'MANAGING HUMAN CAPITAL IN ARAB COUNTRIES' THE LEADERSHIP AND CULTURAL CHALLENGES

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Abstract

This study explores state of human capital in the Arab business environment and discusses its obstacles and futuristic stance. It adopts an analytical approach and presents an investigation of Leaders' role in creating a supporting culture for human capital in which they share the management's vision and being aware of their role in achieving it. The study sets a proposed framework on how to transform Arab bureaucracies into knowledge creating organizations by means of a transformational leadership that has the ability to create the right culture in which information sharing, learning and knowledge formation should be part of the organizational norm. The topic merits investigation because it takes place at a time when Arab youths are emphasizing democratic change in Arab leadership styles and political systems. Hence, a fundamental transformation, which creates an acceptance and eagerness to do things differently, is required in Arab management and leadership styles to keep pace with the rapidly developing societal and cultural environment.

Keywords: Human Capital, Arab Countries, Leadership, Culture, Knowledge, Challenge

INTRODUCTION

The global rise towards knowledge economy and knowledge society has opened the eyes of organizational leaders to the realities of the importance of human capitals in their organizations. A World Economic Forum's (2013) report highlights in this regard, that a nation's human capital endowment, productive skills and capacities, can be a more important determinant of long-term economic success than virtually any other resource. Schwab (2013) argued, in this regard, that the key for the future of any country and any institution lies in the skills and talents of its people, and in the future, human capital will be the most important kind of capital, hence, investing in people is imperative for growth, prosperity and progress. Naisbitt and Aburdene (1991) also argued that the most exciting breakthroughs of the 21st century will occur not because of technology but because of an expanding concept of what it means to be human.

For these reasons, the business literature has witnessed, in recent years, a booming interest in human resources and human capital management from different disciplines: organization experts, knowledge management analysts, economists, and psychologists. However, these disciplines have mostly discussed human capital issues from only one perspective; few were interested in treating it from a multidisciplinary perspective, by means of relating it to different factors of the organizational context such as leadership styles and organizational culture. In this context, Myers (1996) asserts that organizational performance depends to a great extent on the interaction between three primary factors within the organizational context: organizational strategy, organizational design and individuals' behavior. This reality, therefore, coupled with globalization and rapid technological changes have significantly forced managers to alter their leadership styles and place increasing values on the management of human capital that have gained a considerable importance in organizations today.

While the issue of human capital, however, is more easily applicable in the developed countries, that possess the required technical know-how and managerial capabilities, it is difficult to apply in the third world countries because of different managerial and organizational problems. This is mainly important to Arab countries whose development prospects are increasingly linked to their managerial capabilities and the quality of their human capital. Moreover, economic growth in the Arab region over the past decade has not coincided with equally strong human resource development, raising obvious concerns for sustainable and balanced growth. Hence, addressing the issue of human capital management becomes a critical challenge for Arab organizations to enhance their competitive advantage in the global economy.

Purpose and Significance of the Study

To varying degrees, Arab countries are faced with similar human capital challenges that serve as obstacles to knowledge-based economic development. Moreover, in spite of increasing interests in human resource and human capital management, the study of the reflection of leadership and culture on the management of human capital in the contemporary Arab world is a relatively recent incident. Hence, this study aims to explore the issue of human capital management and discusses its obstacles and futuristic stance in the Arab business environment. The topic merits investigation because it takes place in the wake of the Arab Spring that is initiated by Arab youths who emphasize democratic change in Arab leadership styles and political systems. Therefore, any evaluation of the underlying causes of this turmoil would recognize that a major change in Arab management and leadership styles is required; a change that creates an acceptance and willingness to organize things in a new way that keeps pace with the continuously evolving environment.

THEORETICAL UNDERPINNING

The Interplay between Knowledge and Management of Human Capital

March (1997) maintains that the management of human and intellectual capitals has become a central theme in today's business literature and a commonly cited source of competitive advantage. Organizations are being advised that to remain competitive, they must efficiently and effectively create, locate, capture and share their organization's knowledge and expertise, and have the ability to bring that knowledge to bear on problems and opportunities.

Different leading management and organization theorists (Nonaka, 1994; & Quinn, *et. al.,* 1996) argue that in today's economy, knowledge is people, money, learning, power and competitive advantage. It is stored in the individual's brain or encoded in the organizational processes, documents, products, services, facilities and systems. Drucker (2003:287) indicates, for instance that "Knowledge does not reside in a book, a database, or a software program; these contain only information; it is always embodied in a person; applied by a person; taught and passed on by a person; used or misused by a person."

Hansen *et.al.,* (1990) emphasized that the rapid advances in information technology accompanied by companies' efforts to become learning organizations, in which managers strive to create a culture and a system for creating new knowledge, have surged the interest in the management of knowledge and human capital. Therefore, managers have started to look for ways for managing this knowledge by using the techniques that were developed as part of the information technology (IT) to support their human resources and human capitals through

training and developing knowledge based systems that allow the organization to stay competitive (Davenport, *et. al.,* 1996).

HUMAN CAPITAL IN ITS CONTEXT

Human Capital Management: the Culture Perspective

Several management scholars have confirmed that culture can help create high levels of employees' loyalty and motivation and provide the company with structure and control without the need for an oppressive bureaucracy. Kotter & Heskett (1992) presented, in this instance, an analysis of the relationship between strong cultures, adaptive cultures and effectiveness.

McDermott & O'Dell (2001) argue that corporate culture is reflected not only in visible aspects such as its mission and adopted values, but also in less apparent aspects such as in the way people act or what they expect of each other. Because of these layers of culture, people can often act in ways inconsistent with the organization's mission and values, but consistent with their underlying core values.

The concept of culture as an internal variable is found in the literature of Organization Development (OD). The organization development interventions serve to make organizational culture more receptive to change and facilitating the performance of the organization as a whole. Underlying the interests in comparative management and corporate culture is the search for predictable means to regulate organizational control and improved methods for organization management.

Harrison (1990) identified certain cultural orientations in which leaders' practices determine the degree of impact on their human capital. In Power culture leaders are expected to be all knowing and powerful, still, they should display justice and be paternalistic. Subordinates comply with the boss' orders and are motivated by rewards and punishments, and by the wish to be associated with a strong leader. Role culture has a pyramid shape with clearly defined rules and expectations. There will be less direct supervision and performance is monitored through well-established information systems. The values of the Role culture are order, dependability, rationality and consistency. In Achievement culture employees enjoy challenging jobs and prefer tasks that are intrinsically satisfying. Top management trusts employees and gives them the freedom to make decisions and act to meet goals. It relies on self-motivating strategies and is based on competence. It also creates a high-energy environment by using the mission to attract and release its human capital energy in pursuit of the common goals. Finally while achievement culture fuses the human will of its members in the service of the organization's objectives, the support culture evokes human love to the organization, and

stimulates strong motivation in the service of the group. Support culture assumes that people derive satisfaction from relationships, mutual respect, trust and support.

Human Capital Management: the Leadership Perspective

Much of the research on leadership until the midst of the 20th century concentrated on leaders who are more concerned with leader-follower relation that is established on exchange of rewards and threats for compliance. In the past years, however, research on leadership and management has evolved as a key area of interest among Human Resource Development (HRD) scholars. Drucker (2003) maintained, in this regard, that as knowledge workers are becoming important human capital and leading organizations became increasingly attracting well-educated and well-informed individuals and provide knowledge-intensive services and products, new approaches of leadership have emerged which assume that leaders' success is manifested through their ability to manage culture change and transformation. These leaders should have strong abilities and skills, and should be attuned to the nature of the information service and thus, establish commitment to lifelong learning.

Since the late 1980s, much of the leadership research has concentrated on characteristics and specific effects of charismatic and transformational leadership (Bass 1985; and Kanungo & Jaeger 1990). Transformational leaders (Bass & Avolio, 1993) have vision, are effective and induce dynamic change in cultural values. They support and motivate employees to higher levels of development, and stress achievement of common mission and vision. This means that effective organizations require a special leadership style that values and encourages cooperation, trust, learning, and innovation and provide incentives for engaging in knowledge-based activities and processes. As such, transformational features of leaders are better predictive factors of organizational performance than the traditional/transactional leadership style. Meek (1988), also asserted that organizational performance depends to a great extent on the interaction between organizational strategy, organizational design, leadership and individuals' behavior. This means that leaders need to create the right culture that motivates people to act in line with the organizational objectives.

The new leadership approaches assumed that leaders influence workers through their ability to manage culture change. Nelson and Cohen (2010) believe, however, that many leaders do not recognize the influence that organizational culture has on the past, present, and future accomplishments of their organizations. Even more important is their lack of understanding about how they influence the culture. For this reason, in most organizations today, a knowledge creating culture cannot be developed without the support of higher management. O'Dell and Grayson (1998) believed also that any effort to fit organizational

factors together cannot succeed without the support of leaders at the top. That is: leadership, a healthy organizational culture, and information technology, all intertwined, are necessary for the success of any real human capital management initiative.

Arab Bureaucratic Structure and Power Culture

Zack and McKenney (1995) maintain that organizational context reflects the socio-cultural factors affecting knowledge, such as culture, power relations, norms, reward systems, and leadership style. Therefore, to address human capital management issue in the Arab context, it is necessary to examine the socio-cultural factors that might affect the development of an effective human capital management process in Arab organizations.

Much of the research (Sabri, 2007, 2011; Hickson & Pugh, 2002; Hofstede, 2001) indicate that organizations in Arab countries face many problems, stemming from their bureaucratic design and prevailing large power culture where there is a considerable dependence of subordinates on superiors and preference for autocratic management. Power in Arab societies is based on family, friends and charisma and the ability to use force. The head of family has absolute power and all family members must obey and respect his wishes. Children are brought up to be obedient and submissive rather than autonomous which instill in them a sense of dependency, lack of self-reliance, and weakness of character (Sharabi, 1990). Barakat (2008) denotes also that Arab management practices are a mix of different characteristics: hierarchical authority, rules and regulations contingent on personality and power of individuals who make them, subordination of efficiency to personal relations and connections, indecisiveness in decision making, informality among lower level managers, a generally patriarchal approach and nepotism. Original thinking and creativity are condemned, and submissiveness and obedience are rewarded. Managers and other employees are not allowed to voice their concerns or suggestions even within established channels. Hofstede (2001) argues, however, that when power and rules are combined, they create a situation where leaders have virtually ultimate authority, and the rules, laws and regulations developed by those in power reinforce their own leadership and control. Therefore, it is not unusual for new leadership to arise from armed insurrection, rather than from diplomatic or democratic change.

LEADING ARAB HUMAN CAPITAL THROUGH CULTURE CHANGE

The previous review denotes critical issues for Arab organizations in their quest for progress in a competitive marketplace, especially that Arab countries are faced with the challenge of developing their populations' skills and human capital, in order to compete in the 21st century global economy. One major study achieved by Mohammad Bin Rashid Al Maktoum Foundation

(2007) surveyed the opinions of 587 prominent business leaders from 18 Arab countries on the challenges facing human capital development in Arab countries. The final report indicates that the Arab region's economic growth over the last decade has not coincided with equally buoyant labor and human resource development. The mismatch between supply and demand, both in terms of the quality and quantity of labor available, is amongst the most pressing challenges to Arab businesses going forward. The Arab Human Capital Challenge clearly demonstrates that without concrete changes today, future regional growth and development could be severely hindered.

Despite these indications and challenges it can be argued, however, that one major outcome of the technological communication is that it has changed the face of the Arab world with the recent uprising of youths in several Arab countries. This uprising has challenged, to a great extent, the argument that Arab populations have an expectation and acceptance that leaders will separate themselves from the group and this condition is not necessarily subverted upon the population, but rather accepted by the society as their cultural heritage.

Arab managers and leaders still have the chance to work towards changing their bureaucratic designs and power orientations in order to develop knowledge creating organizations. Obviously, these difficulties in transforming the management styles need too much efforts and time, but it is not impossible. Undoubtedly, 2011 is a remarkable year with young Arab people incited an uprising because they are unable to enjoy life's full opportunities and rewards, in terms of education, work, income and material well-being. The author believes that the evaluation of the underlying causes of this unprecedented turmoil would recognize that any major change in Arab leadership or political systems will spill over and influence many other aspects of Arab societies, among of which Arab management and leadership styles that are required to embrace the required transformation and keep pace with the rapidly changing environment.

DISCUSSION AND CONCLUSION

Inspired by research in the field of human capital management, this study argued that in most organizations today, a knowledge creating culture cannot be developed without the support of higher management. In this regard, Drucker (1997) confirms that organizations nowadays need a special form of leadership that recognizes the human capital as an invaluable. These leaders should have strong abilities and skills and should establish commitment to human capital empowerment. Yet, adapting culture to other organizational elements is also essential to create an organization that fuses the human will of its members in the service of the organization's

objectives. Such an organization creates a high-energy environment by using the mission to attract and release its members' energy in pursuit of the common goals.

The study provided a theoretical framework summarizing important determining factors and their roles in creating an effective human capital management in Arab organizations. That is, supportive leadership and healthy organizational culture are necessary for the success of any initiative to empower human capital in the Arab region. It is emphasized, therefore, that Arab managers need to recognize that no human resource management will be successful without a fundamental change in the corporate culture, one that creates an acceptance and eagerness to do things differently in an ongoing process.

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The analysis in this study has raised important issues for future research on human capital in the Arab world. It is hoped, therefore, that this study can benefit academic and industrial readers as well as policy makers who are concerned in the management of human resources in Arab organizations. Further research, however, is required to improve the understanding of the impact of leadership style and organizational culture on the development and empowerment of human capital in Arab organizations.

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