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EMPLOYEE ACQUISITION COST AND FINANCIAL PERFORMANCE OF LISTED PHARMACEUTICAL COMPANIES IN NIGERIA

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ABSTRACT

This study examined the relationship between employee acquisition 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. Secondly, there is a significant relationship between employee acquisition cost and return on asset of 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 training and development 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: Employee, Acquisition, Financial, Performance, Organization

INTRODUCTION

Human capital cost and reporting by corporate organizations are still at the infant stage in Nigeria where some of the companies that have invested heavily in human capital and have applied human capital cost in one way or the other in Nigeria include both banking sector, manufacturing sector, oil, and gas sector amongst others. The investments by these companies in human capital development usually are not reflected in their balance sheets as assets but expensed in the profit and loss accounts (Okpala & Chidi, 2010; Micah et al., 2012). 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. Consequently, the book values of firms with significant amounts of human capital investments are unrelated to the market values (Lev, 2001; Holland, 2003). Although there is a broad assumption that human capital has positive effects on companies' financial performance, the notion of financial performance for human capital remains mostly untested. Hence, this study attempts to look into the relationship between human capital cost and the financial performance of listed pharmaceutical companies in Nigeria.

H_{01}: There is no significant relationship between employee acquisition cost and net profit in listed pharmaceutical companies in Nigeria.
H_{02}: There is no significant relationship between employee acquisition cost and return on asset in listed pharmaceutical companies in Nigeria.
H_{03}: There is no significant relationship between employee acquisition cost and return on equity in listed pharmaceutical companies in Nigeria.

Role Behaviour Theory

Katz and Kahn (1978), defined role behaviours as "the recurring action of an individual, appropriately interrelated with the repetitive activities of others to yield a predictable outcome." Human resource management is the organization's primary means for sending role information through the organization, supporting desired behaviours and evaluating role performances; it is useful, therefore, when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system's behavioural requirements (Frederickson, 1986). System requirements are, in turn, presumed to depend on contextual factors such as business strategies and the nature of the industry.

The role behaviour theory propounded by Katz and Kahn (1978), focused on roles as the interdependent components that make up an organization system instead of using specific behaviours and job performance as the fundamental components. This perspective shifts the focus from individuals to social systems characterized by multiple roles, multiple role senders, and numerous role evaluators. The role behaviour theory recognizes that the behavioural expectations of all role partners can influence the behaviour of organizational members. By implication, effective HRM helps employees meet the expectations of role partners within the organization (i.e., supervisors, peers subordinates), at organizational boundaries (i.e., customers and clients), and beyond (i.e., family and society). Thus the expectations of these role partners must be incorporated into an understanding of human resource management in context then constitute human capital investments made in anticipation of future returns. Brummet (1970) stated four reasons which contribute to a reluctance to measure human capital. The first reason is cultural constraints and taboos that prevent us from associating the money unit to measure people. He stated that "this is unfounded and surely irrational objectives. It may reflect a fear of behavioural reactions which we do not understand and have not given adequate attention". The second reason is an organization does not own people and, therefore, should not be placed on the balance sheet. But he believes that the accountant should monitor those assets which are most significant to their legal ownership status. Another constraint is the visibility bias when machines are refurbished. The results can be seen in the form of better production and useful longer life. The costs to refurbish the machines are capitalized and looked upon as an investment. Brummet (1970), feels that there is a hung-up on visibility and that any cost relating the improving human resources (training and development program) will result in future pay-off just as in the case of a machine, those costs should be recognized by capitalization and matched against benefit received.

The fourth reason is the necessity for an interdisciplinary. He believes that interdisciplinary approaches are necessary for solving problems in human capital, innovative approaches for providing management with reliable information for decision making. In essence, it may be argued that humanity has not been entirely ignored in current accounting theory and practice. On the other hand, it can also be observed that there are numerous limitations imposed by existing conventional accounting practices for not providing an adequate solution toward explicitly recognizing the human assets and their changes in value in accounting reports. In general, considerable recognition has already been given to the importance of human assets with regard to evaluating the performance of the entity. Thus, a case can be made for "employee service resources which have the potential to provide economic benefits to the firm for more than one period can justifiably be heated as assets" within the traditional accounting framework of an asset (Jaggi, & Lau, 1974).

Employees Acquisition Costs

The current economic environment has forced CEOs to focus almost all of their attention on revenues and profitability. They must be very aware of what competitors are doing - competitors can be anywhere in the world. Additionally, executives are watching the government for an indication of changing regulations and tax issues. In many ways, the recent economic troubles serve to shine a spotlight on workforce management issues for many executives. Whether it was navigating layoffs, reducing labour costs, cross-training employees, or merely keeping the workforce morale up, many leaders found that their organizations were not as dexterous or flexible as they would like. (Retrieved on 15 APRIL, 2017 form HR Newsletter software online posted in February 2011). Labour costs (compensation and benefits) account for nearly one-third of operating costs, so how HR manages the workforce has a direct impact on achieving profitability objectives. One of the best ways to set your HR strategy is to align workforce management goals with corporate objectives. That means keeping an eye on how your programs and decisions will impact the bottom line. Aligning labour costs with the quality of the workforce can dramatically improve financial performance. A 2009 study found leaders in talent management enjoyed superior financial results, including 54% higher net profit margin and 18% better EBIDTA (Toulso, 2004).

Concepts of Financial Performance

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Chen & Wong, 2004). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs.

The third dimension is market premium, or the level of which company's market value is exceeding its book value (Walker, 2001). Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation.

Financial performance is a slanted gauge of how efficient a corporation can use resources from its prime means of business and spawn revenue. It's also, a gauge of the outcome of a corporation's policies and monetary terms of its operation. There are several ratios how to measure the company performance. Spira (2013) mentioned accounting-based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and return on investment (ROI). These are widely used to assess the performance of firms. Even though more sophisticated methods such as IRR, CFROI and DCF modelling have come along; ROE has proven as a good technique. It focuses on return to the shareholders of the company but on the other hand it can obscure a lot of potential problems. Companies can use financial strategies in order to artificially maintain healthy ROE and thus hide deteriorating performance in business fundamentals. On the other hand, ROA avoids the potential distortions created by misleading financial strategies.

Another ratio used to represent firm financial performance is so called Tobin's Q ratio. It is calculated as a market value of the company divided by the replacement value of the firm's assets. In this study, the relationship between various Audit Committee characteristics and the hospitality industry performance is represented by ROE, and Tobin's Q

Researchers in the economics field have offered a variety of models for analyzing financial performance. However, little consensus has emerged on what constitutes a valid set of performance criteria. For instance, researchers have suggested that studies on financial performance should include multiple criteria analysis. This multidimensional view of performance implies that different models or patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationships between dependent and independent variables in the estimated models.

Financial performance have been measured using various standards including gross profit, net profit, return on equity and return on assets among other measures. For the purpose of this study, net profit, Return on Asset and Return on Equity shall form the proxies of the study.

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 employee acquisition cost and net profit in listed pharmaceutical companies in Nigeria.

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

Dependent Variable: NP
Method: Least Squares
Date: 09/08/20 Time: 06:15
Sample: 2000 2017
Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EAC	1.300134	0.558873	2.326349	0.0335
C	580774.8	172987.5	3.357323	0.0040

R-squared	0.252752	Mean dependent var	926356.1
Adjusted R-squared	0.206049	S.D. dependent var	422061.2
S.E. of regression	376073.1	Akaike info criterion	28.61739
Sum squared resid	2.26E+12	Schwarz criterion	28.71632
Log likelihood	-255.5565	Hannan-Quinn criter.	28.63104
F-statistic	5.411900	Durbin-Watson stat	1.040396
Prob(F-statistic)	0.033463		

Source: Author's E-views computation

The table shows that EAC has a sign coefficient of 1.30, t-Statistic of 2.33, and significant value of 0.03 < 0.05. The R-square value of 0.25 indicates roughly 25% contribution to net profit (NP) in listed pharmaceutical companies in Nigeria by the independent variable employee acquisition cost (EAC). Given the above, the null hypothesis four that, there is no significant relationship between employee acquisition cost and net profit in listed pharmaceutical companies in Nigeria is rejected while concluding that there is significant relationship between employee acquisition cost and net profit in listed pharmaceutical companies in Nigeria.

Hypothesis two: There is no significant relationship between employee acquisition cost and return on asset in listed pharmaceutical companies in Nigeria.

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

Dependent Variable: ROA
Method: Least Squares
Date: 09/08/20 Time: 07:38
Sample: 2000 2017
Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EAC	6.808949	1.948798	3.493921	0.0030
C	839786.3	603209.7	1.392196	0.1829

R-squared	0.432775	Mean dependent var	2649635.
Adjusted R-squared	0.397323	S.D. dependent var	1689210.
S.E. of regression	1311372.	Akaike info criterion	31.11549
Sum squared resid	2.75E+13	Schwarz criterion	31.21442
Log likelihood	-278.0394	Hannan-Quinn criter.	31.12913
F-statistic	12.20749	Durbin-Watson stat	1.057251
Prob(F-statistic)	0.003002		

Source: Author's Eviews computation

The table shows that EAC has a sign coefficient of 6.81, t-Statistic of 3.49, and significant value of 0.00 < 0.05. The R-square value of 0.43 indicates roughly 43% contribution to return on asset (ROA) in listed pharmaceutical companies in Nigeria by the independent variable employee acquisition cost (EAC). Given the above, the null hypothesis five that, there is no significant relationship between employee acquisition cost and return on asset in listed pharmaceutical companies in Nigeria is rejected while concluding that there is significant relationship between employee acquisition cost and return on asset in listed pharmaceutical companies in Nigeria.

Hypothesis three: There is no significant relationship between employee acquisition cost and return on equity in listed pharmaceutical companies in Nigeria.

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

Dependent Variable: ROE
Method: Least Squares
Date: 09/08/20 Time: 06:17
Sample: 2000 2017
Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EAC	6.663090	1.787179	3.728273	0.0018
C	393819.7	553183.7	0.711915	0.4868

R-squared	0.464883	Mean dependent var	2164899.
Adjusted R-squared	0.431439	S.D. dependent var	1594918.
S.E. of regression	1202616.	Akaike info criterion	30.94234
Sum squared resid	2.31E+13	Schwarz criterion	31.04127
Log likelihood	-276.4810	Hannan-Quinn criter.	30.95598
F-statistic	13.90002	Durbin-Watson stat	1.969397
Prob(F-statistic)	0.001830		

Source: Author's E-views computation

The table shows that EAC has a sign coefficient of 6.66, t-Statistic of 3.73, and significant value of 0.00 < 0.05. The R-square value of 0.46 indicates roughly 46% contribution to return on equity (ROE) in listed pharmaceutical companies in Nigeria by the independent variable employee acquisition cost (EAC). Given the above, the null hypothesis six that, there is no significant relationship between employee acquisition cost and return on equity in listed pharmaceutical companies in Nigeria is rejected while concluding that there is significant relationship between employee acquisition cost and return on equity in listed pharmaceutical companies in Nigeria.

The table shows that the relationship between employee acquisition cost and net profit of listed pharmaceutical companies in Nigeria is moderate. Furthermore, the result of table 4.21 indicated that there is a significant relationship between employee acquisition cost and net profit in listed pharmaceutical companies in Nigeria. This finding is consistent with the study of Okpako et al. (2014). They found that human resource accounting variables impacted positively to the level of firm performance.

The result in table shows that the relationship between employee acquisition cost and return on asset of listed pharmaceutical companies in Nigeria is strong. Furthermore, the result of table indicated that there is a significant relationship between employee acquisition cost and return on asset in listed pharmaceutical companies in Nigeria. This finding is in agreement with the study conducted by Ekwe (2012), which revealed that there is a positive significant relationship between components of intellectual capital and the Return on Assets of the banks in Nigeria.

Also, the result in table shows that the relationship between employee acquisitions cost and return on equity of listed pharmaceutical companies in Nigeria is strong. While the result of table indicated that there is significant relationship between employee acquisition cost and return on equity in listed pharmaceutical companies in Nigeria. This finding is consistent with the study of Micah, (2012), which revealed that there is a positive correlation between Return on Equity (ROE) and Human Resource Accounting Disclosure (HRAD).

CONCLUSION

Sequel to the above findings, this study concluded that employee acquisition cost has significantly impacted the financial performance of listed pharmaceutical companies in Nigeria. This is because of the prospect of employee acquisition 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. The management should make policies that will boost return on equity since this will invariably affect investors interest
2. Pharmaceutical companies in Nigeria should also always engage in the acquisition of quality staff as this could improve net profit.
3. The management should make policies that will strengthen the investor's confidence while taking into consideration employee acquisition cost as not to spend so much to acquire unqualified staff.

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