Training and Development Costs and Financial Performance of Listed Companies in Kenya

1Emilly Anyango Orwa, 2Emily Mokeira Okwemba, 3Denis Ouma

1Student, Kaimosi Friends University, 2Lecturer, Kaimosi Friend University, 3Senior Lecturer, Kaimosi Friends University
Department of Accounting and Finance
Kaimosi Friends University, Kenya

Abstract: Firms consider anticipated future benefits of employees before investing in human capital development. They expect to yield high economic returns since training and development improve employee skills and knowledge, thus boosting productivity. Despite heavy investment in employee training costs, some companies still face a downward trend in their financial performance. The study examined the effect of training and development costs on financial performance of listed companies. The study employed human capital theory. The study was guided by positivism research philosophy. The study adopted a longitudinal research design. The target population was fifty-six listed companies in Kenya. Using a secondary data collection sheet, the study collected secondary data from published audited financial statements of the listed companies in Kenya from 2017 to 2021. Both descriptive and inferential statistics were obtained. Descriptive statistics comprised mean, standard deviation, minimum, and maximum values. Inferential statistics consisted of correlation analysis and random effects model. The random effect regression model results indicated that training and development costs had a significant positive effect on ROA with a p-value of 0.00<0.05 and a coefficient of 0.31 on ROA. The study recommended that companies ensure adequate allocation of funds to human resource expenditure vote heads to sufficiently finance the training and development costs. The study will provide valuable information to accounting standard-setting bodies to review current accounting procedures relating to employee training and development costs and provide standards for valuation and capitalizing training and development expenditures in the statement of financial position.

Keywords: Training and Development Costs, Financial Performance, Human Resource Costs, Return on Assets

I. INTRODUCTION

Finance managers often examine cost scenarios and create a strong cost strategy to maximize the profitability of their organizations due to the continuously rising cost of doing business for businesses worldwide. According to earlier studies, business expenditure decisions are a key indicator for predicting the company's future profitability and stock returns. Most accounting researchers have argued that operational expenditure decisions should not be made lightly because the optimality of these expenses results in the value maximization of firm returns (Aljamaan, 2017; Rafi & Hossain, 2018).

Businesses in all industries rely on the contributions and ability of their human resource to effectively and efficiently mobilize other organizational resources. Human resource costs (HRC) provide firms with information concerning employee expenditures. Training and development costs constitute a significant cost factor of human resource costs (Agbiogwu, Ihendinihu, & Azubike, 2016).

Training and development describe any initiative taken to increase the competence and understanding of current and prospective personnel. The firm's financial performance can be maintained and enhanced through training and developing a varied workforce with a wide range of talents. By allowing workers to contribute to the fullest extent of their abilities, companies may foster excellent performance in both workers and the company. Gaining superior knowledge, skills, and talents are facilitated by training and development, which in turn boosts job productivity and employee morale. Employee performance directly impacts the business's success, ensuring employees have opportunities for growth and development. Improved employee performance and financial performance are the direct results of training and development programs that raise workers' levels of education, expertise, confidence, and commitment (Njue & Kiiru, 2018).

According to a report in Algeria, companies that spend a lot of money on training can justify their expenditures by enhancing employee and company performance. Training and development costs enable firms to improve staff expertise and company performance. The elements of training and development activities, such as formal training, help employees enhance their abilities and convey knowledge beyond what is required for their current role. Consequently, investing in employees through training and development improves the financial and organizational performance of companies (Djilali & Sarra, 2017).

In Bangladesh, a report showed that employee training and development expenditures are essential investments. According to the report, human resource development has established a considerable competitive advantage and a substantial effect on business value. The positive effect of human resource investment confirms that gradual increases in employee development can have significant beneficial trade-off effects on business financial performance. Organizations should regard human resource development expenditures as strategic investments because of the close link between human resource costs and financial success (Chowdhury, Rana, Akter, & Hoque, 2018).

Firms consider anticipated future benefits of employees before investing in human capital development. They expect to yield high economic returns since training and development improve employee skills and knowledge, thus boosting productivity. It is,
therefore, crucial to find a causal link between training and development costs and financial performance of firms. Therefore, the study sought to examine the effect of training and development costs on the financial performance of companies listed in Kenya.

**Objective**
To examine the effect of training and development costs on the financial performance of companies listed in Kenya.

**Hypothesis**

\[ H_0: \text{There is no significant effect of training and development costs on the financial performance of companies listed in Kenya.} \]

**II. CONCEPTUAL FRAMEWORK**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and Development Costs</td>
<td>Financial Performance</td>
</tr>
<tr>
<td>• Training and development expenses to sales ratio</td>
<td>• ROA</td>
</tr>
</tbody>
</table>

**III. EMPIRICAL REVIEW**

Edom, Inah, and Adanma (2015) studied the effect of staff training costs on the profitability of Access Bank PLC in Nigeria. The study adopted an exploratory research design. Convenience sampling technique was used in the study. Secondary data was obtained from financial reports for the study period. The study analyzed data using OLS multiple regression technique. Study findings revealed a significant effect of staff training and development costs on the financial performance of Access Bank.

Salawudeen and Suleiman (2018) determined the effect of human capital accounting on the financial performance of listed consumer goods firms in Nigeria. The study's target population comprised twenty-seven companies. The study's sample size was determined using filter to eliminate firms based on filing their published audited financial statements with the NSE within the research period. The research sample size comprised eighteen companies. The study's research design was an ex-facto research design. The study used secondary data by extracting information from accounts and annual reports of sampled companies. The study used multiple regression analysis techniques to analyze panel data. The study's findings showed that training and development costs significantly affect financial performance.

Vaddadi, Surarchith, and Subhashin (2018) studied the effect of human resource accounting on the financial performance of firms in India. The study specifically sought to evaluate the effect of training and development costs on a firm's financial performance. The study used ten Indian nationalized banks in Pradesh. The study used primary data collected using questionnaires. Study findings showed a strong positive effect of training and development costs on financial performance.

Obulor and Ohaka (2019) determined the effect of training costs on the financial performance of quoted manufacturing firms in Nigeria. The study used ex-facto research design and used panel data of the manufacturing firms. The study analyzed financial secondary time series published data from twenty quoted manufacturing firms. The study used the OLS regression technique to analyze data. The findings revealed that training costs have a significant positive effect on financial performance.

Ozioma and Udeh (2021) studied the effect of staff training and development costs on the profitability of selected quoted firms on the Nigerian Stock Exchange. The study population consisted of 116 listed firms in the non-financial service sector. The study used purposive sampling and considered 76 firms whose secondary data was available. The study adopted an ex-post-facto research design and sourced the data from the accounts, annual reports, and the Nigerian Stock Exchange fact book 2020. Data was analyzed using regression analysis with the help of linear structural relations, and SPSS was used for preliminary analysis. Findings indicated that staff training and development costs have a significant positive effect on the profitability of quoted non-financial service firms.

**IV. THEORETICAL REVIEW**

**Human Capital Theory**

Becker postulated the human capital theory (HCT) in 1962. The theory emphasizes the role of human resource in the organization by arguing that employees add value that significantly contributes to the firm's performance. According to this approach, an employee's talents or abilities can be developed and accumulated through training. Human capital describes the ability of individuals to produce value. The value of an individual's skills, experience, and knowledge enables a company to be productive and adaptive. Human capital, like other assets, has a monetary worth (Becker, 1962).

The most significant and valuable investments in human capital are education and training. Investment in employee training and education has an excellent economic return since firms benefit from the trained employees' knowledge, skills, and experience, thus boosting their productivity (Becker, 2009).

The theory assumes that firms consider the anticipated future benefits of employees before deciding on the investment in human capital development. Firms, therefore, find it necessary to reflect on the return on investment on their human capital and only invest if it would significantly gain economically. Management of firms is required to ensure that they protect the interests of the shareholders by only considering investments with future benefits and avoiding any investments without immediate or future use. The management must guide against mismanagement and loss in the organization. This can be achieved by only committing
resources to human capital-related costs that guarantee a company's future benefit and not loss to the company (Samagaio & Rodrigues, 2016).

Human capital theory suggests that employees are vital to an organization's ability to generate economic value. This theory can evaluate the financial impact of human resource costs on performance. For example, if an organization spends more on training and development programs, it may see a positive impact on financial performance due to the resulting increase in employee productivity. Therefore, when assessing a company's financial performance, it is important to consider its human resource costs. These costs can include training and development expenses, salaries, and benefits. Considering the human capital investments made by a company, one can better understand overall financial performance (Savitri & Syahza, 2019).

The study adopted the human capital theory because the theory emphasizes accounting for human resource costs, recognizing the immediate and anticipated future benefits of human resource. In the present study, the future anticipated economic use associated with an investment in human resource is improved financial performance.

V. METHODOLOGY

The target population for the study comprised fifty sex listed companies in Kenya. Longitudinal research design was used. Secondary panel data was found from the annual reports of listed companies in Kenya for the financial year periods covering 2017 to 2021. Published audited annual financial reports for the financial years 2017 to 2021 were downloaded from the Nairobi securities exchange website. Data collected included total assets, net income, net sales, and training and development costs. Study data was cleaned and processed. Both inferential and descriptive statistics were obtained. Descriptive statistics summarized the analysis of training and development costs and financial performance and comprised standard deviation, minimum and maximum values, and mean. Inferential statistics comprised correlation analysis and a random effect model.

VI. RESULTS AND DISCUSSION

From the table, it implied that there was a high variation in training and development costs of listed companies during the study period between 2017 to 2021, with a 2.67 mean and 0.71 standard deviation. This wide variance was further explained by the minimum value of 0.48 and the maximum value of 4.49. The wide variance in training and development costs depicts that some listed companies in Kenya incur high expenditures in staff training and development while others spend little on employee training and development costs.

Correlation Analysis

Table 2: Correlation Analysis Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>245</td>
<td>2.590735</td>
<td>.6421624</td>
<td>.587645</td>
<td>4.70757</td>
</tr>
<tr>
<td>TDC</td>
<td>245</td>
<td>2.667397</td>
<td>.7134568</td>
<td>.4771121</td>
<td>4.49693</td>
</tr>
</tbody>
</table>


Star (0.05) sig
The correlation analysis found a significant positive relationship between training and development costs and ROA, as supported by the r-value of 0.7195 and a p-value of 0.00<0.05, indicating a significant association. The results agree with Salawudeen and Saleiman (2018) that training and development costs are positively and significantly associated with financial performance. The result is also consistent with Ozioma and Udeh (2021), which established a positive association between training and development costs and the profitability of quoted non-financial service firms in Nigeria.

Random Effect Model
The idea behind this model is that differences in outcomes across different entities should be entirely uncorrelated to the model's independent variables. Random effects rely upon the idea that error terms are uncorrelated to independent variables (Huang, Lee, & Ullah, 2019).
The study examined the effect of training and development costs on the financial performance of listed companies. The null hypothesis for this objective was that training and development costs have no significant effect on financial performance. The correlation analysis of training and development costs and return on assets showed an $r$ of 0.72 and a $p$-value of 0.00. The findings demonstrated that training costs have a positive and significant correlation with financial performance. Further, the random effect regression results indicated the regression coefficient for training and development costs, $r = 0.31$, with a $p$-value of 0.00<0.05. Training and development cost significantly affect financial performance. This means that companies’ financial performance was significantly and positively affected by training and development costs. In other words, a 31% rise in financial performance is associated with every 1% increase in training and development costs. The study rejected the null hypothesis.

The findings were consistent with those of Vaddadi, Surarchith, and Subhashin (2018), whose findings showed a positive influence of training and development costs on the financial performance of firms in India. The findings also agreed with Obulor and Ohaka (2019) which demonstrated that training costs have a positive and significant correlation with financial performance. This finding was supported by the correlation results that showed a positive value of 0.00 between financial performance and training and development costs.

The findings support the human capital theory assumption, which emphasizes the role of human resource in the organization by arguing that employees add value that significantly contributes to the firm's performance. According to human capital theory, an employee's talents and abilities can be developed and accumulated through education, training, and development, enabling an organization to be productive and adaptive and consequently improve financial performance. The theory also postulates that for companies to assess their human capital contributions to financial performance, training is necessary for their productivity.

VII. SUMMARY

The study examined the effect of training and development costs on financial performance of companies listed in Kenya. For this objective, the study was based on the null hypothesis that there is no significant effect of training and development costs on the financial performance of companies listed in Kenya. Inferential statistical results revealed that training and development costs investments had a significant effect on financial performance. The GLS Random effect regression results indicated a positive coefficient of 0.31 and a $p$-value of 0.00. This finding was supported by the correlation results that demonstrated a positive correlation of $r = 0.72$ and a $p$-value of 0.00 between financial performance and training and development costs. It means that if listed companies increase their expenditures on training and developing employees, their financial performance will subsequently increase. Based on these results, training and development costs positively and significantly affect financial performance. The study’s null hypothesis for the objective was rejected.

VIII. CONCLUSION

The correlation analysis results indicated $p=0.00$, $r=0.72$, and regression coefficient of $\beta=0.31$, $p=0.00$, which are all positive and significant. It was therefore concluded that training and development costs have a significant positive effect on the financial performance of listed companies in Kenya.

IX. RECOMMENDATION

The inferential statistics results indicated that training and development costs significantly and positively affect financial performance. The descriptive statistics results, however, indicate wide variability in training and development costs of the companies. Therefore, the study recommends that firms should set aside adequate budget allocation funds for staff training and development costs to increase financial performance.

REFERENCES


