that make it challenging to report human capital values by firms. Accordingly, firms do not attach priority to the measurement of human assets; instead, they face more urgent issues like human resource requirement and allocation. Where the Human Resource Manager does not give enough importance to the concept of HCC, the senior management will give it even less importance, leaving no time for measurement. Another disincentive to the acceptance of HCC is the lack of a universal approach to its reporting, thereby defining the standards that would allow for valuable and meaningful comparisons. Because there is a current absence of a universal definition, firms that are proactive enough to measure, do it 'their way' (Gates, 2002). From a broader perspective, Jasrotia, (2004) looked at the trends in the field of HCC and

came up with some factors that deter the progress in the area and the application of the concept. Common among them are low level of awareness and acceptance of HCC, absence of an industry-standard, the extensiveness of the research involved, the dynamism of some industries like the information technology which are very dynamic due to frequent discoveries and technological advancement. In previous studies (Flamholtz, 1985; Roslender & Fincham, 2004; Jasrotia, 2004; Abubakar, 2006) there are some unique attributes of HCC, which in turn make their valuation so peculiar: uncertainty of the service period because of the free mobility of employees whenever they so desire, uncertainty of the contribution level of recruits because an employee's contribution level is too difficult to be estimated and forecasted with much reliability since his/her productivity fluctuates and depends on many other factors. Finally, in valuing human capital, the payments in terms of salaries or wages count a lot. An employee that is valued in terms of the future salaries and wages

determined today would have his value affected whenever the government changes policy affecting his reward system or whenever there is an action from the workers union regarding the reward system. Against this backdrop, this study seeks to empirically evaluate the relationship

between human capital cost and financial performance by employing the variables of training and development cost, employee acquisition cost and Earned staff cost as independent variables, while net profit, return on asset and return on equity is adopted as our dependent variables.

Hypotheses

H₀₁: There is no significant relationship between earned staff cost and net profit in listed pharmaceutical companies in Nigeria.

H₀₂: There is no significant relationship between earned staff cost and return on asset in

listed pharmaceutical companies in Nigeria.

H₀₃: There is no significant relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria.

Earned staff Costs

The actual amount paid for all staff which includes the wages, salaries, commissions, and employer-paid insurance premiums and pension deposits as well as the cost of all other fringes. The first thing to remember is that staff cost is not only about salary payment; many other expenses are relevant and must be factored in too. Consider the following: social security payment, pension contributions, travel expenses, training and development cost, human

resource expenses, holiday pay, sick pay, and healthcare cost. The full benefits report to every employee or staff should be issued twice a year; this will keep all employees clear that after working for hours, there is a take-home pay. Revenue per employee is a measure of how efficiently a particular company is utilizing its employees. A firm's human resource practices must develop employee's skills, knowledge, and motivation such that employees behave in ways that

are instrumental to the implementation of a particular strategy (Ekundayo & Odhigu, 2016). In general, relatively high revenue per employee is a positive sign that suggests the

firm is finding ways to squeeze more sales (revenue) out of each of its workers to ensure economic growth and stability in the industry.

Financial Performance

Financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Mills, 2008). This term is also used as a general measure of a firm's overall financial health over a given period. It can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The Financial performance measurement concept indicates that employees can increase the value of the firm by; increasing the size of a firm's future cash flows, by accelerating the receipt of those cash flows, or by making them more specific or less risky (Cadbury, 1992). There are many different ways to measure financial performance, but all measures should be taken in aggregation. Some of the indicators of financial performance are net profit, return on equity, liquidity

ratios, asset management ratios, profitability ratios, leverage ratios, and market value ratios. Carreta and Farina (2010) argue that the use of Financial performance could still be justified because it reflects what managers actually consider to be profitable and, even if this is a mixture of various indicators like accounting profits, productivity, and cash flow. The following indicators determine financial performance; profit or value-added, sales, fees, budget, costs or expenditure, and stock market indicators (e.g., share price) and autonomy.

Alfred (2007) asserts that Financial performance is the measurement of how a business entity has utilized its resources to generate revenues. Profit is generally measured by the gearing ratios, profitability ratios, and liquidity ratios. Profitability ratios of any business entity portray the picture of how well an entity has

employed the resources efficiently, liquidity ratios deal with the capacity of business entities to accomplish the short term obligations, and the gearing ratios indicate the extent of debt employment by the companies. This research relied on the return on assets in

the measurement of profitability. The Financial performance of business entities is determined by the financial statements of the business entities, which are a collection of reports on the business entity's financial results for a given period.

Stakeholder Theory

Scholars have previously suggested that stakeholder theory holds the potential for understanding the financial performance - autonomy relationship stakeholder theorists argue that their stakeholders' provision of resources determines the organization's financial performance in response to the organization's actions. A stakeholder's decision to either provide or cease to provide support to the organization is the culmination of complex considerations that coalesce within an overall evaluation of the organization's reputation. Stakeholders are uniquely positioned to affect the FP of the organization, whether through withholding or providing efforts (e.g., employees), infrastructure (e.g., government or cash flow (e.g., customers), among other

things Rowley and Berman, 2000). Jones and Wicks (1999) critique the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituencies). The argument of Valdes, (1997) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as the flow of information from senior management to lower ranks, inter-personal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other arguments, as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have

limited its relevance (Jones & Wicks, 1999).

METHODOLOGY

Research Design

This study employed a correlation research design and an ex-post facto research design to assess the relationship between training

and development cost and financial performance of listed pharmaceutical companies in Nigeria.

Population of the study

The population of the study is made up of fourteen (14) listed pharmaceutical companies, listed from the Nigerian Stock Exchange (NSE) and have consistently submitted their annual reports to the NSE from

2000 to 2017. Some of these companies are multinational companies and as such have embraced human capital cost in line with global best practices. They integrate human capital cost in their annual reports.

Population distribution table for the study

S/N	Firms
1	Aboseldehyde Labs Plc
2	Afrik Pharmaceutic Plc
3	BCN Plc
4	Christlieb Plc
5	Ekocorp Plc
6	Evans Medical Plc
7	Juli Pharmacy Plc
8	Glaxo SmithKline Plc
9	Fidson Healthcare Plc.
10	May & Baker Nigeria Plc
11	Morison Industries Plc
12	Neimeth International Plc
13	Pharmadeko Plc
14	Nigeria-German Chemical plc

Source: Nigeria Stock Exchange (NSE)

Sample and Sampling Technique

The sample of the study comprised of the six (6) listed pharmaceutical firms as quoted in the Nigeria Stock Exchange (NSE). However, firms that are not in operation throughout the period of 2000-2017 were not part of the sample size and thus, were not considered for the study. Consequently, the selected pharmaceutical firms used for the study were purposively sampled; they

include Afrik Pharmaceutical Plc, Evans Medical Plc, Ekocorp Plc, GlaxoSmithKline Plc, Neimeth International Plc, and Pharmadeko Plc. The reason why the six (6) companies were chosen was because, the data sourced for the variables studied were available to-date (2000-2017) as at the time of carrying out the study.

Method of Data Analysis

The data generated were analyzed in three major sections namely; the demographic, answers to research questions, and test to the hypotheses. The demographic analyses included the use of frequency tables depicting percentages and frequency distributions for the sample characteristics such as educational qualification and organizational status. The study employed Pearson Product Moment Correlation to

answer the research questions 1-9, and Linear Regression was used to answer research question 10, while the Ordinary Least Square (OLS) and Two-stage Least Square (TLS) were used to test the hypotheses 1-9 and 10 respectively, at 0.05 level of significance. The descriptive analysis was analysed using the Statistical Package for Social Science (SPSS), while the econometric analysis was analysed using E-views.

Results

Hypothesis one: There is no significant relationship between earned staff cost and net profit in listed pharmaceutical companies in Nigeria.

Ordinary Least Squares (OLS) regression analysis on the relationship between earned staff cost and net profit in listed pharmaceutical companies in Nigeria

Dependent Variable: NP

Method: Least Squares

Date: 09/08/20 Time: 06:17

Sample: 2000 2017

Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ESC	4.341516	1.117026	3.886675	0.0013
C	637760.3	409095.1	1.558954	0.1386
R-squared	0.485634	Mean dependent var	926356	
Adjusted R-squared	0.453486	S.D. dependent var	422061	
S.E. of regression	312015.4	Akaike info criterion	28.24393	
Sum squared resid	1.56E+12	Schwarz criterion	28.34286	
Log likelihood	252.1954	Hannan-Quinn criter.	28.25757	
F-statistic	15.10624	Durbin-Watson stat	1.757422	
Prob(F-statistic)	0.001310			

Source: Author's Eviews computation

Table shows that EAC has a sign coefficient of 4.34, t-Statistic of 3.89, and significant value of $0.00 < 0.05$. The R-square value of 0.49 indicates roughly 48% contribution to net profit (NP) in listed

pharmaceutical companies in Nigeria by the independent variable earned staff cost (ESC). Given the above, the null hypothesis seven that, there is no significant relationship between earned

staff cost and net profit in listed pharmaceutical companies in Nigeria is rejected while concluding that there is significant relationship between

earned staff cost and net profit in listed pharmaceutical companies in Nigeria.

Hypothesis 2: There is no significant relationship between earned staff cost and return on asset in listed pharmaceutical companies in Nigeria.

Ordinary Least Squares (OLS) regression analysis on the relationship between earned staff cost and return on asset in listed pharmaceutical companies in Nigeria

Dependent Variable: ROA

Method: Least Squares

Date: 09/08/20 Time: 06:18

Sample: 2000 2017

Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ESC	19.36616	3.926400	4.932294	0.0002
C	4327404.	1437989.	3.009349	0.0083
R-squared	0.603249	Mean dependent var	2649635.	
Adjusted R-squared	0.578452	S.D. dependent var	1689210.	
S.E. of regression	1096749.	Akaike info criterion	30.75804	
Sum squared resid	1.92E+13	Schwarz criterion	30.85697	
Log likelihood	274.8224	Hannan-Quinn criter.	30.77168	

	24.327	Durbin-	1.7054
F-statistic	52	Watson stat	36
Prob(F-statistic)	0.0001		
	50		

Source: Author's Eviews computation

Table shows that EAC has a sign coefficient of 19.39, t-Statistic of 4.93, and significant value of $0.00 < 0.05$. The R-square value of 0.60 indicates roughly 60% contribution to return on asset (ROA) in listed pharmaceutical companies in Nigeria by the independent variable earned staff cost (ESC). Given the above, the

null hypothesis eight that, there is no significant relationship between earned staff cost and return on assets in listed pharmaceutical companies in Nigeria is rejected while concluding that there is a significant relationship between earned staff cost and return on asset in listed pharmaceutical companies in Nigeria.

Hypothesis 3: There is no significant relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria.

Ordinary Least Squares (OLS) regression analysis on the relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria

Dependent Variable: ROE

Method: Least Squares

Date: 09/08/20 Time: 06:18

Sample: 2000 2017

Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ESC	13.48861	4.823769	2.79628	0.0129
C	2694637.	1766638.	1.52529	10.1467

	0.3282	Mean	21648
R-squared	73	dependent var	99.
Adjusted R-squared	0.2862	S.D.	15949
	90	dependent var	18.
S.E. of regression	134740	Akaike info	31.169
	9.	criterion	70
Sum squared resid	2.90E+13	Schwarz criterion	31.268
	-		63
	278.52	Hannan-Quinn criter.	31.183
Log likelihood	73		35
	7.8191	Durbin-Watson stat	0.3374
F-statistic	83		78
Prob(F-statistic)	0.0129		40

Source: Author's Eviews computation

Table shows that EAC has a sign coefficient of 13.49, t-Statistic of 2.80, and significant value of $0.01 < 0.05$. The R-square value of 0.33 indicates roughly 33% contribution to return on equity (ROE) in listed pharmaceutical companies in Nigeria by the independent variable earned staff cost (ESC). Given the above, the

null hypothesis nine that, there is no significant relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria is rejected while concluding that there is a significant relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria.

DISCUSSION

The result in table shows that the relationship between earned staff cost and net profit of listed pharmaceutical companies in Nigeria is strong. While the result of table indicated that there is a significant relationship between

earned staff cost and net profit in listed pharmaceutical companies in Nigeria. This finding is consistent with the findings of Ikpefan et al. (2015). In their study, it was revealed that human resources accounting has a significant

effect on the performance of microfinance banks. Shows that the relationship between earned staff cost and return on asset of listed pharmaceutical companies in Nigeria is moderate. Furthermore, the result of table indicated that there is a significant relationship between earned staff cost and return on asset in listed pharmaceutical companies in Nigeria. This finding is consistent with the study of Onyekwelu, (2015). The study revealed that there is a significant increase in firms' net worth when investments on human capital are treated as

assets. The result in table shows that the relationship between earned staff cost and return on equity of listed pharmaceutical companies in Nigeria is moderate. Furthermore, the result of table indicated that there is a significant relationship between earned staff cost and return on equity in listed pharmaceutical companies in Nigeria. This finding is in agreement with the study conducted by Ekwe (2012). a positive significant relationship between components of VAIC and the Return on Equity of the banks in Nigeria.

CONCLUSION

Sequel to the above findings, this study concluded that earned staff cost has significantly impacted the financial performance of listed pharmaceutical companies in Nigeria. This is because of the prospect of training and development cost as one of the intellectual assets of an organization.

RECOMMENDATIONS

Considering the findings, discussion and conclusion of this study, the following recommendations were made:

1. There should be constant training, retraining and development of employees of pharmaceutical companies in Nigeria. This is because the training and development will always result in high performance on the job and positive returns in the form of net profit,
2. Pharmaceutical companies in Nigeria should pay more attention to the training and development of their staff since this lead to more acquisition of knowledge that generates into increased return on asset.

3. The management should make policies that will boost return on equity since this will invariably affect investors interest

REFERENCES

- Abubakar, S. (2006). *An assessment of human resource cost measures and application possibilities in Nigeria*. Unpublished M. Sc. Accounting and Finance Thesis Submitted to the Postgraduate School, Ahmadu Bello University Press.
- Akinsoyinu, A. B. (1992, April/June.). *Human resources accounting: The myth and reality*. The Macmillan Publishing Company.
- Alfred, S. (2007). Human capital accounting. *International Journal of Research in Finance and Marketing*, 5(1), 18-25.
- Cadbury, A. (1992). Corporate financial disclosure in Canada", Research Monograph No. 1, Vancouver: Canadian Certified General Accountants Association.
- Carreta, F. & Farina, R. G. (2010). The relationship between intellectual capital and financial performance: An empirical investigation in Iranian company. *African Journal of Business Management*. 5(1), 88-95.
- Ekundayo, O. U. & Odhigu, F. (2016). Determinants of human capital accounting in Nigeria. *Igbinedion University Journal of Accounting*, 1(2), 103-115
- Ekwe M. C. (2012). *Relationship between intellectual capital and financial performance in the Nigerian banking sector*. Ph.D. Dissertation submitted to the Department of Accountancy, Faculty of Business Administration University Press.
- Gates, S. (2002). Value at work: the risks and opportunities of human measurement and reporting. *The Conference Board, USA*.
- Flamholtz, E. G. (1985). *Human Resource Accounting*. San Francisco CA : Jossey-Bass.
- Ikpefan, O. A., Oyero, K.. B. L., & Taiwo, J. (2015). Human capital accounting and performance of microfinance banks (MFB) in

Nigeria. *Research Journal of Finance and Accounting*, 6(1), 65-75.

Jasrotia, H. (2004). Intellectual capital and corporate performance of technology-intensive companies. *Asian J. Bus.Account.* 1(1):113-130.

Jones, L.J, & Wicks, S. (1999). Stakeholder's theory characteristics and human resource management. *A Journal of Practice and Theory*, 23(1), 69-87.

Onyekwelu, U. L. (2015). Impact of human accounting on corporate financial performance- A study of selected banks in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 3(5), 90-107.

Roslender, R., & Fincham, E. (2004). Intellectual capital accounting in the UK: a field study perspective. *Accounting, Auditing & Accountability Journal*, 17(2), 178-209.

Valdes, T. (1997). Human resources and sustained competitive advantage: a resource-based perspective. *International Journal of Human Resource Management*, 5(2), 301-326.