THE EFFECT OF HUMAN CAPITAL DEVELOPMENT ON FINANCIAL PERFORMANCE OF BANKS IN NIGERIA

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ABSTRACT: The study examined the effect of human capital development on financial performance of banks in Nigeria. The specific objective was to determine the extent to which the banks PDW affects the PAT, TR and the NA. The research design employed was a cross sectional survey design. Time series data which comprise PDW, PAT, TR, and NA of quoted commercial banks in the NSE were the secondary data used. Statistical tools of Multiple Linear Regression and student t-test were used for the analysis. The regression model was estimated through the use of statistical package for social sciences (SPSS). The three null hypotheses used in this study were tested at 5% level of significance. The result obtained showed a no effect on PAT and no effect on TR, but a negative effect on NA. The p-value for all the independent variables are not significant. The F-test showed a good fit for the model. The study therefore concludes that banks have not invested adequately on human capital development that is why the effect on financial performance is not significant. Therefore commercial banks in Nigeria are advised to give more attention to human capital development by way of training and adequate welfare to enhance their productivity.

KEYWORDS: human capital development, total revenue, net asset, Banks, financial performance and Nigeria.

INTRODUCTION

The main objective of every business is to maximize profit. This major goal cannot be achieved without conscious investment on human capital to have the quality of employees that will enable the organization achieve it corporate objectives. According to Odhong et al., (2013), human capital was defined by Bontis et al., (1999) cited in Baron and Armstrong (2007) as the combined intelligence, skills and expertise that gives the organization its distinctive character. Carnegie (1919:3) as cited by Ismaila (2013) notes that, “the only irreplaceable capital an organization possesses is the knowledge and ability of its people. The productivity of that capital depends on how effectively people share their competence with those who use it”. The banks in Nigeria are well known for a common phrase which says “our employees are our greatest asset”. If this assertion is critically evaluated, the said greatest asset has not been given the required attention
that could bring out the best in an employee. The highest recruiting industry in Nigeria is the banking sector. Basically, they now recruit the First class graduates from the universities and also professionals in IT and finance. One expects proper motivation and attractive welfare package for these quality of human capital who spend the useful part of their lives working and maximizing shareholders values. However the reverse has always been the case. The issue of human capital development in banking industry is all about investing in improving the skill, innovation and technical capability of the workforce to enhance productivity. This is not restricted to workers alone but extends to even the employers/entrepreneurs because they too need to develop themselves for more efficiency and effectiveness in the management of physical and other human resources. This study therefore, examined the effect of human capital development on financial performance of banks by studying a total of ten (10) selected banks in Nigeria which include; First Bank of Nigeria Plc, Zenith Bank Plc, Sterling Bank Plc, Wema Bank plc, Access Bank Plc, Standard IBTC bank plc, ECO Bank plc, Diamond Bank plc, Fidelity Bank plc, FCMB plc.

**Statement of the Problem**

The economic downturn and general reforms in Nigerian financial sector triggered the merger of banks which consequently brought about the down-sizing of their staff strength. To send staff on off-job training now becomes difficult due to tight working schedule. Most bank employees find it difficult to get release for further studies. Financial targets become the order of the day. Even where banks commit enormous financial resources to staff training and development, staff health care and other personnel benefits become an issue. Besides, one thing is to acquire additional knowledge and skill, another thing is to have the required motivation to use the human capital acquired to bring about improved productivity. Therefore, there is need to investigate the effect of human capital development on financial performance of banks.

**Objectives of the Study**

**General objectives**

To examine the effect of human capital development on the financial performance of Banks in Nigeria.

**Specific objectives**

The specific objectives of the study are to:

- Determine the effect of Human Capital Development on the profitability (PAT) of Banks;
- Assess the effect of Human Capital Development on the Net Assets (NA) of Banks;
- Appraise the extent to which human capital development enhances the total revenue (TR).
Research Questions

To pursue the above stated objectives, the study aims at addressing the following questions:

- To what extent does human capital influence profitability (PAT);
- To what extent does human capital development enhance Net Asset (NA);
- To what extent does the human capital development affect the total revenue (TR)?

Research Hypotheses

- Human capital development does not significantly influence the profitability of banks in Nigeria.
- Human capital development does not significantly enhance the net assets of banks.
- The total revenue of banks is not significantly influenced by human capital development.

Significance of the Study

The study made use of ten (10) reputable banks which is a good representation of the banking sector in Nigeria. The work stands to give bank managers an insight into the relevance of human capital development which will help to improve the financial performance of their organizations. The employees will also see the need for proper career development in terms of possessing more expertise and relevant skills to face challenges in their jobs. Future researchers will also find the data used for this study very useful for further studies.

Limitation of the Study

We had about eighty nine (89) legacy Banks operating in Nigeria before consolidation which currently reduced the number of commercial banks to twenty one (21). The researchers were not able to obtain the financial statements of all these banks due to the huge cost of downloading them from Nigerians Stock Exchange website. The sample was drawn from this number which is a good representation of the commercial banks in Nigeria. Non publication of comprehensive annual reports by some of these banks was also a constraint to the study. The abridged financial statements published by some banks made it difficult for us to extract the relevant data needed for the work.

LITERATURE REVIEW

Conceptual Review

Schmidt (2004) defines human capital as a form of intangible assets that creates future economic value, which include the competencies of front-line employees and the organizational capabilities. Human capital concept believes that all personnel inputs and activities are not equal and that quality of employee can be improved by investing in them. Harbison (1962) also defines human
capital development as the process of acquiring and increasing the number of persons who have the skills, education and experience which are critical for the economic growth of the country. This is why Employees’ level of education, the wealth of experience and some personal skills could have a positive effect on organizations financial performance. Theodore Schultz invented the term ‘human capital’ in 1960’s to reflect the value of our human capabilities. He believed human capital was like any other capital that could be invested on through education, training and enhanced benefits that will lead to an improvement in the quality and level of production. Adam Smith defined four types of fixed capital which he identified as machines, buildings, land and Human Capital. Smith described human capital as skills, dexterity (physical, intellectual, psychological, etc.) and judgment. Total revenue is the actual gross revenue of a bank. Profitability refers to the capacity of firm to generate profit. Net Asset is the total worth of a firm which includes their total assets and reserves but excluding all liabilities.

DEPENDENT VARIABLE.

PDW
PERSONNEL DEVELOPMENT AND WELFARE

INDEPENDENT VARIABLES

 PROFIT AFTER TAX (PAT)
 TOTAL REVENUE (TR)
 NET ASSET (NA)

Figure 1: Conceptual Framework

Theoretical Review
This study has been anchored on the following theories advocating the relevance of human capital development:

Human Capital Theory
According to this theory, a workforce that is more educated and possessing the relevant skills makes it easier for a firm to adopt and implement new technologies which in other words means
return on investment in employees education and training, (Izushi and Haggins, 2004). Human capital theorists believe that education is an investment since it enhances productivity. The theory holds that the competence, knowledge, abilities and skills of an organization’s workforce contribute to its competitive advantage.

**Resource Based View (RBV)**
The theory states that firms’ competitive advantage is sustained by organizational valuable resources, and capabilities, which are not common and cannot be easily substituted. RBV was built into a coherent theory by Wernerfelt (1984) as cited by Odhong et al (2014). Odhong et al (2013) also believes that firms’ competitive advantage can be secured through development of knowledge and skills. The theory sees human capital as a resource that cannot be substituted or imitated which gives a firm a competitive advantage over others.

**Growth Theory**
Growth theory according to Jovanic (2000), was discovered in the 1950s to 1960s. According to him, the theory recognizes that the growth of individual skills and incentives comes as a result of progress in science and inventions. Oyinlola et al (2014) cited Arrow (1962) who argues that new ideas are achieved when the old ideas are used and that invention is incidental to normal production activity. This theory is supported by bank workers who easily adapt to technological changes being introduced to them more often. They easily switch over to new inventions because they are in the system already.

**Modernization Theory**
Modernization theory focuses on how education transforms an individual’s value, belief and behavior. Modern values are being inculcated in people when they are exposed to modern institutions such as schools, social media, internet and factories. McClelland (1961) research work gave birth to modernization theory. He opines that certain societies are better and advanced because of their personality styles and cultural differences. As a social psychologists, he tries to explain why some societies are faster in social and technological advancement. This theory is trying to encourage societies to be open and adapt to modern ways of doing things by way of embracing technological changes. The world is changing rapidly, and for society to be relevant, modern ways of doing things must be accepted and be implemented.

**Empirical Review**
In the course of this study the following empirical studies were reviewed which gave us better understanding and insight into the need for human capital development.

Ismaila yusuf (2013) studied the relationship between human capital efficiency and financial performance: an empirical investigation of quoted Nigerian banks. Two hypotheses stating that Human capital efficiency has no significant impact on the EPS of Nigerian banks and Human capital efficiency has no significant impact on the ROE of Nigerian banks were tested. The study revealed that efficient utilization of human capital does not have any significant impact on the return of equity of banks. Also the size of a bank has no significant impact on it return on equity,
while the return on equity of banks cannot be predicted by human capital efficiency and size of the banks.

Olalere and Adesoji (2013) examined Human Capital Development of First Bank of Nigeria Plc. The study utilized both secondary and primary data. Their findings revealed that the Human Capital Development in First Bank of Nigeria Plc. has improved the skills, attitude and performance of staff of the bank which invariably has led to the achievement of organizational goals and objectives. The findings also discovered the need for the bank to put in place motivational policies that will be attractive to the staff in order to retain them after the training and development exercise. This is will reduce frequent staff turnover trending in the banking sector. Onyekwelu et al., (2015) examined the Impact of Human Capital Accounting (HCA) on financial performance and market valuation using four publicly quoted companies (banks) in Nigeria. Secondary data were sourced from the annual financial statements of five selected firms, relevant textbooks and the internet. Data were analyzed using percentages and Chi-Square statistical test. The study reveals among others that there is a significant increase in firms’ net worth when investments on human capital are treated as assets and capitalized as against the current practice where such expenditures are treated as mere revenue expenses thereby leading to gross undervaluation of firms’ Statement of Financial Position (Balance Sheet) and the Income Statement (Profit and Loss Account).

Odhong and Were (2014) investigated the effected of human capital management drivers on organizational performance in Kenya. The study adopted a case study research design and stratified random sampling. Qualitative and quantitative technique of data analysis were used. The study concludes that it is possible to use human capital management drivers to benchmark organizational capabilities, identify human capital management strengths and weakness, and link improvements in specific human capital management practices with improvements in organizational performance and obtain sustainable competitive edge.

Oyinlola and Adeyemi (2014) studied the impact of human capital development on organizational performance in the Nigerian banking sector, with a particular reference to the Osun State. Primary source of data was used, using questionnaire as a research instrument. A total of 351 copies of questionnaire were distributed to the branches of four selected banks spread across the State, using judgmental and simple random sampling techniques. Out of these, 302 copies were filled and returned, forming the basis of data analysis. The study concluded that significant relationship exists between human capital development and organizational performance in the banking industry.

Having reviewed the study of other scholars, the gap discovered is that none of them made use of time series secondary data which comprise quantitatively the personnel development and welfare, total revenue, net asset and profit after tax of the banks studied. Another gap is that this study used a sample size that is almost 50% of the population which most of them could not use either because of the cost or the time involved.
RESEARCH METHOD

Research Design

The research design adopted in this study is a cross sectional survey which involves a survey of existing data (secondary data).

Methods of Data Collection and Technique of Analysis

Time Series Annual data was employed ranging from 2011 - 2015 with a sample size of 10 banks. The research instruments used in collection of data for this study were mainly secondary data from the NSE Website and Annual reports published by the banks selected.

Descriptive and inferential statistics were used to analyse the data for this study. Also multiple regression and t-test statistical tools were used to test the hypothesis formulated in this study.

Model Specification

This study used the econometric technique of Ordinary Least Square (OLS) in form of Multiple Linear Regressions to the relative regression coefficients. The regression model was estimated through the use of Statistical Package for Social Sciences (SPSS).

The mathematical model for the study is as follows:

$$ PDW = f (PAT, TR, NA) $$

Where;

- **PDW** = Personnel Development and Welfare
- **PAT** = Profit after Tax
- **TR** = Total Revenue
- **NA** = Net Assets

Mathematical Specification

$$ Y_i = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + e $$

Where;

- **Y** = Personnel Development and Welfare
- **X** = Profit after Tax
- **X** = Total Revenue
- **X** = Net Asset
- **b** = The parameter which represents the intercept
- **b** = The regression parameters used in determining the significance of the impact of each of the independent or explanatory variables **x** on dependent variable, **Y**.

**e** = Random disturbance term.
RESULTS AND DISCUSSIONS

The result from SPSS below has been summarised as follows:

Summary of the Results

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.931</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.866</td>
</tr>
<tr>
<td>Adj.R</td>
<td>0.799</td>
</tr>
<tr>
<td>Std Error of estimate</td>
<td>12205.55</td>
</tr>
<tr>
<td>Durbin – Watson</td>
<td>1.906</td>
</tr>
<tr>
<td>F Value</td>
<td>12.938</td>
</tr>
<tr>
<td>DF</td>
<td>9-3 = 6 i.e. F-tab = 4.76 (Under 5%)</td>
</tr>
<tr>
<td>PV (Significant)</td>
<td>0.005</td>
</tr>
</tbody>
</table>

Table 1 shows the $R^2$ of 86.6% which is the rate of variability on the dependent variable (PDW) by all the independent variable (PAT, TR, & NA) combined. That means PDW of Banks affects the behaviour of the explanatory variables which are accounted for by the model.

Table 2 is the F-Test to determine whether the model is a good fit for the data. From the p-value, the model is a good fit since the P<0.05. That is, the F-value of 12.938 with the P-value of 0.005 shows that the model is statistically significant.

Table 3 means that $Y = -4057.533 + 0.041PAT + 0.026TR – 0.005NA$

Test of Hypothesis

The study earlier hypothesized that: significant relationship does not exist between banks’ human capital development using PDW as a proxy and their PAT, TR & NA. Therefore the study has tested sets of variables using the t-test, to see if they are significant. The results revealed the following: PAT = 0.751 < 4.76 (no effect), significance level ($p = 0.481 > 0.05$ i.e., not significant); TR = 1.481 < 4.76 (no effect), significance level ($p = 0.189 > 0.05$ i.e., not significant); NA = -0.450 < 4.76 (negative effect), significance level ($p = 0.668 > 0.05$ i.e., not significant). Based on the result from SPSS, the study has accepted the three null hypotheses and rejected the alternatives which state otherwise.
CONCLUSION AND RECOMMENDATION

The study has proved that the level of human capital development in Nigerian banks is so insignificant that it does not have positive effect on their financial performance. That means, bank workers have not been intellectually well developed and sufficiently motivated as to make significant impact on the profitability of banks. The result of this study has proved the human capital theory and the RBV which maintain that human capital development and training enhance productivity and that their values cannot be substituted. The study agrees with Olalere and Adesoji (2013) research on human capital carried out on First Bank Nigeria Plc. Their research work revealed a high commitment of the bank on human capital development which resulted in improved financial performance. The secondary data gathered for this study showed that First Bank Nigeria Plc. and Zenith Bank Plc., have the highest value in terms of human capital development represented as PDW (see the table below). Therefore, other banks are advised to follow their good example so as to improve their financial performance. Further researchers are expected to do a comparative study on human capital development of banks in Nigeria and banks in other countries. This will give more insight to what is expected of banks in Nigeria as regards personnel development and welfare.

VARIABLES FROM SELECTED BANKS FINANCIAL STATEMENTS (2006 – 2015)

<table>
<thead>
<tr>
<th>NAME OF ORGANIZATION</th>
<th>PDW 06-'15</th>
<th>PAT 06-'15</th>
<th>TR 06-'15</th>
<th>NA 06-'15</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIRST BANK NIG. PLC</td>
<td>77,270 N'M</td>
<td>413,033 N'M</td>
<td>2,788,071 N'M</td>
<td>3,536,286 N,M</td>
</tr>
<tr>
<td>ZENITH BANK PLC</td>
<td>77,795 N'M</td>
<td>590,229 N'M</td>
<td>2,574,687 N'M</td>
<td>2,519,134 N,M</td>
</tr>
<tr>
<td>STERLING BANK PLC</td>
<td>5,057 N'M</td>
<td>47,055 N'M</td>
<td>576,141 N'M</td>
<td>464,481</td>
</tr>
<tr>
<td>WEMA BANK PLC</td>
<td>14,149 (55,682)</td>
<td>275,731 N'M</td>
<td>56,050 N'M</td>
<td></td>
</tr>
<tr>
<td>ACCESS BANK PLC</td>
<td>13,029 N'M</td>
<td>235,450 N'M</td>
<td>1,473,114 N'M</td>
<td>2,052,194 N,M</td>
</tr>
<tr>
<td>STANDARD IBTC BANK PLC</td>
<td>4,570 N'M</td>
<td>126,398 N'M</td>
<td>615,545 N'M</td>
<td>852,334</td>
</tr>
<tr>
<td>ECO BANK PLC</td>
<td>28,809 N'M</td>
<td>145,280 N'M</td>
<td>1,486,534 N'M</td>
<td>1,482,074 N,M</td>
</tr>
<tr>
<td>DIAMOND BANK PLC</td>
<td>21,504 N'M</td>
<td>72,769 N'M</td>
<td>1,054,217 N'M</td>
<td>1,161,003 N,M</td>
</tr>
<tr>
<td>FIDELITY BANK PLC</td>
<td>14,106 N'M</td>
<td>90,840 N'M</td>
<td>415,605 N'M</td>
<td>1,163,718 N,M</td>
</tr>
<tr>
<td>FCMB GROUP PLC</td>
<td>21,476 N'M</td>
<td>85,933 N'M</td>
<td>855,713 N'M</td>
<td>1,162,204 N,M</td>
</tr>
<tr>
<td>TOTAL</td>
<td>277,765 N'M</td>
<td>1,751,305 N'M</td>
<td>12,115,358 N'M</td>
<td>14,449,478 N,M</td>
</tr>
</tbody>
</table>

### TABLE 1

**Model Summary**

<table>
<thead>
<tr>
<th>Mode</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.931a</td>
<td>.866</td>
<td>.799</td>
<td>12205.550</td>
<td>1.906</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), NA, PAT, TR  
b. Dependent Variable: PDW

### TABLE 2

**ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5782508197.7</td>
<td>3</td>
<td>1927502732.5</td>
<td>86</td>
<td>&lt;.005b</td>
</tr>
<tr>
<td>Residual</td>
<td>893852704.74</td>
<td>6</td>
<td>148975450.79</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6676360902.5</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: PDW  
b. Predictors: (Constant), NA, PAT, TR

### TABLE 3

**Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-4057.533</td>
<td>7540.514</td>
<td>-.538</td>
<td>.610</td>
</tr>
<tr>
<td>1</td>
<td>PAT</td>
<td>.041</td>
<td>.055</td>
<td>.282</td>
</tr>
<tr>
<td></td>
<td>TR</td>
<td>.026</td>
<td>.018</td>
<td>.850</td>
</tr>
<tr>
<td></td>
<td>NA</td>
<td>-.005</td>
<td>.012</td>
<td>-.199</td>
</tr>
</tbody>
</table>

a. Dependent Variable: PDW
GRAPH 1

Histogram
Dependent Variable: PDW

Reg: 3.0E-02
St: 0.1

N: 10

GRAPH 2

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: PDW
REFERENCES


