Determinants of Corporate Provisions for Employee's Obligations

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Abstract
This study Determinants of corporate provision for employee obligation in quoted non-financial companies in Nigeria examined the factors which significantly affect the provision for employee obligation of quoted companies. The study uses a panel data from 40 non-financial quoted companies in Nigeria between 2012 and 2016 financial years. Longitudinal research design, descriptive, correlation and regression analysis was employed to test the relationship between the variables. The result reveals that corporate performance, government policy, ownership structure are key factors that determine corporate organization provision for employee obligation in quoted companies in the Nigeria Stock Exchange. Based on the analysis result and findings, the study recommended among others that non-financial firms in Nigeria when formulating employee welfare policy should consider the level of their performance, Government Policy, and ownership structure.

Keyword: *Ownership Structure, Government Policy, Corporate Performance, Employee Obligation*

1.0 Introduction

In the past decade, public and private organizations in most developing nations has witnessed rapid growth in employee benefit expenditure probably due to the rising cost of maintaining employee and the strong impact of union (labour and trade) in the bargain for better welfare of employee, this has made it difficult for many employer to implement employee welfare/benefits program during the employee active service and after active service. According to Mortocchio (2001), the increasing expenditure on employee has made most organizations provision for these benefits gone down relatively. This increasing expenditure on employee has been identified as the main reason why many employee welfare/benefits program has not been implemented despite it been a motivating factor for employee productivity (Mortocchio 2001).

The labour laws require the employer to take care of the welfare of the employee during active service and provide for its welfare after the active service life. The Employer provision for after (pension and gratuities) active service has become more important to the economic security of future retirees. However, the viability of the provision for after service welfare in guaranteeing

Social Security of the employee depend on a healthy private pension system as well as on the employee saving more for retirement.

The high competitive business environment has made organizations with good employee welfare package gain advantage than others, as the welfare program act as a tool for attracting high quality employee. However, to successfully implement full employee welfare program will require huge financial, physical and human resources. Barney, (1991) observed that most organizations seek to hire talented employees so as to benefit from their skills and talents, by contributing to the overall performance and the competitive advantage of the firm through addition of a rare, inimitable value. After hiring those high quality employees, the firms are also interested in retaining such talented employees. In order for the firm to do so, the firm need to have a clear program and policy that take into consideration the welfare of the employee during and after the active service life.

Various empirical studies has examine the employer- employee relationship and organisation work –pay strategy. Majority of the studies carried out on employee welfare largely done in developed economies with effective employee welfare/ union rule which differ significantly from that of developing nation like Nigerian. Given the intensified level of competition among organization to hire and retain quality employee and increased demand by employee and union for better employee welfare during active service provision for after active service welfare in both public and private sector has made the factor that influences organization provision more important. Despite this importance, empirical studies on the key determinants of corporate provision for employee welfare obligation are lacking. This is the gap this study wish to fill.
The main objective of this paper is to identify the key determinants of corporate provision for employee welfare obligation among companies in Nigeria. The specific objectives of the study include:

1. To ascertain the extent to which government policy influence corporate provision for employee welfare among quoted companies in Nigeria.
2. Determine the extent to which organizational performance influence corporate provision for employee welfare among quoted companies in Nigeria.
3. Examine the extent to which ownership structure influence corporate provision for employee welfare among quoted companies in Nigeria.
4. Evaluate the extent to which trade union influence corporate provision for employee welfare among quoted companies in Nigeria

The remainder of this paper is organized as follows. Section 2 review of related literature. Section 3 lays out the analytical framework and econometric methodology. Section 4 results and discussion of findings.

2.0 Review of Related Literature

Employee welfare obligation is an indispensable factor to employee motivation to achieve more and hence focus more on work and personal development. Fulfilling those obligations involves both financial and non-financial resources. Organization with attractive welfare program comprises a combination of pay, bonuses, other financial rewards as well as non-financial rewards like extra holiday and voucher schemes.

The study of Annal and Kitual (2013) revealed that financial performance and government obligation are the main factors influencing the extent to which firm meet its employee welfare obligation. In the study of Saks and Rotman (2006), recognition and rewards are significant antecedents of employee engagement which can be determine by the level of profitability of the firm. They noticed that when employees receive rewards and recognition from their

organisation, they will feel obliged to respond with higher levels of engagement. Kahn (1990) observes that employee's level of engagement is a function of their perceptions of the benefits they receive. Therefore irrespective of the quantity or type of reward, and the firm wiliness to give, the level of performance of the organization will determine if the organization will be able to implement the reward package. Nawaz, (2012) identified the variables that have influence on employees turnover in Pakistan International Airlines. The results revealed that there exist high relationship between career progression, firm welfare package and employee turnover rate. In a similar study by Abeysekera (2007) investigated the outcomes of human resource practices of firms in Sri Lanka. The study revealed that firm compensation and factual job information prove to have a positive relationship with employee's intention to leave.
Leiter and Bakker, (2010) argues that in absence of government policies, organization that is performing better meets its employee obligation than organization that is struggling. Hence the extent to which organization meets it obligation to its employee can be determine by the profit and government regulations.

2.1.1 Government Policy on Employee Benefits

According to Nzuve (2010) the government can intervene with a policy to obligate employers to provide certain benefits to employees. The government can for instance use the national assembly to legislate laws that enforce payment of the benefits. The law will make it mandatory for employers to pay certain benefits to the employee. Some types of employee benefits in Nigeria are mandatory as they are required by law while others are optional. The legally required benefits include for instance various forms of insurance covers for employees. Through various Acts of Parliament and legislations, the government of Nigeria has made it mandatory for employees to be offered certain benefits. The Pension Act in Nigeria made it mandatory for employers to enroll employees into the monthly pension scheme management by an approved pension agent.

2.1.2 Organization Performance and Provision for employee obligation

According to Kimanzi, and Gachunga (2013) highly competent and motivated employees show great respect for their work and are committed to achieving organizational objectives. More over the model of social man implies that people will work effectively if their social needs are met (Cole 2002). Provision of employee welfare is one way to meet the social needs of workers. The provision for employee welfare obligation requires significant amount of financial resource (Armstrong 2009). The financial resources depend on the financial performance of the organization from time to time and it's a crucial factor that influences the successful implementation of employee welfare program which includes meeting with welfare obligation in any organization. According to Mondy and Noe (2004) employee welfare generally cost between 10 -30 percent of organizational expenses. Those welfare cost includes medical insurance cover, training for career development, leave of absence, bonus and social security among others. The organization must pay for these facilities and the level of performance of a firm can be a major factor in implementing employee welfare programs.

2.1.3 Trade union and Organization Provision for employee obligation

All other things being equal, the success of the trade union as it seeks to extract higher wages for its members will depend upon the strength of its hand in negotiations with the employer. One commonly accepted indicator of union strength is the density of union membership within the unit in question (i.e. the proportion of all employees in that unit that are members of the union). A higher density of membership provides greater legitimacy to the union's role as an appropriate representative of the workforce and also provides a larger bank of support that can be marshalled in defence of a claim. Yet the use of membership density as a measure of union strength in the analysis of earnings is widely acknowledged as problematic because of the potential endogeneity of union status with respect to wages (see, for example, Booth, 1995). We therefore look to two alternative measures of union strength that are less contentious: the presence of a local representative of the union and the securing of strong management support for union membership. Since we have argued that a union's strength derives in large part from its base of members within the workforce, one can expect a 'strong' union to possess a functioning structure through which it communicates with its members and services their daily needs.

2.1.4 Ownership Concentration and Provision for employee obligation

Ownership concentration is simply the existence of strategic shareholders of companies that may or may not be part of the management or board of a company. In defining ownership concentration, most authors often use 5% share ownership. This means any shareholder that has 5% of a company shares is often describe as major holder and the pool of such owners tells how structured the companies are. It tells whether decisions would be made to favour the ordinary shareholders or the major shareholders. ***Institutional ownership:*** Some have either existing or potential business relations with firms, and, in order to protect those relations, might be less willing to challenge management decisions. These investors are therefore labeled pressure-sensitive. In contrast, institutions such as investment companies and independent investment advisors may be less subject to pressure from the firms in which they invest and therefore are better suited to monitor, discipline, and impose controls on corporate managers. These institutional investors are labeled pressure- insensitive. Using this classification, Almazan et al. (2005) show that greater share ownership by pressure-insensitive investors is associated with greater discipline on employee welfare and compensation. Using the same classification, Chen et al. (2005) find that pressure insensitive ownership is associated with better acquisition decisions. The empirical results in the paper lead us to confirm a positive relation between measures of institutional investor involvement and a firm's operating performance. ***Block Ownership:*** The idea of multiple or no of major share ownership in corporations hold a very strong relevance in employee welfare. Evidence on their role has been somewhat scanty especially in developing economies like Nigeria which still suffers from effective monitoring problem. The block shareholder most often are involve in insider dealing and get other benefit which the minority shareholder is not privilege to enjoy. Such block shareholder influences the board and the executive director, hence they influence the extent of employee welfare through employee welfare policy and the extent to which those policies are been implemented. In line with this discuss, Bennedsen and Wolfenzon (2000) explore the formation of coalitions between large shareholders. They suggest that the best ownership structure is one with either a single large shareholder or shareholders of roughly the same size. They argued that such is the best kind of block holding that might produce a desirable result on performance and employee welfare otherwise. We used block shareholding as a measure of ownership concentration.

2.2 Theoretical Preposition

Principal agent theory: A rather different starting point to theorising about employee welfare determination comes from principal-agent theory. This sees the employment contract as an incomplete contract between employer (principal) and employee (agent), with uncertainty about the precise nature of the tasks to be performed and provision for future contingencies. The goals of employer and employee are assumed to diverge, principally over the level of employee effort. Where effort and output are closely connected (as in simple repetitive jobs which produce complete units of output), performance-related pay is likely to be an element of the contract offered by the employer. Where output is unmeasurable, time rates are likely to predominate. However, the 'transaction costs' associated with tailoring individual employment

contracts to individual employees, plus the costs of monitoring output, may outweigh the benefits for the employer of differentiating contracts and so standardized contracts, including uniform wage rates, will be used. According to Brown et al. (1998) the standardisation of contracts, including uniform wage or salary levels, within a firm is most likely for whole occupational groups, the critical factor being the homogeneity of jobs.
This study aims to identify the key factors that influence employer discharge of its employee welfare obligation.

3.0 Methodology

This study used on longitudinal design and OLS regression technique was employed to analyze the secondary data collected from annual report of 40 non-financial company's quoted in the Nigeria stock exchange between 2012 and 2016 financial year. Below is the variables and there measure/proxy used in the study.

Variable	**Measures/Proxy**
Ownership structure (OWNST)	Individual ownership from 5% and above share ownership of individual families in the sampled companies.
Government Policy (GVPO)	Highly regulated sector Yes (1) low regulated sector No (0)
Trade union(TUN)	Binary: Yes (1) No (0)
Corporate Performance	Net profit margin (NPM)
Employee obligation (EMOB)	Provision for pension and gratuity/ total employee cost

The model for the study is premised on the sub-objective. A linear regression model was design to test the null hypotheses.

$EMOB_{it} = \beta_0 + \beta_1 TUN_{it} + \beta_2 NPM_{it} + \beta_3 GVPO_{it} + \beta_4 OWNST_{it} + \mu_i$- - 2

Where: EMOB = Employee obligation; TUN = Trade union; NPM = Net profit margin; GVPO = Government Policy; OWNST = Ownership structure

Where β_0 is the constant β_1, β_2, β_3, β_4, are the coefficient of the explanatory variables for the model. μ is the error term that captures the stochastic variables in the model. i = is the collection of the firms. t is the time factor.

4.0 Results and Discussion of Findings

The table 1 below presents sum exploratory features such as the mean, median, max and min and the JB probability of the variables under study. ROA and ROE are the dependent variable and measure of firm employee obligation in this study. The independent and control variables are as follows:

EMOB = Employee obligation; TUN = Trade union; NPM = Net profit margin; GVPO = Government Policy; OWNST = Ownership structure

	EMOB	*OWNST*	*NPM*	*GVPO*	*TUN*
Mean	*3.63*	*43.74*	*39.04*	*21.29*	*2.12*
Median	*2.96*	*44.50*	*36.00*	*5.50*	*2.00*
Maximum	*6.63*	*91.00*	*91.00*	*82.00*	*5.00*
Minimum	*-28.51*	*0.00*	*0.00*	*0.00*	*0.00*
Std. Dev.	*6.78*	*22.38*	*25.25*	*27.08*	*1.13*
Jarque- Bera	*180.56*	*5.73*	*11.77*	*30.29*	*3.68*

Probability	*0.00*	*0.06*	*0.00*	*0.00*	*0.16*
observations	*200*	*200*	*200*	*200*	*200*

Source: Author's computation using Eviews8

From the table above, we can observe that the mean rate of employee obligation shows that the sampled companies are making on the average about 3.6 percent of their total employee cost as provision in the years under study. Also, the mean value shows that the average ownership concentration of the sampled companies is 43.7 while net operating margin shows a high mean value of 39.04%.

The JB statistics of our sampled companies are all normally distributed at various significant levels. We therefore conclude that there are good reasons to believe that there is absence of outliers in our variables which could lead to variable bias. With the absence of outliers, we can go ahead and rely on the recommendations of the result as valid.

Correlation Analysis

In examining the association that exist among the variables, the study employed the Pearson correlation analysis and the summary of the results are presented. The Pearson correlation analysis shows the extent to which the variables move together with each other over time within the study period.

	EMOB	TUN	NPM	GVPO	OWNST
EMOB	*1.000000*				
TUN	*0.362649*	*1.000000*			
NPM	*0.161388*	*0.185129*	*1.000000*		
GVPO	*0.179469*	*0.190112*	*0.341131*	*1.000000*	
OWNST	*0.184708*	*0.138616*	*0.036683*	*0.362604*	*1.000000*

Source: *Author's computation* using E-view 8

The table above reveals that there is a positive association between the dependent and independent variables. This suggests that corporate provision for employee obligation is positively associated with ownership structure, trade union, net profit margin, government policy. We also observed that there absence of very high correlation among the variables of study, we have a reason to believe that the variables are free from the problem of multicollinearity. This means that no two variables are so closely related that such a relationship would harm our results by violating any econometric assumptions.

Regression Results

The table below presents the regression result which would allow us make recommendations and conclusion as it would show the extent significance of the variables under study. The dependent variable of the result is Employee obligation (EMOB) which are the measure of corporate provision for employee obligation while the independent and control variables are: Trade union (TUN); Net profit margin (NPM); Government Policy (GVPO); ownership structure (OWNST).

Dependent Variable: EMOB
Method: Panel EGLS (Cross-section random effects)
Sample: 2012 2016
Periods included: 40
Total panel (unbalanced) observations: 199

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	*0.104631*	*0.061273*	*1.707631*	*0.0893*
TUN	*3.044389*	*0.052014*	*0.295582*	*0.7683*
NPM	*10.001958*	*2.215889*	*4.513745*	*0.0006*
GVPO	*0.174681*	*0.065645*	*2.660995*	*0.0127*
OWNST	*4.196005*	*2.037263*	*2.059629*	*0.0659*

R-squared	*0.557122*	*Mean dependent var*	*0.108043*
Adjusted R-squared	*0.540933*	*S.D. dependent var*	*0.055974*
F-statistic	*3.073384*	*Durbin-Watson stat*	*1.762682*
Prob(F-statistic)	*0.006624*		

Source: Author (2018)
Note: [ ] contains P value. ** 5% shows the level of significance.

Regression shows the impact of independent variables on a dependent variable. Our result reveals that the variables of our study jointly explain about 54% of the dependent variables. This shows that all the variables can determine 54 percent of the reason why corporate organization make provision for their employee obligation. The F. Statistics show that the relationship among the variables is linear as predicted. Hence, the model is said to be well specified 1% level of significance.

Following the above, trade union, has a positive = (3.0443,[0.7683]), and insignificant impact in determining corporate organization provision for employee obligation. This suggests that as trade union activism cannot lead to higher provision for employee obligation by corporate organization in Nigeria.
The variable Net profit margin (*NPM*), has a positive (10.00,[0.0006]), and significant impact on corporate organization provision for employee obligation at 1% level of significance.

Also, Government Policy (GVPO), has a positive (0.1746,[0.0127]), and significant impact on corporate organization provision for employee obligation. This result reveals that Government Policy increases corporate organization provision for employee obligation.
Ownership structure (OWNST), has a positive (4.1960,[0.0659]), and significant impact on corporate organization provision for employee obligation. As ownership structure increases in our sample, corporate organization provision for employee obligation tend to rise.

Conclusion
This work was an attempt to investigate the key determinants of corporate provision for employee obligation. 200 (two hundred) observations were used and drawn from quoted non-financial companies in the Nigerian Stock market for the period of 2012 to 2016.
The work reveals that most of the all the variables considered in this work impacts on the level of corporate organization provision for employee obligation but all the impact are significant

with the exception of trade union which showed a positive relationship though still not significant.

The findings reveals that Net profit margin, Government Policy, ownership structure are key factors that determine corporate organization provision for employee obligation in quoted companies in the Nigeria stock exchange.
The outcome of this study could be used as a basis for formulating employee welfare policy by quoted companies in the Nigeria in particular as they seek to maximize their employee productivity.

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