EFFECT OF EMPLOYEE COST ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NIGERIA

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Abstract
The study examined the effect of employee cost on the financial performance of listed commercial Banks in Nigeria. To achieve the objective of the study, ex-post facto research design was adopted. The study population was made up of fifteen (15) commercial banks listed on Nigeria stock exchange as at April 2021 out of which ten (10) banks were selected. Secondary data sourced from the annual reports and accounts of the selected banks were employed in the study. Data were analysed using descriptive statistics and ordinary least squares regression technique. Findings from the study revealed that employee cost has a positive and significant effect on the profit after tax of listed commercial banks in Nigeria. Hence the study concluded that employee cost has significant effect on financial performance of listed commercial banks in Nigeria. The study recommended amongst other things that commercial banks need to recognize that cost expended on employees are investments that will yield future returns if not in the short run then over the long run both for the employee and for the wellbeing of the bank.
Keywords: *Commercial banks, Profit after tax, Employee cost, Human capital, Performance*

Introduction

A key contributory factor to organizational performance is the human resources of an organization. Human resource refers to a set of individuals who make up the workforce of an organization or a business entity. Human resources play a significant role in coordinating all organizations' activities, towards the achievement of the corporate goals and objectives. With machines, materials and money little or nothing could be achieved without human contributions (Olaniyan & Lucas, 2008). This confirms the extent of importance of human resources in organizations. Akintoye & Adidu (2016) also affirm the importance of human resources to the success of organizations. They stated that human resource is a key factor in the determination of measurable growth of any nation. Human resource is an important component of an organisation. It is made up of the active agents that harness and combine other resources towards the accomplishment of organizations goals. Consequently, organizations must have competent employees who are able to carry out assigned tasks for the purpose of attaining organizational goals. This is reiterated by Oke (2015), who asserts that a successful and effective organization understand that their success is directly related to the quality of their human capital. Thus, there is an indication that the importance of human intellectual capability is indispensable in the assessment of corporate performance.

Organizations including commercial banks make a lot of investments on their employees. These investments constitute employee cost which could be in the form of salaries or wages, training and development, health care services, retirement benefits and pensions and the like. These investments are made due to the fact that the growth of tangible capital stock of a firm and even a nation depend to a considerable degree on human capital development (Sowunmi, Eleyowo Salako and Oketokun, 2015). However, the possibility of growth in organisations might be minimal without adequate investment in developing human capital which involves the process of increasing knowledge, skills and capacities of people, Consequently, in the current business environment, human capital is regarded as a key source of competitive advantage. With the knowledge agenda, companies view their employees as an important resource and invest heavily in them. Nevertheless, information on human capital and its development is important to financial analysts and fund managers, who need to assess the future direction, potential and values of companies. Sharma (2012) suggest that it is the stock of human capital that predominantly determines the earnings of individuals and by extension the firm. Hence, assessing corporate performance may not be conclusive without the consideration of the contribution of investment in employee.

The unpredictable nature of the Nigerian business environment and the many reforms introduced by government and its regulatory agencies, have brought to fore the need for commercial banks to substantially invest in manpower in order to attract, recruit and retain the best possible hands to ensure their continued existence. This is due to the fact that commercial banks belong to one of the most dynamic and strategic sector of the economy and any neglect of the workforce could be very costly.

Performance can be described as the achievement of a target at the work place. Corporate financial performance (CFP), defined by Karaye, Ishak & Che-Adam,(2014), is achievement of organizational objectives or as being both productive and efficient. Corporate financial performance is anything which contribute to ameliorate value-cost couple and not only which contributes to cost decrease or value increase (Karaye et al., 2014). It also refers to the economic status of a firm such as profitability, sales growth, return on assets etc (Palagolla & Wickramasinghe, 2016). There are different parameters from which financial performance of commercial banks can be evaluated. Total assets, total shareholder equity and profitability are commonly used indicators. Literature on bank performance describes financial organizations' objectives as that of earning acceptable returns and minimizing the risk taken to earn this return. Studies on human capital cost (employee cost) and financial performance in banking sector in Nigeria are scanty and those that have attempted to examine such links have given conflicting results. This study therefore seeks to fill this gap and also to enrich existing literature on the effect of employee cost on financial performance of commercial banks in Nigeria. Thus, the study examined the effect of employee cost on the profit after tax of listed commercial banks in Nigeria.

Theoretical Framework and Literature Review

The classical economists propounded that land, capital and labour are the basic factors of production. Labour is usually associated with the human being and qualifies him as a resource, implying that it is the "principal" source of wealth or income of a country or institution" (Chambers, 1996). Land would remain uncultivated, and capital would lie idle and perhaps, would never even have been invented or accumulated, but by and for the utilization of labour" (Yesufu, 2000) hence Labour occupies prime place in production. The human capital theory one on which this study hinges further expounds on the above assertion. The theory proposed by Seth (2009) and extensively developed by Ratti (2012) has its root in labour economics which is a branch of economics that focuses on general work force in quantitative term. The human capital theory contends that education or training raises the productivity of workers by imparting useful knowledge and skills, thus raising workers' future income through increase in their lifetime earnings. It further explains that expenditure on education or training and development is costly, and should be considered as investment since it is undertaken with a view to increasing personal incomes. Human capital approach is used to explain or support occupational wage differential. However, it is reiterated that education or training and development will not only increase employee personal income, it will also serve as a means of achieving corporate competitive advantage which reflects ultimately in organisational performance.

According to Flamholtz (2014), human capital theory distinguished between general skills and firms' specific skills of human resources. General skills are skills possessed by individuals which provide value to a firm and are transferable across a variety of firms. On the other hand, specific skills provide value only to a particular firm, and such skills are of no value to competing firms. Human capital is not substitutable and not transferable like land, labour or fixed capital. The relevance of the theory to this study is that it considered the cost of education, training, development and even workers' medical treatment as investments towards improved performance of individual workers and also creates a sort of competitive advantage which ultimately could result in improved organizations performance.

Furthermore, the relationship between employee cost and performance is further explained by the resource based theory and the expectancy theory. The resource-based theory postulated by Wernerfelt (1984) states that the possession of resources is valuable, difficult to imitate, rare and cannot be substituted. The theory suggests that organizations should look inwards to find the sources of competitive advantage through the use of their resource. Resource-based theory prescribes that organizations position themselves strategically based on their resources and capabilities rather than their products and services. While the expectancy theory given by Vroom (1964) suggest that individuals are motivated to perform if they know that their extra performance is recognised and rewarded. The theory states that employee's motivation is an outcome of how much an individual wants a reward (Valence), the assessment that the likelihood of the effort will lead to expected performance (Expectancy) and the belief that the performance will lead to reward (instrumentality)

The concept of employee cost and financial performance

Employee cost otherwise known as human resource cost means different things to different authors. It represent the aggregate sum of the individual employee's wages and salary in addition to other employee related expenses including allowances and incentives, social security, medical, insurance, training and development, retirement benefits and other subsidies or benefit. It represents that sacrifice that was incurred today in order to train and develop employee (Manukaji, Osisioma & Okoye., 2019). Employee costs constitute an important part of the organization's cost. As such, organization need to have a clear plan in line with achieving its strategies for success while still satisfying employees at a minimal cost possible. Although employee costs are regarded as reward to employees for efforts exerted into work, it could create a sense of on-going employer appreciation in the long run manifested often in improved organizational performance.

Performance on the one hand is seen as the most important aspect of the organization. It is the ultimate variable of interest to those concerned with management, accounting, productivity, operations finance, customer satisfaction, market share, profits efficiency and the likes. This is because performance is viewed as the success of an organization in achieving valuable outcomes in terms of high returns (Memon & Tahir, 2012). Literature summarily holds that performance is the ability of an organization to meet or be able to achieve its desired result or set objectives and goals according to a time frame. In this paper performance is measured using profit after tax.

Empirical review

This section reviews some researchers thought on the issue under consideration. Onyekwelu and Ironkwe (2021) examined the effect of human resource accounting (Human resource accounting disclosure Index, Training cost, Number of staff and Increment in staff salaries) on corporate financial performance (return on assets and return on equity) of insurance companies quoted on Nigeria Stock Exchange for the period 2012 to 2017. Secondary data of 12 quoted insurance companies were collected. A non-experimental causal (Ex post facto) research design was adopted to address the research objectives of the study. The lease square regression analysis, (with the aid of E-views 10) to empirically answer eight research questions raised in the study. The results showed that human resource accounting disclosure and training cost significantly affect Return on Asset and Return on Equity positively while number of staff and increment in staff salaries has a statistically significant negative effect on Return on Asset. Based on these results, it was recommendation that insurance firms should do more in terms of building the culture of capacity building training, developing and motivating the personnel to put in their best for the financial growth of their organizations and enhancing their capacity to improve organizational performance. In the same vain, Nangih, Obuah, Wali and Turakpe (2020) assessed the interconnectedness between staff cost and firm profitability using Nigeria's Oil and gas industry. Specifically they examined the effects of staff salaries, medical expenses and training costs on the profit margin of listed oil and gas firms. Data of five (5) firms were collected from annual financial reports for the period 2013-2018 and analysed using descriptive correlation and regression analysis tool. The result indicated that both salaries and training cost impacted positively on profit margin whereas medical expenses had negative effect on profitability with only training cost being significant. They therefore recommended that management of oil and gas firms in Nigeria should pay greater attention to staff training and development while ensuring that health hazards within the workplace are minimised as much as possible.

Bankole (2020), examined the influence of human resource cost on financial performance of consumer goods companies in Nigeria. The objective was to factor out the degree to which financial performance is influenced by investments in human resource, measured by Return on Asset (ROA) of Nigerian Consumer Goods Company. Secondary data were sourced from published annual financial statements of the selected consumer goods company for the period of ten years (10) spanning 2009-2018. Data analysis was done using Static Panel Estimation techniques which consisted of Pooled Ordinary Least Square (POLS) Estimator, Fixed Effect Model (FEM), and Random Effect Model (REM). The result of the study showed that pension cost (PEC), director's emolument (DCM) and gratuity cost (GRT) exerts positive and statistically significant impact on ROA while salary and wages (SLW) exerts positive but insignificant impact on ROA with coefficient value of .017615 ($p = 0.2905$). It is therefore concluded that investment in human resource significantly influenced financial performance and growth of Nigerian consumer goods company, and it is recommended that greater commitment to manpower development, and relevant retirement packages should be designed towards positive performance improvement.

Yetunde and Idowu (2020), assessed the impact of Human Resource Accounting (HRA) on the performance of Nigerian firms (2012 – 2016) using secondary data, sourced from ten (10) purposively selected annual report and financial summary of oil and gas companies from 2012 to 2016. Ordinary least squares analysis were carried out. Findings show that both gross staff cost and training and development cost have a positive significant impact on the performance of oil and gas companies in Nigeria. Futhermore, the study revealed that there is no significant relationship between health and safety cost and organizational performance. It was concluded that although health and safety cost alone has no significant impact on firm performance, generally, human resource accounting has a positive significant effect on firms' performance. They therefore recommend that organization should invest more in the training and development of staffs and that there should be a uniformed standard for identification and measurements of human capital assets.

In their study Inua and Oziegbe (2018), investigated the effect of human resource accounting attributes on the performance of quoted banks in Nigeria. The study examined the annual reports of 18 quoted commercial banks from 2009-2017 financial years and the research design adopted was the ex-post facto research design. Using regression analysis, the effect of certain human resource accounting attributes such as staff cost, director remuneration, number of staff and firm size was examined. The results confirm that there is a significant relationship between staff cost, staff strength, and firm size and financial performance. Director remuneration had no significant relationship on financial performance. They therefore recommended that a better system of communicating employee benefits to the employees of the organization should be adopted. Furthermore, unfair performance appraisal should be discouraged since it diminishes employees' motivation.

Boudreau (2017), conducted a study on the relationship between human capital on bank performance in Korea. The data covered the period of 10 years ranging from 2005 to 2014. The population of the study is made up of 33 banks in Korea while the sample is made up of 5 selected banks in Korea. The study was carried out using secondary data. The variables includes employees' salaries, director remuneration and profit after tax. The study was conducted using secondary data and analyzed the data using simple regression analysis. According to him, the result of the study shows that human capital significantly affect organizational performance. The study recommends for effective account of human capital for increase in performance.

Welbourne (2016), examine the effect of human resource accounting on the performance of banks in Nigeria. The population of the study is made up of 20 banks while the sample size is made up of 10 banks. The study was carried out using secondary data and was analyzed using regression analysis. The variables used in the study are staff cost, ROA, ROE and NPM. The result revealed that human resource accounting significantly affect bank performance. The study recommends that banks should appraise the performance of their employee time to time for the purpose of enhancing the entire performance of the bank.

Methodology

This section describes the methodology adopted in examining the effect of employee cost on the financial performance of commercial banks in Nigeria. The research design adopted is *ex-post facto* research design. This design was used because the researcher has no control over the exogenous variable and whatever happens occurred before the research. Furthermore, *ex-post facto* design is used when researchers are trying to ascertain the causal effect of the relationships that exist between two variables. The study evaluates the effect of employee cost on the financial performance of listed commercial banks in Nigeria from 2014 to 2018. Judgemental sampling was employed in selecting ten (10) banks and secondary data from their annual reports and accounts was used for the period of the study. The variable of employee cost used in this study is an aggregate figure of selection cost, recruitment cost, training cost and pension contributions. The study data were analysed using descriptive and regression analysis.

Model specification

Afiouni (2017) model was adopted by this study

PAT = $\beta_o + \beta_1 EC_{it} + e_{it}$ …………………..eq1

Where

PAT = profit after tax

EC = Employee cost

The model was modified to suit the present objectives

Results and Discussion

Table 1: Descriptive statistics of the variables

	LOGEC	LOG PAT
Mean	6.9919	7.1848
Maximum	8.99	8.22
Minimum	5.34	5.03
Std. Dev.	0.95536	0.83968
Skewness	-413	-930
Kurtosis	-.771	-246
Jarque-Bera	2.696402	7.451484
Probability	0.025970	0.024095
Observations	50	50

Source: Author's Computation Using E-views 9.0

The results shown above regarding the selected variables depicts a general average level of spread over the selected years. PAT has a maximum level of 8.2225 and a minimum of 5.031 and a mean of 7.2 at a standard deviation of 0.8398. Employee cost produced the minimum of 5.338789 and maximum of 8.992111 with the mean value of 6.9919 respectively. The Jarque-Bera (JB) test measures the difference of the skewness and kurtosis of the series with those from the normal distribution. The null hypothesis for the JB statistics is that the series is normally distributed. The result in table 1 the JB values of 2.696402 and 7.451484 with their respective p-values of 0.025970 and 0.024095 respectively for EC and PAT. This is significant at 5% level of significance showing that the data is normally distributed.

Table 2: Regression results

	LOGEC
Coefficient	0.572
Std. Error	0.096
t- Statistics	4.686
Probability	0.000
R-squared	0.424
Adj R-squared	0.412
F-Statistic	35.316
Prob(f-stat)	0.000

Source: Author's Computation Using E-views 9.0

The result in table 2 shows the effect of employee cost on the financial performance (PAT) of commercial banks in Nigeria. The coefficient of determination R-square of 0.424 implies that 42.4% of the sample variation in the dependent variable profit after tax (PAT) is explained or caused by the explanatory variable (employee cost) while the remaining variation is explained by factors not captured in the study model. Consequently, the value of the adjusted R^2 is 0.412. This shows that the regression line which captures 41.2% of the total variation in PAT is caused by variation in the explanatory variable specified in the model with 59.8% accounted for the stochastic error term. Table 2 shows that a percentage increase in employee cost would increase profit after tax by 57%. The F-statistic was also used to test the overall significant of the model. The F-value of 35.316 with p-value of 0.0000 is an indication that the model is statistically significant and can be used for inferences.

Test of Hypothesis

H_0**:** Employee cost has no significant effect on profit after tax of Commercial Banks in Nigeria.
To test the hypothesis:
From the result the t-statistic of 4.686 has probability of 0.0000 at 5% level of significance. Since the probability of the T- statistics is less than 0.05, we reject the null hypothesis (H_0) and therefore conclude that staff cost has a significant effect on profit after tax of Commercial Banks in Nigeria.

Discussion

The study investigated the effect of employee cost on performance of commercial banks in Nigeria. Findings revealed that employee cost has a positive and significant effect on profit after tax of Commercial Banks in Nigeria. This result is consistent with the findings of

Abubukar (2007), which revealed that human resource accounting has significant effect on corporate profitability. It also agrees with the findings of Yetunde and Idowu (2020) where both gross staff cost and training and development cost have a positive significant impact on the performance of oil and gas companies in Nigeria. It is however contrary to the findings of Boxall and Purcell (2015), where it was revealed that human resource accounting has no significant effect on firms' profitability. With this empirical evidence, it is noted that cost expended on employees has a significant effect on the performance of commercial banks in Nigeria. Commercial banks are enjoined not to relent in investing in their employees as this would positive returns in terms of value added either for the short run or otherwise.

Conclusion and Recommendation

This study examined the effect of employee cost on financial performance of commercial banks in Nigeria with a sample size of ten (10) banks judgementally drawn from 15 listed banks. The data were extracted from annual financial accounts of the banks on staff cost made up of induction cost, recruitment cost, training and development cost and pension contributions to ascertain its effect on commercial banks financial performance proxied by profit after tax. The findings reveal that employee cost had a positive and significant effect on financial performance of listed commercial banks in Nigeria. They study therefore conclude that employee cost has significant effect on financial performance of commercial banks in Nigeria. The study recommends amongst other things the need for commercial banks to recognize that cost expended on employees are investments that will yield future returns if not in the short run then over the long run both for the employee and for the wellbeing of the bank.

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APPENDIX 1

BANKS	YEAR	PAT	EMPLOYEE COST

GTB	2018	166,919,765	23,681,401
GTB	2017	158,727,705	22,354,351
GTB	2016	126,836,792	20,704,772
GTB	2015	94,308,123	20,727,835
GTB	2014	89,170,777	21,036,543
ZENITH	2018	165,480,000	56,657,000
ZENITH	2017	153,003,000	55,672,000
ZENITH	2016	119,285,000	62,235,000
ZENITH	2015	98,784,000	62,428,000
ZENITH	2014	92,479,000	67,848,000
STAMBIC	2018	151,499,000	1,662,000
STAMBIC	2017	25,165,000	590,000
STAMBIC	2016	609,000	500,000
STAMBIC	2015	9,871,000	429,000
STAMBIC	2014	13,136,000	455,000
UBA	2018	41,047,000	41,537,000
UBA	2017	42,438,000	42,343,000
UBA	2016	47,541,000	43,501,000
UBA	2015	47,642,000	42,033,000
UBA	2014	40,083,000	42,082,000
FIRST	2018	9,342,000	904,000,000
FIRST	2017	9,275,000	982,000,000
FIRST	2016	50,072,000	63,391,000
FIRST	2015	37,000,000	63,672,000
FIRST	2014	79,361,000	63,011,000
ACCESS	2018	73,596,295	40,425,816
ACCESS	2017	51,335,460	41,773,512
ACCESS	2016	64,026,135	42,153,587
ACCESS	2015	58,924,754	35,699,471
ACCESS	2014	19,950,154	12,781,215
FCMB	2018	3,552,392	336,181
FCMB	2017	1,524,886	265,056
FCMB	2016	3,730,260	218,167
FCMB	2015	2,523,055	238,360
FCMB	2014	5,396,908	306,667
UNION	2018	18,438,000	32,324,000
UNION	2017	11,239,000	27,545,000
UNION	2016	15,885,000	29,628,000
UNION	2015	18,035,000	28,755,000
UNION	2014	20,486,000	28,754,000
ECO	2018	328,649	512,455
ECO	2017	228,534	510,040
ECO	2016	204,958	535,061
ECO	2015	107,464	591,543
ECO	2014	394,770	649,094
STERLING	2018	9,468,000	13,194,000

STERLING	2017	7,954,000	11,545,000
STERLING	2016	5,182,000	11,552,000
STERLING	2015	10,293,000	12,101,000
STERLING	2014	9,005,000	12,031,000