

Training and Development Costs, Staff Costs and Operational Profitability in Nepalese Commercial Banks

Naba Raj Adhikari*

Abstract

The main aim of this study was to identify examine the relationship between staff trainings and development costs, total staff costs and the operational profit of Nepalese commercial banks. Six commercial banks has been taken for the study using purposive sampling technique from the total population consisting two government owned banks, two joint venture banks and the rest from private commercial banks. Training and development costs, staff costs and operational profit (before tax) has been defined as the variables of the study. Data have been collected from the annual reports of respective banks covering for the financial year 2016/2017 to 2019/2020. This study found that private commercial banks have focused on training and development to their staff. The staff costs of private banks has been highly explained by training and development costs and it has resulted higher positive impact of staff cost with operational profit.

Keywords: *Training and development costs, staff costs, operational profitability, commercial banks.*

Introduction

Human resources are the crucial resources for any type of organization and should be given the highest priority (Ojeleye & Okoro, 2016). Robbins (2001) argued that a major feature that differentiates successful organizations from their contemporaries in almost all economic sectors is the quality of the people they are able to get and retain. Knowledge has, indeed, become power and organizations in our ever changing world consider knowledge and intellect of their employees as a competitive edge to compete effectively in the market place (Kharal, et al.,2014). Most of the companies take proactive measures for maintaining a reservoir of high technology staff, by continuous training and developments program of their staff. Therefore, money spent on employees' training and development is generally viewed as one of the critical investments that companies could make, and that such investments should be treated as a capital expenditure. Human capital is neither duplicated nor bought in the market. Training and development programs play a vital role in every organization. These programs improve employee performance at workplace. It updates employee knowledge and enhances their skills and helps in avoiding managerial obsolescence. Moreover it helps the employees in succession planning, and motivation. Training can provide abilities,

* Associate Professor, Central Department of Management, Tribhuvan University
E-mail id: adhikarinavaraj7@gmail.com

knowledge and skills that enhance individual performance and it ultimately leads towards organizational performance. Furthermore Ahmad and Bakar (2003) suggested that employees who recognize the benefits of training tend to be more committed and so be more willing to participate in an organization's training activities. Barrett & O'Connell (2001) emphasized the importance of effective training for organizational success. In this regard the importance of employees training in the workplace as training gives the impression of care and importance of employees and makes them loyal to the organization. Training and development provision creates a strong psychological bond between them and their employer (Garrow, 2004).

It provides employees with specific skills or correct deficiencies in their performance, while development is an effort to provide employees with abilities the organization will need in the future (Chew, 2004). Staff training and development costs is the component of staff costs associated with the staff training and development activities within the organization. Operational profit refers to an accounting metric measuring the profits a company generates from its core business functions, where the deduction of interest and taxes is excluded from the calculation. This indicator of profitability measures the operational efficiency of the business organization.

Staff costs constitute a major component of an organization's operational costs. Normally this costs includes salary/wages, allowances, contribution to provident fund, training and development expenses, uniform allowance, medical allowance, insurance premium paid by employer on behalf of employee, pension and gratuity etc. It impacts the overall operational profitability of the business due to its running nature. The amount of staff costs incurred by organizations depends on the organizational policy, management's placement on the welfare of its employees and a number of other variables affecting the entity. Budhathoki & Rai (2018) revealed that Nepalese commercial banks cannot increase the net profit by increasing their staff salary and argued that banks should cut their staff expenses in order to increase the net profit. Operational profit and net profit are the different parameters for measuring the profitability. Training and development costs is the part of staff costs and the staff costs is a major component of operational costs. Therefore this study aims:

1. To examine the relationship between staff trainings and development costs on total staff costs in Nepalese commercial banks.
2. To identify the impact of staff trainings and development costs on total staff costs in Nepalese commercial banks.
3. To identify the impact of total staff costs on operational profit.

Methodology and Results

This study has followed descriptive as well as causal comparative design. Out of the 27 commercial banks under population of commercial banks, only 6 commercial banks has been taken for the study using purposive sampling technique consisting 2 from government owned banks 2 from joint venture banks and the rest from private commercial banks. The study has focused to identify the relationship between relationship between training and

development costs and staff costs and staff costs and operational profitability of the sample banks. Therefore training and development costs, staff costs and operational profit (before tax) has been taken as the variables of the study. The data required for the study have been collected from the annual reports of respective banks covering for the financial year 2016/2017 to 2019/2020. Descriptive as well as inferential statistics have been applied for the analysis of relevant information. Linear regression model have been applied having dependent and independent variables. Regression models:

$$ST_C = \beta_0 + \beta_1 TDC + \dots + et \dots \dots (I)$$

$$OP_P = \beta_0 + \beta_1 STC + \dots + et \dots \dots (II)$$

Where: ST_C = Staff costs, STC = Staff costs, TDC= Training and development costs, OP_P = Operational profit and et= error term.

Table 1 Statistics of sample banks

Status of banks	Name of banks	Frequency	Percentage (%)
Government owned banks	Nepal Bank Limited	2	33.33
	Rastriya Banijya Bank Limited		
	Nabil Bank Limited		
Joint venture banks	Nepal Investment Bank Limited	2	33.33
	NICASIA Bank Limited		
Private banks	Global IME Bank Limited	2	33.33
Total		6	100

Table 1 presents the sample banks taken for the study. All categories of commercial banks are taken for the study.

Table 2 Descriptive Statistics of Training and Development Costs

Status of banks	Mean	Std. Deviation
Government owned banks	28222949.1250	10986769.20310
Joint venture banks	23133688.8750	8055479.51321
Private banks	33657228.2500	20741625.90486
All sample banks	28337955.4167	14376675.69286

Table 2 highlights the mean value of training and development costs of sample banks. The results indicates that the mean value of all sample banks is 28337955.4167. Private commercial banks have higher mean value of training and development costs than government owned

banks and joint venture banks. It shows that private commercial banks have focused on training and development of their staff.

Table 3 Descriptive Statistics of Staff Costs

Status of banks	Mean	Std. Deviation
Government owned banks	2590212181.6250	472147258.14138
Joint venture banks	1587200152.3750	293206278.84324
Private banks	1843004157.7500	695761072.17193
All sample banks	2006805497.2500	655973821.16568

Table 3 shows the mean value of staff costs. The government owned commercial banks have greater mean value (2590212181.6250) of staff costs than the mean value (2006805497.2500) of sample banks. It indicates that joint venture and private banks have low level of staff costs than government owned banks.

Table 4 Descriptive Statistics of Operational Profit

Status of banks	Mean	Std. Deviation
Government owned banks	4588946537.8750	1236745319.15087
Joint venture banks	4914834057.8750	806795965.67601
Private banks	3357748807.3750	1085480821.26778
All sample banks	4287176467.7083	1221224106.27828

Table 4 presents the operational profit of sample banks. The results shows that joint venture commercial banks have greater mean value (4914834057.8750) of operational profit than government owned banks and private banks.

Table 5 Degree of Correlations

	T&D costs GOVT	Staff costs GOVT	Operational Profit GOVT
T&D costs GOVT	1		
Staff costs GOVT	.503*	1	
Operational Profit GOVT	.661*	.577*	1

*. Correlation is significant at the 0.05 level

Table 5 indicates the relationship between training and development costs, staff costs and operational profit of government owned banks. The result shows the moderate degree (.5<.503, .577) of positive relationship between training and development costs and staff costs as well as staff costs and operational profit.

Table 6 Degree of Correlations

	T&D costs JVT	Staff costs JVT	Operational Profit JVT
T&D costs JVT	1		
Staff costs JVT	.622*	1	
Operational Profit JVT	.469*	.520*	1

*. Correlation is significant at the 0.05 level

Table 6 highlights the relationship between training and development costs, staff costs and operational profit government of joint venture banks. The result shows the moderate degree ($.5 < .622, .520$) of positive relationship between training and development costs and staff costs as well as staff costs and operational profit.

Table 7 Degree of Correlations

	T&D costs PVT	Staff costs PVT	Operational Profit PVT
T&D costs PVT	1		
Staff costs PVT	.716*	1	
Operational Profit PVT	.425	.745*	1

*. Correlation is significant at the 0.05 level

Table 7 shows the relationship between training and development costs, staff costs and operational profit of private commercial banks. The result shows the strong degree ($.7 < .716, .745$) of positive relationship between training and development costs and staff costs as well as staff costs and operational profit.

Table 8 Degree of Correlations

	T&D costs all	Staff costs all	Profit all
T&D costs all	1		
Staff costs all	.511	1	
: Operational Profit all	.211	.417*	1

*. Correlation is significant at the 0.05 level

Table 8 presents the relationship between training and development costs, staff costs and operational profit of all sample banks. The result shows the moderate degree ($.5 < .511$) of

positive relationship between training and development costs and staff costs as well as weak degree (.5 >.417) of relationship between staff costs and operational profit.

Table 9 Regression results

		β_0	β_1	F	R Square
Government Owned	Coefficients	1980234706.461	21.613	2.031	.253
	Sig.	0.005	0.204	0.204	
Joint Venture	Coefficients	1063131249.109	22.654	3.794	.387
	Sig.	0.009	0.099	0.099	
Private	Coefficients	1034193280.294	24.031	6.326	.531
	Sig.	0.000	0.046	0.046	

Dependent Variable: Staff costs, Predictors: (Constant), T&D costs

Table 9 presents regression results of staff costs as dependent variable and training and development costs as predictor in all types of banks. The training and development costs revealed positive impacts on staff costs on all types of banks. Staff costs is explained by 53.1% , 38.7% and 25.3% with training and development costs in private, joint venture and government banks respectively.

Table 10 Regression results

	β_0	β_1	F	R Square
Coefficients	1345819460.179	23.325	7.783	0.261
Sig.	0.032	0.011	0.011	

Dependent Variable: Staff costs all sample banks, Predictors: (Constant), T&D costs all sample banks

Table 10 reveals the regression results of staff costs as dependent variable and training and development costs as predictor in all sample banks. The training and development costs indicated positive impacts on staff costs on all types of banks. Staff costs is explained by 26.1% , with training and development costs in all sample banks .

Table 11 Regression results

		β_0	β_1	F	R Square
Government Owned	Coefficients	673397289.896	1.512	2.996	.333
	Sig.	0.779	0.134	0.134	
Joint Venture	Coefficients	2643289055.000	1.431	2.225	.271
	Sig.	0.138	0.186	0.186	
Private	Coefficients	1214251738.360	1.163	7.506	.556
	Sig.	0.194	0.034	0.034	

Dependent Variable: Operational Profit, Predictors: (Constant), Staff costs

Table 11 presents regression coefficients of operational profit as dependent variable and staff costs as predictor in three type's banks. The staff costs indicates positive impacts on operational profit on all types of banks. Operational profit is explained by 55.6%, 33.3% and 27.1% with staff costs in private, government and joint venture banks respectively.

Table 12 Regression results

	β_0	β_1	F	R Square
Coefficients	2729765948.055	.776	4.627	.174
Sig.	0.002	0.043	0.043	

Dependent Variable: Operational Profit all sample banks, Predictors: (Constant), Staff costs all sample banks

Table 12 reveals the regression results of as operational profit dependent variable and staff costs as predictor in all sample banks. As per the result staff costs indicated positive impacts on operational profit on all types of banks. Operational profit is explained by 17.4%, with training and staff costs in all sample banks.

Conclusion

The main aim of this study was to examine the relationship between staff trainings and development costs, total staff costs and the operational profit of Nepalese commercial banks. This study identified that private commercial banks have focused on training and development of their staff rather than other sample banks. Similarly staff costs revealed high in government owned banks while operational profit revealed high in joint venture banks. Additionally the staff costs of private banks has been highly explained by training and development costs and it has resulted higher positive impact of staff cost with operational profit and it differs from the line of Budhathoki & Rai (2018). In addition this study can be used for further research regarding cross banking sector.

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