DECLARATION

I, the undersigned, declare that this study entitled **"*THE IMPACTS OF FOREIGN DIRECT INVESTMENT ON HUMAN CAPITAL FORMATION CASE OF ADDIS ABABA AREA MANUFACTURING FIRMS*.**" Is my original work and has not been presented for a degree in any other university and that all sources of materials used for the study have been duly acknowledged.

Declared by: BERHANE SEYOUM

Name _____

Signature _____

Date_____

CERTIFICATE

This is to certify that this study, *"THE IMPACTS OF FOREIGN DIRECT INVESTMENT ON HUMAN CAPITAL FORMATION CASE OF ETHIOPIAN MANUFACTURING SECTOR ETHIOPIA, ADDIS ABABA AREA*", undertaken by BERHANE SEYOUM for the partial fulfillment of Masters of Business Administration [MBA] at Addis Ababa University, is an original work and not submitted earlier for any degree either at this University or any other University.

Research Advisor: TESHOME BEKELE

Signature _____

Date_____

SCHOOL OF GRADUATE STUDIES

THE EFFECTS OF FOREIGN DIRECT INVESTMENT ON HUMAN CAPITAL FORMATION: CASE OF ADDIS ABABA AREA MANUFACTURING FIRMS

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BY: BERHANE SEYOUM

APPROVED BY BOARD OF EXAMINERS:

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EIA:	Ethiopian investment agency
EIC:	Ethiopian investment commission
EIG:	Ethiopian investment guide
FDI:	Foreign direct investment
HC:	Human capital
HRD:	Human resource development
IPA:	Investment promotion agency
IT:	Information technology
MNC:	Multinational companies
OECD:	Organization for economic cooperation and development
R&D:	Research and development
ROI:	Return on investment
SHRM:	Strategic human resource management
TNC:	Transnational Company
UNCTAD:	United nation conference on trade and development
WB:	World Bank

ABSTRACT

Taking the empirical database and gaps the main objectives of this study was to assess the impacts of foreign direct investment on human capital formation in Addis Ababa, Ethiopia manufacturing sectors mainly through basic channels of educational advancement(ED), training(TR), Research and development (R&D) and skill & knowledge transfer(SK).Therefore, this empirical study was conducted to understand the impacts of FDIs on human capital formation Addis Ababa Area Zone. A theoretical foundation was compiled for the study based on the literature review. The research is cross-sectional field survey. For this study a probability sampling was used, 351 employees were selected as the sample of the study. Five point likert scale questionaries' were adopted and distributed to 351. 336 respondents filled the questioners. The frequency, descriptive statics and regression analysis were used to analyze the study hypothesis using SPSS version 23. The results of the study indicated that the factors listed in the study have a significant effect on human capital formation. Moreover, the results of the study come up with findings training provided by the foreign firms to the employees is the main channel of human capital formation done FDI and the level, quality of infrastructure and low institutional support and linkage comparatively affecting the role of FDIs on human capital building process.

Key words*: **Human capital, FDI, Educational advancement, Training, R&D, skill & knowledge transfer***

CHAPTER ONE

1. Introduction

1.1 Background of the study

Now days, in global market companies are surrounded by many competitors regardless of industry. To develop and gain competitive advantage it is important that the firm highly focus on their workforce as competitive weapon. Strategic plans for developing and improving workforce productivity to create higher firm value become the main issue in many industries. Firms seek to optimize their workforce through comprehensive human capital development programs not only to achieve business goals but most important is for a long term survival and sustainability. To achieve this, firms will need to invest resources to make sure that their employees have the knowledge, skill, and competencies they need to work effectively in rapidly changing and complex business environment (Marimuthu, 2009).

Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that give the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovation and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization Human capital can be regarded as the prime asset of an organization and businesses need to invest in that asset to ensure their survival and growth (Bontie, 1999).

Human capital refers to the collection of acquired individual abilities that are substantially durable, persisting over some significant portion of the life of the possessor. Furthermore, the personal attributes referred to under this rubric are restricted to positive –abilities" and –eapabilities". In other words, their nature is such as would normally yield some stream of benefits, by enhancing the possessor's performance in one or more socially valued activities. Human capital is also considered as a factor affecting innovation, the long-run rate of productivity and growth (David ., 2001).

Azam and Khan (cited in Rashid 2006), believe that Human capital plays a prime and vital role in the process of economic growth and development and thereby it improves the social welfare

of people. The status of human capital is theoretically and practically apparent, as the human capital appears more important comparing to the factors of production.

On the other hand human capital formation is Expenditure on education and training, education, innovation and R&D are called human capital formation. It refers to the process by which educated, skilled and trained persons are increased in a country. Accordingly, human capital formation is the act of increasing the productive qualities of labor force by providing more education and by increasing skill, health and nutrition level (Khan, 2012)

Emerging countries attract FDI in order to reach some level of development and absorb new technologies and information‘s, this situation indicates that attracting FDI is basic either foe developing or developed nations (Michie ,2001).

Nerveless, it is well known that multinational corporations (MNCs) undertake a major part of the world‘s private R&D efforts and produce, own, and control most of the world‘s advanced technology. When a MNC sets up a foreign affiliate, the affiliate receives some of the proprietary technology that constitutes the parent‘s firm-specific advantage and allows it to compete successfully in an environment where local firms have superior knowledge of local markets, consumer preferences and business practices**.** This leads informal transformation technologies to new places and areas. However, MNC technology may still leak to the surrounding economy through external effects or ―spillovers" that raise the level of human capital in the host country and increase productivity in local firms in many cases, the external effects operate through forward and backward linkages as MNCs provide training and technical assistance to their local suppliers, subcontractors and customers. The labor market is another important channel for spillovers, as almost all MNCs train locally hired operatives and managers, and these may subsequently take employment in local firms or establish entirely new companies. This way, multinational corporations may be a particularly valuable source of new technology — they not only introduce new ideas but also strengthen the human capital base needed to adapt these ideas to the local market (Blomström & Kokko, 2002).

In many case FDI has a positive effect on labor force development and economic growth because foreign MNCs are transferring modern technology and that escalate the efficiency of the host countries labor forces that are significant to establishing the trade competitiveness .Host country

with having the accumulation of better skill labor forces influence a vast amount of technology intensive FDI that ameliorate the economic advancement of a country along with the enhancing the adaptability and capabilities of the workforces. This means FDI firms plays major role for outlining new technologies, facilities and information for the host countries. This complementary process gives a hand to expand the capabilities of the domestic entrepreneur along with the interest of the foreign firms (Hossain & Hasan; 2015).

Recently the share of developing countries has steadily increased over the past three decades. Today, developing countries account for approximately 24 per cent of total FDI flows and FDI has become the most important source of external finance for developing countries as a group, more important than commercial loans, portfolio investment, and official development assistance (UNCTAD, 2000).

Although in order to develop and enhance human capital attracting FDI is the good strategic option for developed as well as developing country in our case Ethiopia. In 2013, FDI flows returned to an upward trend. Which is 9 percent to $41 billion, FDI inflows increased in all major economic groupings − developed, developing, and transition economies. Global FDI stock rose by 9 per cent, reaching $25.5 trillion (UNCTAD, 2013).

FDI inflows to Africa rose by 4 per cent to $57 billion, driven by international and regional market-seeking and infrastructure investments. Expectations for sustained growth of an emerging middle class attracted FDI in consumer oriented industries, including food, IT, tourism, finance and retail. The overall increase was driven by the Eastern and Southern African sub regions, as others saw falling investments. In Southern Africa flows almost doubled to $13 billion, mainly due to record-high flows to South Africa and Mozambique. In both countries, infrastructure was the main attraction, with investments in the gas sector in Mozambique also playing a role. In East Africa, FDI increased by 15 per cent to $6.2 billion as a result of rising flows to Ethiopia and Kenya. Kenya is becoming a favored business hub, not only for oil and gas exploration but also for manufacturing and transport; Ethiopian industrial strategy may attract Asian capital to develop its manufacturing base (UNCTAD, 2013).

According to Ethiopian investment agency, Industrial Development Strategy focuses on export manufacturing with priority given to textile and garments, leather and leather products, agro-

processing, and small and micro-enterprises. Due to the investment-friendly environment created in the country, the inflow of foreign direct investment (FDI) has been increasing over the last twenty one years**.** Accordingly, out of the total investment projects licensed between 1992- 2012, FDI's share is about 15.80 percent. However, the overall trend of investment in 2012 both the total number of projects and capital invested have shown slight increase. Ethiopia remains an untapped and unexploited market for investors. China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom Israel, Canada and the United States are the major sources of FDI (EIG, 2015**).**

1.2 Statement of the Problem

Human resource development formation (HRD) and foreign direct investment (FDI) are among the key drivers of firm performance and growth in developed and developing countries. While HRD and FDI individually affect growth, they also reinforce each other through complementary effects. In general, enhanced HRD increases incoming FDI by making the investment climate attractive for foreign investors. This is done through a direct effect of upgraded skill level of the workforce, as well as via indirect effects such as improved socio-political stability and health (OECD, 2003). On the other hand, FDI contribute to human capital formation since these foreign firms are major provider and participants of education, on-job training, new skills, information and technologies to developing countries. Ultimately, this complementary effect leads to a virtuous circle of HRD and FDI where host countries experience continuous inflow of FDI over time by increasingly attracting higher value-added MNEs, while at the same time upgrading the skill contents of preexisting MNEs and domestic enterprises (Miyamoto, 2003).

As cited in Azam and kahan; the study of Subbarao (2008) explains that apart from other benefits, incoming FDI plays a key role in the enhancement of human capital in all developing countries. The advanced technology, transferred by the home country to the recipient countries, creates new activities, improves existing activities in some cases, and introduces research and development environment. As a result, the transmitted technological and managerial skills lead to the growth of skills of human capital in the host countries.

In addition, (Michi; 2001), indicates both the direct and indirect beneficial effects for the companies concerned and also for the wider economy. Firstly, human capital enhancement can be expected to lead to higher productivity and profitability as a direct result of the increased

capacity of the employees to perform their tasks. Secondly, there is the indirect effect of companies getting a greater payback than would otherwise be the case from investment in new technologies and process innovations, as the employees are better equipped to absorb and utilize both the codified and tacit knowledge through which the benefits of such investment are largely delivered. Thirdly, human capital enhancement may improve not just the ability of employees to deliver greater productivity, but also their willingness, commitment and motivation so to do.

Recently conducted empirical study in different developing country indicates that the effect of foreign direct investment on building human capital and expediting productivity and economic growth in general is vital for instance Baranwal,(2013) indicates that the effects of foreign direct investment on human capital formation in manufacturing sector indicate that the favorable human capital formation can be positively affected by foreign direct investment and training provided by foreign firms to their employees is the main channel of its human capital formation done by foreign direct investment. Azam & Kahan (2015) in their study made in 34 developing countries over the time period ranging from 1981-2013 also suggest that inward FDI has statistically positive impact on human capital formation in developing country. In addition a study conducted in Ethiopia by Mitiku (2013), indicates that in the short run FDI has statistically significant negative effect on the HCD. However the study found the long run effect of FDI on HCD is positive. To mean it differently, the short run effect of FDI in the HCD of this nation is negative but in the long run it has a positive but insignificant effect on it.

Considering this entire thing the current government of Ethiopia has realized the inadequacy of the domestic capital and opened several economic sectors to foreign investors. The government has also issued several investment incentives, including tax holidays, duty free importation of capital goods and export tax exemption to encourage foreign investment. Furthermore, Ethiopian Investment Authority (EIA) has been established to service investors and streamline the investment procedures (UNCTAD, 2002)

However, even if many studies are conducted in different developing country regarding this concept different research provide different suggestion and have different argument. Beside this in our case Ethiopian government develop different sound policy, incentive and activity to enhance inward FDI. In addition to these different studies are made regarding the issue like determinant, role and trend of FDI in Ethiopian economic growth but there is little study made

on the impacts of FDI inflow on human capital development and are still insufficient. Therefore the research problem of this study is to examine the impacts foreign direct investment on human capital formation and to increase understanding on human capital, as a key source of enhancing firm performance and economic growth and also to answer the question on how to encourage MNEs to invest in human capital enhancement.

1.3 Research question

1) What are the major objectives of foreign firms to overseen investment in Ethiopia?
2) What effects does a FDI firm have on human capital development through educational advancement activities?
3) What effects does a FDI firm have on human capital development mainly through training practice?
4) What effects does a FDI firm have on human capital development mainly through the practice of, R&D?
5) What effects does a FDI firm have on human capital development mainly through the practice of skill and knowledge transformation?
6) What are the hindering factors for foreign firms in human capital building Process?

1.4 Research Objective

The general purposes of this study were to examining the effects of foreign direct investment on human capital formation and to identify constraints of human capital formation process in Addis Ababa area manufacturing firms.

1.4.1 Specific objective

The Specific objectives of this study are to;

- To assess the major objectives of foreign firms for overseeing investment in Ethiopia.
- To analysis the effects of education, training, R&D, skill and knowledge transfer on human capital formation.
- To explore the constraining factors that influence foreign firm‘s role on human capital formation process.

1.5 Significance of the study

Now a days Attracting FDI is one important thing for sustainable economic growth in any country especially in developing country like Ethiopia. As it is indicated in the above our country Ethiopia performs several activities to attract FDI for various reasons and to archive this different strategies and policy are developed and implement at various level. Doing all this is one important thing but the question is beside creating employment opportunity and enhancing financial inflow to our nation what is the benefit and role of this inward FDI in human capital development for our nation? Therefore this study will provide empirical analysis to answer this question and also become source of literature for further study that will be made in the future. The other significances of the study is that it will enhance the awareness that human capital as key source of productivity, profitability and economic growth in general.

1.6 Scope of the study

This study will focus on the impacts of FDI on human capital development in firms owned and invested by foreign firms. Further, the study will also look the relationship and practice of training, R&D, education and human capital development at the firm level in selected forging manufacturing firms in Addis Ababa.

1.7 Limitation of the study

This study focuses on assessing impacts of foreign direct investment in case of Ethiopia manufacturing sector particularly on the selected firms in Addis Ababa and therefore it cannot be considered as a representative of the whole firms in sectors; that is the generalizability of the finding and the conclusion drawn is limited to the selected firms which includes Addis Ababa,. Moreover, the reason behind studying on the selected firms is due to time and resource constraint.

1.8 Definition of key Terminology and Concepts

Foreign Direct Investment (FDI): it is the process whereby residents of one country (the source or home country) acquire ownership of assets for the purpose controlling of production, distribution and other activities a firm in other country (the host country) for getting new economic advantages abroad (Mitiku, 2013).

FDI is defined as a cross-border investment in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise) (CMCG, 2003).

Human capital: Human capital refers to the skill and knowledge of human beings it is the qualities of education, skills, training specialization innovation in population (Ritchie, 2002)

Host country: is nation in which MNC's from other country or state are vesting or investing for various reason.

1.9 organization of the paper

This paper will be organized in to five chapters. The first chapter contains back ground of the study, statement of the problem, research objective and hypothesis of the study, Significance of the study and organization of the paper itself. Chapter two will contain the theoretical and empirical finding be and government policy and practice regarding the issue will be discussed. Chapter three will contain methodology of the study .In chapter four the empirical results of data analysis will be evaluate.in the last chapter discussion and implication with possible proposition are forwarded based on the empirical finding of the study**.**

CHAPTER TWO

2. Literature review

2.1 Introduction

This chapter reviews the theoretical and empirical findings around the relationship between foreign direct investment and human capital formation. The whole part of chapter is structured in to four sections the first section review definition and concepts of human capital formation and second section cover the theoretical view of human capital and development and related issues while the third section will cover and review the empirical studies conduct in the area.

Recent challenges such as globalization, a knowledge-based economy, and technological evolution, have encouraged many countries and organizations to search for new ways to maintain competitive advantage. In reply, the dominant sense is that the success be determined by in large part on the people with higher levels of individual competence. In the end, the people are becoming treasured assets and can be accepted within a framework of human capital (Dae-Bong, 2009).

Broadly, the concept of human capital is semantically the mixture of human and capital. In the economic perspective, the capital denotes to _factors of production used to produce goods or services that are not themselves considerably consumed in the production process' (Boldizzoni, 2008).

2.2 Theoretical Reviews

2.2.1 Definition of human capital formation and main concepts

According Schultz (1993), the term –human capital" has been defined as a key element in improving a firm assets and employees in order to increase productive as well as sustain competitive advantage. To sustain competitiveness in the organization human capital becomes an instrument used to increase productivity. Human capitals refer to processes that relate to training, education and other professional initiatives in order to increase the levels of knowledge, skills, abilities, values, and social assets of an employee which will lead to the employee's satisfaction and performance, and eventually on a firm performance.

Human capital formation is Expenditure on education and training, education, innovation and R&D are called human capital formation. It refers to the process by which educated, skilled and trained persons are increased in a country. Accordingly, human capital formation is the act of increasing the productive qualities of labor force by providing more education and by increasing skill, health and nutrition level (Khan; 2012)

Broadly, human capital also viewed from different perspective. The first view point is from individual aspect. Which is considering human capital similar to property and conceptualized human capital is far more than other factor of production and accept human capacity base on knowledge and skill is embedded to individual. Second perspective is human capital itself and the process of accumulating it. This perspective highly focused on the knowledge and skill acquired through education training and experience (de la fuente& ciccone as sited in dea-bong 2009). Other perspective is highly focused on production oriented human capital. Means human capital (knowledge, skill, competency and trustworthiness etc.) of individual and society is key factor for productivity and economic growth of nation (Romer; 1990).

Human capital development can take different level like individual level, organizational level and society level. In addition to this there are two ways of human capital formation like general and firm specific human capitals. General human capital formation is skill and knowledge accumulated through education, training and experience and which can be transferred from industry to industry where as firm specific human capital Formation is skill, experience and knowledge on firm specific activates or tasks and which rarely transferable and more focus on only firm productivity(Bnong,2009).

2.2.2Theoretical Perspectives

This section reviews the theoretical perspectives that have been agreed towards human capital. Neo-classical and endogenous growth theories are reviewed from human capital and FDI perspective and further more related issues of human capital formation also present below.

Review of the literature reveals that there are several studies investigating the impact of FDI on economic growth in both developing and developed countries. However, research on the effect of inward FDI on human capital which is key factor of economic growth is yet small. (Azam,Kahan & Zine, 2015)

The literature relating to human capital theory distinguishes among several types and means of education: formalized education at primary, secondary, and higher levels; informal education training at work and at home on the job training and apprenticeships (Mincer, 1974).Human Capital Development Theory generalize that investment made on human capital will lead to better economic development however the soundness of the theory is sometimes hard to verify and contradictory. In previous time, financial position was mainly dependent on tangible physical assets such as land, factories and equipment. Human labor was important component, but increases in the value of the business came from investment in capital equipment. Modern view seem to concur that education; training and health care is the key to improving human capital and ultimately increasing the economic outputs of the nation. (Becker 1993).

Economists and historians usually identify British economists Sir William Petty (1623-1687) and Adam Smith (1723-1790) as the primary diggers of human capital theory. Petty's main contribution was the *Treatise of Taxes and Contributions* (1662). Petty examined the role of the state in the economy and touched on the value of labor. Adam Smith is routinely credited with establishing the basis of the economics of human capital.

Becker‘s (1993) classic book, *Human Capital: A Theoretical and Empirical Analysis* with special reference to education and training, illustrates this domain. Becker argues that there are different kinds of capitals that include schooling, training course, and expenditures on medical care. And in fact, lectures on the virtues of punctuality and honesty are capital too. In the true sense, they improve health, raise earnings, or add to a person‘s appreciation of literature over a lifetime. Consequently, it is fully in keeping with the capital concept as traditionally defined to say that expenditures on education, training, and medical care, etc., are investment in capital. These are not simply costs but investment with valuable returns that can be calculated.

Neo classic theory of human capital considers labor as a commodity that can be bought and sold and it focused manipulation of labor by capital. However, unlike the traditional view human capital is the knowledge skill expertise that one can accumulate through education, training or any other research and development activates Mararimutu, (2009). Emphasizing the social and economic importance of human capital theory, Becker (1993) noted the most valuable of all capital is that investment in human being. Becker distinguishes firm-specific human capitals from general-purpose human capital. Examples of firm-specific human capital include expertise

obtained through education and training in management information systems, accounting procedures, or other expertise specific to a particular firm. General-purpose human capital is knowledge gained through education and training in areas of value to a variety of firms such as generic skills in human resource development. Regardless of the application, Becker considers education and training to be the most important investment in human capital. On the other hand human capital theory also develops key relationship based on the different assumptions. The first relationship lays on the concept of production functions as applied to education and training. The key assumption underlying this relationship is that investment in education and training results in increased learning. The second relationship is about the relationship between human capital and learning in a way that it can increase productivity. The key concept is that investment in learning increase productivity. The other relationship based on human capital, productivity, wage earning and profit or growths. Main idea of this assumption is based on that human capital increase productivity in return can increase wage earning which leads to higher firm performance and growth in general (swanson, 2001)

In addition neo-classical development theory, with its emphasis on capital accumulation, there is less controversy about the contribution of FDI to host-country growth. From a macroeconomic standpoint, the Keynesian identity reminds us that domestic investment depends on the level of savings. Since developing countries tend to lack the domestic savings required to fund their various investment projects, they must rely on foreign savings. Those savings can come in the form of foreign aid, bank loans, or direct investment. By importing foreign capital, developing countries loosen the resource constraints on their investment and growth, and therefore FDI should be welcomed (Kapstein, 2001)

Other endogenous growth theory Lucas (1988) and Romer (1990) as cited by Kidanemariam considers human capital as a separate input in the production function formed mainly by workers through education or on-the-job training. In the Lucas (1988) model, the rate at which human capital is being accumulated was seen as the critical determinant of productivity growth. In addition Romer (1990)perspective, human capital as a factor affecting innovations that has a positive impact on the long-run rate of productivity growth, instead of treating human capital as a direct input to the production of goods. More recently, economic models influenced by endogenous growth theory hypothesize that the relationship between FDI and growth will be a

function of technology and human capital. By transferring technology and developing skills, for example, multinational enterprises (MNEs) generate externalities with broad economic effects. Workers who are trained within the MNE may ultimately bring their skills and know-how to the domestic economy by changing jobs or by becoming entrepreneurs. This means, the policy lesson is that FDI must be encouraged (Kapstein; 2001).

Foreign Direct Investment (FDI) refers to capital inflows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.

The pro-FDI School of thought provides idea in favor of FDI. Its proponent‘s propagate the idea that foreign direct investments are important to the development of the third world countries. Harry Johnson (1977) for example, has argued that foreign investment brings to the host country cheap capital, advanced technology, superior management ability, and superior knowledge of foreign markets for both final products and capital goods, intermediate inputs ,and raw materials. According to Johnson the diffusion of technology and the transfer of management expertise from industrial to developing countries are the most important external means by which the developing countries can improve their standard of living.

2.2.3 The Dependencia School

As opposed to the pro- FDI perspective, the Dependencia School has emphasized the risks that foreign investments pose for the third world. economic difficulties of developing countries originate from the relationship of the advanced countries with developing countries. Ronald (1974) concluded that MNCs transfer technologies to developing countries that result in mass unemployment. They monopolize rather than inject new capital resource and they displace rather than generate or reinforce local businesses. The Dependencia School denies the benefits of FDI to developing countries. It rather belams FDI as cause for the poverty and under development of the developing countries. This school of thought is against the contributions of FDI to employment generation in which FDI is highly dependent on capital than labor and the implication is that developing countries should not open their economies to foreign investors.

However in the contemporary world the third world countries cannot avoid economic integration.

2.2.4 The Bargaining School

A third approach, that of the bargaining school has suggested that distribution of benefits of gains emerge from negotiation between foreign firms and the host countries governments, the bargaining school has found that foreign direct investment often occur in industries in which market imperfections create opportunities for firms to enjoy relatively high profits through foreign operations (Stephan, 1976). According to the Bargaining perspective, developing countries can learn how to extract greater benefits from foreign firms. The main concept underling the Bargaining school is there is a kind of win –win strategy in which both FDI and the host countries get their respective advantages. The implication is that foreign direct investment ought to be permitted, even encouraged by host governments and that these government ought to build the national institutions needed to enhance the country_s share of the resulting benefits.

2.2.5 The Structuralist School

The Structuralist School believes that there are substantial opportunities that the host countries obtain from multinational corporations. The structuralist_ analysis of MNCs effects on third world economies has been in basic agreement with that of the dependenia approach. However it has argued that developing countries may in fact experience a long term decrease in their power over high-technology manufacturing MNCs. The structuralist approach, combines elements of the dependencia and bargaining schools in that developing countries learn more from foreign direct investments but there must be tight limits on the degree to which host countries can reduce their dependency and increase their share of the gains (Moran, 1974).According to this school of thought developing countries should adjust their strategies like adopting technologies that fit their situations to get benefits from foreign investors. Investment is of particular importance to the poor. Through investment the productive capacity can be built and knowledge, skills, technology can be acquired. Through institutional collective action stagnant pattern of poverty and marginalization can be transformed into dynamic pattern of economic development and social inclusion. With development comes the potential for greater equity within and between nations. Greater equity, intern, enhances peace and security which create greater attraction for foreign direct investment. Foreign investment can be strategically decisive in two ways. On one hand, transnational corporation-the primary source of foreign direct investment (FDI) can

potentially transfer technologies, skills and global market links which are lacking domestically, thus stimulating industry growth. On the other hand adopting the rules which govern international investment can dramatically shape both the domestic investment climate and domestic policy options (Lyuba, 2004).

Despite the benefits that can be derived from FDI, it should be noted that it can also bring some negative impacts. For instance activities of MNEs can displace local firms that cannot cope with the competition from foreign firms, thereby reducing the growth of the local firms (Jones , 1996). This can happen when domestic firms are unable to produce their products that can compute in the market with the products of FDI.

Also if proper regulation is not in place in the host country, FDI can serve as a source of capital flight from the developing countries to the developed ones. For instance due to some specific risks in the host country (economic and political risks), there could be large flow of capital from the host country to the home country if there is no legislation against such practice. This can have adverse effect on the host economy especially if such capital is sourced for within the host country. Finally, due to MNEs higher production capacity, FDI can cause large scale environmental damage which sometimes is not well taken care of (Bora ,2002).

2.2.6 Foreign Direct Investment and Human Capital Formation

Recently, the relationship between FDI and human capital has become a topic of growing interest. This is largely, because of which human capital vital in the development process. FDI is not only a source of finance and employment. For developing country governments, FDI can also be a way for acquiring skills, technology, organizational and managerial practices and access to markets in many countries the quantity and quality of education may be insufficient to promote such investment in a meaningful way. In these cases, an interesting question is whether firms might take that role upon themselves, a question that becomes even more relevant in light of all the contemporary discussion with respect to ―eorporate social responsibility.‖ While that debate has focused mainly on environmental and labor-rights issues, perhaps that has been misguided and a more useful discussion would take place with respect to skills training. Specifically, governments might seek to exploit FDI as a vehicle for promoting human capital formation. To the extent that many skills are learned on-the job, the role of the firm *qua* educator may be significant. MNEs make a positive contribution to human capital formation through their

education and training programs, and through the transfer of specific skills that are required for particular functions. It should be emphasized that the knowledge base required to perform these skills may be in short-supply or even non-existent within particular developing countries. From the perspective of economic development, this –skills-transfer" may be no less important than the sort of –technology transfer" embodied in a firm's physical capital. Indeed, international agencies, particularly UNCTAD (2001), have called upon to deepen their training programs in order to –promote linkages" with the domestic economy.

Furthermore, as UNCTAD (1999) has stated, training by a multinational enterprise confers –an externality on domestic firms through staff turnover" and as such should –be encouraged through appropriate policies and identified two pathways by which these externalities could be generated. First, –MNEs may add directly to a nation's stock of human capital by providing training for employees who would not have received such training in the absence of foreign investment. Secondly, the presence of MNEs offering comparatively sophisticated employment opportunities may stimulate potential employees to invest in general training and education in an attempt to avail themselves of these opportunities."

MNC are not only provider of training but also provider of innovative training in different areas like information technology, organizational skills and managerial skills which can enable host countries improve their local practice. Beside this FDI firms accelerate this innovative formal in-house training provide by employer itself or by external public private institutions which facilitate transfer of information and technology to local firms (Miyamoto ;2003)

In addition to this Michel (2001), explain the relationship between FDI and human capital formation from both positive and negative side. The potentially positive effects of FDI include inducing compulsory firms to upgrade their technology, and spill-over benefits so that local competitors can learn from MNCs' technological and managerial practices. The potentially negative effects include the possibility of MNCs deliberately raising concentration levels, forcing competitors out of business by predatory pricing, taking away skilled labor and R&D staff from local firms, or engaging in restrictive business practices which, among other things, may discourage technological development(Kapstein; 2001).

Human resource development (HRD) and foreign direct investment (FDI) are among the key drivers of growth in developed and developing countries1. While HRD and FDI individually affect growth, they also reinforce each other through complementary effects. In general, enhanced HRD increases incoming FDI by making the investment climate attractive for foreign investors. This is done through a direct effect of upgraded skill level of the workforce, as well as via indirect effects such as improved socio-political stability and health (World Bank, 2003; & OECD, 2003). Figure I.1 illustrates how this virtuous circle takes place. The first part of the cycle (A: Determinants of Inward-FDI) shows that sound government policies are important determinants of FDI. Host investment climate such as market access and availability/quality of factors of production are other key factors affecting inward-FDI. Sound policies should also contribute to a better investment climate. After a host developing country succeeds in attracting FDI, the next step of the cycle is to mobilize MNEs so that the new technologies that they brought into the country are transmitted to other firms and industries. This is usually achieved through MNEs‘ links with domestic firms as well as through their own HRD activities. Note that HRD is not limited to enterprise training but extends further to MNE collaboration with governments, investment promotion agencies (IPA), and domestic enterprises to design and coordinate HRD activities of the country or of the industry. The final step of the circle is for host countries to take advantage of the upgraded skill levels of the economy so that more inward FDI takes place. This is not simply to increase the flow of inward FDI, but to attract higher value-added MNEs, in which the key factor of production is the skilled workforce. To this end, host country governments need to constantly fine-tune policies so that the investment climate adapts in a way that higher value-added MNEs that utilize new skills and information will be attracted

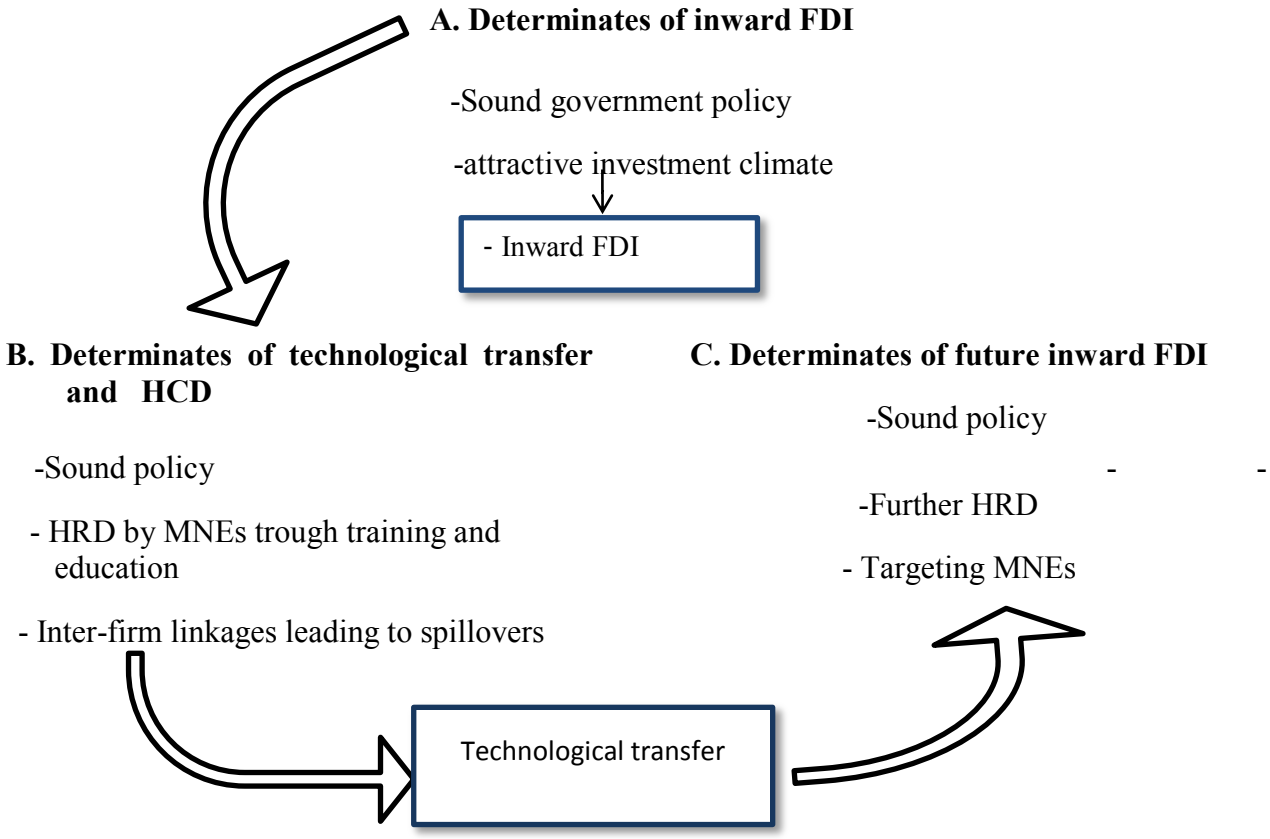


Fig 1; The Virtuous Circle of Inward-FDI , Technology transfer and HCD

Source OECD development center; 2003

2.2.7 FDI, Training, education, R&D and skill Transformation

The practice and the effects of FDI on training of employees to local workers are important for the investing firms, workers and the host country Shifraw (2014). This happens when foreign firm‘s offers to the locals to enable them operate machinery or any other orations. Training in foreign firms can take place trough vertically linked in a wide range of issues like efficiency in production, marketing, management or indirectly when foreign firms introduce new technology which led to competition and trigger local firms to learn and innovate if they are to improve the production capacity of their employees. Skill development can also arise as a result of demonstration effects. This takes place simply when firms just observe how MNCs undertake their operations such as production and then imitate them (Gachino, 2006).

On the other hand foreign firms can also enhance and develop skill transformation and human capital development through providing training can which take two ways this means through backward linkage by which FDIs provide training to their supplier of raw material. The second ways is trough forward linkages distributer and directly to their customers (Goldberg and Klein, 1998).

Reuber (as sited by Shifraw, 2014) foreign firms might consider the cost of training locals, but at the same time they may realize that such expenditure may be important for their investment. Foreign subsidiaries may sometimes choose to rely on expatriate personnel, at least at the beginning of their investment, however they might have a strong incentive to start using more locals due to cost considerations. Sometimes host governments may put pressure on foreign investing firms to use local employees. Moreover, the cost of an employment tends to be higher than that of local personnel in developing countries. It appears to be difficult to quantify the effects of FDI on the training of locals since the combination of local and foreign personnel that foreign firms use is difficult to ascertain. Conclude that even allowing for the fact that training costs could not be properly identified; costs of training locals are not large enough to make a significant contribution to the improvement of the skills of locals. One reason for this lack of research results is the difficulty in estimating the amount invested in training. The definition of what to include in estimates of the time spent on training is unclear (e.g. informal/formal training). Similarly, the costs to be included in calculating training investments (e.g. direct/indirect costs) are not standardized. The lack of a coherent definition of training and of a standardized way of measuring training investments hampers efforts to address the question of the actual benefit of training. In many cases training is measured as the proportion of employees being trained in a year instead of the actual amount invested,(Hansson,2004)

The effects of education or skills/competence on company performance and economy are generally more difficult to establish, as these factors are accumulated measures of human capital stock. Compared with company training that normally varies from year to year, educational levels are much more constant. The idea that skills in the form of programming competence are associated with how much the individual produces in net contribution (profit) to the firm is presented in (Hansson, 2001).

The other importance and effects of FDI is undertaking research and development activities in the host country were the operation is taking place. This means the human resource can be strengthened when foreign firms put their effort to research and development activities since these activities enable worker in the foreign firms to acquire new knowledge and skill and domestic firms to absorb advance technologies. In addition these efforts of foreign firms on R&D would also lead to knowledge diffusion in two possible ways, one that occurs through costly activities conducted by domestic firms and MNEs such as R&D and human resource development, and the other that can spontaneously arise without such activities.

Table 2.1 Correlation method at different level

Level of human capital	***Method of HC formation***
Society level	Investment in education relative the national wealth
Enterprise level	Investment in training and employee competency relative to enterprise performance
Individual level	Year of schooling relative to life time income

Source OECD research center 1999

With respect to organization, Lepak and Snell (1999) suggest that the potential of human capital is closely linked to core competences and competitiveness of organization. Similar to this perspective, Edvison &Malone (1997) present individual human capital can affect organizational human capital such as _collective competences, organizational routines, company culture and relational capital' as well. Finally, the social perspective of human capital is the synthesis of both individual and organizational perspective. McMahon (1999) depicts the possibility of human capital for _democracy, human rights, and political stability' on common consciousness of social constituents. Human capital can increase social consciousness of constituents within community. Consequently, the link between human capital and social consciousness is based on a close inter-relationship resulting in sociopolitical development (Dea –bong, 2009)

Table 2.2 Dimension of human capital

Level/dimension	Politics	Economy	Social	Psychology
Individual	Increase skill level	Increase earnings	Increase equality	Increase self esteem
Enterprise	Comply with sounding society	Increase Competitiveness	Improve the enterprise image	Improve work environment
Government	Complement labor market and employment policy	Share the costs related to education and training	Implement the lifelong learning concept	The notion of a dynamic government/ society

Source Coleman 1988, Fukuyama 1995 and Goleman 1996

The levels and especially the dimensions are to a great extent interrelated with many overlaps, which must be kept in mind while working with human capital in general and reporting on it in particular. It is therefore critical to have a clear understanding of the various stakeholders' interests as well as the specific objectives for concrete methods while also keeping in mind related levels and dimensions while exploring possibilities and limitations on the notion of human capital and the reporting of it.

2.2.8 Division of Human Capital

Generally, some researchers present three distinguished kinds of human capital such as general, firm -specific, and task-specific human capital (Gibbons & Waldman, 2004) Otherwise, Becker (1964) explains that human capital is categorized into general and specific one. General human capital is _to be defined by generic knowledge and skill, not specific to a task or a company, usually accumulated through working experiences and education' The general human capital holds _transferable' characteristic across jobs, firms and industry. It is relatively easy that the general human capital embedded in an individual transfers to different industries. Contrast to the general human capital, firm/task specific human capital is usually accumulated through education, training, working experience on _knowledge specific to a firm/task'. As pointed out

by Becker (1964, 1976), the specific human capital is rarely transferable to be applied to other jobs, firm, and industry, and thus it is impossible to transfer much income in the labor market. Furthermore, human capital is _specific if it increases a worker‘s productivity only at the firm‘ Becker, (1964). Consequently, it is difficult that the specific human capital embedded in an individual transfers to Different industries ((Dea –bong; 2009).

2.2.9 Measurement of Human Capital

The measurement of human capital stock is categorized in to three parts: Output-, Cost-, and Income-based approach (de-bong 2009). Output approach is largely based on School enrollment rates this can be done by calculating the ratio between individual school age and student registering in educational institution. But this method has drawback of that student effectiveness can be recognized after school enrolment which is during productivity Baro; (1991). The second ways of measuring human capital is cost base approach. This approach measure human capital by summing the cost invested for one individual or human capital. For the purpose of calculating the invested costs, Kendric (1976) exploited an individual‘s investment costs considering depreciation, and Jorgenson & Fraumeni (1989) presented discounted income in the future. Considering that this approach is based on indirectly measuring stock of human capital, it is difficult to precisely classify boundary between investment and consumption in the perspective of costs for the human capital. The third approach income base approach. This approach is based on the returns which an individual obtains from a labor market throughout education investment. Mulligan & Sala-i-Martin (1995) defines that aggregate human capital is the sum of quality adjustment of each individual‘s labor force, and presents the stock of human capital utilizing an individual‘s income. Considering this _human-unrelated factors‘ can more influence an individual‘s income, this approach rarely presents a complete measurement for human capital (de bong2009).on the other hand even if this convectional measurements calculate and measure different dimensions of human capital different scholars critiques and identify different demerits. The first critique is convectional measurement unclearly address the causality between education and productivity Winkler (1987). According to Winkler the investment in human capital have to influence the outcome of it rather; unrelated factors affect the effectiveness of human capital investment. The second critique is hat convectional measurement of human capital somewhat forget to consider the qualitative parts of human capital the other demerits of this measurement is it slightly concerned about more accurate indicator of human capital like social

capital and social progress (Bassani 2008; Schuller ;2001).based on the above demerits of convectional measurement of human capital new approach focus on overcoming this draw backs and more focused on advanced measurement of social capital and social progress. Hansson (As sited in de bong ,2008) in addition to this the new approach pay attention to education related factor like time invested on education and investment on education and training.

From SHRM perspective, there are three major types of human capital measurement which is focused across individual and firm level of analysis. This types of measurement includes subjective, proxies and direct assessment measures. Human capital represents the factor which gives a specific character to every organization. People form that that element in the company which is able to learn, to innovate, to stimulate and make changes as well as to think creatively. This all is important for long-term successful operation of a company on the market (Vodák, 2010).

Subjective measures of human capital is mainly focused on measuring human capital the perceived level of education, training ,work experience and skill of the entire organization.to assess this the measurement revolves around four item a).our employees have appropriate education for accomplishing their jobs. b) Our employees are well trained to accomplish their jobs. c) Our employees hold suitable work experience for accomplishing their jobs successfully‘ and d).our employees are professionally well skilled to accomplish their jobs. Another ways of subjective measure is measuring the skill and motivation of company work force relative to other firm or industry using multi –item scale. In addition to assess organizational human capital, managers completed a human capital scale assessing the extent to which all of their employees _are highly skilled‘, _are widely considered to be the best in our industry‘, _are creative and bright‘, _are experts in their particular jobs and functions‘ and _develop new ideas and knowledge‘. The major problem with this measurement is that the Measurement is based on the perceptions of the respondent which will create bias or any accuracy in the information gathered about the issue and also crate low reliability. The other measurement of human capital is proxies which underline the use of proxies‘ measures for human capital for other quantity that cannot be directly measure and it‘s more predominant in the economic and micro-organizations areas of inquiries. The third ways of measuring human capital is direct assessment method which is more related with the psychological aspects of human capital to construct aggregate human capital

which can eliminate the incomplete understanding about the issue. The measure relays on personality treats like emotional stability, conscientiousness, agreeableness and extraversion and aggregated to the job and organization levels of human capital. Note that direct assessments of human capital differ from the other approaches in two important ways. First, they directly assess characteristics of individuals instead of using indirect assessments. For instance, using years of education does not assess the quality of that education in terms of the type of school, the major and the performance within that education, and thus significant error variance exists in the measure. Direct assessments, on the other hand, account for more variability in the characteristics being assessed, and thus reduce error variance. Second, these direct assessments are around specific human capital characteristics more relevant to the particular job at hand (Wright and McMahan, 2011)

2.2.10 The Relationship between Human Capital and Firm Performance

The human capital focuses three main components which are individuals, organizations and society. This concept have further been described by Garavan et al., (2001) that human capitals have four key attributes as follows: (1) flexibility and adaptability (2) enhancement of individual competencies (3) the development of organizational competencies and (4) individual employability. It shows that these attributes in turn generate add values to individual and organizational outcomes. There are various findings that incorporate human capital with higher performance and sustainable competitive advantage Noudhaug, (1998).

2.2.11 Foreign direct investment in Ethiopia

It is an undeniable fact that Ethiopia has made a considerable progress in economic and social development since 1992 as a result of the implementation of favorable policies and strategies that are instrumental in improving the national economy. The Rural Development Policy and Strategy, the Industrial Development Strategy, and other sectorial policies and strategies have initiated a new push towards creating frameworks conducive for economic and social development. The Rural Development Policy and Strategy, which is under implementation, underlines that agriculture led development will bring about fast economic growth, enable its people become beneficiary of economic growth, and lays solid foundation for industrial development. The Industrial Development Strategy focuses on export manufacturing with priority given to textile and garments, leather and leather products, agro-processing, and small and micro-enterprises Due to the investment-friendly environment created in the country, the

inflow of foreign direct investment (FDI) has been increasing over the last twenty one years. Accordingly, out of the total investment projects licensed between1992-2012, FDI's share is about 15.80 percent. However, the overall trend of investment in 2012 both the total number of projects and capital invested have shown slight increase (Ethiopian investment agency; 2015)

According to the in conformity with the international conventions and other legal commitments, Ethiopia has issued a labor law to ensure that worker-employer relations be governed by the basic principles of rights and obligations with a view to enabling workers and employers maintain industrial peace and work in spirit of harmony and cooperation.

The Labor Law is believed to be consistent with the investment policy of the country. Foreign investors shall obtain work permits for their expatriate employees directly from the Ethiopian Investment Commission (EIC) during the implementation phase of the project. During the operational phase, the Ministry of Labor and Social Affairs will issue the work permit. The EIC processes applications of work permits in two hours. The Labor Law has fixed nominal hours of work as eight hours a day and thirty eight hours a week. Work done in excess of these hours is deemed to be overtime. The maximum number of office closure days in a year is 12. The government has strategic intervention to ensure linkage between economic growth and employment. Accordingly, most of the urban dwellers benefitted from the economic growth achieved in the past years. Ethiopia has abundant supply of skilled workers in various fields at internationally competitive rates. Wages and salaries vary depending on the size of enterprise, type of profession and level of skill required. They are determined by agreement between the employer and the employee. Generally, the cost of labor in Ethiopia is low by African standard.

Labor disputes in Ethiopia are resolved through the application of the law, collective agreements, work rules, and employment contracts.

2.2.12 Trends of FDIs on human capital building and technological transfer

The review of the newly industrialized countries illustrates the policy and the FDI effects on technology transfer and the gap between the newly industrialized countries and Ethiopia is identified and demonstrated.

From the experience of china, it can be seen that the government encourages and opened the economy to investment from foreign investors as a joint venture and to encourage the transfer of

technology through foreign joint ventures the government granted a number of privileges including preferential taxation, simpler licensing procedures, freedom to import inputs of materials and equipment, more autonomy from bureaucratic interference, interest free loans, and the right to retain and swap foreign exchange with each other. Foreign investment enterprises that employed advanced technology and were export oriented also enjoyed additional tax benefits. Guidelines were published detailing the foreign investments. These guidelines encouraged investment in high technology sectors (chemical fibers, microelectronics, precision machinery, civilian aircraft, and biotechnology and energy development) as well as infrastructure and agricultural developments.

Malaysian experience demonstrated that the government employed import substitution and export promotion policies, rather than free market trade policy. Its export promotion policy attracted foreign transnational‘s to invest in processing industries for export. So while import substituting industries were given protection, generous incentives were devised in the area of export promotion. But the policy failed to develop the indigenous industries technological capability. Due to this the government changes the industrial policy with a fresh drive to attract MNCs, privatizing some public enterprises and adopting a pragmatic strategy towards ethnic balance. The new industrial policy shifted to more selective strategy, i.e. providing critical factors for industrial development (skills and training, technical support, finance, quality improvement, and the like).

In Singapore training institutes are established by joint interaction of the Singaporean government and other foreign countries firms in which the most up-to-date equipment are donated by suppliers and used for demonstration, training and development purposes. Foreign companies provide sources of technology transfer to upgrade the technology level of Singapore, in many industries including heavy metalworking and electronics.

In Ethiopia the government‘s policy on FDI mainly concentrate on the financial flow to the country. Due to this local industries are unable to increase their technological capability and most of foreign investors are engaged in the resource oriented and labor intensive operations resulting in very weak/slow technology and knowhow transfer. The Ethiopian private sector plays a much smaller role in FDI promotion than in many similar emerging economies. There are thus few effective private sector links into the international corporate community.

2.3 Empirical Review

In spite of the above theoretical review and explanation of the impact of FDI and human capital formation this section reviews the empirical studies that are conduct by different researcher in different place and time

Recent studies, Kahan and Zine (2015) conducted research to examine the impacts of foreign direct investment along some other variable on human capital formation. The study was conducted on 34 developing country's over the time pried range from 1981-2013. The result show that FDI has significant positive effect on human capital development in developing country in addition to this their finding expose that inward flow of FDI enhance the level of education, training and innovation of country. They also report developing country should develop friendly policy and create good investment environment to attract more FDI inflow.

Another recent study Chowdhury & Hasan (2015) analyzed the effects of foreign direct investment and human capital formation in Bangladesh labor market. They mainly use penal date of 1689 firms from period 2000-2014. The finding indicates that foreign firms provide extensive training to employee in host country to improve competency which in turn expedite transformation of modern technology and skill base changes in labor market and capital development in the country.

Again Branwal (2014) empirically assess the effects of foreign direct investment on human capital formation in India manufacturing sector with Penal data of 568 firms for time 2001-2013. They used FDI and other variable like Training, research &development, royalty and capital labor ratio expenses incurred by foreign firm as measuring variable and the result indicates that foreign direct investment has favorable effect on human capital formation. The study argue that training provide by foreign firm to their employee is the main contribution that foreign firms made in human capital formation of host countries.

Miyamoto (2003) also tried to empirically examine the complementary effect between human capital formation and FDI in developing countries by posting different questions. The finding indicates that, first to attract FDI especially high value adding MNCs developing country need to reach and have certain level of human capital. Second the finding indicates MNCs can contributes to HCD trough facilitating and providing training and education opportunities and

this is because many research conclude MNCs invest more in training than domestic one. Third finding shows that FDI contribute to technology transfers through numerous channels of training spillovers, including vertical/horizontal linkages, labor turnovers, and spin-offs. The study also identify different constraint that hider MNCs to invest in human capital and finally argue that government in developing country have plan sound policy to facilitate training practice, to diminish financial constraint and encourage MNCs to invest more on human capital.

Slaughter (2009) also tries to find the role of FDI for skill upgrading in developing country. The study focused on the demand -supply side and role of FDI in human skill development both at micro and macro level. The finding indicates the from demand side, multinational investor's utilize firm-specific knowledge skill as an asset and invest on physical capital they raise demand for skilled worker. On the supply side multinational companies can raise the supply skilled of worker both at micro level of individual they trained through in house and interaction with host country education and training institution and at macro level create spill-over effect at national level by creating channel in which skills can transfer to the domestic firms. In addition to this the study highly suggest understanding how MNC mange and spread information and different technology is important for host countries to create successful system to absorb skill and information for long term effect.

Another study by Ritchie (2002) examines the role played by multinational corporations (MNCs) in the transfer of knowledge and formation of human capital in FDI host nations. It explores the changing nature of FDI within the region and the diversity of environments in which FDI operates. The author finds that there is evidence to support the idea that MNCs not only locate to regions where there is already a stock of skills, but that they enhance these skills and cause a ―spillover effect" outside their own operations, depending on the domestic policy environment.

On the other hand Todo and Miyamoto (2002) asses the role of foreign direct investment and domestic firms on knowledge diffusion especially through research and development practice and human development using penal data. Find shows the knowledge diffusion and human development activity conduct by foreign firm can affect domestic firms in a positive way. They also indicate two modes of cost and cost-lees knowledge diffusion practice. The result from convectional regression suggests no knowledge diffusion from foreign firms in the study area. Their theoretical justification and variables shows R&D activity and human resource conducted

MNC encourage knowledge diffusion to domestic firm and hence improve productivity plus to this R&D activity engaged by domestic firm may also promote knowledge diffusion and human capital development. Finally, the finding suggests knowledge transfer from MNC needs foreign or domestic firms efforts in R&D and human development.

There finding also bring possible impact on growth theory which underlines that knowledge diffusion is cost less.

In Ethiopia Tewdros (2014) conduct research on relationship between human capital development and economic growth using panel data time from 1971-2011.The study tries to examine the causality and integration analysis between human capital and economic growth in Ethiopia by using education and health as measuring variable. The finding indicates that in the long run well educated and healthy work force significantly affects and positively contributes for human capital and economic growth. According to the researcher this is because an enhancement in productivity due establishment of well-educated and healthy facility to workers. In short run, only health significantly affects economic growth in positive ways whereas education does not affect economic growth in short run.

Other study conduct by Mitku (2013) also assessed the impacts of foreign direct investment and Ethiopian economic growth. In this study the researcher tires to see trend and determinant of forging direct investment in Ethiopia. Furthermore, the study use HCD as one variable that can affect economic growth and the impact of FDI on HCD is also analyzed and the result indicates that in long run FDI have significant positive effect on HCD, but in short run the impact is insignificant . The study also suggests to achieve the full benefit of this better developments one thing the host country should have the required quality and quantity of human capital and the other side these foreign firms should have to create a backward and a forward integration with the domestic firms that facilitate effective transfer of technologies and management systems so that the host country can reap the full benefit of the HCD.

Kinanmariyam (2013) also conduct study to investigate the long run and short run impacts of human capital development in Ethiopian economy. The researcher use co -integration analysis to examine the impacts of human capital (education and health) on economic growth. The finding of the study indicates that in the in the long run human capital both (health and education) have

positive effects in economic growth of nation. The short run finding of the study indicts that education is the main contributor of economic growth, but unlike its long term impact health have no short term impact in economic growth of nation. The study also suggests that the economic development of one country is highly affected by the level of its human capital development and the public expenditure to education and health improve and expiate the process

2.4 Theoretical frame work

Based on the theoretical perspective and the empirical results the study framework for the relationship between foreign direct investment activities on human capital formation is described as follows.

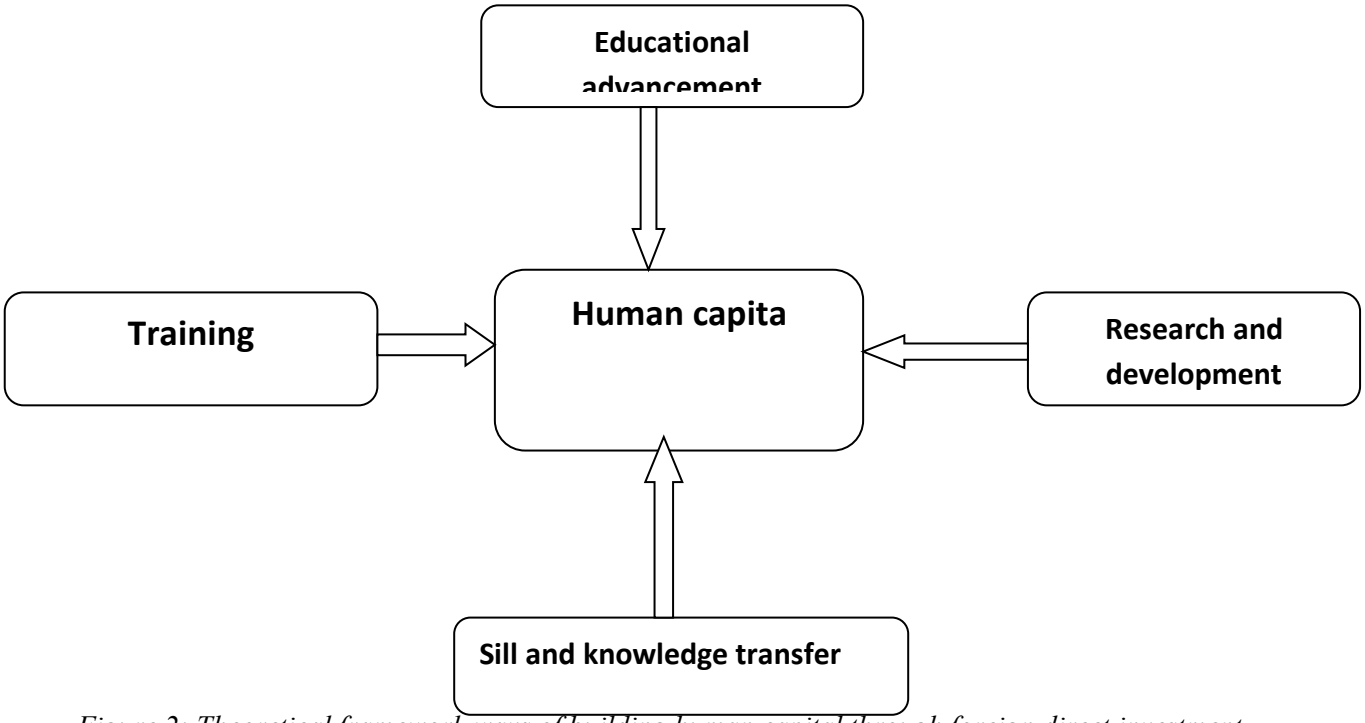


Figure 2: Theoretical framework ways of building human capital through foreign direct investment.

Source: literature review

2.4 Research hypotheses

Education, according to Benhabib and Spiegel (2005), is of a paramount importance for developing countries to bring about sustainable economic growth. Besides, it facilitates the sharing and transmission of knowledge needed for developing new technologies. Through transfer of technology, productivity may be increased in the host country as well as improvement in management. However, it has been noted that it is not a foregone conclusion that FDI will lead to technology transfer and give the expected results. Put in another, FDI plays a pivotal role in the transfer of more sophisticated and efficient technology through providing developing countries with educational advancements. In relation to this, Tewdros (2014) found in his study on relationship between human capital development and economic growth that a well-educated work force significantly affects and positively contributes for human capital and economic growth. According to the researcher this is because an enhancement in productivity due establishment of well-educated to workers. Moreover, Mitku (2013), on his assessment of the impacts of foreign direct investment on Ethiopian economic growth, found that FDI have significant positive effect on HCD. We can infer from the above argument that FDI has a positive impact on the development of human capital and economic growth that it provides advanced education and transfer of technology which can in turn be helpful for human capital development and economic growth.

H1: There is positive effect between foreign firms practice on education and human capital formation.

Training (TR): previous studies argued the practice and the effects of FDI on training of employees to local workers are important for the investing firms, workers and the host country. Training in foreign firms can take place trough in a wide range of issues like efficiency in production, marketing, management or indirectly when foreign firms introduce new technology which led to competition and trigger local firms to learn and innovate if they are to improve the production capacity of their employees. Labor force development can also arise as a result of demonstration effects. This takes place simply when workers just observe how MNCs undertake their operations such as production and then imitate them (Shifraw 2014 and Gachino, 2006).In addition training provides by FDIs to their employees is the main channel of human capital formation done by foreign direct investors. (Baranwal, 2013; koko 2002 and Miyamito 2003).

H2: There is positive effect between foreign firms practice on training and human capital formation.

Research and development (R&D): refers to the investigative activities a business conducts to improve existing products and procedures or to lead to the development of new products and procedures. R&D is different from most activities performed by a corporation in the process of operation. The majority of previous studies used R&D a major determinant when analyzing human capital and FDIs and it is consistently found to be positively and significantly effecting with human capital levels Firms invest for accumulation of knowledge and this accumulation of knowledge capital increases the productivity, wages and thus sharpens the skills of labor force capital. MNEs engaged in either R&D activities or human resource development has a positive and significant impact on labor productivity of local employees MNEs engaged in R&D activities is more likely to diffuse to domestic firms than the knowledge of MNEs without such activities. (Todo and Miyamito,2002).

H3: There is positive or negative effect between foreign firms practice on R&D and human capital formation.

Skill and knowledge Transfer: skill inflow through FDI is an important conduit in promoting local workers and firms to upgrade and to be competitive in national as well as international market. FDIs activity on HRM, the local technological capability to adopt the technology, the collaboration between foreign based companies and local firms, are lead to improvement in the quality of labor force. MNEs foster skills acquisition economy-wide to the extent that their affiliate activities of knowledge transfer and capital investment boost demand and thus wages for skilled workers (Yared, 2001)**.** Slaughter (2002) argues that the evidence is strong that MNCs increase demand for skilled workers, primarily through technology transfer from parent firms to overseas subsidiaries. Higher levels of technology within MNCs create demand for more highly skilled workers.

H4: There is positive or negative effect between foreign firms practice on skill and technological transformation and human capital formation.

CHAPTER THREE

3. Research Design and Methodology

3.1 Introduction

The previous chapter reviews the literature and main concept related to the human capital formation and foreign direct investment and provides conceptual frame work for the study.

In this chapter the research methodology used to conduct this study is discussed. Research design, description of the study area, general population of the study, sampling technique and sample size used; sources and method of data collection, method and tools of data analysis will be discussed in depth.

3.2 Research approaches and design

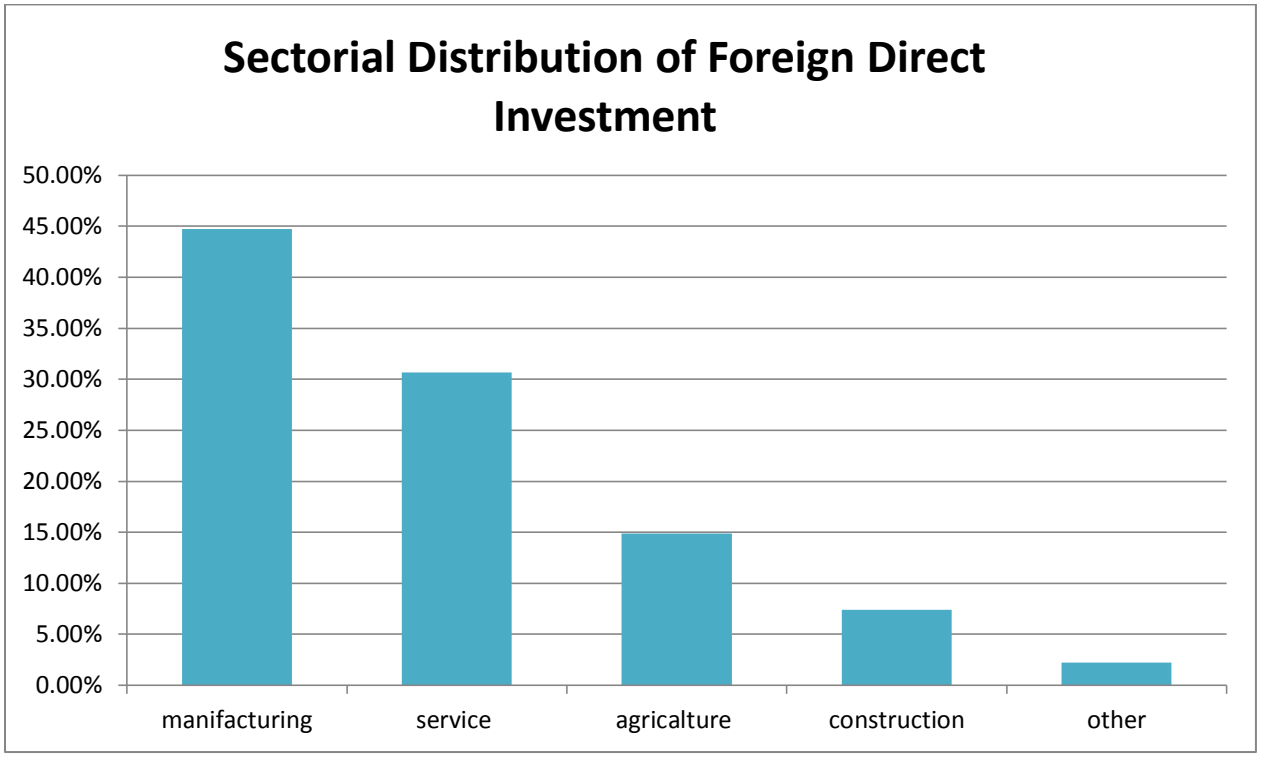
Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation and there are three research approaches and mixed approaches Creswell, (2014). To capture the best of qualitative and quantitative method this research basically adopts mixed approach in collecting and analyzing data.

The research design for this study was cross-sectional survey method. Because data were collected at a point of time to assess the relationship between the independent variables and human capital development in Addis Ababa area manufacturing companies. Beside this to capture and control for a variables, and to study a problem from multiple perspectives and increase external validity cross-sectional survey method were taken as appropriate method .In a cross-sectional survey method independent and dependent variables are measured at point in a time using single questioners‘ (Anole, 2012).

3.3 General Description of FDI in Ethiopia

Ethiopia is becoming one of the fastest growing country and attractive investment location in Africa especially, for foreign firms that ate interested to investing in agriculture, manufacturing construction, truism, telecommunication, energy, education and in various other sectors. According to Ethiopian investment commission (EIC) data base currently, total of 5424 forging direct investors are registered in to three categories (pre-implementation, implementation and operation) from this 1734 are registered in pre implementation,1141 are under implementation phase and the rest 2549 are registered under operation phase. In addition these total registered

foreign firms create 287,689 permanent and 306,711 temporary employment opportunity. The data base of EIC also indicates that from the total investment Addis Ababa (2777) and Oromiya(1663) take higher regional distribution. Beside this on the data most country of origin of firm is from china, India, Sudan grate Britain and etc…



Fig; 3 sectorial distribution of FDI in Ethiopia

Source: Ethiopian investment commission data base 2016

3.4 Target Population

As indicated in the above section from total distribution of foreign firms Addis Ababa take higher part. This means from the total foreign firms in the country 51.2% of them are found in Addis Ababa. Therefore the target population of this study was foreign firms that are actually operating in Addis Ababa during the study period. The target population of this study was 4095 employees of 5 foreign firms which are actually operating in manufacturing sector.

3.4.1 Sampling Technique and Sample size

As target population of the study is single, only located to Addis Ababa area and to reduce researcher biasedness and increase generalizability of inferences to the population Simple

probability sampling technique was used as sampling technique for the study. The sample size in this study was determined using a single population proportion formula under varying assumptions. This formula is the one used by Krejcie & Morgan in 1970 –Determining Sample Size for Research Activities" (*Educational and Psychological Measurement).*

$$X^2*N*P\ (1-P)/\ (ME^{2*}(N-1))\ +(X^{2*}P*(1-P))$$

Where, n is the sample size, X^2 chi-square for the specified confidence level at 1 degree of freedom(3.841),ME is the desired degree of accuracy (taken as 0.05) and p is the estimate of the proportion of target population (50% is taken, since no study with similar study design on similar study population was not identified during literature search) For this study the researcher were used the above formula by considering sampling technique to minimized sampling error and determined the sample size 351 from 4095 employees of Addis Ababa area manufacturing companies.

Table3.1. population and sample size determination

Selected companies	*No of employees in the enterprise*	*Level of operation*	*Years of operation*	*Sample size proportion*
Ayka Addis	2200	Operational phase	11	2200/4095*100=53%of 351=189
Linda Garment	350	Operational phase	8	350/4095*100=9% 0f 385= 30
Shadikas spare pare Part Manufacturing	570	Operational phase	4	570/4095*100=14% of 385=48
Sky and global Manufacturing	450	Operational phase	6	450/4095*100=11% of385=39
Piko Business company.	525	Operational phase	5	525/4095*100=13%of 385=45
Total	**4095**			**351**

Source: companies data 2016

3.5 Unit of analysis and Time dimension

Another important idea is unit of analysis. The unit of analysis is the major entity that the researcher is analyzing in the study. The most common assessment of human capital are made at society level which is more focused on the general issues like country investment in education and health relative to the national wealth. The second unit is related with individuals at enterprise level which is the investment in training and employee competency relative to the enterprise operation and performance. On the other hand human capital also assessed at individual level which is year of schooling relative to life time income OECD research center (1999). For the purpose of this study the unit of analysis was individuals at enterprise level. Chris brok (2008)

describe cross –sectional studies typically involve the use of cross section data in order to set out the existence and magnitude of one or more of independent variable upon a dependent variable of interest at a given point in a time. Therefore this study were performed by using cross-sectional data which were collected only once over period of few days in order to complete the questioner.

3.6 Research instrument

The research instrument used in this research is self-administered questionnaires. Self-administered questionnaires are surveys in which the respondent takes the responsibility for reading and answering the questions without the presence of researcher (Zikmund, Babin, Carr & Griffin, 2010). As unit of analysis is individual at enterprise level the researcher will collect original data from the target respondents. As the researcher is interested to collect original data from the population, the population were big to observe or to interview. Thus a survey by questionnaires was considered the most appropriate method for achieving the objective. The questionnaires were developing from literature of the study and standard forms of questioner from different source were used. For physical survey forms, respondents could return the questionnaires to researcher in personal once they complete the questionnaires. The questionnaires in the study were attached with brief explanation about the purpose of the study to enhance the respondents‘ understanding. In addition different documents regarding the area was also used accordingly.

3.7 Data Type, Sources and Method of Collection

To conduct this research both qualitative and quantitative data was used from primary and secondary data sources. This means both qualitative and quantitative data are compared and constructed to strength the conclusion. The primary data were collected directly from study area through clothe- ended questioner to the target respondent. The secondary data were also collected from various sources mainly; from report and data of the organizations, Ethiopian investment agency, united nation conference on trade and development and Ethiopian Minister of finance economic development etc...

To gather primary data likert scale questioner were distributed to the respondent and collect accordingly. The reason to use close ended questioners is to get comprehensive and structured information and to make data more manageable.

The self- administered structured questioners initially were prepared in English and also translated in to Amharic. The Amharic version questioner back translates English to check the consistency of items. The questioner was also contain educational and socio- demographic back. After data distributed to the target respondent and filled properly, the collection was conduct personally with the assistances of different groups.

3.8 Method and Tools of Data Analysis

The analysis of the data was carried out by using different data analysis tool accordingly to riche at concrete conclusion. The data which were collect from the respondent through questioner were have five points likert scale to rate (1) the least important (extent) up to (5) which is most important (extent). From inferential statistics, binary logistic regression analysis have been employed to develop functional relationship among the independent variables and dependent variable. Because it is appropriate method to models where the dependent variable is dichotomous and useful for situations in which researcher want to be able to predict the presence or absence of a characteristic or outcome (human capital) based on values of a set of predictor variables. Coefficients can be used to estimate odds ratios for each of the independent variables in the model. Thus, both the strength of the relationship between variables and the level of statistical significance has been assessed. The descriptive statics summaries of data such as percentage and mean were drawn with the help of SPSS version 23 and analyzed with the measurement and decision rule adopted from vicha (2005), specifically, for analysis part which deals with objectives of foreign firms to invest in Ethiopia and for constraining factors of human capital formation process. The interval for breaking the range was calculated as follows,

(n-1)/n= 5-1/5= 0.8

Where n is the number of rate in each questioner for. The mean value of variable fallen within:

- 4.20-5.00 are going to be considered most important or most problem level
- 3.40-4.19 are going to be considered high important or high problem level.
- 2.60-3.39 are going to be considered medium/neutral level
- 1.80- 2.59 are going to be considered less important or less problem level
- 1.00-1.79are going to be considered very less/no important or very less/no problem level.

3.9 Model specification

$Ln\ HC = \alpha + \beta_1 ED + \beta_2 OTR + \beta_3 RED + \beta_4 Sk + U_t$ …… (1)

***Where*:** HC represent variable human capital

ED = education advancement opportunity in foreign firms,

OTR= training practice of firms,

RED= research and development activities,

SL=skill transformation from foreign firms to local workers

t= time period,

u =will be error term,

β1, β2 and β3 β4, are the coefficient of the variables.

3.10 Validity test

Validity refers to the extent to a measure adequately represent the underlying constructs that it supposed to measure. Validity tests are conducted to select and assess the final items of the construct that are finally used for statistical testing. The content validity of the instrument for the present study ensured as items are identified from extensive review of related literature and reviewed by professionals and academicians.

Before estimating any model, it is a must to check the validity of the model properly. Hence, as necessary, tests for multicollinearity were made. Tests for multicollinearity is done using variance inflation factor (VIF). As a rule of thumb, if the VIF of a variable exceeds 10, there is a serious multicollinearity problem. The VIF indicates whether a predictor has a strong linear relationship with the other predictor(s). Myers (1990) suggests that a value of 10 is a good value at which to worry. Related to the VIF is the tolerance statistic, which is its reciprocal (1/VIF). As such, values below 0.1 indicate serious problems.

3.10.1 Reliability of the questioners

Reliability is the degree to which the measure of a construct is consistent or dependable. In other words ,if we use this scale to measure the same construct multiple times, do we get pretty much

the same result every time, assuming the underline phenomena is not changed Anole (2008). To have reliable measure this study develop questioners that are less subjective, simple and only those question that the respondent may know the answer or the issue are asked. In addition to insure internal consistency of measure cronbach alpha reliability measure which is developed by lee cronbach in 1951 will be used.

3.11. Ethical Consideration

Ethical clearance and permission obtained from the institutional review board Faculty of Business and Economics of Addis Ababa University, Ethiopia. Permission is also granted from all the selected firms through formal letter. Participation in the study was on the voluntary basis and participants were asking for willingness before they are provided the questionnaire. The subjects are also assured that their responses used only for the purpose of the study. An attempt is made to first explain the objectives and significance of the study to the respondents. Name and other identifying information are not used in the study. The researcher was safeguard all information related to the participants. Their privacy, identity and confidentiality are maintained by assigning them code numbers instead of names (anonymity).

CHAPTER FOUR

4. Data presentation, Analysis and Interpretation

The major aim of this study was assess the impacts of foreign direct investment on human capital formation. This chapter deals with the data presentation, analysis and interpretation. The first section of this chapter presents the demographic description and analysis of the sample respondents in terms of age, sex, education, income and experience. The second part summarize and descriptively and regression analysis the responses of the respondents on the impacts of FDI on human capital. The last and the third section presents and analysis the factors that affect activates of FDIs on human capital formation.

4.1 Response rate

Table 4.1. Response rate

Item	Response rate	
	No.	percent
Sample size	351	100
Collected	336	95
Remain uncollected	15	5

Source: own construction from survey questioners, 2017 n=351

From the above table, out of 385 distributed questioner 336(94.7%) were collected while 16(5.3%) of the questioner remain uncollected due to different reasons. Therefore, the analyses were made based on the response obtained from 336 questionnaires.

4.2 Demographic Information of Respondents

The first section of the questioner contains demographic information of the respondent. This part of questioner requested personal and professional related information of the respondent. These variables include age, sex, and educational level of the respondent and professional information like working position, experience monthly income of respondents. Accordingly, the following tables summarized the information of the respondent

4.2.1 Sex of respondents

Table 4.2 Variable sex

Variable	frequency	Percentage
Male	194	57.7
Female	142	42.3
Total	336	100

Source: own construction from survey questioners, 2017 n=351

From the data presented in the above table majority of the respondents (57.7%) are male and the remaining (42.3%) of the respondents are female. This means from 336 total respondents 194 of them were male and the remaining 142 were female.

4.2.2 Age of Respondents

Table 4.3 Variable age

Criteria	Frequency	Percent
lessthan20	48	14.3
21-30	213	63.4
31-40	59	17.6
41-50	10	3.0
>50	3	.9
Total	336	100.0

Source: own construction from survey questioners, 2017 n=351

Regarding the age of the respondent the largest (63.4%) of the respondents are under 21-30 age group followed by (17. 6%) under 30-31 age group and the remaining (14.3%), (3.0%) and (0.9%) are less than 20, 41-50 and more than 50 years old respectively. This data indicates that majority of foreign firm company workers are found young and very productive age level and thus may need strong human capital development program and efforts.

4.2.3 Educational background of respondents

Table 4.4 Educational level

Criteria	Frequency	Percent
Secondary school & below	89	26.5
Diploma	151	44.9
Bachelor degree	78	23.2
Masters	13	3.9
PhD and above	2	.6
Total	336	100.0

Source: own construction from survey questioners, 2017 n=351

The above tables 4.4 also portray that from the total respondent majority (44.9%) of them were diploma holder, (26.5%) degree holder and the remaining (23.2%), (3.9%) and (0.6%) of the respondents were secondary school & below ,masters and above respectively. Given the fact that the majority of the respondents are young and productive with diploma and BA/BSC degree (see table 4.3) which indicates they give higher value and consideration for the education and other cater development. But on the other hand this situation puts higher burden on the foreign firms to work hard and give many educational and career development opportunities as it is argued education is one way to satisfy and to enhance the human capital of employees in the organization. In addition when we see the cross tab association between sex and age of the respondents out of 336 respondent (5.7%),(14.3%) male and female are under the age <20, (22.3%), (41.1%), male and female are under the age between 21-30 and the remaining (11%) ,(10.4%) male and female respondents are found in between 31-50 age groups respectively.

4.2.4 Working Position

Table 4.5 Variable Position

Criteria	Frequency	Percent
Manager	5	1.5
HR manger	6	1.8
Dept. manager	19	5.7
Supervisor	44	13.1
Line worker	242	72.0
Total	336	100.0

Source: own construction from survey questioners, 2017 n=351

As its shown table 4.5 depicts that. Working position of respondent majority (72%) were line workers, (13.1%) supervisor and remaining (5.7%), (1.8%) and (1.5%) were department mangers HR mangers and general managers of the organization. Which shows most of the respondents are line workers who are major concerned party of the issue.

4.2.5 Working Experience

Table 4.6 Variable experience

Criteria	**Frequency**	**Percent**
1-4 years	261	77.7
5-10 years	75	22.3
Total	336	100.0

Source: own construction from survey questioners, 2017 n=351

Regarding experience (261, 77.7%) of the respondent indicated they have been working between 1 and 4 years and the remaining (75, 22.3%) of respondent has been working in the organization 5-10 years.

4.2.6 Monthly Income of Respondent

Table 4.7 Variable monthly income

Criteria	Frequency	Percent
lessthan1500birr	113	33.6
1501-2000birr	101	30.1
2001-4000birr	60	17.9
4001-7000birr	41	12.2
over7000birr	21	6.3
Total	336	100.0

Source: own construction from survey questioners, 2017 n=351

In addition the above table also shows that majority (33.6) of respondent earn less than 1500birr of monthly income , (30.1%) get 1501-2000 birr and the remaining (17.9%), (12.2%) and (6.3%) earn 2001-4000, 4001-7000 and over 7000 birr in month respectively. Given the fact that, even if majority of respondents are young and energetic, but they earn less than 1500 birr monthly which can create dissatisfaction , less productivity and more over high turnover it also indicates that foreign firms have to work on increasing earning of their employees. On the other hand when we see the cross tab association between sex and monthly income of the respondents, (19.4%) (11.6%) male and female respondents earn less than 1500 birr, (16.7%) (13.4%), male and female earn 1501-2000birr and the remaining (12.2%), (5.7%) male and female, (6.8%) (5.4%) male and female are in between 2001-4000 and 4001-7000 birr and the rest (6.3%) and (2.7%) earn over 7000birr monthly income respectively.

4.3 Diagnostic Test

4.3.1 Reliability test

The reliability analysis was conduct for each variable instrument. The reliability was examined through using cronbach alpha. As stated by Nunnaly (1978) the closer the reliability coefficient to 1.00 is the better. In general, reliabilities less than 0.60 are considered poor; those in the range of 0.60 to 0.80 are considered good and acceptable. The value of the analysis is reported as follows,

Table 4. 8 Reliability Test

Variables	Cronbach's Alpha	No of Items
Education advancement	.733	4
Training	.851	7
Research and development	.804	4
Skill transformation and knowledge accessibility	.738	8
Factors affection HC formation practice	.773	7

Source: own construction from survey questioners, 2017 n=351

As its shown from the table 4.8 the reliability test cronbach alpha of all variable indicates above 0.06 which indicates all domains of variables reliable and it measuring what its suppose to measure.

4.3.2 Kaiser- Meyer-Olkin (KMO) Sample Adequacy Test

Kaiser- Meyer-Olkin (KMO) Test is a measure of how suited data is for factor analysis. The test measures sample adequacy for each variable in the model and for complete model. The KMO returns value between 0 and 1. The value closer to one considered as adequate and the value less than 0.6 indicate that sapling is not adequate and some action has to be taken.

Table 4.9 KMO sample adequacy test

KMO sample adequacy test	
Kaiser-Meyer-Olkin Measure Of Sampling Adequacy.	.786

Source: own construction from survey questioners, 2017 n=351

As it‘s shown in table 4.9 KMO test for simple is .786 which is good and adequate which is appropriate factor analysis (Cerny, C.A., & Kaiser, H.F. 1977)

4.3.3 Multi Collinearity

For this study the researcher was checked this assumption with tolerance and VIF statistics. Andy (2006) suggests that a tolerance value less than 0.1 almost certainly indicates a serious collinearity problem. (Liu, 2010) also suggests that a VIF value greater than 10 is cause for

concern and in these research data the values are below10 for all predictors. It seems from these Values that there is no an issue of collinearity between the predictor variables. This means that the derived model is likely to be unchanged by small changes in the measured variables.

Table 4.10 Multi-collinearity test Coefficients	**Collinearity Statistics**	
	Tolerance	VIF
Education advancement opportunity	.756	1.046
Training	.635	1.069
Research and development practice	.862	1.160
Skill and technological transfer	.933	1.072

Source: own construction from survey questioners, 2017 n=351

4.3.4. Model fit information

Model fitting section provides results of logistic regression versus reduced model (intercept) with complimentary log-log link function. Large values of the log-likelihood statistic indicate poorly fitting statistical models, because the larger the value of the log-likelihood, the more unexplained observations there are. The presence of a relationship between the dependent variable and combination of independent variables is based on the statistical significance of the final model. The -2LL of the model with only intercept is 464.382 while the -2LL of the model with intercept and independent variables are 0.000. The difference (Chi-square statistics) is 464.382 - 0.000 = 464.382 which is significant at α=0.05, p<.000.

4.11 Table model fit information

Model	-2Log Likelihood	Chi-square	Df	Sig
Interpret	464.382			
Final	.000	464.382	88	.000

Source: own construction from survey questioners, 2017 n=351

4.3.5 Goodness fit

A goodness of fit test tells you how well your data fits the model Pearson is widely used in statistics to measure the degree of the relationship between the related variables. Deviance is a likelihood-ratio test used under full maximum likelihood. In addition, the HL test calculates if the observed event rates match the expected event rates in population subgroups. The deviance can be regarded as a measure of lack of fit between model and data. The larger the deviance, the poorer the data will fit to the model. The null hypothesis states that the observed data are consistent with the fitted model. The fit is said to be good if P-value is greater than 0.05. Therefore, we want these statistics to be non-significant. A significant result would mean that our model was significantly different from our data (i.e. the model is a bad fit of the data).As we clearly observed from the following table, P-values for Pearson, Deviance and HL are > 0.05.

4.12 Table Goodness fit test

	Chi-square	Df	sig
Pearson	401.585	237	1.000
Deviance	168.471	237	1.000
Hosmer and Lemeshow Test	50.122	8	1.000

Source: own construction from survey questioners, 2017 n=351

4.3.6 Pseudo R-square

As it is clearly observed from the table Nagelkerke and McFadden R Square indicates that predictors are explaining the variation in the human capital level. This shows the ratio of the likelihoods suggests the model predicted the outcome. It can vary between 0 (indicating that the predictors are useless at predicting the out- come variable) and 1 (indicating that the model predicts the outcome variable perfectly).Cox & Snell's pseudo R-square has maximum value approaches to 58.7% of the change in human capital level is explained by predictors such as educational advancement, training and research and development, skill and knowledge transfer Which is good.

Table 4.13 Pseudo R-Square

Cox and Snell	.587
Nagelkerke	.782
McFadden	.637

Source: own construction from survey questioners, 2017 n=351

4.4 Objective of Foreign Direct Investors for Investing in Ethiopia

When investors are investing outside their home country it can be due to different objectives and factors such as market skinning, resource seeking, risk reduction, efficiency seeking technological expansion or any other objective. In light of this there are different objectives of foreign firms to overseen investment here in Ethiopia. These objectives of foreign firms are summarized below.

Table 4.14 objectives of Foreign Direct Investors for Investing in Ethiopia

Variables	Mean	Std. Deviation	Level of importance
Improving and entering new market channel	3.69	1.470	high important
To get new raw material sources	3.66	1.411	high important
To get and improve cheap labor force	3.26	1.390	Medium important
To introduce new technology	2.97	1.496	Medium important
To reduce cost of operation	3.91	1.248	High important
To improve productivity	3.96	1.284	High important
To introduce new product line	3.24	1.558	Medium important

Source: own construction from survey questioners, 2017 n=351

Based on the decision rule stated in previous chapter adopted from vicha (2005), out of various reasons of foreign firms to invest in Ethiopia, market seeking, resource seeking, cost reduction and improving productivity account mean value of 3.69, 3.66, 3.91 and 3.96 are most important objective they wants to achieve. On the other hand improving labor force, introducing new technology and developing new product line with the men value of 3.26, 2.97, and 3.24 are medium level important objective of FDIs firm in Ethiopia. This result indicates that most investors invest here in Ethiopia is to address large market needs, reducing costs in production or reducing risk through different ways .this result is also parallel with finding of Mitiku 2013 and Getiet;(2005) and with finding of Muuning (1993) which states and classify objectives of investing in host countries is either market seeking, resource seeking, risk reduction or efficiency seeking.

4.4.1 Role of foreign direct investment on human capital

As discussed in the above having this objectives and investing in different sector is important for host countries because this foreign firms are expected to crate spillover effect in terms of introducing advance technology, skill, information, and creating job opportunity and benefit their employees in different ways some than DI firms. But having these objectives are not enough for the host countries which need long term and sustainable development in labor force (human capital). Therefore, these foreign firms are also expected to enhance and benefit the human capital level in different ways. Off this benefits crating job opportunity, enhancing earning of employees, creating educational and career development opportunity, upgrading local workers skill and enhancing competitiveness and employability of workers are variables analyzed in this study and their outcome is described as follows.

Table 4.15 Respondents level of agreement the effects of FDI on human capital formation

Variables	Mean	Std. D	Level of impo
Creating job opportunity	3.99	1.436	Highly important
Enhancing earning of employees	2.30	1.199	Less important
Upgrading local workers skill	3.16	1.337	Medially important
Creating educational advancement and development	2.22	1.280	Less important
Introducing new working system ,enhancing competitiveness and employability of workers	2.68	1.460	Medially important

Source: own construction from survey questioners, 2017 n=351

As it shown in the above table most of the respondent respond the effects of foreign direct investment human capital indicates FDIs are highly important and significantly creates job opportunity ,upgrading local workers skill with the mean value of 3.99 and 3.16 and standard deviation of 1.436 and 1.337. on the other hand FDIs in terms of increasing earning o employees with better job , creating educational and career development opportunity and introducing improved working system to enhance employees competitiveness mean value score

indicates 2.90, 2.22 and 2.68 with possible deviation of 1.199, 1.280 and 1.4 . This finding is also parallel with finding of mitiku, (2013) which states in short term foreign indirect investment putting less impact on human capital development. And dissimilar with the finding Zbida, Hooda, (2011) the FDIs play an important role on the HCD though, paying better salary and creating improved jobs.

4.5 The impacts of FDIs on HC in terms education advancement

Descriptive statics test was conducted to compare any significant importance between foreign firms practice on education advancement and development opportunity and human capital development.

Table 4.16 Respondents level of agreement on FDI effect on the HC through education advancement

Variables	Mean	SD.
Encourage education and learning opportunity for employees.	2.49	1.323
providing way that talented employees are developed to achieve maximum potential	2.29	1.206
Formal development plans for employees, to help them achieve their career goals.	2.04	1.043
Behavior of leaders consistently demonstrates that learning is valued and managers consistently make learning a priority.	2.20	1.145

Source: own construction from survey questioners, 2017 n=351

On average the impacts of FDIs on human capital formation through encouraging education and providing learning opportunity for employees , encouraging talented employees ,managing formal development plan and the behaviors of leaders to wards learning, the mean value and standard deviation indicates (M =2.49,SD 1.323), (M=2.29,SD1.206), (M=2.04,SD1.043), and (M=1.57,SD1.145).

4.5.1 The impacts of FDIs on human capital in terms Training

Table 4.17 Respondents level of agreement on FDI effect on the HC through training

Variables	Mean	SD.
Training provide is practical and supports organizational goals and employees receive training on work-related technologies	3.03	1.378
The company Program , manage training activates and Identify training needs in the organization	2.72	1.414
Most of the time this company provide on job training	2.93	1.303
Most of the time company provide off the job training	2.46	1.253
The facility in which training is proved are good enough for employees to acquire desired skills	2.96	1.372
Training proved are more to specific to production activity of the company	2.98	1.378
Training proved are more focused on general issues	2.48	1.255

Source: own construction from survey questioners, 2017 n=351

As the descriptive statistics of the opinions from the respondents revealed in the table 4.17 above indicates, foreign firms are highly important provider of practical and work related training which can enhance human capital stock with mean value of 3.42, in terms of planning and managing, providing on- job training, having good enough facility to provide training, and providing more specific training foreign firms contributing intermediate impact with mine value of 2.72, 2.93, 2.96, 2.98 .on the other hand in providing off the job training and focusing on general issues mean score shows 2.46 and 2.48. Therefore training provided by foreign firms to their employees is the main channel of human capital formation done by foreign direct investment.

4.5.2 The impacts of FDIs on human capital in terms research and development practice

It is well understood that economic growth results either from accumulation of factors of production or from improvements in technology or both. Developed countries conduct majority of the world's research and development (R&D) and technologies resulting from such R&D spread throughout the world through a multitude of channels like Foreign Direct Investment (FDI), licensing, import of capital good, cross-border movement of personnel, etc.

Table 4.18 **Respondents level of agreement on FDI effect on the HC through research and development**

Variable	Mean	Std. D
The company made different R&D activities in different operational productivity issues	2.46	1.224
New ideas are welcomed, employees are encouraged to find new and better ways to do work	2.38	1.190
Local innovation and ideas have acceptance and implementation in production process of the company	2.48	1.234
During R&D Company follows and implement the institutional and legal frame work of the country R&D procedures	2.33	1.220

Source: own construction from survey questioners, 2017 n=351

As the summarized result of the opinions of the respondents is revealed in table 4.18 above, the knowledge diffusion to enhance human capital stock through making research and development activity on various production and managerial issues foreign firms in research and development activates, welcoming new and innovative idea, accepting local innovation in production process and following regulatory frameworks during research activities the mean score indicates 2.46, 2.38, 2.48 and 2.33 which indicates foreign firms are at lower level in doing different R&D activates which can increase local workers skill as well as domestic firms. This means foreign

firms are playing less value in knowledge diffusion through research and development activities and this finding is parallel with finding of Miyamoto, (2002).

4.5.3 The impacts of FDIs on HC in terms skill transformation and technological transfer

The other important impact of attracting inward foreign direct investment is that foreign firms are major player and means of skill, information, knowledge and advanced technological transformation to the host country. These impacts of foreign firms are directly or indirectly expected to bring difference on human capital stock of host countries. Off this impacts extent of information sharing with works, encouraging team works, sharing practices and technologies and managerial succession plan and etc. of foreign firm's activities are summarized as follows.

Table 4.19 Respondents level of agreement on FDI effect on the HC through knowledge and skill and technological transfer

Variables	Mean	Std. D
Extent to get Information they need to do their jobs	2.69	1.187
Extent to access necessary manuals, procedures and job tools are available in places that enable employees to access training when they need it.	2.68	1.250
Encourage and enable teamwork, between employees	2.56	1.256
Extent employees share best practices and tips, work to improve them, and circulate them across departments	2.38	1.153
Extent employees assess, collect and store information and make it available to all employees who might need it.	2.28	1.122
Extent highly effective systems and processes in place for identifying and developing the next generation of leaders and ensuring smooth managerial transitions	2.30	1.140
Extent employees identified as possible managerial successors attend leadership development sessions	2.11	1.184
Extent the work load allows employees to do their jobs right, make thoughtful decisions	2.35	1.296

Source: own construction from survey questioners, 2017 n=351

As the result is shown from the table 4.19 above of the listed variables the skill transformation and knowledge accessibility, Extent employees get Information they need to do their jobs and access necessary manuals, procedures and job tools mean value score 2.69 and 2.68 which is at medium level .This means foreign firms are providing and sharing information to workers at medium level. In terms of encourage and enable teamwork, share best practices and technologies, assess collect and store information, highly effective systems and smoothing managerial transition, identified workers as possible managerial successors and the work load allows employees to do their jobs right, make thoughtful decisions, the result shows 2.56, 2.38, 2.28, 2.30, 2.11 and 2.35, low extent and this finding is parallel with finding of yared lema(2011) which concludes that technological inflow through FDI is an important conduit in promoting local workers and firms to upgrade and to be competitive in national as well as international market. However, FDIs activity on HRM, the local technological capability to adopt the technology, the collaboration between foreign based companies and local firms, and the national technology policy are very weak to benefit from FDI.

4.6 Factor affecting role of foreign direct investors on human capital formation process

The other issue this study deals with is identifying constrain factors that affect the role and practice of foreign firms on human capital formation and to what extent these factors are hindering their activities. Different sources identified that there are various factors that influence the contribution of FDIs on human capital development off this factors some of them are Summarized and analyzed as follows.

Table 4.20 Respondents level of agreement with factor affecting role of foreign direct investors on human capital formation

Variable	Mean	Std. Deviation	Level of extent
The level and qualities of infrastructures	2.79	1.311	Medium extent
Legal and regulatory frameworks	2.79	1.364	Medium extent
Support from different institutions	2.72	1.386	Medium extent
Sources of finance	2.42	1.358	Low extent
Skilled labor availability	2.72	1.434	Medium extent
Cost of labor	2.26	1.298	Low extent
level of Employees competiveness and satisfaction	2.63	1.361	Medium extent

Source: own construction from survey questioners, 2017 n=351

As the descriptive statistics of the opinions from the respondents revealed in the table 4.20, The quality and level of infrastructures, legal and regulatory frameworks, supports of institutions on human capital development activities, labor market condition and employee competitiveness and satisfaction level mean value 2.79, 2.79, 2.72, 2.72 which affecting their activity at medium extent. On the other hand sources of finance for HCD and cost of labor affecting FDIs to low extent and this finding fits with cheap labor promotion of our country and finding of mitiku (2013) state that

4.7 Regression analysis

A more common and possibly more useful measure of effect size for categorical data is the odds ratio (Andy2006). More crucial to the interpretation of logistic regression is the value of the odds ratio (Exp (B), which is an indicator of the change in odds resulting from a unit change in the predictor. As such, it is similar to the b coefficient in logistic regression but easier to understand

(because it doesn‘t require a logarithmic transformation). When the predictor variable is categorical the odds ratio is easier to explain.

Odds ratios in logistic regression can be interpreted as the effect of a one unit of change in independent variable in the predicted odds ratio with the other variables in the model held constant (Liu,2010). Look at the sign of the logit coefficient a positive value indicates, that as the predictor variable increases, so does the likelihood of the event occurring increases. A negative value implies that as the predictor variable increases, the likelihood of the outcome occurring decreases (Liu, 2010)

Table 4.21 Regression results of FDI and human capital

	Coefficient (B)	EX P(B)	S.E	Wald	df	Sig.	95%Confidence Interval	
EDA	.787	2.196	.177	19.664	1	.000	.446	1.207
TR	1.064	2.899	.179	35.216	1	.000	.754	1.523
RD	.324	1.383	.155	4.400	1	.036	-.001	.683
SK	.702	2.019	.219	10.291	1	.001	.227	1.236
Constant	-7.487	.001	.883	71.859	1	.000	-10.088	-5.846

Source: own construction from survey questioners, 2017 n=351

H1: There is positive effect between foreign firms practice on educational advancement and human capital formation.

As the above table 4.21 indicates =.2.196 (p=0.000); the odds of having human capital are increased by a factor of 2.196 for every positive increment of educational advancement, controlling for the other variable in the model. What this tells us is if foreign firms are putting more efforts on education the odds of their human capital were 2.196 times higher than if they were get less educational advancement effort.

Overall, the results of odds ratio suggest that foreign firms that practice more on educational advancement of their employees are more likely to enhance the human capital stock level of the company as well as the employees. As a result, fail to reject the alternative hypotheses.

This finding is similar to result from previous studies, in which it was discovered that the activities of foreign firms on advancement on employee‘s education linkage to higher institutions is one ways of enhancing human capital level and technological transfer for host country Miyamoto;(2003).

H2: There is positive effect between foreign firms practice on training and human capital formation.

TR=2.899(p=0.000), the odd of having human capital formation are increased by a factor of 2.899 for ever positive incremental of training activity in the company, other thing remain unchanged I the model.

What this tells us is that if the employees were getting additional training the odd ratio of human capital stock were 2.899 times higher than if they were not get or get less tinning.in general, the results of adds ratio suggest that foreign firms who gives and puts more effort are more likely to put positive impact on human capital formation process of the labor forces.as the result, fail to reject the hypotheses. This finding is parallel with the previous finding of which concludes FDIs make positive contribution to human capital formation through their education and training programs, and through the transfer of specific skills that are required for particular or general activates and functions Kapstein;2001, UNCTAD;1999).

H3: There is positive effect between foreign firms practice on R&D and human capital formation.

RD =1.383 (p=0.036<0.05); the odd of having human capita development are increased by a factor of 1.383 for every positive incremental of research and development activity in foreign firms company; controlling for other variables in the model. This result tells us that if foreign investors were engaging on research and development activities more made more the odd off human capital building process were 1.383 times higher than if they were putting less effort or no efforts on R&D. the overall result indicate that foreign firms who put more efforts to research

and development activities will more likely enhance the knowledge diffusion process to the local workers. As result, fail to reject the hypothesis. This finding is also parallel to FDIs do have a positive and significant contribution to knowledge diffusion to domestic firms. However, this does not happen automatically. It is only when FDIs make efforts to invest in R&D and/or human resource development that knowledge diffusion occurs (mayamoto; 2002, Todo 1999)

H4: There is positive effect between foreign firms practice on skill and knowledge transfer and human capital formation.

As the above table 4.20 portray, SK =2.019 p (=0.001<0.05); the odd of having human capita development are increased by a factor of 2.019 for every positive incremental of skill and knowledge transfer activity in foreign firms company; controlling for other variables in the model. This result indicate that if foreign investors were flexible and engaged on sharing information, best practices and encourage team work activities more and more the odd off human capital building process were 2.019 times higher than if they were putting less effort or no efforts on skill and knowledge transformation. Overall, the result shows the odds ratio suggest that foreign firms who share and transfer more skill and knowledge are more likely to enhance level of local workers skill and knowledge. Thus, fail to reject the hypothesis.

4.7.1 Summary of Hypothesis Testing

This sub-topic summarizes each of hypotheses stated in previous section. As the above ordinal regression analysis and discussion of model indicates that the study reject the null hypotheses at 0.05 significance level. This means the odd ratio of human capital increased for every positive incremental of the factors. The results are displayed in the table below;

Table 4.22 summary of hypotheses test and results

NO.	Hypotheses	Test	Result
H1	There is positive effect between foreign firms practice on educational advancement and human capital formation.	Odds Ratio = 2.196 P=0.000	Fail to reject hypotheses
H2	There is positive effect between foreign firms practice on training and human capital formation.	Odds Ratio = 2.899 P=0.000	Fail to reject hypotheses
H3	There is positive effect between foreign firms practice on R&D and human capital formation.	Odds Ratio = 1.383 P=0.036	Fail to reject hypotheses
H4	There is positive effect between foreign firms practice on skill and knowledge transfer and human capital formation. .	Odds Ratio = 2.019 P=0.001	Fail to reject hypotheses

Source: own construction from survey questioners, 2017 n=351

CHAPTER FIVE

5. Conclusion and Recommendation

This chapter attempts to highlight and summarize the significant contributions of this study. The chapter begins with a conclusion where research questions are answered, then ends with recommendation and suggestion for future research.

5.1 Conclusion

Human capital development should be holistic, encompass the acquisition of knowledge and skills or intellectual capital including science and technology and entrepreneurial capabilities as well as internalizing positive and progressive attitudes, values and ethics through education (educational advancement), training and lifelong learning. HC building must be strengthened to develop knowledgeable, skilled and innovative human capital to drive a knowledge-based economy Chan Onn ;(2006)

The flow of FDI to Ethiopia is not only quite low but also highly characterized with very high volatility even when it is compared to the sub-Saharan countries which are thought to be found largely in similar socioeconomic conditions.

This study aimed to assess the impacts of the foreign direct investment on human capital formation on selected Addis Ababa area foreign owned manufacturing firms based on the 336 questionnaire distributed to and data collected from randomly selected employee of these selected manufacturing firms. The study examine the mean and statistical significance between foreign direct investment and human capital formation particularly through educational opportunities, training, research and development activates and skill and technological transfer.

In light of this objective, the study adopted mixed research approach to test the research hypotheses and to answer the research questions, specifically, the study used cross sectional data from the target study area. Six foreign owned manufacturing firms which are actually under operation phase are included in the sample frame and all are used for the study and sample. Consequently, the data was mainly feed and analyzed on quantitative base using Epidata and SPSS version 23. Further, using this software frequency, descriptive statics, KMO test, cronbach

alpha, sample adequacy and logistic regression analyses were made to reach in to concrete conclusion.

5.1.1 Major findings

- ✓ The results of background information of respondents indicated that majority of the total respondents (57.7%) are male, (63.4%) of the respondents are under 21-30 age group, (44.9%) of them were diploma holder, (72%) were line workers, (261, 77.7%) of the respondent indicated they have been working between 1 and 4 years and majority (33.6%) of respondent earn less than 1500birr of monthly income. Regarding the cross tab association between age and sex (22.3%), (41.1%), male and female are under the age between 21-30 age groups. On the other hand sex and monthly income association of the respondents, (19.4%) (11.6%) male and female respondents earn less than 1500 birr.

- ✓ In addition to the frequency and percentage analysis of demographic variable, the study also analyzed variables using descriptive statistics and the mean value were judged based on the decision rule designed by vicha; (2005). Using descriptive statistics the analyses of the objectives of foreign firms, all variables include are highly and medially important for foreign firms to overseen investment in Ethiopia. In addition the descriptive statistics mean score shows foreign firms are highly important contributor and sources of employment opportunity. The mean score of the variables education, training, R&D and skill and knowledge transformation indicates from highly important to less important region but specifically, Training provided by foreign firms to their employees is the main channel of his human capital formation done by foreign direct investment.

- ✓ The regression analysis also indicates that factors in the model are significant at 0.05 level and positively impacting human capital formation. Specifically, every incremental of foreign firms investment on factors (education, training, R&D and skill and knowledge transformation) brings the odd of increment in human capital formation.

- ✓ Finally according to the descriptive statics result of the constrains that affects foreign firms contribution on HC formation, the quality and level of infrastructures, legal and regulatory frameworks, supports of institutions on human capital development activities, labor market condition and employee competitiveness and satisfaction level affecting

activity of foreign firms on human capital at medium extent. On the other hand sources of finance for HCD and cost of labor affecting FDIs to low extent

5.2 Recommendations

Taking the finding and conclusion drawn from the data the study forward the following recommendation which is triggered to different stockholders.

- ✓ Off course when we come to our country the human capital level may not be as per demand and need of FDIs. However, foreign investors are expected and should put more efforts to increase human capital stock and give emphasis on providing more and more training as well as on making cooperative R&D with local workers and government institution to enhance skill and capacity of the workers.

- ✓ Foreign firms should adopt and learn to work and open in sharing, transferring skills, information, knowledge and technologies with their workers, local firms and state owned enterprises. Because it is better for investors to know local environment and trends of the country and create much open ways for local workers to learn and absorb new skill and technologies which can increase their intellectual capital,

- ✓ In addition of attracting and directing FDI the government must enforce, coordinate, encourage and facilitate the interaction between foreign investors and different institution which are expected to have a role in building human capacity such as training institutions, higher educations as well as research centers to create good linkage. Beside this national skill and technology transfer policy has to be improved in a way that enables local workers to absorb and benefits from FDIs.

5.3 Limitation of the study

- ✓ This research tries to meet the gap existing in the area, but it has its own limitation. The major limitation is it does not include penal (used only cross sectional) data of the

companies and other different sourced due to different circumstances and the argument made in this paper is on limited to evidence extracted from the literature on human capital and foreign direct investment and primary data collected form the target respondents.

- ✓ The other limitation of the study is it does not includes more factors that affect human capital formation through attracting more FDI and the study is only limited to the manufacturing sectors of the country. Obviously, further consideration in all shortcomings and more evidence and detailed analyses are required to gain clear and in-depth understanding on the impacts role of FDIs and human capital formation.

5.4 Future Research direction

In making analysis of the human capital formation in general and in dealing with the variables of FDI in particular researchers interested in in the area strongly advice to focus mainly on using penal data and quantitative analysis so that a clear picture of the problem will be identified and a solution with clear evidence will be forwarded.

In addition the scope of the study can further expanded to include more variable under the theoretical framework work and to domestic firms as well.

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Appendix

Questioner

Questioner filled by managers (managers, HR mangers and department mangers) and workers of FDIs on the impacts of foreign direct investment and human capital formation.

The Researcher

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Dear respondents

I am a student of Master of Business Administration in Addis Ababa University. This questionnaire is designed for conducting research on impact of foreign Direct Investment on human capital development or formation mainly for two reasons i.e. for the partial fulfillment of the requirement of MBA degree; and for providing possible implications and recommendations on the subject to the concerned body.

The researcher wants to forward a great appreciation for your cooperation to look up the questionnaire seriously, intentionally and giving your precious and indispensable time to answer the questions. Be sure that all your answers information will be kept highly confidential.

I thank you in advance

Part I. General information of your enterprise

Sr. no	Item	Response
1	Position of respondent	a)manger b)HR manger c)dept. manger
2	Nationality of resonant	a)Ethiopian b) not Ethiopian
3	Home country of the enterprise	
4	Year of establishment	

Part II: Demographic or personal information (please encircle)

Sr.no	Question	Response
1	Sex	1.male 2. female
2	Age	1. Less than 20 2. 21- 30 3. 31- 40 4. 41- 50 5. More than 50
3	Educational level	1. secondary school &below 2. Diploma 3. Bachelor degree 4. Master 5. higher
4	How long have you been employee of this company?	
5	Could you indicate in which category your **monthly income** belongs?	1. <1500 2. 1501- 2, 000 Birr 3. 2, 001- 4, 000 Birr 4. 4, 001- 7, 000 Birr 5. Over7000 Birr

Part III. Questions for analyzing Impact of FDI on human capital development

Please tick **(√)** the number that you feel most appropriate number using the scale below (from 1 to 5 alternatives in the Likert scale).

a) Do you think foreign direct investment have impact on human capital development?

a. Yes
b. No

b) Within the following table there are list of objectives that a given investor wants to achieve through overseas investment. Please rate the importance of the listed objectives (1) is least important through (5) is the most important to your decision in investing here.

Very highly important (5)	*highly important (4)*	*Moderately important (3)*	*less important (2)*	*Very less important (1)*

Sr. no	Question items					
		5	*4*	*3*	*2*	*1*
3.1	Improving and entering new market channel					
3.2	Accessing new sources of raw material					
3.3	Developing new product lines					
	Introducing new technology					
3.5	Cost reduction					
3.6	Improving productivity					
3.7	Improving labor force					

C) To what extent do you agree FDIsCompany benefits their employees?

Strongly agree (5)	Agree (4)	neutral (3)	Disagree (2)	Strong disagree (1)

Sr. no	Questioners‘ item					
		5	*4*	*3*	*2*	*1*
3.1	The company creates sources of income and increase earning of employees.					
3.2	The establishment of this company creates job opportunity for many peoples.					
3.3	The sophisticated technologies and operational systems of the company upgrade local employees‘ skill.					
3.4	It Creates educational and self-development opportunity for many employee.					
3.5	The Work system and the working environment in the company increase learning and competitiveness of the employees.					

Part IVQuestions for analyzing the activates of FDIs on human capital development

The following alternatives are variables that can have an influence on human capital development process that can range from strong agree to strong disagree or in between. Take your own enterprise in to consideration, and evaluate them how they are practiced in your enterprise.

Strongly agree (5)	agree (4)	neutral (3)	Disagree (2)	Strong disagree (1)

Sr.no	Questioner items	5	4	3	2	1
	Education and development					
4.1	The company Encourage education and learning opportunity for employees.					
4.2	Most of the time the organization provide way that talented employees are developed to achieve maximum potential					
4.3	The company has formal development plans for employees, and these plans are used to help them achieve their career goals.					
4.4	The company Develop and manage programed education and development program					
4.5	The behavior of leaders consistently demonstrates that learning is valued in our organization, and managers consistently make learning a priority					

	Training					
4.6	Training provide is practical and supports organizational goals and employees receive training on work-related technologies					
4.7	The company Program , manage training activates and Identify training needs in the organization					
4.8	Most of the time this company provide on job training					
4.9	Most of the time this company off the job training					
4.10	The facility in which training is proved are good enough for employees to acquire desired skills					
4.11	Training proved are more to specific to production activity of the company					
4.12	Training proved are more focused on general issues which can be used in other activates					
	Research and development					
4.16	The company made different R&D activities in different operational productivity issues.					
4.17	New ideas are welcomed, employees are encouraged to find new and better ways to do work, and employees‘ input is sought in solving problems					
4.18	Local innovation and ideas have acceptance and implementation in production process of the company					
4.19	During R&D Company follows and implement the institutional and legal frame work of the country R&D procedures					

To Very high extent (5)	*To high extent (4)*	*To moderate extent (3)*	*To low extent (2)*	*To Very low extent(1)*

No.	***Knowledge associability and skill transformation***					
5.1	To what extent People have the information they need to do their jobs					
5.2	To what extent the necessary manuals , procedures and job tools are available in place that enable employees to access training when they need it					
5.3	To what extent mangers encourage and enable teamwork, provide places for people to meet informally, and set aside time for people to share with and learn from one another.					
5.4	To what extent employees share best practices and tips, work to improve them, and circulate them across departments					
5.5	To what extent employees assess,collect and store information and make it available to all employees who might need it.					
5.6	To what extent highly effective systems and processes in place for identifying and developing the next generation of leaders and ensuring smooth managerial transitions					
5.7	To what employees identified as possible managerial successors attend leadership development sessions					
5.8	To what extent the work load allows employees to do their jobs right, make thoughtful decisions, and achieve an appropriate balance between work and home.					

Part VI Questions for analyzing factors constrains foreign companies' human capital formation process

The following table contains list of factors that constrain FDIs decision and activates on human capital development. Take your enterprise and evaluate to what extent the following points affects its decision.

To Very high extent	*To high extent*	*To moderate extent*	*To low extent*	*To Very low extent*
	(4)	*(3)*	*(2)*	*(1)*

Sr.no	Questioner items					

6.1	The level and qualities Infrastructure facilities like electricity, internet, transport and etc.					
6.2	Legal and Regulatory Framework of the country					
6.3	Level of institutional support from concerned parties.					
6.4	Lack of Souses of finance					
6.5	Labor market condition of the country					
6.6	HRD policy and practice of the country					
6.7	Cost of labor					
6.8	Satisfaction and commitment level of employees					

Please try to list ideas to be incorporated or comment on the questionnaire to make the study better

1. _____
   _____
   _____
2. _____
   _____
   _____
3. _____
   _____
   _____

Thank you very much for all your dedication

መጠይቅ

አዲስ አበባ ዩኒቨርሲቲ

ቢዝነስ እና ኢኮኖሚክስ ኮሌጅ

ማኔጅመንት ዲፓርትመንት

ብርሀን ስዩም

አዲስ አበባ ዩኒቨርሲቲ

ቢዝነስ እና ኢኮኖሚክስ ኮሌጅ

ማኔጅመንት ዲፓርትመንት

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ቢዝነስ እና ኢኮኖሚክስ ኮሌጅ

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Email-

እኔ በአሁኑ ሰዓት በአዲስ አበባዩኒቨርሲቲ የሁለተኛ ድግሪ ተማሪ ስሆን የመመረቂያ ጥናቴን የውጭ ቀጥታ ኢንቨስትመንት በሰው ሀይል አቅም ግንባታ ላይ እያደረገ ያለው ተጽእኖ በሚል ርዕስ ጥናቴን እየሰራሁ እገኛለሁ፡፡ ይህን መሰረት በማድረግ ይህ መጠይቅ ለሁለት ዋናዋና አላማዎች ተዘጋጅትዋል በመጀመርያ የውጭ ባለሀብቶች በሚያደርጉት በሰው ሀይል አቅም ግንባታ ላይ ተፅዕኖ የሚያሳድሩት ነገሮች ላይ በቂ መረጃ በመሰብሰብ ጥናቱን ውጤታማና ተዓማኒነት ያለው ማድረግነ እና በዘርፉ እተደረገ ላለው ስራ ጠቃሚ ምልከታዎችን ማቅረብ ነው፡፡ ይህንንም አሳካዘንድ የእርስዎ ትብብር በጣም ያስፈልገኛል፡፡ስለዚህ ለመጠይቁ መልስዎን በመስጠት እንዲተባበሩኝ በአክብሮት እጠይቃለሁ፡፡ለመጠይቁ የሚሰጡት ምላሽ ለጥናቴ ብቻ የሚውል ሲሆን መልስዎትም በሚስጥር ይያዛል፡፡

ማሳሰቢያ፡-ሰምዎትን መጥቀስ አያስፈልግም

ትክክል ነው ብለው ያሰቡትን መልስ ፊት ለፊት ባለው ሳጥን ውስጥ የራይት (✓) ምልክትያድርጉ፡፡

ስለ ትብብርዎ አመሰግናለሁ!!

ክፍል አንድ.፡ የግል ሁኔታ

ተ.ቁ	ጥያቄ	ምላሽ
1	የስራ ደረጃ	
2	ዜግነት	a)ኢትዮጵያዊ b) ሌላ
4	ድርጅቱ የተመሰረተበት አመት	
5	ድርጅቱ የባለቤትንት ሁኔታ	a) የግል b) አክስዮን ማህበር c) ሌላ

ተ.ቁ	ጥያቄ	ምላሽ
1	*ፆታ*	1.ሴት 2. ወንድ
2	እድሜ	6. › 20 7. 21- 30 8. 31- 40 9. 41- 50 10. 50 በላይ
3	የትምህርት ደረጃ	6. ሁለተኛ ደረጃ እና ከዛበታች 7. ዲፕሎማ 8. የመጀመርያ ዲግሪ 9. ሁለተኛ ዲግሪ 10. ከዛ በላይ
4	በዚህ ድርጅት ውስጥ ለምን ያህል ጊዜ አገልግለዋል?	
5	የወር ገቢዎ በየትኛው እርከን ስር ይገኛል?	6. <1500 ብር 7. 1501- 2, 000 ብር 8. 2, 001- 4, 000 ብር 9. 4, 001- 7, 000 ብር 10. Over7000 ብር

ክፍል ሁለት፡ የውጭ ቀጥታ ኢንቨስትመንት በሰ ው ሃይል አቅም ግንባታ ላይ እደረገ ያለውን ተጽእኖ ይዳስሳል ::

ትክክል ነው ብለው ያሰቡትን መልስ ፊት ለፊት ባለው ሳጥን ውስጥ የራይት (✓) ምልክት ያድርጉ

a) ከዚህ በታች ባለው ሰንጠረዥ ውስጥ የተለያዩ የውጭ ባለ ሀብቶች እዚህ መጥተው ኢንቨስት በማድረግ ሊያሳኩ የሚፈልጓቸው አላማዎች ተዘርዝረዋል::እነዚህ ግቦች በእርሶ ድርጅት ውስጥ ምን ያህል ቅድምያ/ጠቀሜታ ይኖራቸዋል::

በጣም ጠቃሚ (5)	*ጠቃሚ (4)*	*ሀሳብ የለኝም (3)*	*በዝቅተኛ ደረጃ ጠቃሚ (2)*	*ጠቃሚ አይደለም (1)*

ተ.ቁ	ጥያቄ					
2.1	አዳዲስ የንብያ አድሎቸን መፍጠር እና ማሻሻል ፡፡					
2.2	የተሻለና አዲስ የጥሬእቃ አቅርቦት ማግኘት ፡፡					
2.3	አዳዲስ የምርት አይነቶችን ይዞ መቅረብ፡፡					
2.4	አዳዲስ ቴክኖሎግዎችን ወደ አዲስ ቦታዎች ማስፋፋት፡					
2.5	የምርት ሂደቶች ላይ የወጪ ቅነሳ ማድረግ፡፡					
2.6	ምርት እና ምርታማነትን ማሻሻል ፡፡					
2.7	የሰው ሃይል አቅም እና ውጤታማነትን ማሻሻል፡፡					

b) ከዚህ በታች ባለው ሰንጠረዥ ውስጥ አንድ ድርጅት ሰራተኞቹን ተጠቃሚ የሚያደርግባቸው መንገዶች ተዘርዝረዋል፡፡ እነዚህን መንገዶች የእርስዎ ድርጅት ተግባራዊ ማድረጉን በምን ያህል ደረጃ ይስማማሉ::

ተ.ቁ	ጥያቄ					
2.8	የዚህ ድርጅት መቋቋም ለብዙ ሰዎች የስራ እድል ፈጥሯል ፡፡					
2.9	ይህ ድርጅት ለሰራተኛው የገቢምንጭ ሆኖዋል እንዲሁም የሰራተውንም ገቢ አሳድል፡፡					
2.10	የድርጅቱ የተሻሻሉ ቴክኖሎጂዎችና የአሳራር ስልቶች የሰራተኛውን እውቀትና የስራ ችሎታ ከፍ አድርገውታል፡፡					
2.11	ድርጅ ለሰራተኞቹ የተለያዩ የትምህርትና የክህሎት ማሳደጊያ እድሎችን ፈጥሯል፡					
2.12	የድርጅቱ የአሰራር ሂደትና የመስሪያ አካባቢ የሰራተኞቹን እውቀት፣ብቃት/ተወዳዳሪነት እና ተፈላጊነት አሳድጎታል፡፡					

ክፍል ሶስት፡ ድርጅቱ በሰው ሀይል ግንባታ ረገደድ እያደረገ ያለውን ተግባራት ይዳስሳል፡፡

ከዚህ በታቸች ባለው ሰንጠረዝ ውስጥ በሰው ሀይል አቅም ግንባታ ሂደት ላይ አውንታዊ ተእኖ ሊያሳድሩ የሚችሉ ሀሳቦች ተዘርዝረዋል፡፡ የእርሶን ድርጅት በመውሰድ በትግበራቸው ላይ በምን ያህል ደረጃ እንደሚስማሙ ይግለፁ፡፡

ተ.ቁ	ጥያቄ					
	ትምህርት /Educationa advancement					
3.1	ድርጅቱ የትምህርት እድገት ያበረታታል እንደዲሁም የትምህርት እድሎችን የመቻቻል፡፡					
3.2	ብዙ ግዜ ልዩ ችሎታ ላላቸው ሰራተኞች የተለየ የእውቀት እና የክህሎት ማሳደያ ዘዴዎችን እና እድሎችን የመቻቻል፡፡					
3.4	ድቸጅቱ በእቅድ ላይ የተመሰረተ የትምህርት እድሎችን ይሰጣል እንዲሁም በአግባቡም ያስተዳድራቸዋል፡፡					
3.5	በድርጅቱ ውስጥ ያሉት የአስተዳደር ሰራተች ለትምህርት እና ለዘላቂ ለውጥ ሁሌም ቅድሚያ ይሰጣሉ ይህንንም እንደ መርህ ይተገብራሉ፡፡					

	ስልጠና /Training/					
3.6	በድርጅቱ ውስጥ የሚሰጡት ስልጠናዎች ተግባር ተኮር እና የሰው ሀይል ግንባታን መሰረት ያደረጉ ናቸው፡፡					
3.7	ድርጅቱ በእቅድ ላይ ተመሰረተ የስልጠና አሰጣጥ ሂደትን ይከተላል ፤የስልጠና አስፈላጊነቶችንም በየወቅቱ ይያል ፡፡					
3.8	በድርጅቱ ውስጥ የሚሰጡት ስልጠናዎች የተግባር ላይ ልምምድንያ/on- job training/ ያካትታል፡፡					
3.9	በድርጅቱ ውስጥ የሚሰጡት ስልጠናዎች ከስራ አካባቢ በተለዩ ቦታዎች/off- job training/ የሚሰጡ ናቸው					
3.10	ስልጠና የሚሰጥባቸው መንገዶችና መሳሪያዎች በቂና ሰራተኞች የተፈለገውን እውቀት እንዲጨብጡ የሚረዱ ናቸው፡፡					
3.11	የሚሰጡት ስልጠናዎች ብዙውን ጊዜ ከተለዩ የስራ ሂደቶች ጋር የተዛመዱ ናቸው፡፡					
3.12	የሚሰጠት ስልጠናዎች በአብዛኛው ጠውቅላላ እውቀት ላይ የተመሰረቱና በማንኛውም ቦታ/ድርጅት/ ላይ የሚተገበሩ ናቸው፡፡					
	ጥናት እና ምርምር/ Research and development/					
3.13	ድርጅቱ በተለያዩ ችግሮች እና አሰራር ሂደቶች ላይ ጥናትና ምርምር ያደርጋል፡፡					
3.14	በድርጅቱ ውስጥ ሁልጊዜ አዳዲስ ሃሳቦች ተቀባይነት አላቸው፤ሰራተኞችም አዳዲስ ሀሳቦችን እንዲያመጡና በስራ ላይ					

	እንዲያውሉ ይበረታታሉ፡፡					
3.15	አካባቢያዊ /local/ ፈጠራዎች ተቀበይነት አላቸው፤በስራ ሂደት ላይ እንዲተገበሩም ይረጋሉ፡፡					
3.16	በጥናትና ምርምር ወቅት ድርጅቱ ህግና ደንቦችን ይከተላል እንዲሁም ይተገብራል፡፡					

No.	***የእውቀት ተደራሽነትና እና ሽግግር /Knowledge associability and skill transformation /***	***በጣም በከፍተኛ ደረጃ (5)***	***በከፍተኛ ደረጃ (4)***	***በመካከለኛ ደረጃ (3)***	***በዝቅተኛ ደረጃ (2)***	***በጣም በዝቅተኛ ደረጃ (1)***
4.1	ሰራተኞች ስራቸውን ለማከናወን ሚፈልጉትን መረጃ በምን ያህል ደረጃ ማግኘት ይቸድላሉ?					
4.2	ሰራተኞች ስራቸውን ለማከናወን የሚፈልጉትን የስራ መመሪዎችን እና መሳሪያዎችን በምን ያህል ደረጃ ማግኘት ይችላሉ?					
4.3	የድርጅቱ አስተዳደር የቡድን ስራዎቸን/team work/ በምን ያህል ደረጃ ያበረታታል?					
4.4	ሰራተኛው በምን ያህል ደረጃ ምርጥ ልምዶችንና ተሞክሮዎችን ያካፍላል፣ ለማሻሻል ይጥራል እንዲሁም ወደ ሌሎች የስራ ክፍሎች ያሸጋግራል?					
4.5	ድርጅቱ በምን ያህል ደረጃ መረጃዎችን ይሰበስባል ያደራጃል እንዲሁም ለሰራተኞች ተደራሽ ያደርጋል?					
4.6	በድርጅቱ ውስጥ ሰራተኞች በምን ያህል ደረጃ ለወደፊት የስራ አመራርነት ይመለመላሉ እንዲሁም ይዘጋጃሉ?					
4.7	በድርጅቱ ውስጥ ያለው የስራ ጫና በምን ያህል ደረጃ ሰራተኞች ስራቸውን በአግባቡ እንዲሰሩ፣ትክክለናውን ውሳኔ እንዲሰጡ እንዲሁም በግልና በስራ ቦታ ያለውን ህይወታቸውን በአግባቡ እንዲመሩ ያስችላቸዋል?					

ክፍል አራት፡ በሰው ሀይል አቅም ግንባታ ሂደት ላይ አሉታዊ ተጽእኖ ሊያደርሱ የሚችሉ ሀሳቦች ይዳስሳል፡፡

የውጭ ሀገር ባለሀብቶች በሰው ሃይል አቅም ግንባታ ሂደት ላይ በሚያደርጉት አስተዋፆ እንቅፋት ሊሆኑ የሚችሉ ነገሮች ተዘርዝረዋል፡፡ የእርስዎን ድርጅት በመውሰድ በምን ያህል ደረጃ ድርጅቱን ተግባራት ላይ ተፅእኖ እንዳሳደሩ ይግለጹ፡፡

ተ.ቁ	ጥያቄ	በጣም በከፍተኛ ደረጃ (5)	በከፍተኛ ደረጃ (4)	በመካከለኛ ደረጃ (3)	በዝቅተኛ ደረጃ (2)	በጣም በዝቅተኛ ደረጃ (1)
5.1	የመሰረተ ልማትእንደ መብራት፤ መንገድ፤ኢንተርኔት፤ውሃ ወ.ዘ.ተ አቅርቦትና ጥራት ደረጃ፡፡					
5.2	የሀገሪቱ የኢንቨስትመንት ፖሊሲ እና የትግበራ ሁኔታ፡፡					
5.3	በሰው ሀይል አቅም ግንባታ ረገድ ከተለያዩ አጋርና የሚመለከታቸው ድርጅቶቸ የሚሰጠው ድጋፍ ማነስ፡፡					
5.4	ለሰው ሀይል አቅም ግንባታ የውልሚ የገንዘብ ምንጭ ማነስ፡፡					
5.6	የሀገሪቱ በሰው ሀይል ገበያ አቅርቦት እና ፍላጎት ድረጃ ፡፡					
5.7	የሰው ሀይል አቅም ግንባታ ፖሊሲ እና የአተገባባረ ሁናታ ፡፡					
5.8	በሰው ሀይል ዋጋ ሁኔታ/cost of labor					
5.9	የሰራተኞእ የስራ ፍላጎትና የስራወዳድነት ደረጃ ፡፡					

በመጨረሻም ሊጨምሩ ወይም ሊካተት ይገባል የሚሉት ሀሳብ ካለ ይግለጹ፡፡

1_____

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ለትብብሮ እጅግ በጣም መሰግናለው!!!

Appendice1 cross tabulation

111 sex * 112 age Crosstabulation

		112 age						
		0	lessthan20	21-30	31-40	41-50	morethan50	Total
female	Count	2	19	138	29	6	0	194
	% within 111 sex	1.0%	9.8%	71.1%	14.9%	3.1%	0.0%	100.0%

	% within 112 age	66.7%	39.6%	64.8%	49.2%	60.0%	0.0%	57.7%
	% of Total	0.6%	5.7%	41.1%	8.6%	1.8%	0.0%	57.7%
male	Count	1	29	75	30	4	3	142
	% within 111 sex	0.7%	20.4%	52.8%	21.1%	2.8%	2.1%	100.0%
	% within 112 age	33.3%	60.4%	35.2%	50.8%	40.0%	100.0%	42.3%
	% of Total	0.3%	8.6%	22.3%	8.9%	1.2%	0.9%	42.3%
Total	Count	3	48	213	59	10	3	336
	% within 111 sex	0.9%	14.3%	63.4%	17.6%	3.0%	0.9%	100.0%
	% within 112 age	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	0.9%	14.3%	63.4%	17.6%	3.0%	0.9%	100.0%

Appendix 2Reliability test

Reliability Statistics

Cronbach's Alpha	Education
.621	4

Reliability Statistics

Cronbach's Alpha	Training
.651	7

Reliability Statistics

Cronbach's Alpha	R&D
.733	4

Reliability Statistics

Cronbach's Alpha	Skill and Knowledge transfer
.804	8

Appendices 3: VIF table for regression analysis

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	222 edseld	.756	1.046
	316 ttppac	.635	1.069
	324 R&D	.862	1.160
	328 info	.933	1.072

Appendices 4 Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	401.585	237	1.000
Deviance	168.471	237	1.000
Hosmer and Lemeshow Test	50	8	1.000

Appendices 5 pseudo R –square

Pseudo R-Square

Cox and Snell	.587
Nagelkerke	.782
McFadden	.637

Appendices 6 logistic regression

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Education	.787	.177	19.664	1	.000	2.196
	Training	1.064	.179	35.216	1	.000	2.899
	RD	.324	.155	4.400	1	.036	1.383
	Skill	.702	.219	10.291	1	.001	2.019
	Constant	-7.487	.883	71.859	1	.000	.001

a. Variable(s) entered on step 1: education, training, RD, Skill.