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Challenges Facing Human Capital Return on Investment (HCROI) in Mena Region

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Abstract: *The Middle East and North Africa (MENA) region is currently experiencing low level of productivity from its workforce due to behavioral structures that are in place. On the economic front, the low level of human capital productivity in the Middle East and North Africa (MENA) has been attributed to inequality in individual merits and qualifications which could point back to the importance of education in developing of human capital. Socially, factors such as racial, ethnic and gender discrimination issues play an important role in the low level of human capital productivity in the Middle East and North Africa (MENA). This paper adopts systematic literature review methodology to presents a technical assessment of the benefits that accrues to the companies that makes direct investment in human capital which are the major assets for every business with specific focus on companies located in the MENA region. The current study concluded that those companies which are on the vanguard of efforts in promoting direct investment in their human resource tend to be more profitable and successful financially, strategically and have less employee turnover and generally their employees are more motivated as compared to those companies that are less aggressive in direct investment on human capital.*

Keywords*: Developing Human Capital; Enhancing ROI; Investment in People; High Retention, Low Turnover, Grow Business Profitability.*

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I. Introduction

Employees' performance is an important factor in leveraging profits for many organizations. Employees who form the human capital in an organization are intangible assets and many organizations are finding the need to determine their relative contribution to the business. According to Fitz-enz (2000), human capital productivity is essential for any organization to generate value from its passive resources. This is basically attributed to the knowledge, skills and innovations that the employees or persons in an organization bring on board. Organizations have realized the need to invest in their human capital as a means of increasing the effectiveness and efficiency of their workforce. However, this is usually accompanied by costs that the organization incurs, and these may include continuous development costs, training costs as well as career management (Phillips, 2005). The costs incurred in the development of human capital are essential in the determination of the company's profits and justification of human capital development process. This then increases the necessity for organization to develop methods of measuring investments in human capital. Return on investments is one of the methods that have been widely adopted as an approach in determining the economic value of employees' performance. According to Weiss (2012), measuring the return on investment on human capital becomes essential when the information gathered is used in strategic decision making and during the struggling phase of a business as there is need to justify the costs incurred in human capital development.

Human capital development is affected by several factors that could either be political, economic or social in nature. In the Middle East and North Africa (MENA) for instance, Cinar (2000) argues that there is a high rate of undeveloped human capital basically due to gender disparities. While gender disparities remain a big issue and factor influencing the rate of human capital return on investment in the Middle East and North Africa (MENA), other factors such as the investment strategies such as education tend to play a big role. According to Behdad (2003), the Middle East and North Africa (MENA) is currently experiencing low level of productivity from its workforce due to behavioral structures that are in place. On the economic front, the low level of human capital productivity in the Middle East and North Africa (MENA) has been attributed to inequality in individual merits and qualifications which could point back to the importance of education in developing of human capital. Socially, factors such as racial, ethnic and gender discrimination issues play an important role in the low level of human capital productivity in the Middle East and North Africa (MENA). Based on the existence of a multitude of factors affecting the development of human capital in the Middle East and North Africa (MENA), it is therefore a necessity for many organizations to focus on human capital development. In order to do this, it is therefore necessary to analyze the returns from human capital investment and more particularly on the impact it has on company performance.

II. Literature Review

In most economies, the level of education is an important attribute used to evaluate or measure human capital. Investing in education is one way of developing human capital and research has established that a positive relationship exists between economic development and human capital (Mazoouz, 2013). According to a World Bank publication, Countries in the Middle East and North Africa (MENA) region have realized an increase in the rates of quality and quantity of human capital and this has been attributed to investment in education over the past decades (World Bank, 2008). The fact that analysis of return of investment to human capital is based mostly on education is based on the argument that this type of investment is the most important part of human capital as argued by Mazoouz (2013). One of the major factors determining the level of economic growth based on returns from investment in education in human capital in the Middle East and North Africa (MENA) is gender. Torabi and Abbasi-Shavazi (2015) in their research, argue that there exists a positive correlation between investment in women education and economic development in the Middle East and North Africa (MENA). Increase in share of working age population witnessed in the MENA region is the contributing factor for economic growth according to Bloom, Canning and Sevilla (2001). With the realization that investing in women's education in the Middle East and North Africa (MENA) region contributes in economic development, organizations are increasing efforts to invest in the same with the hopes of obtaining maximum returns. However, it is important to note that the huge investment in education by MENA countries as seen through use of public resources has done little in terms of developing the human resource in most of these countries. This is attributed to lack of or existence of incentives to leverage on returns to investment in human capital. Another important argument is based on the fact that countries in these regions educational attainment in the global sense tends to score below average (Salehi-Isfahani&Dhillon, 2008).

Apart from education as a means of developing human capital, there are other methods that countries such as Lebanon, Oman, Qatar and United Arab Emirates have employed, and these include labor market initiatives and reforms targeted at improving the skills of the population. Furthermore, according to Gonzalez et al (2008), most of these countries have focused on diversification of their human capital in different sectors of the economy but evaluating the success of these reforms still remains a big problem.The high rates of unemployment in countries belonging to the Middle East and North Africa (MENA) region has been attributed to skills mismatch and limited focus on development of soft skills. According to Barclay (2010), increasing the efficiency of human capital in the Middle East and North Africa (MENA) could be achieved through strengthening of transition systems, focus more on strengthening education through increased spending and laying an emphasis on soft skills development.

Organizations are increasingly concerned with maximizing the benefits of investing in their human capital resources. Al-Ghazawi (2012) provides compelling argument that human resource development activities such as training and employee incentives do have a direct impact on the returns accrued from human capital investment. According to Huang and Lin (2011), evaluation of the return on investment in human capital is one of the ways that human resource management use to obtain data on the value of human resources at their disposal as well as their contribution to the performance of an organization.

Human Capital Return on Investment (HCROI) is an important factor in determining the performance of organization. The facets of the organization that are central to development of human capital include strategic, financial, employee retention as well as motivation. On the strategic front, companies usually rely on the results of ROI in order for the management to make decisions in supporting strategic aims targeted towards achieving cost advantage or differentiation advantage (Kesti, Syväjärv, Stenvall& Rivera, 2014). Furthermore, an improvement of human competencies by organizations may help these organizations to distinguish themselves from others and underscore the importance of human resource management role in realizing the strategic decisions of the company (Kesti et al, 2014).

The financial performance of organizations is in many ways related to return on investments in human capital. This is because costs are incurred by companies that undertake human capital development protocols. The competitive HCROI levels may be difficult for companies to sustain in economies where salaries are constantly rising ("Key Trend in Human Capital" 2012). The financial performance of organization influences aspect such as investment in human capital development. While it is necessary for any organization to invest in its human capital, this may not be feasible at times because of the costs involved and poor financial performance in certain cases. In other cases, strategic decisions linked to cutting costs after obtaining the results of HCROI may necessitate the need to cut down on human capital development (Law and Kesti, 2014).

A research by Al-Ghazawi (2012) indicates that no direct relationship exists between investment in human resources and turnover rate. In instances where employees are either fired or more are hired, research by Kesti (2011) has established that increased competence in either case is attributable to increased company performance. The research suggests that turnover rate does not impact on the returns on human investment but suggests that staff increase may indicate a decrease in the returns on investment in the initial phases. This, according to Kesti (2011) is since costs tend to increase as more staff is hired.

Human capital development and the returns accrued from it are directly influence employees'performance which is dependent of motivation. The returns on human capital development may be an indicator of the motivation levels of employees or personnel with an organization. According to Healthfield (2011), employees are able to develop their personal knowledge and skills and ability through human capital development. Since return on investments indicate the profits derived from investing in human capital development as argued by Mathis et al (2013), a motivated workforce may result in high rates of returns. This motivation is likely to result from the company investment in human capital development as employees derive an intrinsic value in that the company strives to develop them. Human capital return on investments could be one of the indicators of employee performance and hence act as a strategic decision-making tool for human resource management to focus on employee motivation.

III. Methodology

The research adopted a systematic literature review type of study where a specific search protocol was used in identifying appropriate research articles to be used in the study.Searching for relevant articles involved searching for articles on human capital development and return on investment focusing on the Middle East and North Africa (MENA) region.Research databases JSTOR, Google Scholar and Research gate as well as printed research papers were utilized in identifying the preliminary articles before establishing the inclusion and exclusion criteria. The literature search involved searching for research papers published from 2002.

3.1 Eligibility Criteria

The preliminary eligibility criteria in determination of the sources to be used in the literature review involved screening for the relevant titles in determination of their contribution to the study. Key factors in identifying articles with appropriate titles for inclusion involved accessing the relevance of the study in contributing to information related to human capital investment and returns in Middle East and North Africa (MENA)region. The next step in the screening process to determine the eligibility criteria involved reading through the abstracts in order to exclude the research articles that did not contribute much to the research questions of this study.

3.2 Inclusion and Exclusion Criteria

The inclusion criteria for the relevant articles took into consideration several factors that included the language used focusing on research articles written in English, German, Spanish and Japanese as well as Arabic. Apart from English, articles that used the other four aforementioned languages were assessed for the availability of their translated English version. The publication type was other criteria used for inclusion and exclusion criteria. The inclusion criteria based on the publication type focused on original peer reviewed research papers while excluding unpublished manuscript, letters, dissertations and conference papers. The study design used in the respective research papers was another important factor in determining the articles to be used in the study whereby those utilizing qualitative and non-systemic literature review were excluded taking into consideration research papers that utilized systematic literature reviews, quantitative studies, Meta-analysis studies, cohort studies and case control studies. Following this step, the selected articles full text was obtained followed by data extraction and interpretation using both narrative and statistical analysis technique.

3.3 Validity and Reliability

The advantages associated with systematic literature review are that biasness is limited as explicit methods are used by the researcher. Furthermore, according to Gopalakrishnan and Ganeshkumar (2013), this approach is helpful in minimizing research delays and also serves to improve the generalizability and consistency of the results. However, several limitations associated with systematic literature review and analytical techniques employed with this method is that the approach may be subject to duplication of information as well as loss of information that could have been important outcome in particular research and could also be subjected to publication bias. With publication bias, it is more likely that studies with positive results are the ones chosen for the study especially in cases where the researcher inappropriately sifts the studies and may be influenced in one way or another to lean towards studies that portray a positive or significant outcome.

IV. Results And Discussions

The results obtained from this systematic literature review cover offer insight to the relationship between socio demographic factors and HCROI in the MENA region as well as the relationship between

HCROI and company performance in the Middle East. From the analysis, it was evident that despite significant gains in the working age population in the Middle East region, women human capital and labor remains low in most Middle East countries as shown in the graph below;

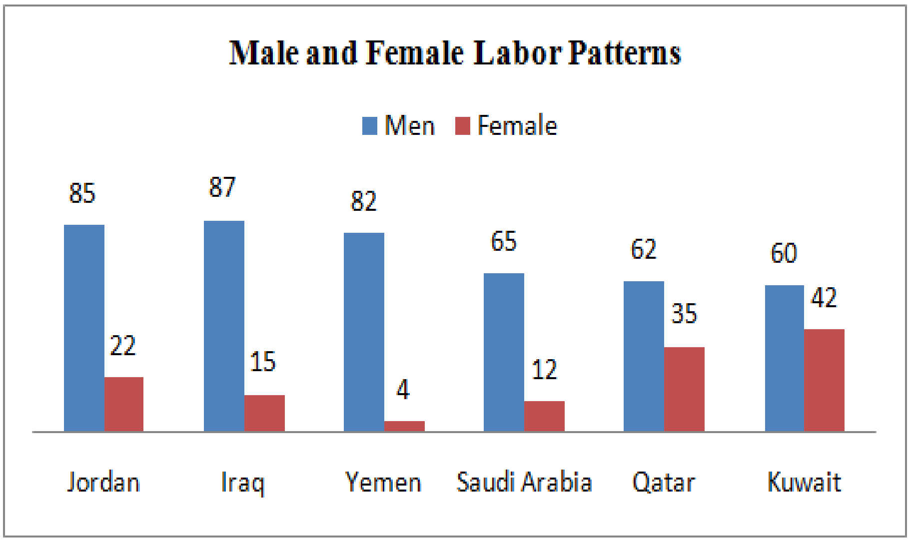

Figure 1; Male and Female Labor force participation in the Middle East region

From the graph above it is evident that women labor force participation in most Middle East countries is low compared to that of male. Since investing in human capital correlates with increase in economic growth, significant gains in terms of increased economic growth are likely to be gained with increased investment in women human capital. In the Middle East, there have been increased efforts targeted towards investing in women's human capital with most strategies linked toward education and reduction of fertility rates. According to research by Karshenas et al (2015), despite the gains realized in these countries in terms of investment in women's human capital, there is little contribution by the women in terms of labor participation and this negatively influences economic growth in most of these countries. Gains made in economic growth can be estimated through HCROI and in countries in the Middle East where socio demographic factors play a major role in determining women's participation in the labor force, it is only natural that economic growth is limited by existing social factors and gender inequality that limit women's participation in the labor force. Since there exists a positive association between women's human capital and economic growth as shown by Torabi and Abbasi-Shavazi (2015), it can be deduced that socio demographic factors that limit women participation in the labor force despite increased investment in women human capital in most Middle East countries are to blame for slow economic progress in these countries.

There exists a special relationship between HCROI and performance of organizations in the Middle East and North Africa (MENA). The literature review was able to highlight some of the positives aspects attributed to investment in human capital in relation to company performance. Financial institutions in most countries of the Middle East and North Africa (MENA)have benefited financially in terms of profits generated from investment in human capital mainly through education and training. The number of employees is not a factor when accounting for the profitable financial returns since companies with minimum number of employees have reaped high returns on human capital investment through massive investment in their human capital. The research by Al-Ghazawi (2012) indicate that the return on investments could be as high as 92.4 in the case of Jordan banks and the researchers' arguments supports the claim that even with a minimum number of employees, higher returns is realizable in companies in the Middle East countries through investing in their human capital.

The investment in human capital in most countries of the Middle East and North Africa (MENA)has been mainly achieved through education. However, when the returns obtained from this investmentover time tends to diminish in most economies as argued by Montenegro and Patrinos (2014). An important relationship between education investment in human capital and economic performance of Middle East and North Africa (MENA)countries exists where this is negatively correlated. The high investment in human capital through education has contributed little in terms of addressing the high unemployment rates in most Middle East and North Africa (MENA)countries. This high rate of unemployment negatively influences the economic performance of most countries and in turn those of most companies. An important aspect concerning this type of human capital investment as it relates to Middle East and North Africa (MENA)countries is that there is an observable difference in the rate of returns from education when men and women are analyzed differently. The economic performance of Middle East and North Africa (MENA)countries have been boosted by investing in women human capital through education as shown by the research by Psacharopoulos and Patrinos (2002). Investment in human capital through education has received major boost in the Middle East and North Africa (MENA)countries over the last four decades through increased spending by most countries that has seen this spending eclipsed countries in other regions (Iqbal, 2006). The trend observed in most Middle East and North Africa (MENA)countries over the years is as indicated in the graph below;

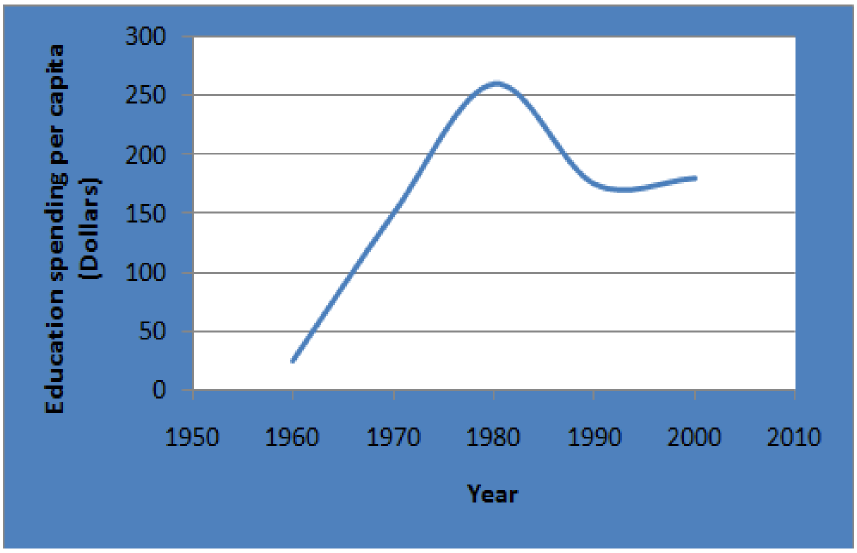

Figure 2; Education spending in the MENA region from 1950 to 2010.

From Figure 2 above it is evident that over the past four decades, human capital educational investment in the MENA region has received a major financial boost from as low as low as $ 25 per capita to around $180 per capita.Overall, however the gains made from this investment over time tend to diminish and the observed differences in the rate of returns only point out to the existing social cultural barriers that hamper high returns from human capital investment in the Middle East and North Africa (MENA).

Enhancing employees' motivation and maintaining a low turnover rate within an organization mainly falls under the function of the human resource personnel. Companies in most countries in the MENA region that have instituted measures to improve on employees' loyalty especially through increased benefits tend to have higher returns. The results of this literature review indicate that lack of investment in human capital by most organizations in the Middle East and North Africa (MENA)region ranks among one of the important factors contributing to the high turnover rates of in companies in the Middle East and North Africa (MENA). According to research, results obtained from a poll indicated that about 20.3% of employees who have recently left their jobs are inclined to seek further job opportunities that tend to provide them with a chance of enhancing their skills ("Employee Motivation in the Mena", 2013). Skill development in part is related to human capital development and organizations that do not focus on investing in their human capital therefore risk losing out on other companies that have these programs in place. Furthermore, these programs play an important role in enhancing employee motivation and hence improve performance which would then relate to higher rates of return that could be traced back to a company's investment in human capital.

Several challenges related to human capital development and return in the Middle East and North Africa (MENA) region as obtained from the results of the literature review consists of both social and economic factors. Social factors contribute to a larger percentage as far as human capital development in MENA countries is concerned. One particular challenge is that there is a mismatch between investment in human capital and utilization of human capital. The patriarchal nature of most MENA nations hinders women involvement in economic growth. Considering that women form half of the population in most of these countries, there is a shortage of human capital even if massive investment is done. High unemployment rates especially when women are concerned there tends to slow down economic growth since research has established that women human capital is essential in promoting economic growth in the MENA (Torabi& Abbasi-Shavazi, 2015).

Another challenge as far as human capital development and return in the MENA is concerned is that the existing social institutions place major restrictions on utilization of human capital.

V. Recommendations And Conclusions

This research has attempted to establish the impact of human capital return on investment as a tool of improving company or organization performance. The focus of the study is in Middle East and North Africa (MENA) companies and based on the results of the systematic literature review, conclusions that can be withdrawn from the present study is that the results of human capital return on investments have benefited majority of companies in making important strategic decisions. Furthermore, it has also been established that companies in the Middle East and North Africa (MENA) that have invested in their human capital have seen an increased level of productivity associated with high returns. The impact of investment on human capital in these organizations has been associated with increased employee motivation and low turnover rates. In spite of all the achievements gained by organizations, economic development in the Middle East and North Africa (MENA) remains low because of the underutilization of the existing human capital as well as existing social cultural factors that contributes to this underutilization. Based on this argument, several reforms to address the existing problems would include;

a) Instituting legal reforms to address the problems of gender inequality since this contributes to the existing underutilization of human capital. According more employment opportunities to women as well as investing in women human capital would go a long way in improving the economies of most countries in the Middle East and North Africa (MENA) thus increased returns to organizations as shown by research (Torabi& Abbasi-Shavazi, 2015).
b) Secondly there is need for increased utilization of human capital. In order to do this, organizations including those in the private sector should be encouraged to hire more Skilled Professionals and youth as well as focus more on developing human capital provided by these individuals. The private sector should be encouraged to be willing to assist the government in creating more employment opportunities while also taking into consideration the negative impact that laws such as inheritance laws impact not only on the general economy but also on the performance of the organizations as well.

5.1 Limitations and Future Research

The limitations of the current study are that based on the methodology applied, causal conclusions could not be derived. Systematic literature review draws on past researches to come up with conclusions but may not be effective as experimental designs in developing causal conclusions. The implications for future research is that focus should be on establishing ways of minimizing the impact social structures in order to increase utilization of human capital in the Middle East to leverage on the returns.

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