

Buy or Make: Strategies to Promote Localization

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Abstract

This study attempts to examine Saudization policy by considering various efforts made in this regard from different quarters and the constraints hindering the whole process. Although skill deficiencies, lack of qualification, disciplinary issues, attitudinal problems and some other factors hampered the implementation of localization policy, but the government made significant efforts to address these challenges. The author provides key insight into some of the critical issues which need to be addressed as well as some key initiatives which should be taken to augment the whole process. Among them motivating students towards upgrading their skills and education is of prime importance. The government should further strengthen the ties between universities and industries. Proper management and documentation of existing knowledge is required which is possessed by expatriates. The government may provide incentives to foreign executives working at key positions to acknowledge their keen efforts in making locals at par to international standards. Lastly, glorifying role models and training of opinion leaders may also accelerate the whole process.

Introduction

Economic growth and prosperity are the two key goals of every government across the world. In pursuance, every government strives to create jobs and alleviate unemployment from the country. Developed countries use a standard threshold to keep unemployment below 10 %. Considering the example of Saudi Arabia, the unemployment rate was observed as 12 % where youth were found as the main victim of unemployment comparing other age groups.¹ History shows a varying

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¹ A. McDowall, 'Saudi Arabia Introduces Unemployment Insurance', Reuters, 2014. <http://www.reuters.com/article/2014/01/06/saudi-unemployment-idUSL6N0KG1VX20140106>.

nature of unemployment rate which commonly observed high during past several years.

The main reason behind unemployment was a heavy reliance of Saudi private organizations on the expatriates or foreign skilled workers. Reasons were quite obvious, Saudi nationals lacked necessary skills to execute some of the technical and non-technical work assignments. Moreover, foreign workers could have been hired at comparatively low wages.² These facts motivated majority of national and international organizations to recruit human resources outside the kingdom and preferably from the developing world. Consequently, a categorical pressure exerted at local labor market and unemployment rate increased gradually. From the last few years, Saudi nationals found it hard to secure better positions especially in the private sector. A high reliance of the organizations on the foreign labor force caused resentment to local labor force as well as a concerning factor to government and policy makers. Though foreign labor and workforce brought various advantages, but it also generated economic, social, psychological and security issues to the local market.³ Ultimately, the government intervened and introduced the 'Saudization' programme in 1994 as a part of Sixth Development Plan (1995-1999) of the country.

Saudization policy

Saudization is an initiative which encourages the replacement of foreign workforce with Saudi nationals through various means. From last few years, the Saudi government has promulgated Saudization quota system also called as *Nitaqat* which refers to a specific quota of Saudi nationals a private firm should observe in constituting workforce. This policy basically came into action by ministerial decree 1995, which is reproduced as under:

...declared that private firms with over 20 employees should reduce the number of non-Saudis by 5 percent annually, implement penalties for non-compliance including denial of

² M.A. Ramady, *The Saudi Arabian Economy: Policies, Achievements and Challenges* (New York: Springer Science Business Media, 2005); M.A. Ramady, 'Population and demographics: Saudization and the labor market', *The Saudi Arabian Economy: Policies, Achievements, and Challenges*, 2nd ed. (New York: Springer, 2010), pp.351-93.

³ A.S. Al-Dosary, 'HRD or Manpower Policy? Options for Government Intervention in the Local Labor Market that Depends Upon a Foreign Labor Force: the Saudi Arabian Perspective', *Human Resource Development International*, 7:1 (2004), pp.123-35.

access to certain types of government support, enforce a freeze on applications to hire new workers from abroad and on their renewal of existing permits.⁴

Although Saudization program mainly established to benefit youth because of their higher ratio at unemployment index. In addition, some other objectives of this programme were as under:⁵

- To increase employment opportunities in different sectors of the national economy
- To control the overdependence on expatriates or foreign workforce
- Reverse the financial cycle in terms of income paid to foreign workforce on account of wages/salaries which is transferred to their respective countries

Outcomes of Saudization

After a period of fifteen years, the Saudization concept and its implementation has yielded diversified outcomes. Thought it had been devised in the best national interest but it has attracted some key challenges at individual, organizational and governmental level. A key barrier in implementing Saudization rests with high operational cost and productivity decline which some organizations faced by hiring locals. Local citizens were not willing to work at low wages which organizations used to offer to expatriates. The private sector found it hard to pay high wages to Saudis who were not much skilled comparing expatriates. By hiring such individuals in any case ultimately caused decline in the operational efficiency as a whole and resultantly less profitability.⁶

Secondly, Saudis were not comfortable to work in each and every capacity. They usually preferred some key positions to work at willingly. Even it was hard for them to work in organizationally diverse environment. At contrast, expatriates working in the kingdom had adequate working experience in multi-cultural environment or at least

⁴ M.A. Sadi and M.A. Al-Buraey, 'A Framework of the Implementation Process: The Case of Saudization', *International Management Review*, 5:1 (2009), pp.70-84.

⁵ R. Looney, 'Saudization and Sound Economic Reforms: Are the Two Compatible?', *Strategic Insights*, 3:2 (2004).

⁶ A. Al-Asfour & S.A. Khan, 'Human Resource Development International: Workforce localization in the Kingdom of Saudi Arabia: issues and challenges', *Human Resource Development International*, 2013; M.A. Sadi, 'The Implementation Process of Nationalization of Workforce in Saudi Arabian Private Sector: A Review of 'Nitaqat Scheme'', *American Journal of Business and Management*, 2:1 (2013), pp.37-45.

they have were somehow familiar with how to work in multi-ethnic organizations. In addition, foreigners were easy to control and showed more disciplined behavior on the floor and off the floor as compared to local employees.

Some legal issues also posed threat to hiring Saudi nationals. For example, local Saudis had protection in law and employers found it hard to fire them easily. In contrast, the employment contract of expatriates can be terminated without any hard and fast rule. Saudi nationals also avoided working at any position away from their home town. High reluctance was also observed if any Saudi was transferred to any other location. Last not the least was the education level of Saudis, who lacked requisite qualification which was a mandatory requirement to join multinational firms operating in the Kingdom.⁷ All these constraints motivated various national and international companies to shift their business in other countries and regional centers particularly in Dubai where around 2,500 Saudi companies have started their ventures.⁸

All these pitfalls caused a steady progress towards meeting Saudization targets. Therefore, the government formulated an incentive scheme which encouraged private organizations to comply with the *Nitaqat* quotas. This also motivated some companies to induct local individuals in place of expatriates at higher wages at various low and high demanding positions.⁹

Key issues

For successful implementation of Saudization policy, various authors and experts have suggested key insights. For example, the empirical analysis of Sadi and Al-Buraey¹⁰ concluded that Saudization policy was enforced without taking all the stakeholders onboard. It could have been implemented in phases by initially justifying its indispensability to key stakeholders and especially chalking down a comprehensive plan for capacity building of local citizens. Falling short of such measures caused relentless setbacks to private sector of the Kingdom.¹¹ The study of

⁷ M.A. Ramady, *The Saudi Arabian Economy: Policies, Achievements and Challenges* (New York: Springer Science Business Media, 2005); M.A. Ramady, 'Population and demographics? *op.cit.*

⁸ R. Looney, 'Saudization and Sound Economic Reforms: Are the Two Compatible?', *Strategic Insights*, 3:2 (2004).

⁹ M. Ramady, 'Gulf Unemployment and Government Policies: Prospects for the Saudi Labor Quota or Nitaqat system', *International Journal of Economics and Business Research*, 5:4 (2013), pp.1-23.

¹⁰ M.A. Sadi and M.A. Al-Buraey, *op.cit.*, pp.70-84.

¹¹ *Ibid.*

Alanezi¹² found the role of HR directors, recruitment process and trainings as key factors affecting localization success. For the success of Saudization, private sector needs to make some categorical changes in the pay and perks as well as in the working hours. Saudi youth expect highly conducive environment with reduced work hours. Moreover, government should make significant reforms in the educational system and invest more for effective learning of the students and especially to develop skilled manpower for future.¹³ This can be achieved by streamlining educational system, capacity building of local faculty, training opportunities both on the job and off the job, establishing more colleges, universities and vocational institutes and more scholarships offering.¹⁴

Existing literature and empirical evidences keenly emphasize the importance of educational reforms for the success of Saudization policy. Al-Dosary, Rahman & Aina¹⁵ pointed out a gap between the educational programmes offered by the universities and skills required in the local industries of the Kingdom. This ultimately make it hard to select local candidates for the position which is usually highly demanding in the private sector.

Pragmatically, the government is serious to make suggested reforms in the educational sector. For example, key improvements have been made in the country's higher education infrastructure whereas gradual substantive raise has been observed in budget allocation for the education sector. A total of SR 96.7 billion (US\$ 25.1 billion) was allocated for education and manpower development in FY 2007. Total

¹² A. Alanezi, 'Workforce Localization Policies In Saudi Arabia: The Determinants Of Successful Implementation In Multi-National Enterprises', Paper Presented in the Management, Knowledge and Learning International Conference, 2012.

¹³ M.M. Achoui, 'Human Resource Development in Gulf Countries: An Analysis of the Trends and Challenges facing Saudi Arabia', *Human Resource Development International*, 12:1 (2009), pp.35-46; A. Al-Asfour & S.A. Khan, 'Human Resource Development International, *op.cit.*, A.S. Al-Dosary, and S.M. Rahman, 'Saudization (Localization) – A Critical Review', *Human Resource Development International*, 8:4 (2005), pp.495-502; M.A. Sadi, 'The Implementation Process of Nationalization of Workforce, *op.cit.*

¹⁴ A. Al-Asfour & S.A. Khan, *ibid.*; M.A. Sadi, *ibid.*; A.S. Al-Dosary, and S.M. Rahman, *ibid.*

¹⁵ A.S. Al-Dosary, S.M. Rahman and Y.A. Aina, 'A communicative planning approach to combat graduate unemployment in Saudi Arabia', *Human Resource Development International*, 9:3 (2006), pp.397-414.

spending was increased to SR 150 billion (US\$ 39 billion) in FY 2011. During last year, a total of SR 204 billion budget was allocated for education in 2013.¹⁶ Precisely, educational sector acquires around 25% share of total budget allocation each year which is highest among other countries of the region.

In pursuance of the goals formulated for education sector, Saudi government is also establishing new universities in different parts of the Kingdom with latest equipment and technological means. Apart from formal education, the government is striving to build strong infrastructure for elearning. Elearning is also considered as the most promising and vibrant market of the Kingdom. New universities would also incorporate all types of educational channels to reach at concentrated and disbursed students. In continuation of these efforts, National Center for eLearning and Distance Education (NCELDE) has been established under the umbrella of Ministry of Higher Education to promote elearning and distance education programs across the Kingdom. Moreover, technical & vocational training centers have also adopted elearning as a tool to cater the educational and training needs of widely scattered audience.¹⁷

Despite all these efforts, the author recommends the followings for effective implementation of Saudization policy.

Critical success factors

Student Motivation as key to Success: No one can ignore the importance of physical, technical and financial resources. Uptill now, the government has put tremendous efforts in providing all type of resources to the entire educational sector. Now a comprehensive programme is required to motivate students to make best use of these resources. Students represent the class who are going to hold the cords of national economy. Motivation of the government and motivation of the students towards education, are the two necessary but separate components of prospective development. Government has taken the steps amicably with some exemptions. Now if students are not well motivated to capitalize the true spirit of education, this would certainly make the whole system futile and the ultimate objective of true localization may held in

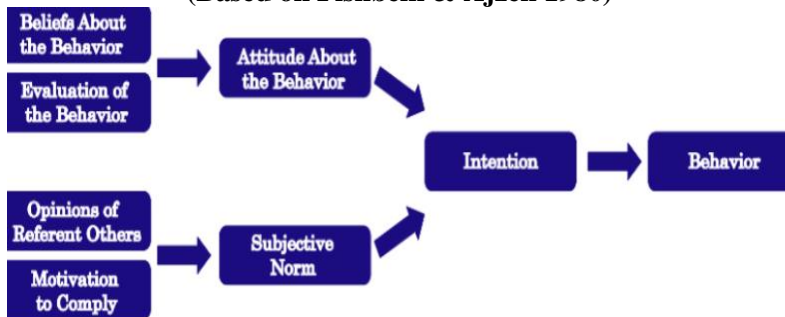
¹⁶ I. Mohammed, 'Kingdom tops world in education spending', 2013. <http://www.arabnews.com/saudi-arabia/kingdom-tops-world-education-spending>

¹⁷ V. Garg, Government Initiative to Endorse eLearning In Saudi Arabia, 2012. <http://www.upsidelearning.com/blog/index.php/2012/02/09/government-initiative-to-endorse-elearning-in-saudi-arabia/>

abeyance. To motivate students effectively following models can be adopted with proper customization.

To develop attitude, Ajzen and Fishbein's Theory of Reasoned Action (Figure1. TRA) is taken as guiding principle. Theory of Reasoned Action posits that intention is infact the key predictor of any behavior. Intentions to perform any behavior are influenced by attitude and subjective norms. Attitude refers to *the individual's positive or negative feelings about performing a target behavior* whereas subjective norm refers to *an individual's perception that most people who are important to him think the behavior should be performed*.¹⁸ Therefore, its not about attitude only but subjective norm also play a critical role to form behavior. When local Saudis' have positive attitude as well as when they perceive a social pressure to acquire contemporary knowledge, such perception may enhance their motivation towards real learning.

Figure 1: Theory of Reasoned Action (TRA)
(Based on Fishbein & Ajzen 1980)



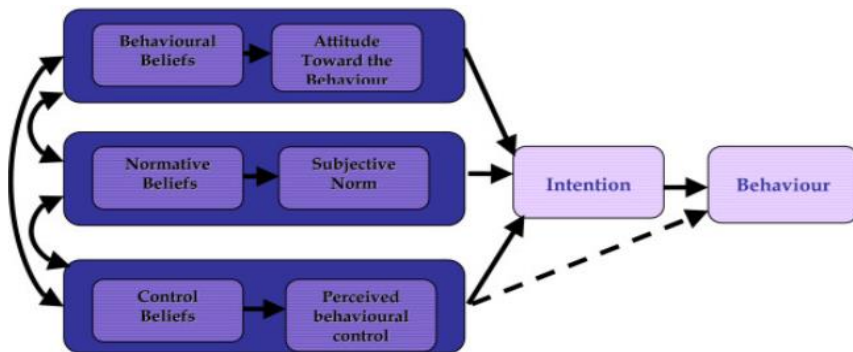
Another widely known theory which is helpful to apprise the actual behavior and motivation is Theory of Planned Behavior¹⁹ which premise that individuals' behavior intentions are influenced by attitude, subjective norm and perceived behavior control. *Perceived behavioral control signifies the individual's perceptions about ease or difficulty of performing any particular behavior*.²⁰

¹⁸ I. Ajzen, and M. Fishbein, *Understanding Attitudes and Predicting Social Behavior* (London: Prentice-Hall, 1980).

¹⁹ I. Ajzen, 'The Theory of Planned Behavior', *Organization Behavior and Human Decision Processes*, 50 (1991), pp.179-211.

²⁰ I. Ajzen, *Attitudes, Personality and Behavior* (Chicago: Dorsey, 1988).

**Figure 2: Theory of Planned Behavior (TPB),
(Based on Ajzen, 1991)**

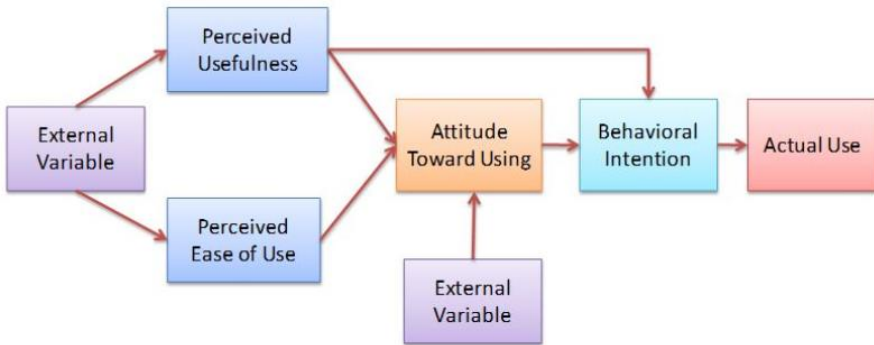


For the enhanced motivation towards elearning, Technology Acceptance Model (TAM) is perceived as the dominant contribution of Davis.²¹ Various research studies have incorporated TAM model to examine the acceptance of elearning in various environments. TAM has been proved as most parsimonious model to predict actual use of online mode of education.²² According to TAM, one should have two key perceptions i.e. about the usefulness and ease of use of the system, to develop attitude. When students have the perceptions that elearning is an effective way to acquire education and the system usage would also be easy to work with, these two factors may help to generate positive attitudes which would further help to develop behavior intentions causing actual use and acceptance of system.

²¹ F.D. Davis, 'Perceived Usefulness, Perceived Ease of Use and User Acceptance of Technology', *MIS quarterly*, 13:3 (1989), pp.319-40.

²² P. Legris, J. Ingham and P. Colletette, 'Why do people use information technology? Artificial Review of the Technology Acceptance Model', *Information & Management*, Vol.40, 2003, pp.191-204.

Figure 3: Technology Acceptance Model (TAM)
(Based on F.D Davis, 1989)



Talent management: Companies operating in the Kingdom desperately need to develop knowledge management system to locate, document, retrieve and use requisite knowledge from time to time. Knowledge management is defined as the management of knowledge in a way to create or locate knowledge, manages the flow of knowledge and ensures that knowledge is used effectively and efficiently for the long-term benefit of the organization.²³ Gloet and Terziovski²⁴ described knowledge management as the formalization of and access to experience, knowledge, and expertise that create new capabilities, enable superior performance, encourage innovation, and enhance customer value.

Precisely, one can believe that knowledge management is a planned and structured approach to manage the formation, sharing, using and leveraging of knowledge as an organizational asset, to enhance a company's ability, speed and effectiveness in parallel with business strategy.²⁵

In view of the different conceptualization of knowledge management, it can be believed that if organizations in the Kingdom can successfully document the existing knowledge rest with the expatriates, it would certainly help the nationals for their routine and non-routine problems when they have replaced their expatriate counterparts.

²³ J. Darroch & R. McNaughton, 'Examining the link between knowledge management practices and types of innovation', *Journal of Intellectual Capital*, 3:3 (2002), pp.210-22.

²⁴ M. Gloet and M. Terziovski, 'Exploring the relationship between knowledge management practices and innovation performance', *Journal of Manufacturing Technology Management*, 15:5 (2004), pp.402-9.

²⁵ M. Du-Plessis, 'The Role of Knowledge Management in Innovation', *Journal of Knowledge Management*, 11:4 (2007), pp.20-29.

Knowledge management mechanism can be developed as a step by step process over a period of time. First and the foremost step is to locate the knowledge sources. All the expatriates working in the Kingdom are not knowledgeable workers. Therefore, at initial stage the prime concern is to locate those who have the right and updated knowledge. Second step lies with the proper documentation of the knowledge for future use. Later the documented knowledge may be disseminated to locals replacing expatriates. The management will have to ensure the complete and accurate transfer of knowledge.

Moreover, nationals working with the expatriates may also strive to grab the knowledge and requisite skills for effective disposal of the assignments. Previous researches also emphasized the close association of host country nationals to work with expatriates for effective knowledge transfer.²⁶

University-Industry liaison: Another key issue which is being faced by many countries around the globe is the dearth of contextual knowledge. Majority of the universities, not only in the Kingdom of Saudi Arabia but also in rest of the world, are following books and allied material authored by eminent foreign experts. Some very common books are recommended to students having sound knowledge basis but lack local case studies and examples. Even programme coordinators have no other option but to prescribe widely recognized books because contextual academic material is not easily available and accessible for students' reading and comprehension. It reflects the prime duty of local academia to develop study material and books with respect to local Saudi environment. This would certainly help the local students to know the latest happenings in the public and private organizations of the Kingdom. Moreover, students may be required to serve extensive internship or apprenticeship period in any organization relevant to their field. In nutshell, when the graduates would join the occupational life, they would have hands-on knowledge of the industry and help the Saudization process.

²⁶ J. Hailey, 'The Expatriate Myth: Cross-Cultural Perceptions of Expatriate Managers', *The International Executive*, 38:2 (1996), pp.255-71; S.M. Toh & A.S. DeNisi, 'A local perspective to expatriate success', *Academy of Management Executive*, 19:1 (2005), p.132; C.M. Vance, V. Vaiman & T. Andersen, 'The Vital Liaison Role of Host Country Nationals in MNC knowledge management', *Human Resource Management*, 48:4 (2009), pp.649-59.

In addition, the linkage between academia and industry may be strengthened by encouraging academicians to provide consultancy to local firms to address the issues originating from time to time.

The government can provide adequate incentives to educationist following these kinds of models. Their compensation and career progression may be tied with the contribution made in this regard. Such kind of arrangements may help all the stakeholders.

Glorification: Many Saudi nationals have made tremendous achievements in their particular domain. Substantial land marks have been made in sports, religious affairs, private enterprises, public sector and bureaucracy. The Saudi government may also like to glorify the individuals and their achievements to public. Especially, role models need to be identified and promoted. Role model is defined by Gibson²⁷ as a

...cognitive construction based on the attributes of people in social roles that an individual perceives to be similar to in terms of attitudes, behaviors, goals, or status position to him or herself to some extent and desires to increase perceived similarity by emulating those attributes.

Various scholars and experts have concluded that role models play significant role in harnessing growth and shaping individuals personality. Role models further help to enhance motivation and learning as well as in career development.²⁸

For glorification, the role of media is very important. Media can promote individuals in advertisements, talk shows, reality programmes etc. This would induce youngsters to follow the path adopted by successful Saudis in their particular domain to reach at the point of distinction. According to ERG Theory of Motivation, self-development

²⁷ D.E. Gibson, 'Role models in Career Development: New Directions for Theory and Research', *Journal of Vocational Behavior*, 65:1 (2004), p.136.

²⁸ A.J. Murrell and T.J. Zagenczyk, 'The Gendered Nature of Role Model Status: An Empirical Study', 11:6 (2006), pp.560-78; D.E. Gibson, 'Role models in Career Development: New Directions for Theory and Research', *Journal of Vocational Behavior*, 65:1 (2004), pp.134-56; E.H. Erikson, *Childhood and Society*, 35th anniversary (ed.) (New York: W.W. Norton, 1985); J.D. Krumboltz, 'A learning theory of career counseling', in M.L. Savickas and W.B. Walsh (eds.), *Handbook of Career Counseling Theory and Practice* (CA: Palo Alto: Davis-Black Publishing/Consulting Psychologists Press, 1996), pp.55-80. P. Lockwood and Z. Kunda, 'Superstars and me: predicting the impact of role models on the Self', *Journal of Personality and Social Psychology*, 73:1 (1997), pp.91-103.

and growth is the key need of every individual which prompt them to identify and pursue ways to satisfy growth and advancement need.²⁹ Therefore, channelizing individuals' effort towards right direction or to bring out the best of their competencies is essential. By highlighting the Saudi icons from different walk of life may motivate various segments to be like them. This may further help to develop the local citizens to fill the gap of skill deficiencies which companies are facing within the kingdom.

Multipliers: In economics, a multiplier is defined as a factor of proportionality that measures how much an endogenous variable changes in response to a change in some exogenous variable.³⁰ In social context, there exist few individuals who also have multiplying effects or the efforts they are making may yield flowing results. Such as teachers, religious scholars, political figures, opinion leaders or any other elite respected in the society by virtue of his skills, position or contribution to the society. Such elites may disseminate encouraging information about the Saudization policy and how locals can play role in the success of Saudization. Since Saudization needs time and efforts as well as commitment from various quarters, therefore, the role of nearly every individual is important. Multipliers may augment the whole process for proper execution and effective nationalization.

Incentivizing expatriates: Expatriates may also contribute in the overall process of Saudization. Since a large proportion of expatriates are working in the public and private sectors of Saudi Arabia on account of higher wages as compared to working in their home countries, therefore, foreigners working at various positions and capacity may be further assigned a task to train their Saudi associates to work comfortably and effectively at the same position. For the transfer of competencies, a substantial incentive may be offered to acknowledge their services. Such efforts may give fruitful results in long-run. Before following this policy, a vivid and workable mechanism needs to be developed to ensure transfer of skills and competencies. So that only those expatriates could be incentivized who had provided mentoring in true spirit.

²⁹ C.P. Alderfer, 'An Empirical Test of a New Theory of Human Needs', *Organizational Behavior and Human Performance*, 4:2 (1969), pp.142-75.

³⁰ Wordpress, 'Multiplier, More in Fiscal Policy', 2014. <https://lanle.wordpress.com/2009/02/19/multiplier-more-in-fiscal-policy/>

Conclusion

The study highlights the nature, significance and pitfalls of the Saudization policy. Although the policy was devised around two decades ago but localization of workforce could not get the intended pace due to many reasons. Skills deficiencies, lack of qualification, disciplinary issues, attitudinal problems and some other constraints hindered the whole process. Although, the government made sincere efforts to materialize localization process. However, some key improvements are required at grassroot level. The author recommends to instill student motivation, because heavy budget on education may not yield the desired outcome if students are not well motivated towards learning, this may pose a big challenge to the whole system. Likewise, proper management and documentation of the existing knowledge contained by the expatriates is desperately required so that emerging youth could be benefited by the tacit and contextual knowledge. Expatriates working at key positions may also be incentivized to transfer the requisite skills and knowledge. The government may further strengthen the bond between universities and industries so that upcoming generation may be well conversant with the nature, dynamics and challenges of local environment.

Glorifying the individuals highly recognized in their fields, may entice others towards achievement motivation. In addition, policy makers may take the help of opinion leaders in order to disseminate effective information about Saudization policy and how locals can contribute for their own welfare and growth.