

# Employee Benefits and Profitability of Listed Manufacturing Firms in Nigeria

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## **ABSTRACT**

*Manufacturing firms in growing economies like Nigeria do not have a well structured and implemented employee benefits packages as desired, thus, workers do not put in their best to work. The study made efforts to examine the effect of employee benefits on the profitability of manufacturing firms in Nigeria. The population of this study involved seventeen (17) manufacturing firms listed in the Nigeria Stock Exchange (NSE) as at 31<sup>st</sup> December, 2017. Secondary source of data was used from the yearly reports and accounts published by the firms between 2010 and 2017. The study focused on reported earnings of seventeen (17) listed manufacturing firms in Nigeria between the periods 2010 and 2017. Panel data of 164 firm observations were used and analyzed by using least square regression technique. Findings from the study indicated that employee benefits have a significant effect on the profitability of listed manufacturing firms in Nigeria. Hence, this study will serve as a wakeup call for employers of labor and employee policy makers to be alert, with kin interest to giving incentives to employees in order to have an effective and efficient work force, attract and retain best-fit employees for increased performance and profitability in manufacturing firms in Nigeria.*

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**Key-words:** *work force, profitability, salary, employee benefits, manufacturing firm, listed firms.*

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## **INTRODUCTION**

Maintaining a good employee/employer relationship in a manufacturing industry is very necessary for the success of the industry. This relationship can be made by way of giving some good benefits to the various types of jobs or specific task well-done by any employee in the

organization. Employees are the human resource of every organization and of course, they are the most valuable resource of the organization and therefore should be well taken care of if the organization wants to achieve desired results. It is noteworthy that if an employee decides to turn against the organization, the failure of that organization is eminently inevitable. Employee benefits (EMBs) are a combination of all other incentives in addition to the basic salary or wage given to an employee by an employer.

EMBs in any organization will either encourage or discourage the employee. If EMBs are good, quality workers can easily be attracted to the organization and retained to put in their best to work for the overall interest of the firm. In manufacturing firms (MAFs) much human energy is used, especially in the production unit and workers are most of the time exposed to dangers from the machines, so the common EMBs packages are; free foods in the work place, flexible work hours, vacation time and health insurance plans.

Cascio, (2003) revealed that MAFs in growing economies like Nigeria do not have a well structured implemented EMBs packages as desired, thus, workers do not put in their best to work. He further stated that employees are so much concerned about the extra benefits they get in the work place.

This study aimed at evaluating the effects of EMBs on the profitability of MAFs in Nigeria. To further buttress this, the following specific objectives;

- I. To find out common EMBs packages given to employees in the MAFs in Nigeria.
- II. To evaluate the effects of EMBs packages on the performance of employees in MAFs in Nigeria.
- III. To evaluate the effects of the implementation of EMBs on the profitability of MAFs in Nigeria.

Hypotheses made for the study are as follows;

H01. There is no EMBs package in MAFs in Nigeria.

H02. There is no significant relationship between EMBs packages and performance of employees in MAFs in Nigeria.

H03. There is no significant relationship between EMBs plans implementation and profitability of MAFs in Nigeria.

## **LITERATURE REVIEW**

### **Conceptual review**

EMBs, also known as perks or fringe benefits, are all forms of considerations given by an entity (employer) to its employees in exchange for services rendered by employees. EMBs cover the indirect pay of your workforce. While two jobs can offer exactly the same salary, they can vary greatly in terms of benefits, hence making one offer a better financial proposition than the other. Some EMBs are country specific (Idekwulim, 2014). The International Financial Reporting Standard (IFRS) on which the IPSAS 25 is based is IAS 19 (Bragg, 2014).

### *Importance of EMBs*

Employee benefit plans do well to every organization both in the public and private sector, this is because;

- Most times employees will consider the benefits in a job offer to the actual pay.
- Most good EMBs measures may always lure and keep good employees.
- Knowing that their future is insured, as an employee, will always make them to undertake some herculean tasks.
- It makes employees to be and put in their best to work every day.
- Employees will help and work to secure the future of the organization.

### *Categories of EMBs*

There are different types of EMBs, the type of job and firm defines the type of EMBs. For instance, full-time employee packages may look very different from part-time employee packages offered to employees.

There are four categories recognized by the International Accounting Standards (IAS) 19, namely;

1. Short-term EMBs.
2. Termination Benefits.
3. Other Long-term EMBs.
4. Post-employment Benefits.

#### Short-term EMBs

These are EMBs, other than termination benefits, which are payable within twelve months after the end of the period in which the employee render the related service.

Under this category, we have;

*Wages and Salary.* Wages and salaries are the remuneration paid or payable to employees for work performed on behalf of an employer or services provided. Wages are hourly or daily payments for work done during the working day and may vary depending on hours worked and performance. Salaries are fixed upon payment agreed to by both the employer and the employee.

*Paid Jury service.* This is a payment for doing or attending jury service.

Others are; *Social Security Contribution, Paid Leave and Profit shares and bonuses* paid within twelve months of the year end.

#### Termination benefits

These are EMBs payable as a result of an entity's decision to terminate an employee's employment before the retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

Examples are;

*Early Retirement Payments.* Early retirement is a situation in which a person stops working earlier than the usual statutory retirement age. Early retirement payment is a severance payment comprising weeks, months or even years of wages, invariably, the employee gets a reduced benefit.

*Redundancy Payments.* This is a sum of money given by an employer to an employee who has been made redundant. It is usually calculated on the basis of the employee's rate of pay and length of service.

Other long-term EMBs

There are EMBs which do not fall due wholly within twelve months of rendering the related service (Oladimeji, 2012).

Examples are; Profit shares, Bonuses or Deferred Compensation payable later than twelve months after the year end, Sabbatical Leave, Long Service Awards, Disability Benefits.

Post-employment benefit

Under the post-employment benefits, we have;

Defined contribution plan (DCP)

This is a plan where the employer pays a regular contribution into the plan of a defined amount each year. The contributions are invested and the size of the post employment benefit payable to employees after retirement depends on how favorably or unfavorably the planned investments performed. If the investments performed well, they will be able to afford higher benefits to the employees than if the investment performed badly. That is, the employer is only under an obligation to pay or fulfill the promise made, which is to pay the annual contributions.

Defined benefit plan

These are post-employment benefit plans other than DCPs, where the entity (employer) defines the amount of benefit that is payable to the employee. That is, the employer makes a promise to the employees about the level or amount of pension payable to them after retirement.

This will be based on an agreed formula which is usually influenced by the employees' final salary, number of years in which they worked for the employer and pre-agreed fraction.

## **Theoretical framework**

The study considered the well known agency theory which focused on the divergent interests and goals of firms' stakeholders and the various ways through which the employee compensations can be used to settle these interests and goals. It is evidenced in principal/agent or

employer/employee relations where the employee will put in his best to work in order to report better results to the employer knowing that he will be adequately compensated.

The equity theory is of the opinion that employees' view of what they contributed by way of work-done (a measure of wages) to the firm, what they are actually paid in return and how is their work –pay ratio, compared to other stakeholders (Adams, 1963).

The Re-enforcement theory, which states that, a response that is followed by a reward will often occur in the future. This is to say high employee performances rewarded accordingly will often make future high performances possible (Thorndike, 1905). This also supported by the expectancy theory which examined the link between rewards and behaviors (Vroom, 1964).

### **Empirical review**

Money is a powerful motivator. Locke, Feren, McCaleb, Shaw & Denny (1980), in their review of the four motivational program; individual monetary incentives, goal setting, job redesign and participation in decision making, revealed that monetary incentives in the form of EMBs were associated with larger average increase in physical productivity. Therefore a significant change in attitudes and behaviors of employees and organizational functioning for growth and productivity can be achieved with changes in pay practices. Accordingly, greater emphasis EMBs in addition to basic pay (salary) is associated with higher subsequent profitability (Gerhart & Milkovich, 1990).

## **METHODOLOGY**

The population of the study involved the 164 firms listed with the Nigeria Stock Exchange (2017). Listed firms are companies whose stock trades on a stock exchange, and meets the requirements to be listed (Cretchen & Campbell, 2012). Seventeen (17) MAFs were considered. Secondary data was extracted from the published audited yearly reports and accounts of the firms as published by the Nigeria Stock Exchange. The choice of MAFs was because of the important role they play in the development of the Nigerian economy.

MAFs are firms that manufactures economic and consumer goods by converting raw materials and or component parts into finished goods (Soludo, 2009). The regression research design is adopted for the study and the model used is as follows:

$$FP_{it} = a_0 + a_1(CE_{it}) + a_2(IE_{it}) + a_3(PE_{it}) + a_4(SH_{it}) + e_{it}$$

Where:

$FP_{it}$  = Firm Profitability for each firm (i) per year (t).

$CE_{it}$  = Common EMBs packages for each firm per year.

$IE_{it}$  = Implementation of EMBs packages for each firm per year.

$PE_{it}$  = Productivity of employees in each firm per year, from the data stream.

$DH_{it}$  = dummy variable which represents the type of stakeholder that benefits from the performances of the employees in each firm per year. Those that benefited from performances of the employees, takes the value 0, and those that do not benefit takes the value 1.

$a_0$  = the constant term,  $a_1, \dots, a_4$  = the coefficients the independent variables  $e_{it}$  = the regression residuals.

The variables  $IE_{it}$ ,  $PE_{it}$  and  $DH_{it}$  are employed as control variables.

### Measurement of variables and results

Observations:1 64	Mean	Median	Standard deviation	Minimum	Maximum
Accounts receivable	30105.31	11712.5	64754.2	141	573600
Variation of accounts receivable	225.812	239	15940.17	-146721	165237
Fixed assets	182142.4	210382.5	606187	302	570000
Total assets	233235.6	42662.5	532650	1532	500000
Sales	192145.6	32345	407306	611	306000
Variation of sales	19480.53	1511	67105.2	-643575	582821
Earnings (loss) before taxes	10338.64	848	4381.7	-135634	403000
Net income	7763.22	632	3128.33	-116768	246000
Cash flows (operating activities)	11403.31	734	59788.9	-88203	631200
Total accruals	-2043.668	8.5	44232.7	-572700	16324
Total accruals/ Total assets	0.001534 5	0.000232	0.506204	-1.046283	0.554871

Table (1) Source: Researchers' stats.

Observations:1 64	Other benefits	EMBs	Other benefits	EMBs
	(model 1)	(modell)	(model 2)	(model2)
Mean	0.0007725	0.0007004	0.0005846	0.0003388

Median	0.0008232	-0.0006685	0.0009264	-0.0007317
Standard deviation	0.0080234	0.0571554	0.0071166	0.0578436
Minimum	-0.0310531	-0.871068	-0.0335767	-0.854735
Maximum	0.1344518	0.176102	0.0913063	0.452232

Table (2) Source: Researchers' stats.

$$FP_{it} = a_0 + a_1(CE_{it}) + a_2(IE_{it}) + a_3(PE_{it}) + a_4(DH_{it}) + e_{it}$$

FP	Coefficient s	Std. Err	t	P>t	95% coef.	Interval
CE	0.233***	0.044	3.120	0.000	0.150	0.371
IE	0.001**	0.000	5.210	0.000	0.001	0.001
PE	-0.0004*	0.000	-0.610	0.022	0.000	0.000
DH	0.0052**	0.003	0.720	0.012	0.000	0.013
CONSTANT	-0.014***	0.001	-1.250	0.000	-0.015	-0.006

\*\*\*significant at the 0.01 level (2-tailed)

\*\*significant at the 0.05 level (2-tailed)

\*significant at the 0.1 level (2-tailed)

Table (3) Source: Researchers Stats.

Table 1 presents the pooled data of the assets of the firms.

Using model 1 and 2 other benefits and EMBs, (table 2), an increase in implementation of EMBs tends to increase employee productivity and as a result the profitability of the firm is increased. Table 3 shows that profitability of the firm is significant at 0.01 levels. On the basis of these outcomes, the null hypothesis can be rejected and the alternative hypothesis is accepted. EMBs packages have a significant relationship with the profitability of the firm, and implementation of EMBs packages enhances the performances of the employees for increased performances and profitability of MAFs. The findings are not far from the findings of previous research. Greater emphasis on EMBs in addition to base pay is associated with higher subsequent profitability (Gerhart & Milkovich, 1990).

## CONCLUSION

IAS 19 EMBs is often the most technical standard (Alexander, Britton, Jorisse, Hoogendoorn, & Mourik, 2014). Pension plans represent assets, liabilities and costs for the sponsoring entity. The related amounts are not always easy to determine, especially, when accounting for a defined benefit plan. May be, that is why Nigeria adopted the DCP in 2007, which is less technical.

According to Ottih (2016), improving employee preparedness for strategy implementation may involve three elements:

- Training and development for skill improvement.
- Adjustments in EMBs systems.
- Dealing with resistance to change.

Thus, if organizations must move forward, they must consider EMBs as paramount. The study made efforts to examine the effect of employee benefits on the profitability of MAFs in Nigeria. The population of this study involved seventeen (17) MAFs listed in the Nigeria Stock Exchange (NSE) as at 31<sup>st</sup> December, 2017. Secondary source of data was used from the yearly reports and accounts published by the firms between 2010 and 2017. The study focused on reported earnings of seventeen (17) listed MAFs in Nigeria between the periods 2010 and 2017. Panel data of 164 firm observations were used and analyzed by using least square regression technique. Findings from the study indicated that employee benefits have a significant effect on the profitability of listed MAFs in Nigeria. Hence, this study will serve as a wakeup call for employers of labor and employee policy makers to be alert, with kin interest to giving incentives to employees in order to have an effective and efficient work force, attract and retain best-fit employees for increased performance and profitability in MAFs in Nigeria.

Further studies could focus on employee benefit packages in other firms, the effectiveness of the implementation of such EMBs to the firm.

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