

**Firms' HRM Capacity and Responses to Shifts in  
Regulatory Demands: The Case of Private Sector Firms and  
Coercive Employment Quota Systems in Saudi Arabia**

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## Abstract

This thesis furthers our understanding of how regulations, organisational strategy and firm-level Human Resource Management (HRM) capacity interact to enable a firm to cope with changing regulations. Specifically, it focuses on the recent changes in the Saudi labour market following the introduction of the Nitaqat regulations, aimed at increasing the employment of Saudi nationals in the private sector. Earlier approaches had largely failed as they were poorly designed and weakly enforced. However, Nitaqat operates to a strict quota based system and is underpinned by much stronger monitoring and strict penalties.

To study the interaction between regulatory system and HRM capacity, this thesis adopts the framework provided by the concept of Dynamic Capabilities as this offers an invaluable tool to understand the interaction between organisational capacity, organisational strategy and the regulatory environment. The research design meant it was possible to compare the impact of two very different approaches to labour market regulation on organisational behaviour and, in doing so, shed light on the type of HRM capacity a firm needs in order to cope with the demands of externally imposed regulations.

Methodologically, this thesis adopts a qualitative approach and semi structured interviews as the dominant tool for data collection, and it is based on six case studies, three from the service sector and three manufacturing sector.

The cases provided evidence that the shift in regulatory approach triggered changes of HRM capacity in some firms but the precise nature of any change is dependent on the circumstances of the individual firm and in particular on their prevailing business strategy, and HRM strategy and capacity. In turn, HRM capacity creates the scope for choice of strategic response although the actual approach was dependent on factors specific to that firm. Equally, a firm that fails to develop HRM capacity seems to be limited in how it can respond to a regulatory shock. In effect, the relationship between regulatory demand and HRM capacity is strongly mediated by organisational strategy. In other words, HRM capacity reflects and enables organisational strategy rather than forming a direct response to the regulatory environment. This is not to say that the regulatory environment has no impact, but it was clear from this research that different firms have different levels of exposure and vulnerability to the regulatory demands. Even under Nitaqat, one firm was found to have retained an old approach to HRM capacity, since it was still able to recruit from a large pool of relatively cheap labour and not offer any sustained training or development after their employment.

This suggests that the HRM capacity need by the firm is linked to organisational strategy rather than the regulatory framework. In turn, organisational strategy, in terms of the recruitment of Saudi nationals, was found to be influenced by factors such as the attitudes of senior staff, the extent that the firm felt it owed a favour to the state and some very specific dynamics in the labour market that affected that firm (in one instance there were no trained Saudi staff who could be recruited to a key role in the firm). This also presents a complex view of when regulations can be effective. What is clear is there is weak linkage between regulatory regime and specific organisational response but if the regulations are strictly enforced, there is much less scope for complete rejection.

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### Acronyms and Abbreviations

|         |  |
|---------|--|
| CEO     | Chief Executive Officers   |
| COO     | Chief Operating Officer  |
| EU      | European Union   |
| GCC     | Gulf Co-operation Council (involves all the states in the Arabian Peninsula)                                   |
| GDP     | Gross domestic product   |
| GOSI    | General Organisation for Social Insurance  |
| HR      | Human Resources  |
| HRDF    | Human Resources Development Fund   |
| HRM     | Human Resource Management  |
| KPI     | Key Performance Indicator  |
| KSA     | Kingdom of Saudi Arabia  |
| MOI     | Ministry of Interior   |
| MOL     | Ministry of Labour   |
| Nitaqat | The revised Saudi localisation (Saudisation) framework, the Arabic word can translate into English as ‘ranges’ |
| OECD    | Organization for Economic Co-operation and Development   |
| PM      | Personnel Management   |
| RBV     | Resource-Based View  |
| SHRM    | Strategic Human Resources Management   |
| SR      | Saudi Riyal (the currency of Saudi Arabia)   |
| UAE     | United Arab Emirates   |
| UK      | United Kingdom   |
| USA     | United States of America   |
| USD     | United States Dollar   |
| VP      | Vice President   |

# **Chapter 1 : Introduction**

## ***1.1 Introduction***

This thesis focuses on how private sector firms in Saudi Arabia have responded to recently introduced stricter labour market regulations designed to force them to recruit more Saudi nationals rather than rely on foreign workers. Like other states in the Gulf Region, the Saudi authorities have been concerned about unemployment among their local population, whilst companies have had a long-standing preference for recruiting much cheaper foreign employees (Looney, 2004; Mahdi, 2000). The result has been a series of quota based employment regulations stretching back to the 1970s. For the most part these have failed to affect the employment rates of Saudis (Al-Dosary and Rahman, 2009; Al-Shammari, 2009). In response, in 2011, the state introduced a new set of regulations (Nitaqat) which are much more strictly monitored and enforced (Ministry of Labour, 2014b) and which seek to raise employment rates of Saudis further.

This context provides an ideal opportunity to study how private sector firms react when there is a significant shift in the external regulatory framework. However, to study this effectively, means linking three somewhat separate academic fields. One, is the question of how organisations respond to regulations (especially those that are based around compliance with numerical quotas), the second, is what sort of strategies they adopt (or if they can amend an existing approach). In turn, this raises the question of what type of capacity, especially in terms of HRM, a firm will need to underpin a chosen strategy.

There is a substantial literature in each of these fields and this will be systemically reviewed in chapter two. However, the gap in understanding is in how the three concepts of regulatory response, organisational strategy and HRM capacity are linked. The Saudi instance is an interesting case for investigation as the recent regulatory change has been substantial (meaning we might expect to see radical shifts in organisational behaviour) and historically HRM processes have been weak. If HRM capacity is important to enable a new strategy, we should find instances where firms have invested substantially in their HRM function.

However, there are major debates in the existing literature about the impact of regulations on organisational response. For example, the orthodox economic model of regulatory response (Edelman and Suchman, 1997) sees compliance as a cost-benefit trade off reflecting both the likelihood of effective enforcement and the level of penalty that would apply if found to be non-compliant. However, more recent research has tended to stress that compliance is partly a matter of capacity to comply (Parker and Nielsen, 2011; Simpson and Rorie, 2011) but also reflects the social norms of the firm, the relative power of various actors (internal and external) and the extent that the firm is open to other forms of state pressure.

More importantly, what is not well developed is the linkage between regulations, organisational strategy and HRM capacity. One plausible explanation is that regulatory change triggers a shift in HRM capacity and this, in turn, allows the firm to pursue a revised strategy (or to maintain its original strategy in a changed environment). Equally, it is plausible to argue that the main interaction is between strategy and regulatory framework and the firm then invests in the HRM capacity needed to sustain its chosen strategy.

From this perspective, the literature on regulatory compliance is one important building block to this research but the other key strand is how HRM can be used to support organisational strategy and create the capacity to enable improvements in workplace productivity. In the context of localisation in general, and Nitaqat in particular, one key aspect in terms of creating capacity is the approach to HRM (Mellahi, 2007; Mellahi and Wood, 2001). Before Nitaqat, many private sector firms could operate with limited HRM capacity as they could easily access labour from the foreign labour market and employ them as needed. This led to limited focus on issues such as retention, training and staff development (Achoui, 2009; Looney, 2004; Mahdi, 2000; Yavas, 1999). Given that, Nitaqat has increased competition for labour (both Saudis and non-Saudis), issues of recruitment and retention have become more important. Equally, there has been a tendency in the private sector not to invest in training, especially for Saudi nationals, but as their numbers (and related costs) rise, this approach is proving to be unsustainable.

Capacity in turn, leads to consideration of the various ways in which HRM may influence HRM response of a firm. One important distinction is whether HRM

should be seen as a response (i.e. the approach simply reflects external pressures) or as an enabler (i.e. it allows the firm to choose how to respond). This theme in effect reflects the wider debate on the literature on corporate compliance with regulation as to whether this is simply about compliance (linked to the penalties if caught) or due to wider factors such as the firms' own strategy, norms in a particular industrial sector (or society) and the extent that regulations are seen to be fairly implemented (Edelman and Talesh, 2011; Étienne, 2012; Parker and Nielsen, 2011; Simpson and Rorie, 2011). One argument is that to survive once the cost and demand for labour has increased, firms need to introduce robust HRM (Forstenlechner, 2010; James and Roper, 2010) procedures to allow them to cope with the demands but also to make best use of their changing workforce.

In summary, this research led to three related key findings. First, the six cases provide evidence that within such a coercive regulatory system (such as one based on meeting strict quotas), some changes to organisational behaviour will be triggered, but the precise nature of any change is dependent on the circumstances of the individual firm, and in particular on their prevailing business strategy, and HRM strategy and capacity. From this, it was identified that HRM capacity creates the scope for choice, although firms exert these choices in very different ways. A firm that lacks HRM capacity seems, from these cases, to be unable to fully adapt to the regulatory shock, its HRM processes are too weak for anything more ambitious. In turn, this supports an argument that the relationship between regulatory demand and HRM capacity is strongly mediated by organisational strategy. In other words, HRM capacity reflects and enables organisational strategy rather than a direct response to the regulatory environment. This is not to say that the regulatory environment has no impact but some firms are more or less exposed to the immediate impact of a new regulatory system and either need to adapt quicker (or earlier) or might be able to sustain their original response to managing their labour force.

## ***1.2 An Overview of the Saudi Case***

As suggested in the introduction, recent changes in the labour market regulations make Saudi Arabia a valuable opportunity to explore these dynamics. It offers a

combination of a major shift in regulatory approach in a country where HRM practice has historically been weak (Al-Dosary and Rahman, 2009; Al-Horr, 2011; International Monetary Fund, 2013a). This suggests that if more strict regulations are introduced, if HRM capacity is important in enabling firms to respond, we should be able to see how this has occurred.

The Saudi labour market has some unique aspects. As with other countries in the oil rich Gulf Region, there has been a reliance on foreign workers to fill a range of jobs ranging from highly skilled engineers, technical and management roles to the bulk of the unskilled jobs in the country. One reason for this is that employers have been able to recruit cheap, already well trained, staff from a variety of countries (including other Arab States and the Indian Sub-Continent). However, there have also been cultural biases against taking up certain types of job that arise from the structure of Saudi society (Al-Asmari, 2008; Forstenlechner and Rutledge, 2011). This has created a preference for certain types of work (primarily in the public sector) as jobs in manufacturing and the retail sectors are often seen as being of low status. A low status job has been seen as being a barrier to marriage and failing to contribute fully to the wider family group (Fakeeh, 2009). A final influence on the labour market is that, even in the context of the Gulf Region, the historic barriers to female employment have been strict and this has led to the creation of well-educated but under-employed potential female labour force (Saif, 2010).

Also unlike the other Gulf countries, Saudi Arabia has a large domestic population (Central Department of Statistics and Information, 2014) of 20 million (out of a total population of 30 million). This has meant the Saudi authorities have tried to force the private sector to recruit Saudi nationals in contrast to countries such as Oman, Qatar and the UAE where the fundamental goal is to reduce employment of expatriates in what is seen as the public sector (Al-Ali, 2008; Al-Horr, 2011; Al-Rashdy, 2007; Forstenlechner et al., 2012b). This means that while localisation in Saudi Arabia has some aspects in common with other Gulf States, the focus on the private sector is almost unique.

Nitaqat has been designed to address these problems and has the twin goals of raising the employment levels of Saudis and improving productivity (Ministry of Labour, 2013b). Thus, the goals can be described as either ‘quantitative’, to ensure a higher

proportion of workers in the private sector are Saudi nationals, and, ‘qualitative’, to raise local labour productivity (Al-Dosary and Rahman, 2009; International Monetary Fund, 2013a). To achieve these goals, Nitaqat works at a number of levels. There are incentives and support for firms, such as the substantial funding available via the Human Resources Development Fund (HRDF) paid for by a levy on those firms that employ foreign workers (Ministry of Labour, 2014a). However, the penalties for none or partial compliance with the numerical quotas are severe (Ministry of Labour, 2014b). Firms that are not compliant can be barred from employing any foreign workers and for many this is equivalent to facing closure. Even with the growth of Saudi workers, many firms will remain reliant on foreign labour either due to a need for substantial number of workers or to do key jobs.

To explore the impact of Nitaqat, six case studies were chosen drawn from the Saudi private sector. Three firms were in the manufacturing sector (making glass, steel and sugar respectively) and three were from the service sector (a chain of pharmacists, a chain of fast food restaurants and a chain of furniture and furnishing suppliers). Semi-structured interviews were conducted with senior staff (CEO, HR Director, others responsible for recruitment and key operations) and this was supplemented by gathering secondary information (from their websites as well as from any internal documents they were prepared to supply).

The goal was that the range of firms would be sufficient to capture a variety of responses to Nitaqat and to explore if firms that relied on staff with very specific skills were having to respond differently to those that could recruit more widely among the potential labour force. Equally, by interviewing a range of senior staff, this allowed a degree of triangulation between their responses as well as exploring if the impact of Nitaqat was shared or if there were differences within the firm.

### ***1.3 Research Questions***

The overall aim of this thesis is to explore the interaction between regulations; organisational strategy and HRM capacity to enable a firm to cope with changing regulations. In particular, the research is aiming to answer the following overarching question:

**To what extent is HRM capacity influenced by coercive regulation (i.e. quota system), and to what extent does HRM capacity influence the nature of firms' response to such regulation?**

From this, three subsidiary research questions were developed:

- 1 To what extent, and how, do coercive regulations (in this case around employment quotas) have an impact on the wider labour market?
- 2 In turn, how does this influence the behaviour of individual firms, particularly in the area of HRM capacity?
- 3 To what extent does the HRM capacity of firms shape different responses to the regulatory demands?

This structure allows a focus on how regulatory change might shape organisational strategy and how HRM capacity might help or hinder adjustment to a new environment, following the introduction of a regulatory shock. Chapter two explores the background to each question in more detail. However, it is useful to stress that Nitaqat is primarily an example of a coercive quota based regulatory approach. In effect, firms are set a target for the proportion of Saudi employees they must have. Meeting this target in turn, allows them to continue to recruit foreign workers (and the Saudi economy will remain reliant on non-Saudi staff even if Nitaqat is a success). The practical penalty for failing to meet the quota is to first lose the ability to recruit any more non-Saudi staff and, if this does not produce an improvement, to lose the work permits for any existing non-Saudi staff. As is clear in the material presented in chapters four to seven, this is seen by all the case studies as a severe threat.

### ***1.4 Structure of the Thesis***

Chapter two forms the literature review. This focuses on the three key academic fields underpinning this research: Regulations and the labour market; Organisational responses; and, the importance of HRM capacity in enabling this. As noted above this is a complex combination and one key finding is that the links in the existing literature are not fully articulated especially in terms of variances of organisational response to different regulatory approaches. In turn, the literature is not clear as to

whether capacity (i.e. HRM capacity) enables certain responses or is created in order to implement those responses (of course both dynamics could apply).

Chapter three sets out the research methodology adopted. Since the focus is on a practical real world instance of organisational response, this led to the adoption of a qualitative case study model. Six companies were selected and these represented a range of different responses to the localisation process before and after the introduction of Nitaqat. Interviews became the primary means of data collection although considerable use was also made of secondary material such as company websites and documentation. In addition, a number of interviews were carried out with policy makers responsible for the development and implementation of Nitaqat. These interviews helped in understanding the policy framework and allowed exploration of some matters that are not clearly articulated in the official documentation.

Chapters four to seven then present the empirical evidence collected. Chapter four sets out some key issues about the Saudi labour market and the various localisation policies that have been adopted since the 1970s. In turn, it draws on the interviews with policy makers to set out the reasoning behind the structure of Nitaqat and the goals of Saudi officials.

Once the case studies had been completed and analysed it was clear that the six individual instances could be grouped into three sets of two. Each set had strong similarities in organisational performance before and after the introduction of Nitaqat. Thus, the two cases presented in chapter five were both fully compliant with the earlier localisation rules. This allowed a valuable exploration of why firms might become compliant with lax, poorly enforced regulations. The pair presented in chapter six more or less ignored localisation pre-Nitaqat but had made major changes to their recruitment and HRM patterns since 2011. This allowed an exploration of how they had adapted, how their strategy was influenced by their particular labour market and the type of HRM capacity they had had to develop to enable their response. The final pair of cases presented in chapter seven had had a degree of compliance pre-Nitaqat but were focussed on meeting the formal numerical quotas rather than employing Saudis across their business. As with the instances in chapter five, this allowed a valuable exploration of how they could take this approach, how

stable was their decision to focus on the quota aspect and what type of HRM capacity they needed.

Chapter eight draws these strands together and presents a cross-case analysis that concentrates on the original research questions. This allows an analysis of the relationship between regulatory framework, organisational response and HRM strategy. Of particular value, this shows how Dynamic Capabilities can be used to bridge the existing gaps between these different academic fields.

Of importance, while the six firms share an understanding of the threat of the sanctions behind Nitaqat, there are a range of responses as they seek to meet their numerical target. In essence, Nitaqat has radically changed the Saudi labour market (both for domestic and foreign workers). For Saudi staff, there is much more competition (both with the private sector and between the private and public sectors) and this has led to increased wages, more job opportunities and, to a lesser extent, better training opportunities. For non-Saudi staff, wages have increased (mainly as the old illegal market in visas has been eliminated), but they are still largely recruited to do a given job and not offered further training or career progression. All six of the firms studied in this thesis have managed to meet the basic Nitaqat quota that means a firm can continue to recruit and employ non-Saudi staff.

Despite this apparent similarity, there has been a substantively different range of responses from the various firms. This is explored in more detail in chapter eight but the differences are mostly linked to variances in organisational strategy, exposure to state pressure and the very specific job market that each firm faces.

For example, two of the manufacturing firms were found to have been fully compliant with the pre-Nitaqat regulations. At one level, this can be seen as voluntarily agreeing to absorb higher costs than their competitors (as Saudi workers have always had higher pay). On closer examination, the reason was a mixture of attitudes of the senior staff (both firms are led by Saudi nationals and have had a long standing commitment to the employment of Saudis) and that both had received substantial state support when facing operating difficulties. They believed they were supported as they were already making an effort to localise their workforce (so the support was a reward for existing behaviour) but also that they then became more

committed (so their commitment was one way of returning the favour). This is important as it breaks the direct link between regulatory structure and organisational response, suggesting instead that organisational response is mediated by internal culture and external relationships.

Equally, there are very different strategies adopted to respond to Nitaqat and meet the formal targets. Four firms can be argued to have adopted (or continue to adopt) an approach that meets both the quantitative and qualitative goals of Nitaqat. In this, they are recruiting Saudis to as wide a range of jobs as possible (though one is circumscribed by a lack of trained staff exiting Saudi universities) and offering those staff both initial and ongoing training. Three of these four are actively trying to develop a cadre of supervisory and management staff from their Saudi recruits.

Three firms have altered their working practices so as to recruit substantial numbers of Saudi women. Despite this surface similarity, we find substantial differences in actual approach. One has negotiated with the Saudi religious authorities to allow a degree of co-working between men and women. The other two still meet the conventional rules on strict gender separation and have effectively created separate areas of work that are staffed by women.

Two firms have opted to focus on meeting the quantitative aspect of the quota. One has done this by creating a gender segregated packing and distribution function and employing only Saudi women in this role. The rest of the employees are foreign workers and, at the time of the research, the firm had no plans to alter this arrangement. The women were paid the minimum required to meet the Nitaqat rules, offered no training and there was no option for career progression. The other firm had an enduring bias against Saudis in key sales roles (the firm is in the service sector) among the senior staff. Thus, it has met the Nitaqat quota in part by gender segregated sections, in part by creating new jobs just for Saudis and in part by replacing foreign cashiers with Saudi staff.

This range of responses strongly suggests that the linkage between regulation and organisational behaviour is weak. Vagaries of organisational culture, nature of the business, gaps and opportunities in the labour market as well as wider interaction with the Saudi staff all play an important role. One strong finding though was that

companies with a significant growth strategy found themselves especially exposed to the demands of Nitaqat.

Finally, in terms of the linkage between HRM capacity and regulatory demands, the main finding is this is weak. However, there is a strong linkage between HRM capacity and organisational strategy. Thus, the manufacturing firm that only employs Saudi women in a segregated section has carried on with relatively weak HRM practices basically focussed on hiring and firing already trained staff to need. The four firms that have adopted a strategy that has led to addressing both the quota and qualitative aspects of Nitaqat have all had to create (or continue) a HRM approach based on SHRM. The service firm that is ambivalent about its response has a similarly partial HRM approach. It is more advanced than the traditional hire and fire but, for example, training is just used as an initial introductory process rather than as part of a longer term focus on raising productivity. Thus, while we are left with a weak link between HRM practice and the regulatory system, we see strong linkage between HRM practice and organisational strategy. If the firm intends to employ Saudis in as wide a range of jobs as possible, raise productivity and over time facilitate career progression then it needs the HRM capacity to enable this to happen.

A final outcome was to confirm that Dynamic Capabilities is a very effective framework to use when linking shifts in the external environment (in this case a change of regulatory approach), to organisational strategy and organisational HRM capacity. In effect, it offers a theoretical framework within which these concepts can be integrated.

Lastly, chapter nine evaluates the thesis, considers what are the main lessons (both positive and negative) from the research and identifies future research opportunities. This could be to study more firms from the same industrial sector to explore whether there is more similarity within sector than, as indicated in this research, there is between sectors. Equally, although some interviews were conducted with policy makers, the focus of this study was on the organisational response to policy rather than the construction of effective regulatory policies. Finally, chapter nine also considers if the original decision to use a case study approach was the most effective research tool.

## **Chapter 2 : Literature Review**

### ***2.1 Introduction***

As discussed in the introduction, this thesis crosses over a number of academic fields. Part of the focus is on institutional response to regulations but this is specifically addressed through the lens of HRM capacity, as a means through which shifting demands, and regulatory shocks can be accommodated. As such, whilst HRM is the primary focus it is also essential to consider some models of wider organisational strategy as this provides one way to link shifting demands to the creation of capacity. Finally, the thesis has a context specific focus on regulatory change in Saudi Arabia. This provides a very specific focus both as to the type of regulations adopted and the nature of the Saudi labour market. Some essentially contextual material is presented in chapter four but this chapter explores the impact of quota based employment regulations in other states.

One important goal in this chapter is to identify a theoretical framework that can be applied to address the research question. This is complicated by the dual focus on both regulations and HRM as these core fields are often dealt with using different frameworks. The former has tended, historically, to be approached from an Institutional Theory framework and the latter using the Resource Based View (RBV) of the firm. Institutional Theory tends to stress the importance of external constraints on the firm, whilst RBV foregrounds internal dynamics in determining organisational responses. Both approaches offer useful insights into the factors that shape and constrain organisational responses to a regulatory shock but there is a clear need to combine the external and internal perspective rather than keep them separate.

In turn, this led the author to a focus on dynamic capabilities (Ambrosini et al., 2009; Easterby-Smith et al., 2009; McKelvie and Davidsson, 2009) as a framework which offers potential insights, combining the concept of organisational capacity (shared with the Resource Based View of the firm) with a strong focus on the external environment. In this approach, it is suggested that wider market conditions (such as the degree of stability and level of competition) are very important in influencing the critical characteristics required by the firm if it is to adapt and succeed (Ambrosini et al., 2009). Recent developments in Saudi Arabia provide a

useful background for this as the approach to labour market regulation has shifted from a relatively lax, poorly monitored approach to one that is more explicitly coercive and based around carefully monitored quantitative quotas (the details of the Saudi approach are covered in more detail in chapter four).

The dynamic capabilities approach does potentially allow for an exploration of the core research question as to whether differences in HRM capacity influence the nature of organisational responses to regulatory and labour market stimulus (Étienne, 2012). In this context, regulatory issues are defined as state (or international) regulations designed to ensure that firms operate in particular ways. However, regulations do not exist in a vacuum. Issues in the wider labour market such as the ease with which labour can be recruited, the skills base of the labour force and whether there is a good match between changing work demands and the available labour force will all have a bearing on how a firm operates. In consequence, the broad research question has been broken down into three objectives:

- 1 To what extent, and how, do coercive regulations (in this case around employment quotas) have an impact on the wider labour market?
- 2 In turn, how does this influence the behaviour of individual firms particularly in the area of HRM capacity?
- 3 To what extent does the HRM capacity of firms shape different responses to the regulatory demands?

This chapter begins by reviewing the literature on the interaction between the labour market and regulations. In particular, the focus is placed on quota based regulations and the ways in which these are often seen as coercive – in effect setting out quantitative targets that firms must meet. It then moves on to theories of organisational response and how theories such as Institutional Theory, RBV and Dynamic Capabilities can contribute to our understanding. This analysis identifies HRM capacity as an important (if not the key) dynamic in enabling a firm to respond to changes in the external labour market. Key themes that are developed include that a labour market characterised by low wages and easy recruitment of adequately skilled staff will place different demands compared to one where wages are high and there is competition for the pool of suitable workers (Boon et al., 2009). However, it is not simply a case that firms all respond in the same way if the labour market

regulations shift. In part, their response will be filtered through their understanding of the nature of the regulations (Edelman and Talesh, 2011), their other strategies (Gunningham, 2011) and the differences in how they relate to the wider labour market (for example a firm that needs to recruit highly specialist staff may need to respond differently to one that needs to recruit substantial numbers of manual workers).

## ***2.2 Regulation and the Labour Market***

Broadly it is possible to conceptualise the concept of regulation within the labour market in one of three ways (Baldwin et al., 1998). At its simplest, regulations can be seen as a set of formal rules backed by a state agency that monitors compliance (Gunningham, 2011; Parker and Nielsen, 2011). An alternative view is that regulations reveal how a given state envisages its economy should be working. Such regulations can be essentially coercive (Al-Horr, 2010; Baldwin et al., 2012; Hutter, 2011) or accept the current western economic consensus about the assumed advantages of deregulation (MacKenzie and Martinez Lucio, 2015). This approach to understanding regulations crosses into wider debates in terms of political and economic theory. Some economists hold the view that unregulated markets, over time, will generate the greatest social good. If so, no matter how well intended, regulations will lead to distortion and inefficiencies (McLaughlin and Greene, 2014). On the other hand, others point to the problems of externalities (where a firm can displace costs onto wider society) or that there are important issues such as equality of opportunity which is a matter of political and social choice (Edelman and Talesh, 2011; Hutter, 2011; James and Roper, 2010; Kagan et al., 2011; Sutinen and Kuperan, 1999) for the whole of society.

It is also possible to frame the regulatory environment to take full account of the importance of non-state actors (trade associations, professional bodies, consumer groups) and of sectoral norms (Kinnie and Swart, 2012) in setting the rules by which organisations feel they have to behave (Kagan et al., 2011). From this perspective, regulations can be seen as encompassing formal rules (such as quotas around defined groups, or a minimum wage), an indication of how the state sees both its own role

and the desired form of the labour market but also reflecting the views of a wide range of other actors and social norms.

Even at its simplest, this complexity suggests that the creation and operation of a regulatory framework is marked by negotiation (Edelman and Talesh, 2011). This can be between the firms and the state but also between other actors, such as Trade Unions, and both the firms and the state (Gall et al., 2011). In reality this implies that the creation and operation of employment regulations crosses both formal and informal systems (MacKenzie and Martinez Lucio, 2015). In turn, this creates a number of dynamics that are explored below. The relative balance of power between all these groups is very important in setting the nature of any interaction. From the concepts of theories of power (Lukes, 1974; March, 1988) it is clear that while power is sometimes used by the state in a directly coercive way, it also quite often functions by setting the boundaries of the available options rather than forcing direct compliance (Morgan, 1986).

Morgan (1986) developed this insight to look at how various theoretical frameworks to understand how the nature of work, leadership and management structures in organisations substantively influence the internal structures. So acceptance of the basic Taylorist view of the worker as machine who needs to be trained and allocated to a defined role (and monitored in that role) in turn gives rise to very distinctive organisational forms (De Angelis, 2007; Taylor, 1994). On the other hand conceptualising work as the creation and sharing of knowledge across professional groups in turn generates a focus on very different organisational structures (Easterby-Smith et al., 1998; Empson, 2001; Thorpe et al., 2005).

This debate is reflected in the various approaches to state regulation. At one end of the scale a state can act in an authoritarian manner creating both regulations and monitoring systems designed to remove individual discretion. Such a coercive approach might reflect either how the state usually operates or the importance it places on a particular policy. Quota based systems can be seen as being coercive in that they seek to force a firm to recruit certain types of workers (Al-Horr, 2010; Forstenlechner et al., 2012a). At the other end of the scale, the state may simply take on the role of agreeing to policies advanced by one or more interest or professional groups. In turn, it is feasible that the regulations are framed in one particular mode

(authoritarian or responsive) but the monitoring and implementation is in another. So the rules around aspects of professional practice may reflect the consensus of a particular community but they may well be strictly enforced (Young and Muller, 2014) using state resources (such as regulations about who can practice medicine and in other professional roles).

As discussed at the start of this chapter, this argues for a theoretical framework that takes full account of the external environment but also considers the actions of individual firms, alongside other stakeholders, as active actors in the regulatory process. Following the argument of Mackenzie and Martinez Lucio (2015) this identifies the extent that organisational response can vary in part due to capacity, in part due to organisational commitment to meeting the rules but also that there are multiple actors (inside and outside the firm) who shape both the regulations and organisational response. This leads to an important question, especially when facing competing pressures, as to which set of regulations are deemed the most important.

### **2.2.1 Regulations and the Labour Market**

This section focuses concretely on one very specific aspect of regulation, what is meant by regulation in the context of the labour market. One challenge is that some aspects of labour market regulations are really just a sub-set of the more general laws of a given state. Thus, the collection of taxes from employees and the transmission of the money to the state is both a product of national law and specific regulations. At the other end of the scale, some regulations (or perhaps more strictly, constraints) come not from formal laws and rules but the social expectations of particular states (Ariel, 2012), industrial sectors or even geographical areas. As noted above, concepts of what is fair or not, can be derived from these social rules as much as from formal regulations.

For the purposes of this research, the labour market is seen, from the perspective of the firm, as encompassing the wider process of recruiting, retaining, paying, training and promoting staff. For the state this includes questions such as how many people are in employment and productivity across the economy. It is possible to identify three different broad types of regulatory activity in this area (Gunningham, 2011; May and Winter, 2011; Simpson and Rorie, 2011). Firstly, Issues requiring

compliance with the rest of a state's legal code (such as the collection and payment of taxes). Secondly, where the focus is on outcomes rather than processes within the firm. Typical examples of this include the approach to Equal Opportunity legislation in much of the European Union where the requirement to avoid discrimination is set out, but how the firm should meet that goal is less fully specified. Thirdly, where the focus is on process within the firm. Examples of this are quota based systems used in the United States, Australia (Braithwaite, 1993), India (Harish et al., 1994; Woodard and Saini, 2006), the wider Gulf Region and elsewhere in the world. Quota based systems essentially work by specifying what proportion of the workforce must meet certain criteria (such as gender or ethnicity). As indicated above, they are seen by many as a coercive model of regulation.

In practice, many regulatory structures share aspects of all three approaches. They are usually grounded in the wider legal code. Equally, while quota based regulations are typically examples of the third type (i.e. setting clear outcomes) there is often an expectation that they will lead to wider improvements such as less discrimination or improvements in overall staff management and productivity (Forstenlechner et al., 2012a; Kelly and Dobbin, 1998; Strachan et al., 2004).

The focus of this thesis is on localisation policies in Saudi Arabia, which are now based on employment quotas, but which previously did not specify hard targets. This indicates that the recent regulatory changes reflect the distinction in the literature in the field of regulatory response between approaches that are based on quotas and those that are based on meeting key requirements but do not specify the actual target (Strachan et al., 2004). In particular, quota systems have often been used where the state wishes to radically change the operation of the labour market (Prakash, 2009).

Typical examples of non-quota based systems include the UK approach to reducing discrimination in the workplace introduced in the 1970s (Dickens, 2007) initially covering gender and ethnicity. Over time, the equality legislation framework has been extended to cover age, sexuality and disability. The initial UK approach was characterised as stressing the avoidance of discrimination, an approach often described as 'negative discrimination' (McLaughlin, 2007). Recent changes, in part reflecting shifts in EU wide law, has led to this being replaced by a 'positive duty', in other words, that the company must actively seek to promote equality rather than

simply not cause additional inequality. Despite this strengthening of the legislation, the regulatory environment stresses the desired outcome (such as the elimination of pay differentials in terms of gender) but does not set out exactly how this can be achieved.

By contrast a quota system starts from setting out the desired ratio of staff, whether in terms of gender, ethnicity or disability (Feder, 2012; Kelly and Dobbin, 1998; Prakash, 2009; Smith and Welch, 1984) or other criteria. At its core is an expectation that a firm will employ a certain percentage of its workforce from defined groups. Usually quota based systems are justified as a tool to overcome long standing economic inequalities reflecting wider systemic discrimination (Feder, 2012) against identifiable groups. Thus in the US, the perceived economic exclusion of African-Americans was seen to be a product of long standing economic deprivation and relative exclusion from further and higher education. In consequence, quotas are used to impact directly on the labour market and force employers, to some extent, to compensate for wider social discrimination by adapting their employment practices (Feder, J., 2012).

While essentially coercive there are positive aspects of a quota based system such as that having the possibility of entry to certain desired jobs may stimulate an interest in education that helps the wider community (Prakash, 2009). On the other hand, knowledge that jobs can be acquired simply to meet numerical quotas may lead to less effort being put into overcoming the social and educational reasons for the original exclusion. The approach of fixed quotas has often been criticised, even by those who share the underlying goal of eliminating long term discrimination. A common theme is of individuals gaining a given job not on the basis of their merit or capacity but due to belonging to a particular group marked by ethnicity, gender or disability (Heilman, 1996). The concept of the resulting stigmatisation of the recipients is common in the literature (Harris, 2010).

In summary, while the thrust of equal opportunities legislation in many EU countries is about eliminating barriers (Archibong and Sharps, 2011) to full employment, in other contexts (such as the US) the approach of specifying quotas to improve opportunities for women and ethnic minorities has been adopted (Kalev et al., 2006). The argument was that the level of racial discrimination was so deep rooted across

the education and social system that only by forcing firms to employ certain quotas could the problem be addressed (Feder, 2012; Harris, 2010).

### **2.2.2 Quota Systems in Various Countries**

As noted above, quota based regulation systems are often justified in situations where historically certain groups have not just been discriminated against in the labour market but face wider social exclusion and discrimination (Braithwaite, 1993). In this context, a quota is then used to force companies to adapt and compensate for this wider problem (Kelly and Dobbin, 1998). This section discusses different uses of quota based systems in the US, India and the Gulf Region. This provides an overview of three different uses of quotas and the different effects each style has had both on the domestic labour market and organisational response.

The US is perhaps seen as a classic attempt to rebalance wider social inequalities by directly influencing recruitment both into the labour market and the university sector. The Indian model shares some similarities but quotas are only applied to the public sector. By contrast in the GCC states, the beneficiaries of the quotas are the domestic population – who, in other respects, are not faced by systemic discrimination. This is important as it is one reason why quota based systems in the Gulf are leading to the emergence of a dual labour market (Al-Ali, 2008; Al-Shammari, 2009; Mellahi, 2007). As discussed in chapter four, where localisation is proving to be successful the result is that nationals are receiving higher wages and more in-work training while the large foreign element in the workforce is excluded from these gains.

The American (Golden et al., 2001) approach to affirmative action are an example both of regulation for social purposes and provides some insight into the challenges that face firms in the KSA responding to the demands of localisation (Achoui, 2009). The findings point to an initial reluctance by many firms to comply, often citing a lack of potentially qualified applicants as a reason they could not meet the regulations. Overall, in the US, the deterrent effect of legal action forced at least a surface compliance by many organisations (Reskin, 1998) leading to some real gains in terms of employment opportunities. Even so, it was those firms most vulnerable to the adverse effects of sanctions (such as loss of public sector contracts) that showed the greatest compliance (Smith and Welch, 1984). Overall the evidence was that

affirmative action has improved both wages and access to the labour market but this has not been uniform (Leonard, 1984). This suggests that even when the regulations are coercive, compliance cannot simply be explained in terms of legal sanctions. Equally, in some instances, the legal demands of affirmative action led to an adoption of wider equalities policies within firms designed to address other sources of discrimination (Kelly and Dobbin, 1998).

Research on the impact of quotas in the context of India also indicates mixed outcomes (Prakash, 2009). In India the main focus is on exclusion on the basis of 'caste' and, to a lesser extent, ethnicity. In an attempt to end long standing discrimination, the Indian Constitution reserved a proportion of public sector jobs for individuals identified as belonging to one of the excluded groups (Harish et al., 1994). Broadly, 15 per cent of public posts are reserved for those otherwise excluded on the basis of caste and a further 7.5 per cent for those from specified ethnic groups. This is supported by lowering entry criteria, help with some application costs, providing pre-entry training and some help in terms of subsequent promotion.

However, while this strict quota approach has increased employment it also led to segregation within the public sector. So some 81 per cent of those employed by the state as street cleaners come from the lower castes (Harish et al., 1994). In terms of meeting the set quotas, India has been broadly successful. But this is only in the (now diminishing) public sector (Prakash, 2009) and usually in a very narrow range of jobs (Harish et al., 1994). Unlike in the US, there is less evidence that the imposition of quotas in some areas has led to a general shift in HRM practice and attitudes (Woodard and Saini, 2006). Overall India is perhaps an instance where surface compliance (meeting the numerical targets) has dominated while the US has seen the imposition of quotas lead to more significant changes in overall employment practices (Harris, 2010; Kelly and Dobbin, 1998; Leonard, 1984; Strachan et al., 2004). In addition, since the 1990s the Indian Government has started a programme of privatisation (Wadhva, 2004) and the quota rules do not apply to the private sector (Woodard and Saini, 2006).

In this respect the contrast between US and Indian experiences is informative. In the US, the quotas are applied to the entire economy and while there have been

variations in the extent this has been successful, few firms have been able to ignore the requirements. India, by contrast, opted to use the large public sector it inherited from the British on independence. This saw some improvement for carefully delineated social and ethnic groups but also saw the concentration of individuals from these communities in specific jobs and roles. By excluding the private sector, India had no effective tool to enable those who faced wider discrimination to gain access to the overall labour market. Equally, the recent move to reduce the size of the public sector calls into question the long term viability of India's quota system (Wadhva, 2004).

Practice in the GCC is different to both the US and India. In particular, the group that gains from the quotas are the citizens of the respective states not the marginalised foreign workers who make up the bulk of the labour force. As briefly set out in the introduction, and developed in chapter four, quota based 'localisation' policies have become increasingly common in the wider Gulf region (Al-Horr, 2011; Fasano and Goyal, 2004; Forstenlechner, 2010; International Monetary Fund, 2013a) with this often focussed on the public rather than the private sector (Al-Ali, 2008; Al-Lamki, 1998; Rees et al., 2007; Salih, 2010). In this respect, Saudi Arabia is different as the regulations are also applied to the private sector (Al-Shammari, 2009; Al Humaid, 2003; Sadi and Henderson, 2010), reflecting the need to accommodate a relatively large domestic population at a time when the public sector is declining in size.

In the US and India the quota systems were developed to address long standing social discrimination against groups historically excluded from higher education and employment. In contrast the GCC norm has been to seek to improve the employment of citizens who have been excluded from key jobs as firms preferred to recruit cheaper foreign staff (for most roles) or highly technically skilled staff for particular roles. The political goal for the various states is often primarily in terms of stability and security (in other words, to reduce unemployment among locals and reliance on foreign labour) rather than seeking to address long standing sources of inequality. The practical impact, as the localisation policies start to have an effect, in each country is to create a two tier labour market. Nationals are increasingly gaining access to work, receive higher wages, training and promotion opportunities (International Monetary Fund, 2013a) but at the same time foreign workers (who

remain very important to the functioning of the various economies) lack employment protection, receive lower wages and have far less opportunities for in-work development.

One consequence has been the mixed impact that localisation has had on HRM practice (Mellahi, 2007), in particular as initially firms could engage in surface compliance with the numerical aspects of the quotas (or simply opt to evade the requirements). Equally, the effective exclusion of foreign workers from training and career progression will be an ongoing drag on attempts to raise overall productivity. The research on the use of affirmative action and quotas is particularly important for this thesis as this is the approach now being adopted by the Saudi authorities.

Early experience with localisation mirrors experience elsewhere (Al-Dosary and Rahman, 2009; Aljebrin, 2012; Alsharhani, 2005; De Bel-Air, 2013; Fakeeh, 2009; Looney, 2004; Mahdi, 2000). In particular, initially private sector firms were unwilling to recruit Saudi nationals as they believed they lacked the needed skills and aptitudes for the roles. In addition, while a quota system can be seen as essentially coercive, in the Saudi context, initial monitoring and implementation was so lax as to make compliance basically voluntary. As covered in the introduction, the new Nitaqat system has initially focussed as much on monitoring and sanctions as on the design of the actual quota system (Ministry of Labour, 2013b).

This argument suggests that even if quotas are seen as a coercive, outcome-based, form of regulation, their impact varies substantively according to how they are framed and the wider labour market. One specific problem for quota based systems is that firms may opt for what is often called surface compliance (Reskin, 1998), in particular of meeting the purely numerical aspect of any quotas, rather than fully adapt to the intent of the regulations. Thus, quota based systems (assuming effective monitoring and compliance rules) tend to at least force an involuntary quantitative compliance (i.e. firms respond to the external environment). However, some firms then go beyond simple numerical compliance and seek to use the demands of quotas to revise other recruitment practices and raise productivity (Strachan et al., 2004). An important factor in influencing how a firm responds is if it is particularly vulnerable to state pressure, such as being reliant on public sector contracts or grants. Thus the focus on quotas in the US led to the need to develop very specific HRM

competencies in terms of recruitment, retention and monitoring (Golden et al., 2001). In effect, it also led to greater emphasis on workforce monitoring and manpower planning.

In respect to the response to regulations, it is also useful to note that there can be a mismatch between the goals of the regulations and the actual effects. One reason for unintended consequences can be linked to the regulators themselves trading off between the extent that regulations are all-encompassing and allowing some flexibility (Abdukadirov, 2013). Sometimes, the regulations can be flawed, leading to the opposite of the desired outcomes as industry conforms in a manner different to that intended by the regulators (Gurtoo and Antony, 2009). However, Gurtoo and Antony (2009) also point to instances where regulation aimed at one aspect had beneficial impacts by amending behaviour in other contexts (Kelly and Dobbin, 1998). These secondary benefits may not have been anticipated originally. Quota based approaches may be particularly vulnerable to such unintended consequences. On the one hand, they may encourage formal compliance with the numerical targets where firms concentrate on recruitment but take little account of labour productivity, integration or career progression (Golden et al., 2001). On the other hand, having to meet set targets can trigger a wider review of equalities policies and staff development (Strachan et al., 2004).

Edelman and Suchman (1997) also noted that unintended consequences can also arise due to internal debates within a firm about how to respond. Some functions (such as HRM) may see how external regulations can be used to bring about changes that are desirable for other reasons. Thus, there is a real possibility that regulations may be more robustly implemented than was perhaps originally envisaged by policy makers. If the perspective of organisations as coalitions of interests is used to understand organisational behaviour (Morgan, 1986; Weick, 2001), then shifting regulatory pressure may make some functions more important within the organisation than they were before. As such, for example, HRM might be both more aware of the full potential implications of new regulations, but also quite willing to use an increase in importance as a means to shape both internal strategy and resource allocation (March and Simon, 1993).

A further secondary consequence of quota based systems is the emergence of dual labour markets. This is almost inevitable in that quotas either work by reserving certain jobs for certain categories (the Indian experience) or ensuring that firms recruit certain numbers of individuals from identifiable characteristics such as ethnicity or gender (the US experience). In both the US and India, the stated intention is to use quotas to overcome historical discrimination, however, the logic for quotas in the GCC is very different.

Mellahi (2006) argued that the gradual development of localisation policies in Saudi Arabia can be partly described in terms of unintended consequences. Early policy placed too much emphasis on voluntary acceptance and had such lax monitoring that few firms took on the additional costs of compliance (Mellahi, 2006). In effect, their response can be characterised as a voluntary reaction to a lax regulatory regime. By 2005, the regulations were slightly more strictly enforced and the result was the emergence of a two-tier workforce. Saudi nationals were increasingly well protected at work and able to command higher salaries while foreign staff were “provided with little or no training, hired and fired at short notice, and have little promotion possibilities” (Mellahi, 2006, p. 93). Thus the regulatory regime had the effect of increasing the relative cost of employing Saudis but did nothing to improve productivity among the foreign workers. As will be discussed in chapter four, this outcome meant that employment among Saudi nationals remained low and overall productivity remained static as the regulatory approach remained essentially reliant on voluntary compliance.

This relative protection of domestic workers has added to the existing problem for the GCC economies since their ability to easily recruit foreign workers led to poor HRM practices (Achoui, 2009; Aljebrin, 2012; International Monetary Fund, 2013a; Sadi, 2013b). In particular, foreign workers have been relatively low paid, prepared to work flexibly, have rarely had labour protection but are often well qualified. In combination, this has allowed Saudi employers to achieve reasonable levels of productivity at very low costs. Fakeeh (2009) suggests this is one reason why the Saudi private sector was originally unwilling to comply with localisation and felt threatened by the initiative. She argues that this mindset only changed when “the seriousness of the government’s intentions to prosecute noncompliance became

apparent. It was at this point that the private sector accepted and began to deal with Saudisation systematically (Fakeeh, 2009). In effect, before the recent localisation initiative, access to cheap labour led to poor HRM practices in the Saudi private sector. As suggested by Fakeeh (2009) and Forstenlechner, et al. (2012) historically HRM practice in the Gulf region has been weak reflecting the wider regulatory regime (Tregaskis, 1997).

With the introduction of Nitaqat, the cost of Saudi labour has increased as companies compete to recruit and retain Saudi nationals. This has led to greater investment in HRM for two reasons. One is that offering structured training and development is subsidised by the Saudi state and valued by potential Saudi workers. The other is that with a growing proportion of Saudi nationals in the workforce, firms need to increase their productivity. Even so, there is no pressure to offer training or staff development to foreign workers. This is leading to the emergence of a dual labour market and risks undermining whatever productivity gains come from improved training for Saudi nationals.

### **2.2.3 Summary and Discussion**

This section has identified a number of main features of regulatory structures that apply to the Labour Market.

One is the distinction between the compulsory legal framework of a given country compared to the social norms that influence what is seen as acceptable behaviour (Borck and Colgiane, 2011). The legal framework, by definition, is regulatory in nature (Edelman and Suchman, 1997; Jackson et al., 2012), however it can be usefully be divided into two parts. The first can be called compliance law and is less to do with the process and structure of the labour market and more to do with the state's approach to fiscal policy and the wider legal framework of society. On the other hand, there are regulations that are specific to the employment of labour such as limiting working hours and seeking to limit discrimination. These can be seen as more about how a given state wishes the relationship between employers and employees to be conducted (Gunningham, 2011; Hutter, 2011; James and Roper, 2010; Majone, 1997). Related to this is the issue of whether the state uses the regulation to force compliance or to encourage a change in behaviour (Al-Horr,

2010; Borck and Colgiansese, 2011; Gary and Silbey, 2011; Sutinen and Kuperan, 1999). In effect, this raises the question of how directly coercive a given regulatory framework is.

In turn this distinction can be mapped onto the two main regulatory approaches used to address inequalities in the workplace. One is for regulations that seek to prevent discrimination but do not set out what the end situation should be. So within this approach it is common to find laws on gender discrimination (Dickens, 2007) but not to find a clear statement of what proportion of the workforce should be women (Strachan et al., 2004). As discussed above, both the US and India have taken a different approach and use quotas as just one part of their attempt to address wider social inequalities.

At its simplest, the quotas work by effectively reserving a proportion of the jobs for members of identified groups. In India this has had the effect of improving employment outcomes but in turn certain public sector jobs have effectively become employers of single groups (Harish et al., 1994). By contrast, while the evidence from the US is mixed (Leonard, 1984), the need to comply with the quotas has led to improvements in HRM practice around recruitment, training and promotion. At worst, there has still been surface compliance (Reskin, 1998) with the numerical targets.

Quotas have become a key part of the various localisation projects in the GCC region. However, they vary from those in the US and India in a critical manner. Here the intention is to force employers to recruit from what is otherwise the dominant social group (i.e. nationals of the various states) and reduce their reliance on lower cost foreign workers. However, all quota systems run the risk of creating a dual labour market (those protected and those who are not). If this reverses the normal power structures in society it can be seen as a tool to offset the impact of wider discrimination (Feder, 2012). In this respect, practice in the GCC is different and there are concerns that it will lead not just to a dual labour market but one where a major group of employees are excluded from staff development and promotion and paid less than their peers (International Monetary Fund, 2013a).

The other factor to consider is that in the case of Saudi Arabia, regulations on localisation have changed dramatically. As discussed in the introduction (and in more detail in chapter four), the previous localisation rules were laxly enforced and unclear. The result was that most private sector employers were able to ignore them. Nitaqat is clearly designed to be coercive. Thus the current situation in Saudi allows an exploration of two important themes. The first is how a dual labour market might adjust over time when it is the dominant social group that is being privileged. The other is how firms cope when the basic regulatory system remains the same (i.e. based on a quota) but the style of monitoring and the severity of sanctions changes.

This raises questions about organisational response to shifting regulations and whether firms simply conform or if there is more variation than can be explained just by focussing on regulatory changes.

### ***2.3 Organisational Responses to Regulatory Changes***

As indicated above, the firm is not simply a passive recipient of external rules and, at the least, has to decide how to adapt its internal structures to meet the demands. This response can range from outright rejection to enthusiastic compliance and the likely choice will be influenced by a combination of the regulatory regime (how strictly it is enforced, what sort of penalties are applied), the social norms (what are the expectations for organisational behaviour, what sort of avoidance is seen as tolerable) and the capacity of the firm to respond (Cepeda-Carrion et al., 2012; Farazmand, 2004; Lengnick-Hall et al., 2011).

It is the response of the firm that is the central focus of this section, even though the organisation's understanding of the wider environment (Borck and Colgianese, 2011; Kagan et al., 2011) may inform internal resource allocation. In effect, if compliance is believed to be important then suitable resources may be found, if non-compliance is seen as being socially acceptable then it is quite likely a firm will only allocate minimal resources to meeting the regulations. This supports the argument in the previous section that regulatory response ideally should be studied both from the macro-level (i.e. the nature of the regulations and of the state) and micro-level (i.e. the attributes of the firm).

Quota based systems appear to raise very specific issues in this regard. In terms of compliance, there is often a debate around simply meeting the quantitative targets and ignoring any wider goals (such as raising productivity or employing staff who meet the quota categories in a wide range of jobs). Equally, there can be substantial employer resistance (Fakeeh, 2009) to having to employ individuals they feel are not suitable for the jobs within the firm. Thus a quota based system may produce a pattern of compliance and partial avoidance that is different to other regulatory approaches.

As discussed in the introductory section, in terms of understanding organisational response, it is useful to contrast three separate theoretical structures: First, Institutional Theory tends to focus on institutional adaptation to external norms; Second, the Resource Based View (RBV) of the firm tends to focus on how internal resources affect organisational decision making and create or constrain options; and, third Dynamic Capabilities shares some issues with RBV but also explores what types of external environment might reward certain types of organisational behaviour and structure (such as when entrepreneurial firms might be successful).

While these models do have significant differences, these are more of emphasis than absolute contrasts (Ambrosini et al., 2009; Kor et al., 2007; McKelvie and Davidsson, 2009). Nonetheless, the three frameworks do lead to different assumptions about how firms can be expected to respond to the challenge of a change in regulatory framework. Institutional Theory tends to stress a degree of isomorphism as firms generate similar responses to a shared challenge, RBV tends to stress differences in response depending on the firm's current strategy and resources while Dynamic Capabilities takes the view that firms may seek to adapt creatively to a new environment – perhaps by adding new resources that were previously lacking.

### **2.3.1 Institutional Theory**

Institutional Theory is often associated with studies of the regulatory impact on firms. Oliver (1991), for example, has used it “to identify the different strategic responses that organizations enact as a result of the institutional pressures toward conformity that are exerted on them” (p. 145). While her work stresses the

importance of the external environment this is balanced by treating the firm as an active agent in determining how it will respond to external pressures.

Institutional Theory developed from the argument that the best way to understand organisations was not by using the rational actor model of traditional economics but to see them as rule based organisations with their own culture and norms (Powell and DiMaggio, 1983) drawing from the earlier work of Max Weber (Scott, 2005; Weber, 1947). However, a key assumption is that while some of these rules emerge from within the organisation, many are features of the wider social and economic environment that affect the firm (Scott, 2008). While this focus on the external environment can give the impression that Institutional Theory pays less attention to differences derived from the uniqueness of each firm, some authors (Kondra and Hinings, 1998) do address when firms might conform and when they might tend to diverge in their responses (Dacin et al., 2002). Scott (2005) noted this contradiction and argued that at any stage there are tendencies encouraging conformity as well as destabilising factors (such as new entrants) seeking to gain advantage by adopting new organisational forms or that local circumstances have allowed differences to emerge (Meyer, 2008). Meyer (2008) also notes the importance of non-commercial bodies such as professional associations in creating norms for a wider cluster of firms in addition to any rules and regulations that are constructed by governments.

This idea of group norms within sectors fits wider research which has noted that firms will come to share cultural norms if they are in a sector where staff have loyalties to a wider professional grouping and tend to move between firms as they progress their career (Burt, 1999; Phillips, 1996). This in turn can lead to the idea that some industries share a core mindset of key characteristics and dynamics (Hodgkinson and Johnson, 1994; Huff, 1982; Johnson et al., 1998). In effect, for both the national level and for behaviour within sectors, there are social norms that most firms and individuals to a greater or lesser extent take into account in their actions (Hakala, 2011; Rink and Ellemers, 2007; Zueva-Owens et al., 2012). This has led to a compromise argument within institutional theory that firms absorb external (state and professional group) and internal (both structures and implicit culture) pressures to influence their actions (Schuler and Jackson, 2007). This means that different parts of an organisation may use the external dynamics to “gain power over each

other by controlling valuable resources” (Schuler and Jackson, 2007, p. 25) and, to some extent, external regulation can give more power to a HR department by making both their function and their expertise more important. Drawn together these insights created the concept of institutional isomorphism (Powell and DiMaggio, 1983; Powell and DiMaggio, 1991). This argues for a degree of convergence between firms as external factors such as technology or regulations change.

A widely cited study using Institutional Theory was by Goodstein (1994). This sought to test Oliver’s formulations empirically in the context of how different firms in the United States responded to pressures arising from work-family issues such as child care and flexible hours. At the time of the research, there was some formal regulation but most of the pressure for change was social rather than regulatory. The specific focus was on different approaches to the provision of child care and whether this might include reduced hours, job sharing, time to work at home or other means to introduce flexibility.

The main findings were that the most common response in most sectors and most organisational sizes was to compromise, in effect to adapt partially to the requirements. Of note, defiance was more common among smaller firms and in the construction sector. This may reflect differing work norms in some sectors, with the service and retail sectors more able to offer flexible work as they could offer non-standard hours and manufacturing and construction believing they were more constrained to enforce greater structure over working practices. So the findings could be explained by organisational perception that they lacked the capacity to comply. However, a later study also suggested that pressure from peers in a sector or other partners played an important role in determining organisational response (Ingram and Simons, 1995). This is important as it suggests that the pressure for change is stronger when there is both regulatory and social pressure towards a given outcome.

In another key study using institutional theory, Boon et al (2008) explore how organisations can balance between pressures towards conformity and the desire to follow their own strategy. In particular they stressed the importance of legitimacy for a firms’ long term survival (Powell and DiMaggio, 1983). Such a perception can come from various sources including the state, industry regulators, trades unions, social groups and other firms in the same sector. However, legitimacy may come at

a price and they argued that “productive success and legitimacy are potentially contradictory goals” (Boon et al, 2008, p.493) which implied that success came from adapting to the wider environment and having a strategy that was underpinned by a unique set of capacities, thus enabling an innovative response that was different to the main competitors.

Their research was based on three case studies of large firms in the Netherlands, two were in the retail sector and the third was in health care. The expectation was that the health care sector would be an instance with substantial pressure to conform to the rules and regulations. In particular, the Dutch norm is for substantial regulation as well as wider pressure on firms to be seen to fit within the expected social rules. As expected, they found the health care firm had the least leeway in terms of its response and how it organised its HRM processes. For the two retail firms, the degree of unionisation was important, as where this was lower the firm had more leeway to pursue its own approach to HRM. Equally, this firm was family owned and this allowed them more capacity to invest in their staff rather than aiming at minimal compliance with the set requirements. Again this strongly suggests that organisational response is not simply in reaction to the formal regulations but reflects wider social norms and the existence of non-state pressure towards compliance.

In summary, while institutional theory tends to assume a degree of conformity, most empirical studies suggest that there is a substantial degree of variation between firms. In addition, both Goodstein (1994) and Boon et al (2008) identify that compliance is related not just to the formal regulations but also to the degree of other pressures (social norms, non-state actors) that encourage compliance – or, feasibly, mean that avoidance is seen as acceptable. This does contradict the assumption of institutional isomorphism that firms will tend to mimic each other when faced with a shared external environment.

A further criticism of institutional isomorphism is that while it may identify situations when firms adopt very similar responses, it is poor at exploring why this may be so (Dacin, 1997). An old series of studies into the Chicago banking industry (Reger, 1990; Reger and Huff, 1993) identified that a combination of staff staying in the industry for most of their career, but moving between the various firms that made up the sector, created a largely shared mindset not just about strategy but how firms

should be organised. In effect, the potential breadth of both the concepts and the focus of Institutional Theory has meant it is applied in a number of situations but also that the linkage between the theoretical base and empirical applications can be unclear (Zucker, 1987).

Some of these critiques have been taken up in more recent studies of HRM. Paauwe (2004) suggests that the implication of the interaction between variable external demands and organisational strategy was that firms should adapt their internal practices to reflect the shifting demands of the external world. Specifically, it was argued that this meant that the challenge in developing HRM structures and responses is not to adopt the 'best' practice but those that represent the 'best-fit' to the challenges a firm faces (Paauwe, 2004). From this perspective he argues that there are three types of pressure that may influence the HRM approach adopted. These are normative (reflecting industry or national expectations as to how a firm should operate); coercive (regulations, legal structures but also feasibly pressure from consumers or workers) that force a firm to operate in a particular way; and, mimetic (where firms mimic the successful actions of those around them). This insight has much in common with the way that Dynamic Capabilities frames the external influences on the firm and is returned to below and then in the following discussion about the various ways in which HRM can create the capability a firm needs to cope with shifting demands. However, before looking at how Dynamic Capabilities might allow this study to bridge the gap between external pressures and internal responses it is useful to explore the internal aspect in more detail. As noted earlier, a key theoretical framework in this respect is the Resource Based View (RBV) of the firm.

### **2.3.2 The Resource Based View (RBV) of the Firm**

A contrasting approach to Institutional Theory is to study firm response to regulation using those theoretical models that concentrate on internal factors within the firm. One model that is commonly adopted is the Resource Based View (RBV) of the firm (Kor et al., 2007; Lockett et al., 2009; McKelvie and Davidsson, 2009) which explores how organisational strategy and the ability to respond to new threats or opportunities are determined by internal factors. Typically these include corporate

culture, existing goals, financial and other resources and the interests and commitment of senior managers (Langlois, 2007; Newey and Zahra, 2009).

RBV shares some aspects with Institutional Theory. Both can be seen as a reaction against the classical micro-economic theory of the firm (Lockett et al., 2009) in that they reject the rational, profit maximising, model and stress how the firm operates with constraints and limited options. Fundamentally, “RBV views the firm as a historically determined collection of assets or resources which are tied ‘semi-permanently’ to the firm” (Lockett et al., 2009, p.9). This is important as it places RBV in contrast to institutional theory with its tendency to trace organisational behaviour to the external environment but in turn this means it tends not to pay much attention to the implications of external issues in creating opportunities and problems (Lockett et al., 2009).

The Resource Based View of the firm notes the importance of internal resources in creating the means to respond to change and strategic opportunities (Alcazar et al., 2008). Typically RBV approaches identify overall strategy, organisational sector, organisational culture and specific current factors as key resources. However, a common critique of RBV is while it is correct to identify that a firm’s options are constrained (and created) by its internal resources it does tend to assume a fixed resource base and does not pay sufficient attention to how firms build up (or lose) assets. In particular for intangible assets, such as human knowledge and capacity, there is a trade-off between the need for speed and cost. In effect, creating such capacity internally takes time but sometimes having to buy in expertise can be expensive, especially if other firms face the same demands (Dierickx and Cool, 1989). Thus key resources may be in short supply both within a particular firm and across the wider labour market.

Despite this gap, RBV has often been used to explore the importance of HR as a basis for competitive advantage since staff are often identified as a form of resource that is hard to imitate and hard to substitute for competitor businesses. For a resource to have the potential for creating sustained competitive advantage it should have four attributes: it must be a) valuable, b) rare, c) imperfectly imitable and d) non-substitutable (Barney, 1996; Barney, 2001). From a HRM perspective, this creates

what Boxall (1996) refers to as 'human resource advantage' as a key strategic tool as a firm seeks long term competitive advantage.

Becker et al (1997) took this approach and argued that there are:

'Two features of organizational systems that increase their inimitability and would apply to high performance work systems: path dependency and causal ambiguity. Path dependency refers to policies that are developed over time and cannot be easily purchased in the market by competitors. Causal ambiguity focuses on the numerous and subtle interrelationships in such a system that are not easily observed from outside the firm' (p.47).

Becker and Gerhart (1996) also argued that path dependency may reflect the historical development of HR in a particular organization. Using these arguments (Becker and Gerhart, 1996; Becker et al., 1997), it is feasible to argue that not only is the staff resource potentially unique, but the entirety of the HRM approach is something that can yield sustained advantage as it is hard for a competitor to copy. On the other hand, in an industry where most firms adopt similar approaches such advantages may be fleeting or hard to sustain.

The significance of the resource-based view of the firm is that it highlights the importance of people management and human resource activities and infrastructure to the effects of regulatory shocks. RBV has been seen by many as providing the justification for investing in people through resourcing, talent management, and learning and development programs as a means of enhancing competitive advantage with an emphasis on building flexibility and developing the integrative linkages. However, as important, it indicates circumstances, such as where labour is cheap, easily replaced or only employed for routine jobs then short term competitive advantage (compared to other firms in the same industry) is derived from keeping costs low rather than seeking longer term productivity gains. Although not really explored within the RBV literature, this is an instance where the nature of the external environment heavily influences just what resources are important, and how firms might respond to regulatory shocks and pressures. In turn, it is precisely this gap in the theory that the closely related Dynamic Capabilities approach (Ambrosini et al., 2009) seeks to address.

### 2.3.3 Dynamic Capabilities

The concept of Dynamic Capabilities is usually treated as a development from RBV (Ambrosini et al., 2009), however, it is more focussed on the process of change and organisational development (Barreto, 2010). One important strand within Dynamic Capabilities is an interest in the creation of new resources (capabilities) compared to the limited treatment of this concept within RBV (Ambrosini et al., 2009). Linked to this, Dynamic Capabilities gives considerable attention to value of unique resources in allowing organisations to be more dynamic than their competitors. In turn this has seen Dynamic Capabilities often applied to studies of entrepreneurship (Kor et al., 2007; McKelvie and Davidsson, 2009; Newey and Zahra, 2009) where the management and strategy of the firm is linked to the possession of key capabilities.

However, the critical difference to RBV is a greater attention to the external environment (Barreto, 2010). In part this reflects an interest in the type of external situation that might encourage the creation of key capabilities or reward those firms that possess such assets. Equally, while not sharing the assumption within Institutional Theory of heterogeneity across firms in a similar environment, some researchers in the Dynamic Capabilities field have suggested that firms will face pressures to adapt to similar outcomes (Eisenhardt and Martin, 2000).

Although Dynamic Capabilities appears to address the key themes in section 2.2 about the importance of both external and internal factors it has rarely been applied to studies of either regulatory compliance or HRM (Schuler and Jackson, 2007; Wright and Snell, 2009) as opposed to studies of firms operating dynamic markets or the importance of entrepreneurial individuals in building up a new business. However it is possible to use Eisenhardt and Martin's (2000) argument how different capabilities are needed for different market conditions and consider (a) what implications this has for HRM and (b) how the regulatory framework can become part of the organisational environment.

This can be developed in two different ways. In part the external environment will influence what level of capabilities are needed both for basic functioning and to gain a competitive advantage (Ambrosini et al., 2009). If the environment is essentially stable, a firm can opt to adapt gradually (if at all) and develop capabilities internally.

It will gain little from substantial investment in new approaches as the wider market does not demand this diversion of resources. This closely fits the discussion in the RBV literature about different resource creation strategies (Dierickx and Cool, 1989; Lockett et al., 2009) and their relative costs. At the other extreme is a highly dynamic environment where existing staff lack the skills and capacities. Here there is a need to both seek to develop internal capacity and explore how to attract new capacity and skills into the organisation (Gilbert, 2006). In effect, each of these situations demands a different approach to HRM to enable the firm to both survive and prosper. The trade off in external stability and change can have direct consequences for the internal demands on the HRM function.

In this respect, the regulatory environment, as such, is not a feature in the Dynamic Capabilities literature. However, it is clear that a shift in regulatory approach, such as discussed in section 2.2, between a lax approach and a strictly monitored quota based model can constitute a major shift in the external environment for the firm. This is especially so if the new regulations do not just change the rules but alter the make-up of the wider labour market.

### **2.3.4 Key Themes and Implications**

All three theoretical approaches share some concepts in common but place the emphasis on different aspects. In summary, Institutional Theory can be seen as emphasising the importance of the external environment while the Resource Based View tends to stress internal resources. In consequence sometimes Institutional Theory can tend to overstate the extent that a common environment will generate common responses and institutional isomorphism stresses the external factors but does not engage with how these factors affect organisational norms

On the other hand RBV can tend to be rather static, in that the ability to respond rests on current resources as a means to create or sustain a competitive advantage. This is important as some of the literature on organisational response to regulation stresses the importance of varying internal resources, as, following Edelman and Talesh (2011), capacity to comply is one important variable. However, there are two related gaps in the RBV literature (Lockett et al., 2009). The first is the inherent consequence of a theory that focuses on the logic for the actions of the firm. As such

there is a lack of attention paid to the wider environment within which the firm operates. Second is that the theory is essentially descriptive rather than prescriptive (Kraaijenbrink et al., 2010). In this respect it often offers a rich set of explanations as to why firms may behave in particular ways but it is not predictive as to how they may react given a set of circumstances. Linked to this, is that it is sometimes hard to use RBV as an empirical tool due to the lack of specification of key variables (Armstrong and Shimizu, 2007).

The focus on description is not automatically a weakness as it means that RBV provides an effective framework in which to discuss the interaction between resources, strategy and company effectiveness. What it does mean is that researchers using RBV have to specify what key terms mean in the context of their own particular study. Equally, like Institutional Theory, Dynamic Capabilities also tends to be descriptive rather than predictive theories (Barreto, 2010). However, Barreto (2010) notes that “that dynamic capabilities may be a key antecedent of firms’ strategic choices, such as entry strategies, entry timing, or diversification” (p. 275). As such this is a useful insight that has practical applications. It is the possession, or acquisition, of key capabilities that in turn enables strategic options. Ambrosini and Bowman (2009) suggest it is useful to sub-divide capabilities into those essential for the firm’s basic functioning, those that create the capacity for normal (in the sense of iterative) change and those that allow a firm to innovate or respond in a manner that its competitors cannot match.

Drawing from the discussion in section 2.2, a key issue in terms of understanding organisational response to shifting regulations is to take account of: (a) the nature of the regulations; (b) the wider social context, and (c) the capacity of the individual firms. This starts to provide a framework to understand the reasons why different firms may adopt a different response to the same regulations, as their understanding is filtered through capacity constraints, attitudinal views and the relative importance of adapting to a particular set of regulations in comparison to the other constraints and opportunities facing the firm. A substantive early review of the literature on regulatory response (Dacin et al., 2002) stresses the importance of human agency, in effect even in situations where the options are circumscribed, organisations still have some choices.

## ***2.4 HRM and Organisational Capacity***

### **2.4.1 Introduction**

One key argument in both the RBV and Dynamic Capabilities models of the firm is how capacity may allow a firm to respond to new demands or opportunities. In consequence, investment in HRM can be important as it allows firms to build the capacity they need to adapt (Farazmand, 2004). As will be discussed in chapter four, in the Saudi context, Nitaqat is having a dual impact. First, it is forcing firms to invest in how they recruit and retain Saudi nationals. However, Saudi nationals are now a much larger proportion of the workforce (and command higher wages) and this has led to a secondary need to raise their productivity. In this sense, the shift of the regulatory framework can be seen to demand more investment in HRM capacity. However, this is not uni-directional. It is also those firms that develop their HRM functions that can adapt to the new demands in a manner that fits with their own strategy (Lengnick-Hall et al., 2011) and perhaps allows the development of a consensual relationship with the regulators (Lengnick-Hall and Lengnick-Hall, 2003).

One argument is that a firm with low HRM capacity will have one of two basic choices when faced with new demands. It can either comply in a functional manner (and if the regulations take the form of quotas this may lead to an emphasis on meeting the numerical targets) or try to evade the demands as it lacks the capacity to meet them. On the other hand a firm that possesses (or creates) internal capacity can both meet the external demands and do so in a manner that fits its own internal strategy (Parker and Gilad, 2011). More dynamically a firm that now finds it has inadequate HRM resources can seek to acquire additional capacity – but possibly either at a cost in time (as it generates its own capacity) or money (if it has to buy external resources).

### **2.4.2 Types of HRM Approaches**

This picks up on Paauwe's (2004) argument earlier that the practical goal in HRM is not best practice but best-fit practice. In this case, the fit is both to internal strategy and external demands. This leads to a consideration of how different HRM approaches might be a good fit to different external environments. There is a

historical element to this as HRM has developed from long standing fields such as personnel management (Billsberry et al., 2005; Guest, 1987; Paauwe, 2009; Reilly et al., 2006), industrial relations (Guest, 1989; Seifert, 2015) and industrial organisation (Shell, 1973; Wilkinson, 2013). As discussed in section 2.2, to some extent the development of the personnel function in firms can be linked to the growing complexity of work in the early capitalist economies and the steady growth of state regulation. However, as also identified earlier, the shifting nature of the labour market can lead to variations in contemporary HRM practice. Thus if labour is cheap, adequately skilled for the current jobs, and readily replaceable then the HRM focus can revert to one that emphasises recruitment and manpower planning.

Thus, some versions of personnel management were essentially focussed on hire and fire, pay and some degree of labour organisation and supervision. In the early countries to industrialise, there was a need to hire staff, supervise them at work, some degree of training to use new machinery and to ensure pay and conditions matched the early expectations of labour market regulation (Hobsbawm, 1975). In effect, the Personnel Management approach to HRM can be characterised as essentially about staff recruitment and ensuring that sufficient workers with the right skills are available. Even in contemporary situations, the combination of low labour market intervention, and plentiful (cheap) labour, can lead to a HRM model based on hire and fire to need (Dorling, 2015). Recent UK evidence suggests that this functional approach to HRM remains common, with training and development very limited and strictly focussed on minimum job competences with recruitment typically from a large pool of labour who may well be from outside a particular country (Guest, 1987; Migration Advisory Committee, 2014).

Over time, the nature of HRM in industrial organisations has shifted. At the start this was often little but the process of hiring new staff, payment of wages and ensuring compliance with regulations such as about rest periods or the length of the working day (Hobsbawm, 1975). In turn as work became more complex HRM took on a focus on support for service delivery (i.e. recruitment, retention and training) (Kew and Stredwich, 2012; Reilly et al., 2006) and the facilitation (working with managers to ensure that staff are able to work to their full effectiveness) of organisational strategy. Equally, as in certain sectors, knowledge has become a key asset then, in

turn, HRM has been progressively redefined to include areas such as Organisational Development and Organisational Learning (Easterby-Smith et al., 1998) in addition to traditional concerns such as staff recruitment, pay and reward, training and development.

From this has seen the modern development of Strategic Human Resource Management (Becker and Huselid, 2006; Billsberry et al., 2005). Ulrich (1987) argued that SHRM has a number of roles within the organisation. One is to help the organisation understand and respond to external regulations, technological change, market conditions or legislation (Genç, 2014). A second is to ensure that organisational strategies are underpinned by appropriate HRM processes. Finally, SHRM has a role in allowing the organisation to develop unique manpower resources which, in turn, will produce competitive advantages (as discussed above in the context of RBV and Dynamic Capabilities).

This suggests that there are multiple approaches to HRM (Paauwe, 2004) and that the decision as to which to use is driven in part by the wider labour market (Van De Voorde et al., 2012). In turn, as already discussed, the regulatory framework is an important element that creates the overall structure of a particular labour market. In summary this suggests a very rough scale that captures the difference as to whether HRM is reactively dealing with day to day issues in a short term perspective, a functional means to deliver a desired end, or has an active role in intra-company debates about how best to proactively make use of the new regulatory regime for the firm's future productivity. At one end is the traditional model of personnel management and at the other is the concept of SHRM. The choice to some extent reflects the nature of the labour market – can the firm easily recruit essentially interchangeable workers to do relatively low skilled work for low wages – and of the regulatory environment – the more there are demands, such as in terms of equal opportunities legislation, the more this will create the need for a more effective approach to HRM.

This wider debate is directly relevant to help in understanding the nature of HRM role in firms and to what extent firms' need a specific HRM approach to adapt to the demands of a quota based regulatory system such as Nitaqat, the focus of this study. At one level, HRM capacity may inform whether a firm has a choice whether to not

comply, minimally comply or seek to fully comply. A firm with a weak HRM approach may struggle to recruit suitable staff once the labour market becomes more competitive. Equally, it may not be able to generate the productivity growth that is essential if it is to meet the costs of a higher wage bill – in effect the shift in the wider environment may make the firm unsustainable. By contrast a well developed HRM approach will ease problems of recruitment and retention as well as pay, reward and staff development and allow a firm to respond in a manner that reflects its own priorities. As such, on one hand, the type of HRM response is an indicator of the firm's underlying attitude and on the other HRM tools can provide the means by which firms can adapt, something seen in the response of US firms to demands of positive discrimination (Braithwaite, 1993; Golden et al., 2001). In effect, as argued above, HRM becomes an important part of creating the capacity to respond to the regulatory demands (Chow, 1998).

In summary, this suggests two related arguments. First the style of HRM adopted in a company will reflect a combination of its internal goals, the wider labour market and the regulatory environment. Second, the style of HRM can create the capacity for different approaches, so if a firm seeks competitive advantage from a well trained workforce it has to put in place an appropriate style of HRM. Equally, if it is content to keep labour costs low and compete essentially on product costs then it may well adopt a different style of HRM. However, such an approach can be difficult to sustain if the regulatory framework shifts and makes labour both more scarce and more expensive.

### **2.4.3 HRM as a Key Resource**

The argument above suggests that the HRM approaches reflect both external pressures and internal goals. This section looks at the type of external pressures that maybe relevant and strongly suggests that the form of HRM a firm adopts (in order to survive) will reflect the external dynamics it faces. In turn this suggests that different combinations of regulations and labour market conditions will have an impact on the HRM model adopted.

### **2.4.3.1 HRM and Capacity**

The arguments above suggest that firms build HRM capacity according to a combination of their internal strategies and pressures of the regulatory environment (Martinez Lucio and Stuart, 2011). This suggests that in a situation where staff productivity is seen by the firm as being of little importance and there is little external pressure, then the approach to HRM may be relatively weak. In such an instance, it is to be expected that the focus will fall on recruitment, specifically of staff who already possess the skills and aptitude required (Al-Horr, 2011). As either the firm's appreciation of the importance of staff development develops, or the external environment becomes more demanding then issues such as retention and staff development become more important. Finally, the firm will need to move to something akin to Strategic HRM as both its goals and the external pressures become more demanding (van Gestel and Nyberg, 2009). Thus as discussed earlier, using the RBV approach, it is possible to argue that HRM practice itself can become a critical advantage for a firm (Colbert, 2004).

When faced by quota based regulations, manpower planning becomes important. Manpower planning as a field emerged in the late 1960s (Bartholomew and Morris, 1971; Geisler, 1968; Walker, 1970). In this respect, the domain was focussed on estimating future numbers according to the emerging strategic plan of the organisation, taking account of the external social and legal environment (Bartholomew and Morris, 1971). The concept of manpower planning has some bearing on the current situation facing firms in Saudi Arabia (Al-Dosary and Rahman, 2009). Not least a minimal response to the demands of Saudisation is to ensure that the number of Saudi nationals employed reaches the required levels. In effect, recruitment can be seen as a means of minimal compliance but retention is equally important. The second area where HRM could play a valuable role is in helping firms adapt to the consequences of having changed their recruitment policies (Forstenlechner, 2010). In effect, if a firm is seeking to ensure it obtains the best performance from staff recruited to meet external quotas it needs to take account of the wider HRM agenda of pay, promotion, reward, staff development and organisational development (Armstrong, 2004; Axiri, 2011; Gold, 2010; Paume, 2009; Van De Voorde et al., 2012). In part this goes some way to answering the question posed by Boxall and Purcell (2008) as to 'how might a firm develop and

defend those sources [i.e. HRM] of value' (Boxall and Purcell, 2008, p. 112). In particular in an economy where existing HRM practice is often weak, a key solution is to first improve the HRM capacity of individual firms.

#### **2.4.3.2 HRM and Sustainability**

However, simply focussing on capacity to some extent underplays the way in which HRM practice can enhance the sustainability (Ehnert, 2008) of the firm. Sustainability is a useful concept as it creates a framework to balance competing external and internal pressures (Ehnert et al., 2014). A sustainable organisation is one that manages to combine meeting social expectations such as business norms, compliance with the appropriate rules, as well as engaging with the wider community (Debroux, 2014; Mariappanadar, 2014), manages to generate sufficient revenues (and these two goals are not always easy to balance) and invests in developing the skills of its workforce and takes account of the workers' needs to balance the demands of work and their social lives (Ehnert et al., 2014).

While these goals may be articulated by many organisations, in reality they are hard to balance and sometimes mutually incompatible (Boon et al., 2009). Ehnert (2008) noted that many firms face a dual labour market where some employees are highly valued and others seen as easily replaced or much cheaper to employ (MacKenzie and Forde, 2009). However, this also creates problems for key staff who can face excessive demands on their time and skills (Easterby-Smith et al., 1998). Ehnert (2008) argues that these contradictory demands are rarely addressed in the HRM literature as that tends to assume that actions that favour the firm as a whole are also in the interests of all the employees.

Again, this strand of research tends to argue that a firm faces external constraints and pressures to act in particular ways but also has the flexibility to create its own response. This may partly follow from which external factors it identifies as important (Jackson et al., 2012; James and Roper, 2010; Kagan et al., 2011; Parker and Nielsen, 2011) as well as the relative importance of HRM in internal decision making (Lengnick-Hall et al., 2011).

Broadly the literature on both capacity and sustainability suggest that HRM can be critical to creating the means to address certain issues. These can include the

management of diversity in the workforce (Shen et al., 2009), creating the capacity within the firm to innovate (Farazmand, 2004) as well as the means to deal with compliance issues and regulatory demands. However, the extent that a firm will feel forced to this sort of investment will also be a product of the wider labour market, social norms and expectations and how coercive is the regulatory system. Of relevance to the discussion earlier in this chapter, this combination of environmental pressures and internal resources does tend to support framing the discussion using concepts from the Dynamic Capabilities literature (Maatman et al., 2010) not least as this also makes a distinction between stable and fast changing environments (Easterby-Smith et al., 2009).

## ***2.5 Summary and Discussion***

This literature review started by considering different approaches to the regulation of the labour market. This noted that regulations can run a range from being state mandated requirements (such as the collection of taxes from the labour force and their transmission to the state) to being set by professional bodies to being social norms and expectations. Equally, regulatory pressure can come from the state, international bodies but also from employee or consumer organisations or the various ways in which professional bodies regulate the employment of some specialists.

Even purely in the context of state regulation, it is possible to identify two broad trends. On one hand, are the approaches to issues like equal opportunities in the UK and most of the EU. Here firms are legally prevented from discrimination on the grounds of ethnicity, gender, age and other criteria but the end result is not specified. In effect, a firm, to be compliant, has to show it is not discriminating on the basis of ethnicity, but there is no need to meet certain targets in order to prove that this is the case (Archibong and Sharps, 2011).

On the other hand, quota based systems specify that a firm needs to employ X per cent of its employees from certain defined groups. This has been commonly used in the US (Leonard, 1984) and India (Harish et al., 1994; Woodard and Saini, 2006) as a means to offset wider social discrimination that affect particular groups. In effect the underlying argument is that wider discrimination is such that only the use of

employment quotas can offset the problem by forcing employers to recruit from certain groups (Feder, 2012).

As will be discussed in the next chapter, quotas have become a standard part of the various localisation programmes in the GCC. However, there are some important differences to practice elsewhere. First in the many states in the region, the goal is not just to improve employment of the local population, but to do so in particular industrial sectors. Most often, this is the wider public sector which encompasses education, health care provision and the state controlled petrochemical sectors. It is the focus on the local population that is relatively unusual.

As will be discussed in chapter four, employers in these countries have opted to employ expatriates partly as they often possess very specific skills which are in demand, but also because they are usually much cheaper to employ. The great bulk of foreign workers in the GCC come from the Indian sub-continent, East Asia or poorer Arab states. This gave rise to a dual labour market where non-local staff were paid much less than nationals, lacked any meaningful labour protection, were rarely offered training and development and were essentially hired to do a very specific task.

Localisation quotas are thus designed to force employers to substitute more expensive national labour for foreign labour. The different GCC states all have slightly different approaches but in each case the regulatory model can be described as coercive (Al-Horr, 2010). Saudi differs from the other GCC countries in that, since it has a larger domestic population, it is trying to force the wider private sector to improve their employment of Saudi nationals. This makes the current localisation regulations in Saudi an interesting combination. They are relatively new, it is clear that the State is using them as a coercive tool to force changes in practice and unlike other GCC countries they apply to the private sector. In addition, the Saudi approach follows wider practice in the GCC, as the quotas are different to elsewhere in that they are intended to force employers to recruit local staff thus deliberately creating a two-tier labour market. In combination, this is creating two interesting features to the Saudi labour market. First, the significant and recent transition from one regulatory approach to another; and, Secondly as the change was substantial, it offers an opportunity to understand if the previous approach did indeed affect the HRM

processes adopted and, in turn, if those processes are now changing to meet the demands of Nitaqat.

The second major section in this chapter looked at the various theoretical frameworks that exist to explain how firms may respond to changes in their external environment. Very broadly, three theoretical frameworks were identified. Institutional Theory (Powell and DiMaggio, 1983; Powell and DiMaggio, 1991) has often been used in the literature on organisational response to regulations (Oliver, 1991). While it is a simplification to say that the theory tends to stress the extent that firms will conform when facing a common external environment, nonetheless Institutional Theory does emphasise the importance of the external environment over dynamics within the firm. A second theoretical framework, the Resource-Based View (RBV) of the firm, tends to the opposite emphasis (Lockett et al., 2009). Here, organisational response to strategic change (whether opportunities or new demands) is approached from the perspective of the internal resources available to the firm. Of particular use, RBV has often been used to explore the role of HRM in the firm (Colbert, 2004; De Saá-Pérez and Garcia-Falcon, 2002; Hunt, 1995; Schuler and Jackson, 1987). This approach has concentrated on how firms with superior resources are more adaptive as staff can be an example of a unique resource that is hard for other firms to copy.

In effect, Institutional Theory and RBV tend to adopt a very different view. One stresses the importance of the external environment on organisational behaviour while RBV considers the ways in which firms can become more adaptable, competitive or sustainable. In the main, the RBV literature takes little account of how or why the external environment may change but contains much that is of value when studying organisational response to change.

The final theoretical framework considered was Dynamic Capabilities (Easterby-Smith et al., 2009; Eisenhardt and Martin, 2000; Macher and Mowery, 2009; McKelvie and Davidsson, 2009; Newey and Zahra, 2009). This is often seen as a development from RBV as it takes the idea of resources as an asset (or constraint) but focuses more on the creation of new resources (Ambrosini et al., 2009) or the importance of the possession of unique resources. Of particular value is the consideration of how different external environments will reward firms that acquire

different assets (Barreto, 2010). Thus, in a stable environment a firm will need different resources and capabilities compared to either one where the market conditions are dynamic or they face pressure to meet certain set targets (Eisenhardt and Martin, 2000). While Dynamic Capabilities has been less often applied to either HRM or regulatory response, it contains the theoretical tools to support this approach.

This leads into the final main section of the literature review which considers the ways in which HRM can help build organisational capacity (Farazmand, 2004). Drawing on Eisenhardt and Martin's (2000) framework, it is possible to argue that the internal investment in HRM (i.e. in resource creation) will reflect a combination of organisational attitudes and prevailing market conditions. Where labour is cheap, easy to hire to do the specified work, then substantive investment in HRM can be seen as excessive and an unnecessary cost. On the other hand if labour is expensive, or in short supply for specified roles, investment in HRM becomes essential for both immediate competitive advantage and longer term sustainability of the firm (Ehnert, 2008).

This led to the identification of three broad styles of HRM practice. Personnel Management where essentially the firm is able to hire and fire to need from a pool of relatively cheap labour that possesses the skills needed in the short term. HRM, where there is also a need for some investment in training and development. Finally, SHRM is identified as the process that a firm needs to adopt when it needs to emphasise the internal development of human resources in order to allow a firm to cope with external demands.

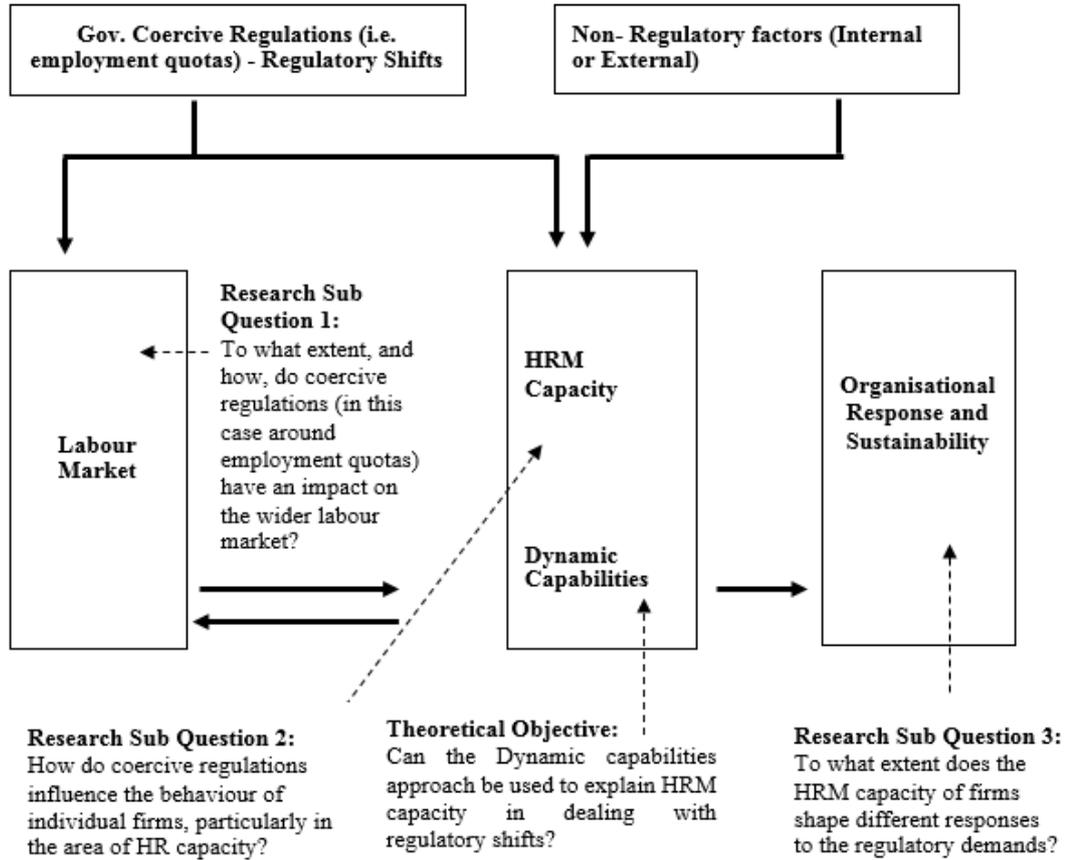
In effect, this links back to the discussion about the impact of coercive quota based regulations identified earlier. The nature of the regulations tends to leave firms with little choice but to comply, at least with the numerical targets. How challenging this is links to the extent that building up internal resources (especially HRM) is critical to longer term survival and sustainability.

The discussion above indicates a number of gaps in the literature. Fundamentally, these are: the potential value of Dynamic Capabilities in exploring regulatory

response; and, how firms need to change internal practices to cope with coercive quota based employment regulations.

Dynamic Capabilities is potentially a useful framework but there is relatively little focus within the literature on either HRM or regulatory response. However, this can be brought into the framework (Ambrosini et al., 2009) especially as an exploration of how firms renew and extend their resource base according to shifting demands. In turn, Dynamic Capabilities provides a framework to explore how a firm will respond when the regulatory framework is changed. Coercive quota based regulations tend to ensure that the firm meets set quantitative targets for the employment of particular groups of employees. Using Eisenhardt and Martin's (2000) framework it is possible to theorise that the extent this will trigger substantial internal changes is related to the relative challenge in meeting those targets.

In this perspective, the recent Nitaqat regulations in Saudi Arabia provide an ideal environment to apply and investigate the theoretical model. As will be discussed in chapter four, the previous localisation rules were relatively lax and ill-defined. Thus, the new regulations offer the chance to compare organisational behaviour before and after their introduction. Dynamic Capabilities offers the tools to explore how much a firm is compelled to acquire new assets, how it might go about this, and how, once acquired, new assets might provide the means to ensure the sustainability of the organisation. The application of Dynamic Capabilities to the twin fields of HRM practice and regulatory response offers one way to develop a theoretical framework that links the various themes in this chapter, as it is possible to identify some of the key elements and how they might interact.



**Figure 2-1 : An outline Analytical Framework**

Figure 2-1 combines the discussion in this section with the three research sub questions. In effect, it argues that the firm is influenced by the nature of the labour market, the nature of the regulatory system, other external factors and, following RBV, its existing internal resources and strategy. From this comes the second research objective, which is whether the development of internal HRM capacity can be traced to shifts in the external environment.

In turn, acquiring different HRM capacities may allow different responses and in particular allow the firm to adapt to changed regulations. What is not clear at this stage is whether this can be effectively explored using the theoretical framework of Dynamic Capabilities. Finally, this leads to consideration of the links between HRM capacity and organisational response and sustainability.

## **Chapter 3 : Research Methodology**

### ***3.1 Introduction***

As discussed in the introductory chapter the goals of this research are to explore the interaction between organisational capacity, especially in terms of HRM, and how firms respond when the external regulatory environment changes. As set out in the introduction, the research objectives are:

- 1 To what extent, and how, do coercive regulations (in this case around employment quotas) have an impact on the wider labour market?
- 2 In turn, how does this influence the behaviour of individual firms, particularly in the area of HRM capacity?
- 3 To what extent does the HRM capacity of firms shape different responses to the regulatory demands?

This focus has influenced the research design adopted. In consequence, this research addresses a real world response to a contemporary policy change (Easterby-Smith et al., 2008) which implies the need to use a research design that allows access to the participants and gathers their understanding and rationale for their actions (Bryman and Bell, 2003).

However, in order to justify any research design it is essential to consider carefully the methodological issues including the research philosophy, strategy, design and instruments. This chapter follows this logic and the first section (3.2) justifies the epistemological position adopted by the researcher. Then the second section (3.3) justifies the use of a qualitative approach, and discusses the underpinning research paradigm and logic. Then, section 3.4 starts with a discussion of the debates regarding inductive and deductive approaches to data interpretation and justifies the chosen strategy. This results in a research design (outlined in section 3.5) of a single country multiple firm case-study. In section 3.5, the rationale for the adoption of a case-study approach is discussed, with reference to the extant HRM literature. In addition, this section provides the rationale behind the detailed case selection, followed by brief descriptions of the cases used for this research. The following section (3.6) discusses how the data were collected using semi-structured interviews as the main data collection tool, and then how data has been interpreted and analysed

through various distinct stages. For each stage, sample selection and data analysis techniques are explained in detail. The final section (3.7) then discusses the measures applied to ensure ethical considerations.

### ***3.2 Research Philosophy and Approach***

In any research, it is important to clarify the underlying philosophical paradigm that informs the formulation of research questions (Creswell, 2008; Travers, 2001) as this influences the way in which research is conducted and how the findings are interpreted and reported. A paradigm in this sense is the basic belief system that guides action (Kuhn, 1970); namely the ontological framework, reflecting the believed nature of reality (the way the researcher think the world is), and epistemology, which defines the nature of relationship between the researcher, those who seek to interpret the research and the original situation (Guba and Lincoln, 1994). This dilemma has led to a longstanding debate in the academic world over the appropriate ontological and epistemological stances in social science, including management research. The root of the debate revolves around the assumption that researchers have about the nature of the social phenomena to be investigated, especially in terms of social entities and social realities.

On one side of the research ontological continuum, is objectivism with a view that social phenomena can be discovered independently from the social actors beliefs and understanding and there are clear distinction between what is believed to be the social phenomena and what the social phenomena really is. On the other side of the ontological continuum, is the subjectivist stance that argues that social entities and social reality is only knowable through socially constructed meanings by social actors and there is no single social reality but a series of alternative constructed meanings (Snape and Spencer, 2003). The practical problem is that neither neatly fits the framework of this research. For example, while the Nitaqat quota system may be subject to multiple interpretations (Crotty, 1998) both within state agencies and between the firms, their core structure is clearly set out. Thus the firms are affected by a very real, tangible, process that will have a clear effect on their subsequent behavior (i.e. will not have access to foreign labour market or will not be able to

renew foreign workers work permits if firm don not comply). Equally, it can be expected that individuals will frame the regulations in their own particular way, reflecting their past experience, professional role and perhaps underlying attitudes towards the validity (or otherwise) of the new rules.

These ontological assumptions have direct consequences for the practical organisation of research and lead to the consideration of epistemological concerns in terms of how it is possible to find out about the phenomena under investigation. Therefore, the objectivist epistemology assumes that objective reality can be discovered through detaching researchers from the object of study to ensure neutrality in their investigation (Creswell, 2007). In their view, the social world can be measured and quantified just like in natural science. This approach emphasises discovering the truth, objective reality and developing universal laws (Creswell, 2007).

In an objectivist epistemology, the key idea is that the real world exists outside the researcher's mind and that researching social phenomena must not be affected by the researcher (Knights, 1992). Applied in the social sciences, this viewpoint argues that knowledge can be produced through hypothesizing fundamental relationships between particular variables, then employing experimental or controlled methods to test whether or not these hypotheses are true (Easterby-Smith et al., 2008). This position has significant limitations when applied to the thesis' objectives, especially when attempting to gain a deep understanding of firms' specific, and individual, behaviour in responding to coercive labour market regulations (i.e. quota system) and the interaction between external pressures and internal HRM structures. This is because conventional experimental design and pre-defined categories, will likely miss contextual understanding since the goal of experimental design is to eliminate unexpected explanations for observed variances between the defined variables (Saunders, et al., 2009).

In addition, the researcher in this thesis expected to develop an understanding of firms' varied responses to revised quota system and factors informing their response. In this situation, there is a need for the researcher to interpret the findings through a lens which is mediated by the researcher's preconceptions, theoretical assumptions and understanding of the literature in general (Symon and Cassell, 2012, p. 210).

Therefore, this represents another significant limitation on the objectivist epistemology owing to its position in detaching researcher from the process of findings interpretation.

In contrast to the objectivist epistemology, a subjectivist epistemology views the nature of the social world as not something concrete and objective, instead, it sees firms as a socially reactive entity and interpretation of phenomena is effected by the researcher's prior experience and knowledge. However, phenomena need be observed from the perspective of actors who are directly involved with it (Burrell and Morgan, 1979). The acknowledgment of researcher's role that the subjectivist epistemology offers, partly serves this research objectives, especially in seeking to interpret the changes in the firms' HRM structures that result from policy shifts from participants who were directly involved in it. However, ontologically, it has a limitation in terms of under-emphasising commonly understood structures and forces that shape and constrain individual actions.

The objectivist and subjectivist ontologies and epistemologies thus represent two opposite perspectives on a continuum; both positions have pitfalls for this research. Hammersley (1992) suggests a position which falls between the two, i.e. that of subtle realism, which what this thesis adopts (Hammersley, 1992). This position retains elements of the subjectivist epistemology position in recognising that knowledge is a result of human social and cultural process. This allows the researcher to capture the knowledge and meanings from the research participants, besides recognising that researcher's prior knowledge and experience are inherent in different phases of the research process. Of particular importance, Hammersley (1992) argues that retaining the subjectivist epistemology does not preclude the existence of independent phenomena and the social structures, relationships or experiences generated in adopting such position. Simultaneously, subtle realists retain from the objectivist ontology the idea that research investigates independent knowable phenomena. However, they are not committed to an objectivist ontological understanding of reality, instead they view the reality as a result of organisational actors' social interactions and social context and reality rests within their representation of the situation. These representations in turn, could be treated by the researcher as an insight on what is really happening (i.e. a new policy mechanism or

the changes in firms' HRM structures). On balance, this offers a philosophical basis that fits the type of research question posed by this research. It acknowledges the importance of human agency in interpreting information but retains the underlying link to the reality of key parts to the overall situation (Creswell, 2007).

### ***3.3 Justifications for Adopting a Qualitative Approach***

This section shifts focus from the wider question of research philosophy to the practical issue of research design and, in particular, the advantages and disadvantages of qualitative research approaches. A qualitative approach often used when researchers seek “to describe and analyse the culture and behaviour of humans and their groups from the points of view of those being studied” (Bryman, 1988, p. 46). Broadly, there are three main reasons why a qualitative design might be adopted.

First, qualitative data can be a “source of well-grounded, rich description...in an identifiable local context, [and the researcher can] see previously which events led to which consequences, and derive fruitful explanation...they help researchers to get beyond initial conceptions and to generate or revise conceptual frameworks” (Miles and Huberman, 1994, p. 1). Qualitative studies are thought to bring out the contextual information, as well as the complexities, controversies, tensions and realities of the social process. Qualitative research also seeks to answer what is happening and why (Denzin and Lincoln, 2000; Lincoln and Guba, 1985; Miles and Huberman, 1994) and aims to understand the deeper meaning to generate richer understanding of the accounts. Furthermore, it allows critical human aspects to be captured, such as organizational culture issues (Bryman, 1998) and other unforeseen factors that are critical in implementing workforce localisation policy.

Second, using a qualitative approach is ideal in the case of studies which are “exploratory in nature (e.g., to investigate poorly understood phenomenon)” (Lee et al., 1999, p. 41), or where the details about the phenomenon are not fully known (Lee et al., 1999). This fits with what has been uncovered in the literature review chapter. Specifically, the research intends to explore how the firms understand the changes in Saudi localisation policies and the implementation challenges and tensions, and the impact of these on firms' HRM structure. As discussed in chapter two, this wider

field can be characterised as substantively developed in some respects but with key gaps, such as an understanding of the linkages between regulatory pressure and response, or the role of HRM, in others.

Thirdly, a quantitative approach that is based on a questionnaire or survey might offer a shallow view (Weerawardena et al., 2010) of the challenge of understanding labour market issues, and the previous and reformed regulatory policies. As discussed later in this chapter, an effective survey makes certain demands. Ideally, it should be based on a random sample (to facilitate analysis and generalising to the complete population) and there is a need for a rich understanding of the main themes by the researcher (so as to ensure the questionnaire addresses the key issues). However, a survey can also be used as a collection tool in a qualitative enquiry (relaxing the requirement for a random sample) and has the potential advantage of allowing the research to capture the views of a wider range of respondents than can be directly interviewed.

Qualitative approaches are relatively common in HRM research, including studies which have sought to explore some of the key themes under investigation in this thesis. One reason for the use of qualitative methods, is that it may facilitate the search for theory and evidence that might link HRM practice with outcomes (Paauwe, 2004). This linkage is complex and Paauwe (2004, pp. 36-7) argues, ‘we need a theory to assess the relationship between a set of HRM policies and practices and to explore how these relate, interact, or are influenced by the ‘context’? Others such as Truss (Truss, 2001) suggest that “more qualitative research is needed to study the phenomenon of HRM, utilizing multiple sources that tap into the rationale behind decisions that are made” (Truss, 2001, p. 1127). Some researchers (Hesketh and Fleetwood, 2006; Paauwe, 2009) argue for more in-depth interviews and case-studies to explore the complexities of the HRM related processes. In this research, the challenge is to understand how the firms understand the shifts in quota system, how this affects their response and the role of HRM in this process. This poses ‘how’ and ‘why’ questions, such as how a firm understands the shift to Nitaqat and why it choose (or was forced to) make certain changes.

Most existing research on localisation in the GCC region has relied on case studies (Al-Horr, 2010; Bozionelos, 2009; Fakeeh, 2009; Sadi, 2013b; Sadi and Henderson,

2010; Salih, 2010) and qualitative data collection (mostly interviews) has been a major part of the research design. In part, this reflects the challenge of organising a conventional survey in a region where key information is sometimes missing (Tsang, 2014). More generally, case studies allow a focus on ‘why’, most often why have firms responded to the various localisation initiatives in particular ways. Equally, a case study retains the wider context – issues within the firm, understanding of the regulatory framework and the external labour market – all of which is useful when exploring responses of complex organisations to real world shifts in state policy.

Equally, qualitative research is common in studies that rely on Dynamic Capabilities as an academic framework (Barreto, 2010; Macher and Mowery, 2009; Newey and Zahra, 2009). Again, the logic is that studies using this framework are interested in the interaction between organisations and their (shifting) environments. Thus, capturing and reporting the context in which decisions are made and organisations make strategic choices becomes vital.

Although a qualitative approach has value in a range of inquiries, the approach has its own limitations. Firstly, the research outcome cannot be claimed to be statistically generalizable. However, generalizability should not be seen as an unsolvable issue, as generalizability holds different meanings for qualitative research (this is discussed below). More particularly, qualitative research can be very time consuming (in data collection and analysis) and labour intensive. In addition, especially in an organisational setting, there are substantial problems in finding suitable companies and being able to conduct the research on the terms originally agreed (Bryman, 1989; Bryman and Bell, 2003)

### ***3.4 Analysis and Generalisation***

#### **3.4.1 The Logic of Data Analysis**

The subjectivist epistemology and qualitative approaches are usually combined with an inductive approach to data analysis. This can be justified partly as it is essential in grounding social phenomena in observation and experience to reflect the underlying complexity (Easterby-Smith et al., 2008). Equally, inductive logic (Lipton, 2004) is

useful for the building of theory from data gathered in a qualitative enquiry rather than the direct testing of hypotheses using deductive logic (which is more common in experimental design).

In the case of deductive logic, the researcher starts with "an abstract, logical relationship among concepts then move(s) towards concrete empirical evidence" (Neuman, 1997, p. 46). This means research should begin with a known theory to develop a set of hypothesis/propositions of a phenomenon within a particular context. Later, the collected data will be used to test these hypotheses and to draw conclusions about the relationships between the variables in the studied context (Neuman, 1997). As in this thesis, the focus was not on direct hypothesis testing, in contrast to much of the research that has attempted to set out the relationship between the external factors and the internal HRM functions of firms. Oliver (1991) is a typical example of this approach attempting to construct a causal relationship between the nature of regulations and organisational response. In this respect, deductive logic may obscure important features of the contextual factors that each case might have as well as the Saudi context. In addition, it may lead to misreading of participants' response.

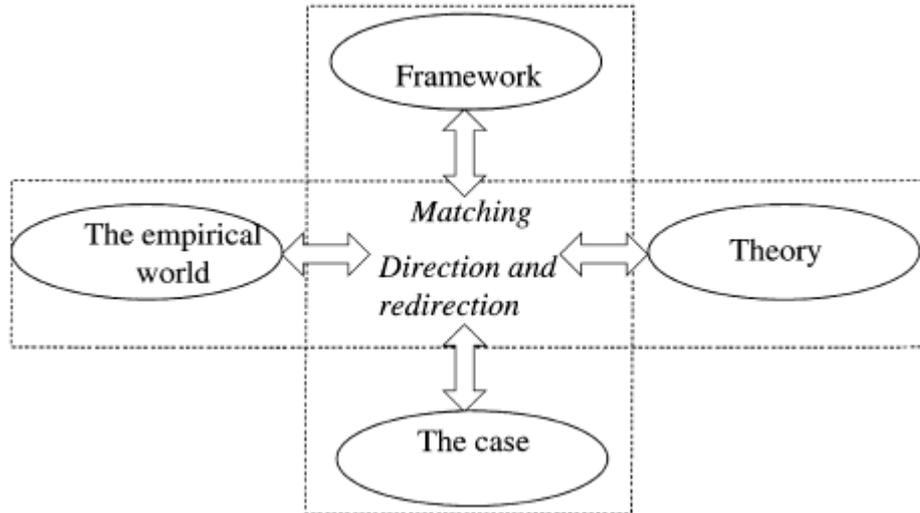
By contrast, an inductive logic starts with a simple research question but yields detailed observations which later can be used to generate more abstract generalizations and ideas about the focus of the study (Creswell, 2007). An important aspect to inductive logic is how to combine the emerging findings with the existing literature. This has led to some to support the argument for narrative research or pattern matching (Yin, 2009). Critical in this approach is to use the existing literature to frame the research question and use it to consider what might be found and how variations would be explained. Once the empirical data is collected, it is then compared to this earlier assumption and those theoretical constructs can be strengthened (if confirmed) or revisited (if there is contradictory evidence). As identified at the end of chapter two the theoretical framework of Dynamic Capabilities was used to create a rough model that can be investigated. A major part to a qualitative enquiry is to explore how robust these initial assumptions proved to be. In effect, with the model laid out at the end of chapter two it is possible to interpret the information from the various case studies. Where does this confirm

existing research and where does it differ become important questions. If differences are found can they be explained, thus enabling a new round of theory building, or are they most likely to be the unique consequences of the very particular group of case studies?

This mixture of theory and research calls for a combining logic that does not use such a tight framework that could obscure important features of the case study or lead to misreading of participants' perceptions. On the other hand a too loose framework may lead to indiscriminate data collection and data overload (Miles and Huberman, 1994, p.16-17). Other approaches (Bryman and Burgess, 1994) suggest that case study researchers may use theoretical concepts in a sensible way to create reference and functions as guidelines when entering the field. In effect, it is important not to force the emergent findings into the framework of existing research but equally no new study can ignore the current literature in the field.

Dubois & Gadde (2002) suggest combining inductive and deductive approach through 'systematic combining' grounded in an 'abductive logic'. They suggest this approach is especially useful for case studies. This approach led them to promote what they call systematic combining, which assumes that case study researchers constantly go 'back and forth' in a nonlinear way from one type of research activity to another (Dubois and Gadde, 2002) and between empirical data and theory, is able to expand his understanding of both theory and empirical phenomena.

This approach can be summarised as:



**Figure 3-1: Systemic Combining Approach**  
(Source: Dubois & Gadde, 2002 p.555)

The preliminary analytical framework consists of articulated ‘preconceptions’, in effect the existing theory. Over time, this framework develops using both the empirical fieldwork and ongoing analysis and interpretation. Such an approach has the advantage of using theory to understand the empirical observations and vice versa (Yin, 2009).

In this perspective, pre-existing theory provides a framework that is crucial to the systematic combining process. The framework can either be well or ill-defined (Miles and Huberman, 1994). The systematic combining process suggest that the case can evolve during a study and may be looked upon as in pieces in jigsaw puzzle, which demand the researcher is continually selecting pieces. Equally, the process can be refined as the research develops to reflect emerging data and to enable the research to follow up new insights that were not expected at the start.

### 3.4.2 Generalising from the Reported Findings

An important issue for any non-experimental enquiry is how to determine if the findings have any validity other than in the specific context of the research. Here, this question is basically does the research inform us about the response of six private sector firms in Saudi Arabia to the demands of Nitaqat or can it also help inform wider questions. In effect, does it enable us to comment on the wider topic of

the interaction between firms and regulations, or between private firms, particular types of states and regulations?

This theme is returned to in chapters five to seven in some detail as the process of moving from reported observation to theorising is complex. As suggested, the approach of systemic combining can assist in this respect. At its core, this relies heavily on existing research and investigate the emergent data and themes against that corpus of knowledge. If either variation to what is expected or new dynamics are observed, then the need is to construct and validate a narrative that may explain these differences. Thus, while it is not possible to generalise in the same way that someone would claim to do so from an experimental study, it is still possible to adapt and build theory from a qualitative enquiry (Guba, 1985). Yin (2009) describes this process as pattern matching where a theorised explanation, drawn from the literature review (as in the final discussion of chapter two) is compared to the findings. This process of comparison leads to further iterations as emergent ideas are validated, revised and either refined or rejected.

One solution is see generalisation not as the statistical process derived from empirical studies but as variously: naturalistic generalization (Stake, 1978), empirical generalization (Gomm et al., 2000), or analytical generalization (Yin, 2009). Stake (1978) argues that the case study method can be suitable for naturalistic generalization, whereby the result of the study is generalized to similar cases rather than to the whole population (Lincoln and Guba, 1985; Stake, 1978). Gomm et al. (2000) add that case study research can produce general findings through empirical generalization. Empirical generalization ‘involves drawing inferences about the features of a larger but finite population of cases from the study of a sample drawn from the population’ (p. 103). Similarly, Yin (2003) proposes that analytical generalization is concerned with theoretical propositions rather than populations.

Schofield (1990) suggest that in order to increase the generalisability in qualitative research, performing multisite studies might help (Schofield, 1990) especially when this involves the study of any ongoing social situation. Thus, choosing multiple cases on the basis of their fit with a typical situation would enhance the generalizability (Hartley, 2004). Hartley (2004) emphasizes that ‘cases may have been chosen deliberately to be untypical in order to bring to the surface process

hidden in more usual settings' (p. 331), and thus the basis for the analysis is not primarily about the typicality of the case, which is contrasted with the statistical generalization. In this research, the argument is that the findings from six private sector companies will yield an insight into trends that affect the wider Saudi private sector.

Transferring the findings to a wider context is a critical challenge to qualitative studies since the judgment of the degree of transferability is influenced by the information available to the observer regarding contexts (e.g., the sample and the general population) under consideration (Lincoln and Guba, 1985, p. 124). To achieve this, it is important that the study provide a detailed description of the research settings, including the characteristics of the cases, which should allow adequate comparison with other settings/cases (Miles and Huberman, 2008, p. 279). This led to the adoption of the multiple case designs; to enable a 'replication logic' to take place because the consistent findings from each case provides support to the concluded theory (Yin, 2009, p. 44).

### ***3.5 Research Design Adopted –Case Study***

#### **3.5.1 Fit of Case Study to Research Aims**

This research is based on a case study approach. The case study method has been particularly recommended for analysis of HRM (Anderson, 2004; Boxall, 1993), as it allows for a holistic analysis of a set of interrelated phenomena within specific context and accounts for the interaction between factors and events. The main alternative tool was to use a questionnaire style design, but it was felt this limited the ability to explore the underlying logic behind a firm's response as well as investigating the changes in the HRM functions in dealing with external environment challenges. According to Cassell and Symon (1994) case studies have the capacity to explore social processes as they unfold in organisations, and are more useful where it is important to understand those social processes in their organisational and environmental context (Cassell and Symon, 1994; Patton, 2002). This strength of case study strategies supported its selection in the present study. In this research design, there was also a need to understand localisation and relevant concepts from

the eyes of different stakeholders. In fact, adopting the case study strategy contributed to understanding what the different concepts mean and how they are interpreted depending on the role or the organisation of an individual.

In a case study approach, the purpose of data collection is "to gather comprehensive, systematic and in-depth information about each case of interest" (Patton, 2002, p. 447). Case study as a strategy invites the use of multiple methods and sources of data to enable to unfold and analyse the complex and dynamic relationship within the phenomena under investigation (Cassell et al., 2006). As such, in this research, data was collected from both primary and secondary sources and they were triangulated (Yin, 2009). The primary sources were extensive in-depth semi structured interviews. The multi methods served different reasons (including triangulation) and targeted different kind of information and were intended to provide more understanding on the phenomena being studied (Easterby-Smith et al., 2008).

However, in general, when employing the case study strategy, the researcher can choose to either pursue a single case study or a multiple case study (Yin, 2009). Given the purpose of the present study, a multiple case study, in which data is gathered from several sites, was seen as the most appropriate. In order for a single case study to be effective, the case selected must either be representative of other similar cases; or, it must be intrinsically interesting in its own right. However, in this study, the goal was not to find 'typical' private sector firms as such but to explore the range of organizational compliance with Nitaqat and different HRM responses. Therefore, the study is based on a comparative case design, comparing six cases. The logic for the choice of these companies is explored below but there was a degree of pragmatism to their selection. As regards the appropriate number of cases to be undertaken in a comparative study, some scholars (Darke et al., 1998; Perry, 1998) suggest that there is no ideal number of cases, since it all depends on nature of research inquiry and priority the level of breadth (across multiple cases) or depth (within case) may take to answer the research objectives. Other scholars (Eisenhardt, 1991) suggest the ideal number of cases lies between four to ten cases.

Methodologically, Perry (1998) asserts that 'with fewer than four cases it is difficult to generate theoretical assumptions with much complexity, and its empirical grounding is likely to be unconvincing' (p, 791). This suggests that if the aim is to

compare across the set of case studies there should be at least five as this is sufficient to allow for both similarities between the cases and to identify important differences. This is important as it allows for replication of emergent findings. Replication is analogous to the used in multiple research studies (Creswell, 2008; Easterby-Smith et al., 2008; Yin, 2009). For example, upon uncovering a significant finding from a single investigation, the immediate research goal would be to see if this could be replicated by conducting a second, third, and even more experiments. The logic underlying the use of multiple-case studies is the same. This links back to the importance of using theory to inform the analytic process. If the expected relations are derived from the literature and set out it becomes feasible to explore why any variances may have been found – are these simply unique to the particular situation or do they call for a revision of previous theoretical assumptions?

On the other hand, while this argues for more than five studies there are merits to using fewer. In some situations, the available number of instances might be very rare (a feature of social science research into extreme situations). Equally, using only a few cases does allow the researcher to explore each in more depth. In effect, there is no obvious or set number of cases for any study. Sometimes the focus of an enquiry is on a relatively unique event, thus tending the design to very few instances (or even just to one). At other times, a number of firms are responding to the same external shift of policy. In this case, it is useful to select enough cases to capture the range of feasible responses among all the relevant firms.

As discussed below, the six cases selected provide an interesting range of different responses before and after the introduction of Nitaqat. That in turn, allows an exploration of whether the external environment (i.e. the regulatory framework) is dominant or whether the key dynamic rests on differences between the firms. Fewer cases might have missed this important variance between the firms.

### **3.5.2 Criteria and Rationale for the Case Selection**

This section will explain the criteria and rationale used to select the cases for this study. The study had adopted ‘criterion’ and ‘purposeful’ sampling techniques (Patton, 2002). Patton’s logic is to create “predetermined criterion of importance” (Patton, 2002, p. 238) and use these to select the type of instance that will provide an insight into the key research question and expected dynamics. For this research, all

Saudi private sector firms fit the basic criteria in that they are having to adapt to the new regulatory framework. The logic then was to select enough instances that meant that Yin's (2009) concept of 'saturation' was met – effectively that sufficient instances had been explored to give some confidence that the findings were not being skewed by a few atypical firms. The more detailed criteria for case selection (as seen in table 3-1) were based on the economic sector, size of firms (based on the number of total employees), age, and firm's quota compliance level before and after the reformation of localisation quota system. The logic for using these criteria is explored in the next section. For the purpose of maintaining the identity of the companies and participants, pseudonyms have been used for company names.

**Table 3-1: Distinctive Features of the Selected Firms**

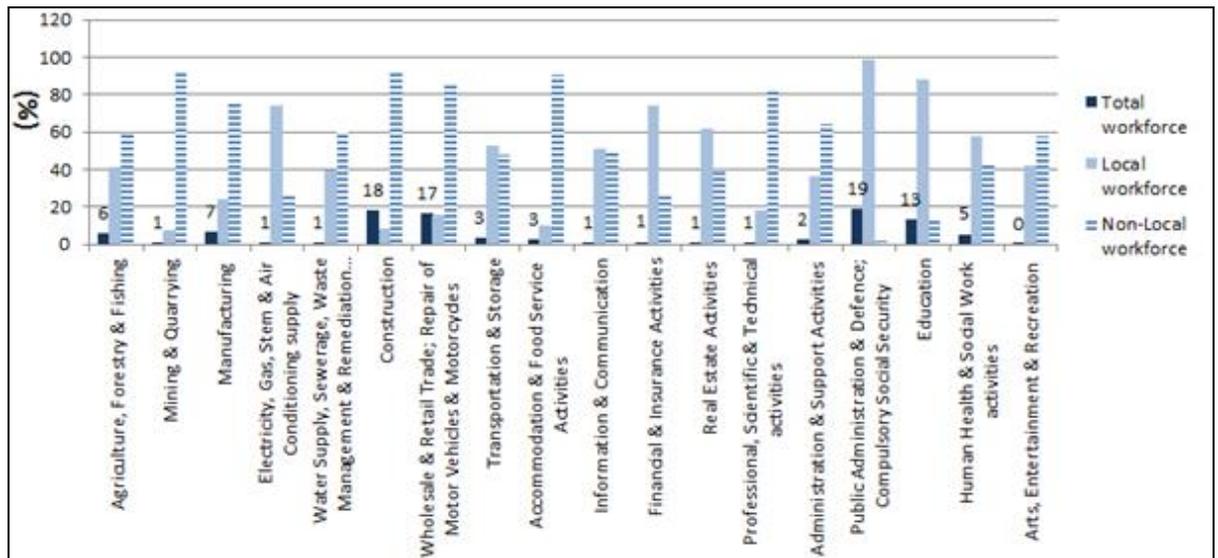
| Private Sector Firm Name | Sector                              | Size       | Localisation Ratio |          |
|--------------------------|-------------------------------------|------------|--------------------|----------|
|                          |                                     |            | % (2010)           | % (2013) |
| <b>SPharmaCo</b>         | Pharmacy Retail Chain               | Very Large | 4.0%               | 30.0%    |
| <b>FastFoodCo</b>        | Fast Food Retail Chain              | Very Large | 6.0% (almost red)  | 21.0%    |
| <b>HomesCo</b>           | Flooring and Furniture Retail Chain | Large      | 14.8%              | 39.0%    |
| <b>GAGlassCo</b>         | Glass Manufacture                   | Large      | 17.0%              | 32.0%    |
| <b>LocalSteelCo</b>      | Steel Manufacture                   | Large      | 33.0%              | 37.0%    |
| <b>SugarMillsCo</b>      | Sugar Manufacture                   | Large      | 57.0%              | 53.0%    |

Having identified the selection criteria it is important to note that the researcher had no means to force a company to take part. As is discussed in the conclusion this matters as it is likely that a firm that is struggling to meet the Nitaqat rules is unlikely to have agreed to take part. In effect, while criteria were applied to ensure the comparative sample reflected some aspects of the Saudi private sector, it remains a self-selecting group of instances.

### **3.5.2.1 Industry based Selection:**

The skewed nature of employment in Saudi Arabia will be discussed in chapter four as the bulk of Saudi nationals currently work in the public administration, education, health, construction and retail sectors. The first three of these are mostly public

sector jobs. However, Nitaqat is particularly aiming to improve the employment of Saudis in the private sector. Therefore, the private sector was selected because it is the main the target of the localisation policy as the government sees the private sector as the long-term engine for job creation for local workers. As mentioned before, at the moment while the private sector employs around 88 per cent of the total labour force, only 13 per cent of the total workforce are local workers (Naffee, 2015)



**Figure 3-2: Distribution of the Total Workforce by Sector and Nationality**  
(Source: Central Department of Statistics, 2013)

One research approach was to consider if Nitaqat was having a differential effect in different parts of the private sector. However, there is no existing research that suggests this and the result was to make it more useful to try and select from a relatively broad range of those areas which were dependent previously on foreign workers. This led to the focus (table 3-1) on retail and manufacturing firms as figure 3-2 indicates that these sectors are heavily dominated by foreign workers. In particular not only do firms in these sectors historically rely on foreign workers but they have also both tended to use foreign workers for routine or front line jobs (such as manual or sales work). This means that Nitaqat presents a dual challenge of having to recruit relatively substantial numbers of Saudis and to the types of jobs that Saudis have often been reluctant to accept.

### **3.5.2.2 Size based Selection**

In this case, the criteria for case selection were based on the size of the firms and the industry it belongs to, the size was measured based on the total number of employees. The sizes categories in thesis have been chosen according to Saudi Ministry of Labour categorisation. Small: (10-49) employees, 2) medium: (50-499) employees, 3) large: (500-2999) employees and 4) very large: (more than 3000) employees) (Sadi, 2013b).

This study concentrates on large and very large firms. The reason for this focus is in part, it reflects the nature of firms in the retail and manufacturing sectors but more importantly large firms are particularly exposed to the demands of Nitaqat due to their size and the likelihood they will need to recruit non-Saudi labour as well as increase the recruitment of Saudi nationals. In addition, it is likely that the Ministry of Labour may have concentrated its initial monitoring efforts on the larger firms meaning they are more likely to have started to adapt to what was a new initiative when this research was carried out.

### **3.5.2.3 Age based Selection**

All the firms had been established for at least 15 years. This was a consequence of the decision to concentrate on the larger firms. In effect, all the firms are relatively long standing. This is useful in one respect as it means they have had experience of previous localisation regulations and could provide information about how Nitaqat had led to them adapting. However, this is one criteria that makes it harder to generalise from the findings, for example to consider how Saudi firms created just before (or after) the introduction of Nitaqat have coped.

### **3.5.2.4 Localisation Quota Compliance Based Selection**

Selection on the basis of compliance both before and after Nitaqat was a particularly important criteria. The information in table 3-2 was partly accessed from public data (compliance levels pre-Nitaqat) and partly by asking the firms directly. This produced information both about their Nitaqat target levels (which varies by size and sector) and their performance in 2013 before the field work commenced.

**Table 3-2: Differential Targets and Performance for Localisation**

| Company Name        | Workforce localisation % required under Nitaqat |                 |                |                   | Localisation Performance |          |
|---------------------|---|-----------------|----------------|-------------------|--------------------------|----------|
|                     | Red Category                                    | Yellow Category | Green Category | Platinum Category | % (2010)                 | % (2013) |
| <b>SPharmaCo</b>    | 0-9%  | 10-14%          | 15-29%         | 30% and above     | 4.0%                     | 30.0%    |
| <b>FastFoodCo</b>   | 0-4%  | 5-15%           | 16-30%         | 31% and above     | 6.0%                     | 21.0%    |
| <b>HomesCo</b>      | 0-9%  | 10-23%          | 24-34%         | 35% and above     | 14.8%                    | 39.0%    |
| <b>GAGlassCo</b>    | 0-7%  | 8-19%           | 20-34%         | 35% and above     | 17.0%                    | 32.0%    |
| <b>LocalSteelCo</b> | 0-7%  | 8-19%           | 20-34%         | 35% and above     | 33.0%                    | 37.0%    |
| <b>SugarMillsCo</b> | 0-7%  | 8-19%           | 20-34%         | 35% and above     | 57.0%                    | 53.0%    |

Source: (Nitaqat Manual, 2014 and material from the companies)

As will be shown in chapter four, Nitaqat led to an increase in the employment of Saudis. With this in mind, four firms (SPharmaCo, FastFoodCo, HomesCo, and GAGlassCo) were selected as they showed a substantial improvement. In some ways these can be seen as typical of the Saudi private sector and their inclusion allowed for exploration of the various coping strategies adopted. However, it is clear that not all firms were non-compliant pre-Nitaqat. Two (LocalSteelCo and SugarMillsCo) were selected that had employed a substantial number of Saudis in 2010. This is useful as it allows consideration of why a firm choose to be compliant with a regulatory system widely seen as lax and poorly designed.

In addition, shifts pre and post-Nitaqat gives each case study an element of a retrospective longitudinal approach. This design was adopted initially to show changes in localisation performance before and after the introduction of reforms in the quota system and the implementation of Nitaqat system (between the period of 2010 and 2013). In particular, asking interviewees to look back and try to share the events that has occur after the introduction of Nitaqat, and how the employment profile of the company and the structure of HRM looked like before the quota system reforms. The main advantage of this approach in that the researcher tracks back challenges and tensions the firms faced in localisation implementation as well as being able to track changes in HRM structure to deal with such challenges by using historical records of events compared to that provided by cross- sectional approach. However, the retrospective approach can have validity and reliability concerns as it rely on participants memories of events. In addition, the other limitation of the study is that the data collection was conducted at one point in time to match the time limitation of the study.

In combination, table 3-2 suggests there may be a potential three by two matrix to the case studies. The logic for this is discussed in detail in chapters five to seven, but it is clear we have:

- Two firms that were compliant before and are still compliant (LocalSteelCo and SugarMillsCo);
- Two firms with very low levels of compliance before and that have improved substantially (SPharmaCo and FastFoodCo);
- Two firms that had medium levels of compliance before and have made some improvements in response to Nitaqat (HomesCo and GAGlassCo).

This structure is used in the chapters that report the main findings from the case studies. It allows comparison of variations within the different styles of response (i.e. does each of the dyad show similar issues) and across the different levels of response. This fits closely with the discussion in chapter two about the impact of both external and internal factors in influencing organisational response.

### **3.5.2.5 Type of Jobs under consideration**

Nitaqat, as such, makes little distinction between the different types of jobs in the Saudi private sector and instead expects firms to meet the quota across all their employees. This does allow for solutions such as retaining some jobs for foreign workers (perhaps for ease of recruitment or the need to acquire very specific skills) or reserving complete occupation groups for Saudis. One reason that manufacturing and retail firms were chosen is that they are both relatively large employers of relatively low skilled workers. This meant that these firms were perhaps more exposed to the early impact of Nitaqat than those that employed fewer more highly skilled staff.

In terms of HRM practice, this in turn places the emphasis on how they handle recruitment to the bulk of their jobs (i.e. floor jobs) rather than to a few highly technical specialist or high managerial posts. The challenge of Nitaqat in this instance is how to compete to attract Saudis, what can be done to raise the productivity of Saudi staff and how to retain those staff.

### **3.5.3 Background of Selected Case Studies**

This section provides some background material on each company. More information is presented in the context of the discussions set out in chapters five to seven.

#### **3.5.3.1 SPharmaCo**

SPharmaCo is a large private pharmacy chain founded in late 1980s and now has 700 outlets in most high streets throughout Saudi Arabia. The company plans to expand further and to have 1,000 pharmacies by 2017. Since 2010, the company has also expanded its products by adding beauty products in some of its outlets (as discussed below, these new roles have been reserved for Saudi nationals). In 2013, the company had 60 million transactions and increased its net sales by 240 million US dollars reaching around 1 billion US dollars of net sales. In the period after 2006, it had several legal problems with the Saudi authorities and resolved the problem by re-organising its business structure so as to reduce its apparent monopoly control over the pharmacy sector.

In the last three years, the employment profile of the company has changed radically. Overall the number of employees has increased from just over 4,000 to nearly 5,000 but the number of Saudi employees has grown from 122 to 1,273 an increase from 4 per cent to 30 per cent. In addition, in 2010, Saudi staff were only employed in the head office, now a substantial number are employed as pharmacy technicians and beauty advisors. However, there has been relatively little increase in the number of Saudi staff in the roles that were previously dominated by foreign workers. The main reason for this is that Saudi educational system does not produce many trained pharmacists, and most who do graduate prefer to work in the private sector. As will be explored in chapter six, this shortage has had a major impact on how the firm has responded to Nitaqat. Thus, there is only 1 Saudi national working as a pharmacist but all 695 Pharmacy Technicians and 320 Beauty Consultants (the two new jobs created since 2010) are Saudis.

### **3.5.3.2 FastFoodCo**

This Company was established in the early 1970s as a local private fast-food restaurant chain. The Company has an aggressive growth strategy and, in the last three years, has increased its number of outlets from 180 to 230 and is planning to reach 300 outlets by 2016.

FastFoodCo has seen relatively little overall growth in employment (from 7,500 to 8,300) in the last 3 years (despite the expansion of the number of outlets) but the number of local employees has increased from just under 400 to over 1,700. Its manpower strategy can be summarised as a combination of seeking operational efficiencies (less manpower per outlet) and recruiting Saudis to jobs previously solely done by non-national labour. For example, in 2010 there were just under 1,500 front line workers (who serve customers, taking the orders and collecting cash) in 180 outlets (none of whom were Saudis) and by 2013 there were just under 1,800 front line workers (320 Saudis) in 230 outlets. For this firm, front line workers are those who directly serve the public in their outlets and back line staff who run the kitchen.

One important change, following the increased recruitment of more local workers, is the much higher annual turnover rates. For back line workers, this was 33 per cent in 2010 and 42 per cent in 2013 in a period when the number of local employees increased from 120 to 430. This has also seen the recruitment of a substantial number of female workers to roles such as call centres and organising the dispatch of orders for home delivery.

### **3.5.3.3 HomesCo**

HomesCo is a large flooring and furniture retail chain in Saudi Arabia founded in the late 1950s. The company has 57 stores with different sizes (14 large, 23 medium and 20 small) with 1255 employees. There are no substantial expansion plans. Almost 80 per cent of jobs are found in floor jobs such as showroom managers, section heads, supervisors, sales co-workers and representatives, cashiers and stockers and low skilled labourers. The local workers participation in the total workforce of the company has increased from 14.8 per cent in 2010 to 39 per cent in 2013.

In this case, the total number of non-Saudi workers has reduced from 843 to 763 while the total workforce has increased from 1201 to 1412. After the introduction of Nitaqat, there has been a substantial increase in the number of females to 7.4 per cent of the workforce in roles such as sales co-workers and representatives, tailors and designers.

The make-up of the workforce in certain roles has seen a substantial change. There are still no Saudi managers or section heads but there are a few supervisors. Equally, there has been an increase in Saudi sales co-workers. Some jobs have been converted to purely Saudi staff such as cashiers and data entry staff. However, in the case of Sales Co-Workers this has also seen an increase in turnover rate from 20 per cent to 52 per cent reflecting the retention problems that have followed from increasing the number of Saudi employees.

#### **3.5.3.4 GAGlassCo**

This company is one of the leading local private glass factories in Saudi Arabia; established in early 1990s. The company produces containers, tableware, and perfume bottles to more than 100 countries across the world. The factory floor production area constitutes different zones. The first zone has large furnaces to heat the raw materials in a high temperatures reaching above 1500°C with capacity of more than 500 tons. The second zone has around 25 production lines that need to run all day, all of the year, producing 70-200 glass articles each minute. In addition, there are cooling, quality control, decorating and packaging zones.

The company employs around 874 employees; 82 per cent of the company's workforces are on the factory floors. The company is considered to be a major employer of local female employees. It has increased the employment of females from 10 per cent in 2010 to 23 per cent in 2013. However, the jobs assigned to them are low skilled jobs such as the packing and decorating areas. In terms of the proportion of Saudi staff this increased from 17 per cent in 2010 to 32 per cent in 2013.

Overall total employment has dropped slightly (from 897 to 874) and the main shift has been to reduce the number of 'non-factory floor employees', who were mainly non-local, and replace them with an increase in the number of 'low skilled

employees' recruited locally. It is worth noting that the overall drop has been accompanied by a radical increase in the number of female employees. However, as with HomesCo, this increase in the proportion of Saudi staff has also seen a jump in the turnover rate from around 10 per cent to 66 per cent.

Of note, while a few locals now work as managers, engineers or specialists, all the staff employed as Supervisors, Operators or Technicians are non-Saudis

### **3.5.3.5 LocalSteelCo**

LocalSteelCo is a private local steel manufacturing factory that has been established in the early 2000s with a production capacity of over 1 million ton/year. The factory is running all year and produces about 35 per cent of the local market needs and also exports to Gulf countries, as well as other neighbouring countries.

The company aims to increase production to reach more international markets and maintain quality and competitive prices. The factory floor contains of large smelting furnaces for the raw materials, refinery, pouring, rolling mill, surfacing, inspection and testing then the cut off zones. Each production zone has its managers, specialists, supervisors, operators, technicians and labourers. The company's total workforce is around 1300 employees and almost 78 per cent of the workforce is located in the factory floor. The company has explicitly expressed its commitment to workforce localisation through its objectives posted on its website.

Perhaps the key issue is that overall the company's workforce has remained static and that, pre-Nitaqat, the proportion of local employees was already high at 33 per cent and has increased slightly to 37 per cent. The only function with no local staff is that of 'low skilled labourers'. Generally the firm has always recruited both Saudi and non-Saudi staff to most roles in the firm and has continued to do this under Nitaqat. The main change is that the proportion of Saudi technicians has increased.

### **3.5.3.6 SugarMillsCo**

This company was established in late 1990s as a private local sugar refining factory specialised in producing white sugar. The production is distributed to local and global markets, especially in Asia, north and east Africa. The company went through financial challenges for couple of years after its establishment as a result of

increasing competition from imported sugar traders. The company started to make a profit after receiving government support through imposing 20 per cent tariff protection against imported sugars. In the mid-2000s, the company expanded its facilities and now operates constantly, reaching production capacity of 1 million ton each year (3,000 ton each day). In addition, it has increased its local market share from 20 per cent to 60 per cent in 2013. The company aims to provide high quality sugar, securing long-term stability of price and continuously expanding its sales locally and internationally.

The company has around 807 employees, and has no female employees. Almost 77 per cent of the company's workforce is located in the refinery floor. The main jobs titles distributed in floor for different production zone are: managers and specialists, supervisors, operators, technicians and low skilled labourers. The company is considered to be the best achiever among all participating companies in workforce localisation implementation. The workforce percentage has been maintained above 50 per cent for the last 5 years.

Overall, in SugarMillsCo the total employment has dropped from 1,011 employees and the proportion of Saudis is actually down from a little from 57 per cent to 53 per cent. In 2010 the firm was employing Saudis in almost every position and this has been maintained. The main difference is the increase of Saudis employed as managers although there has been a small drop in the number employed as engineers or specialists. The number of low skilled labourers has dropped due to work redesign and automation.

### ***3.6 Data Collection and Analysis Methods Adopted***

One major advantage of the case study method is it allows for prolonged engagement with the organisation (Lincoln and Guba, 1985). This allows for multiple visits and to involve a range of interviewees chosen to provide a breadth of views and to allow exploration of understanding and the information provided. Repeated interviews and visits also allowed the build-up of trust between the interviewees and the researcher. Furthermore, while analysing the data, multiple perspectives of accounts were considered. Contextual information was woven together, with the explanations of the

respondents. Documentary evidence such as: company reports, employee handbooks, HR policy documents, company annual reports, newspaper reports, company profiles, online sources were sought, which helped validate data and added deeper level of understanding.

The issue of quality is an important part of any research methodology (Bryman and Bell, 2003; Saunders et al., 2009). Within qualitative research, scholars have suggested different (and sometimes overlapping) criteria which can be used in the assessment but most identify validity, and reliability (Bryman and Bell, 2003, p. 33). Validity is claimed to be the 'key issue' in qualitative research (Maxwell, 2005, p. 107) as it can determine the extent of which the claimed findings are accurate, trusted and credible (Lincoln and Guba, 1985). Reliability concerns the extent of which the findings of a given study in a given context can be repeated (Yin, 2009). Nonetheless, some have criticized the use of general or universal terms in defining the criteria for assessing research quality (e.g., Johnson et al., 2006), since the criteria should be 'paradigm specific' therefore can fit with the researcher's assumptions (Symon and Cassell, 2012, p. 210). In this criticising naturalistic research because it does not make use of an empirical, quantitative design, is invalid, but criticising a case study on the basis of case selection and data interpretation is valid.

In turn, triangulation is a strategy used to increase the confidence in the data by using several sources of data or employing more than one method for data collection (Denzin and Lincoln, 2000). Denzin and Lincoln (2000) classified four types of triangulation including: data triangulation, investigator triangulation, theoretical triangulation, and methodological triangulation. Given the research design, the focus in this study was the first type of triangulation, that is, data triangulation. The data fed into this research came from four sources: the semi-structured interviews (which represent the main source), manpower statistics collection and review, the document review (such as annual reports and other press releases) and the content of websites. In addition, within each case, multiple sources of data (Eisenhardt, 1991) were utilized by using secondary sources and all the cases have more than one individual from the same organization.

One regular problem in management research is access to suitable case studies (Easterby-Smith et al., 2008). In any circumstances, the researcher is dependent on

goodwill to gain access, may face problems in continuing the research and may find it difficult to gain the firm's consent to the use of the research material once the study is complete (Bryman and Bell, 2003). As such, conducting management research in Saudi Arabia is no different. In addition, compliance with Nitaqat is critical for any company now operating in the country and is an issue of considerable sensitivity. Thus, any firm that is struggling to become compliant, or gambling on avoiding too much scrutiny while it carries on with earlier recruitment practice, is unlikely to welcome the attention of a research project.

Even within the six cases, the degree of access to information varied. Of note, in some cases the researcher was given the raw information to compile the Employment Data tables in chapter five to seven. In others, the table was completed by the firm and returned to the researcher with no scope for cross-checking.

### **3.6.1 Pilot Phase**

In this study, only a very limited pilot was implemented. This relied on two separate in-depth interviews with expert witnesses (HR directors or managers) from three different manufacturing and retail companies (not included in the sample of the main study). In these interviews, the focus was mainly on four points: exploring the participants' perception on quota system shifts, why and why not did the company comply, implementation challenges and finally to explore the implications on HRM practices and policies as a tool the company used to respond to the shifts in the regulatory environment and labour market characteristics. The outcome allowed refinement of the interview structure that was used in the main studies.

### **3.6.2 Interviews**

In the present study, interviewing was selected as the key tool in the second stage of the data collection process because of their potential for in-depth penetration of the issues around Saudi quota system. A semi-structured format strikes a balance between the meanderings of ordinary conversation and the rigidity of a strict call-and-response interrogation. In the context of the present study, some questions were used in each case; but these questions are open-ended, and the researcher must be aware that additional questions may be needed as the subjects begin answering the original questions.

Semi-structured interviews were employed as a primary data collection technique. It is widely acknowledged that interviews give an opportunity to the researcher to gain a richer understanding of the accounts (Burgess, 1982). It is further stated that interviews provide the researchers with the opportunity to probe direct questions, uncover new clues and prompt for explanations. The main aim of the interviews is to gain an understanding from the respondent's perspectives which is vital for this research as it presents not only their viewpoints but also the reasons for having that particular viewpoint (King et al., 1994).

The participants were all male. Although gender is a significant issue for research on the Saudi quota system, access problems made it impossible to build this into the field research. Firstly, the participation of Saudi woman in the labour market is still very low despite some gains following the introduction of Nitaqat and are mostly working in education and health (i.e. not in the private sector). More importantly, a male interviewer would be unable to interview female staff in conditions of privacy due to cultural norms.

The population covered in this study were all staff under permanent and fixed-term contract employment. Specifically, the participants were executives, HR directors, operating directors and specific HR managers who were in charge of specific HRM practice. In this study, what was sought, was the view of expert witnesses who would be able to present the firms' response to Nitaqat in an informed manner. This limited the number of potential interviewees in each firm. Additional interviews would have shifted the focus to operational implementation (line managers etc.) or the perceptions of individual staff. Both are interesting perspectives but unlikely to have contributed to the core focus of this research. When negotiating the research access, the gatekeepers were briefed about the participants that the study wished to speak to, i.e. employees who were involved in workforce localisation decisions or implementations, who have the knowledge and understanding about the research particular aims. Then, invitation emails or letters have been sent to potential participants (for sample, see appendix 3), and this led to interviews with 35 participants across all six cases (see below table). Some of the interviewees gave more than one interview as the researcher had to clarify and explore some themes that emerged in the later stages of the analysis. Each interview lasted from 30

minutes to a maximum of 120 minutes. The interviews were recorded and then translated.

**Table 3-3: Details of Interviewees from Each Firm and Number of Interviews**

|          |   | <b>Firms</b>      |   |                      |  |                     |  |
|----------|---|-------------------|---|----------------------|--|---------------------|--|
|          |   | <b>SPharmaCo</b>  |   | <b>FastFoodCo</b>    |  | <b>HomesCo</b>      |  |
|          |   | No. of interviews |   | No. of interviews    |  | No. of interviews   |  |
| <b>1</b> | Chief Executive Officer (CEO)                 | 1                 | Regional General Manager                          | 1                    | Chief Executive Officer (CEO)            | 1                   |  |
| <b>2</b> | Vice President (VP) of Business Support       | 2                 | Human Resources Director (HR. Director),          | 3                    | Recruitment and administration manager   | 2                   |  |
| <b>3</b> | Administration and government affairs manager | 1                 | Regional Recruitment manager                      | 1                    | Government affairs officer               | 1                   |  |
| <b>4</b> | Government affairs officer                    | 1                 | Regional personnel and government affairs manager | 1                    | Training Manager                         | 1                   |  |
| <b>5</b> | Manpower planning and resourcing Manager      | 3                 | Manager of Staff Training and Development         | 1                    | Director of Operations                   | 1                   |  |
| <b>6</b> | Training and Development Manager              | 1                 | Regional operations manager                       | 1                    |  |                     |  |
| <b>7</b> | Operations Director                           | 1                 |   |                      |  |                     |  |
|          |   | <b>GAGlassCo.</b> |   | <b>LocalSteelCo.</b> |  | <b>SugarMillsCo</b> |  |
|          |   | No. of interviews |   | No. of interviews    |  | No. of interviews   |  |
| <b>1</b> | Executive Director                            | 1                 | Vice President                                    | 1                    | Chief Executive Officer (CEO)            | 1                   |  |
| <b>2</b> | Administration manager                        | 1                 | Human Resources Manager                           | 1                    | Human Resources Director (HR. Director), | 1                   |  |
| <b>3</b> | Recruitment officer                           | 1                 | Recruitment Manager                               | 3                    | Resourcing Manager                       | 1                   |  |

|  |                            |   |  |   |                                  |   |
|--|----------------------------|---|--|---|----------------------------------|---|
| 4  | Plant Operations Manager   | 2 | Government affairs officer             | 1 | Government Affairs Manager       | 1 |
| 5  | Government affairs officer | 1 | Staff Training and development officer | 1 | Training and Development Manager | 1 |
| 6  |                            |   | Plant Manager                          | 1 | Chief Operating Officer (COO)    | 1 |
| <b>Total Number of Participants= 35 Participants</b> |                            |   |  |   |                                  |   |
| <b>Total Number of Interviews = 44 Interviews</b>    |                            |   |  |   |                                  |   |

The choice of the interview set was driven by the research focus. In effect, this is the intersection between organisational policy and strategy and external regulations. The goal thus, was to capture the voices of those in the firms who had relatively senior positions as they could provide this perspective. If, for example, front line supervisors or workers had been included they would have provided valuable data about the impact of Nitaqat on their own working conditions but less on how or why the firm may have altered its HRM approach.

In this thesis for instance, questions with top managers revolved around their understanding of localisation policy and business strategy integration, the reasons behind their compliance. With the HR directors, more focus was given to the quota system integration with HRM policies, their experiences with implementation, problems they faced and the role of HRM. With specific HR managers, these were more focused towards the various specific HRM policies in place, the responsibility of these, experiences with HRM and their perceptions on.

For example, questions as ‘Can you tell me what the Saudi quota system is’ was a common question but for HR staff the questions in terms of HRM were more detailed, so they were asked ‘what are the different HRM policies and practices that needed refinement after Nitaqat’. Within the HRM theme, plant and operational managers were asked about their understanding of HRM changes as: ‘How much the HRM policies and practices have influenced positively or negatively the operation flow under the implementation of Nitaqat’. For recruitment managers, the focus was again different such as ‘Is there any major recruitment decisions had to be taken after the activation of Nitaqat programme’. In effect, the goal was to pose some generic

questions in all the interviews but also to use the different expertise and perspective of the respondents in order to broaden the information collected and to explore the extent of shared understanding within each company as well as between the firms. (The detailed set of questions can be found in appendix 6). Given the importance of meeting the overall quota, most of the questions to HR staff dealt with recruitment to front line service jobs or semi-manual roles in manufacturing.

In addition a series of interviews were carried out with policy makers (see table 3-4) responsible for the design, implementation and monitoring of Nitaqat. In particular, the interview questions revolved around their understanding of previous quota system, logic behind the introduction of Nitaqat and implementation mechanisms. (The detailed set of questions can be found in appendix 2). Primarily these were conducted to ensure the researcher fully understood the policy framework and to ensure that the context of Nitaqat was properly presented. Material from these interviews is presented in chapter four as it usefully supplements the available documentation about Nitaqat and makes some key aspects much clearer. In particular, it was obvious from the interviews that the policy makers were fully aware that Nitaqat was going to change the fundamental nature of the Saudi labour market.

**Table 3-4: Participants in Policy Level**

|   | <b>Participants role</b>                                       | <b>Date of Interview</b> | <b>Duration</b> |
|---|--|--------------------------|-----------------|
| 1 | Senior Official at ministry of Labour, A                       | 20 Dec 2012              | 40 mins         |
| 2 | Senior Official at ministry of Labour, B                       | 18 Dec 2012              | 20 mins         |
| 3 | Nitaqat Program Manager at Ministry of Labour                  | 21 Dec 2012              | 55 mins         |
| 4 | Senior Official At Human Resources Development Fund            | 15 Dec 2012              | 70 mins         |
| 5 | Monitoring and Inspection Manager at Ministry of Labour        | 17 Dec 2012              | 45 mins         |
| 6 | Subsidy Programmes Manager at Human Resources Development Fund | 15 Dec 2012              | 80 mins         |
| 7 | Consultant for Nitaqat policy at Ministry Of Labour, A         | 14 Dec 2012              | 140 mins        |
| 8 | Consultant for Nitaqat policy at Ministry Of Labour, B         | 16 Dec 2012              | 60 mins         |

|   |  |             |         |
|---|--|-------------|---------|
| 9 | Consultant for Nitaqat policy at Ministry Of Labour, C | 23 Dec 2012 | 50 mins |
|---|--|-------------|---------|

### 3.6.3 Secondary Data Sources

In general, secondary data refers to all types of data that have been used in a specific study which, but were not been collected purposively for the sake of that study (Stewart, 1984). Documentary information, as one type of secondary data, is useful to corroborate the study with evidence from other sources (Yin, 2009. p.103). In this case, this included organisational plans and the statistical material presented in chapter four. Despite this potential value, the researcher was critical in reviewing these documents since they were produced for specific purpose and audience, and their sources might be less reliable (Yin, 2009, p. 105).

The documents included in the review involve annual reports. These review incorporate HRM proposals (word documents and PowerPoint productions) that are produced by the HR department for specific quota implementation purposes including advice and consultancy reports (i.e. SPharmaCo restructuring plans, FastFoodCo new training schemes and incentives to specific local groups, HomesCo suggesting new jobs and review of salary scales, LocalSteelCo suggesting new salary scales for specific jobs), reviewed some performance management templates (KPI's) for some departments for companies LocalSteelCo and SugarMillsCo (i.e. analysing the localisation elements in it), press reports (e.g. recruitment campaigns of some companies), and YouTube videos (i.e. companies promote their quota achievements and share their localisation success stories)

In addition, gatekeepers were asked to provide lists of the manpower statistics by job categories before (for year 2010) and after the new policy (for year 2013) for comparative purposes. The findings are presented in chapters 5, 6 and 7. Some gatekeepers managed to bring the original manpower statistics from the companies' database (Companies FastFoodCo, LocalSteelCo and SugarMillsCo) while others requested a suggested table format (for sample, see Appendix 7) to be filled in manually by them (Companies SPharmaCo, HomesCo and GAGlassCo). The statistics have been reviewed and incorporated in the analysis as they provided the

first evidence of shifting trends in employment numbers and patterns following the introduction of Nitaqat.

These secondary sources have an essential role during the analysis phases, as they were investigated in conjunction with the primary data gathered from the semi-structured interviews to ensure that the interpretation of the data is consistent with each other. The overall value of this review is to achieve triangulation through collecting data from different sources and hence increase research validity (Yin, 2009), by enabling the researcher to confirm the information and perceptions obtained through the interviews. It also helped him to better understand the views of private sectors employers as expressed by their key staff. Moreover, the evidence extracted from the document review has been used in specific places in the findings chapter as 'complementary' to corroborate or clarify the arguments when the primary evidence is perceived as limited or not adequate (Rudd and Johnson, 2010).

### **3.6.4 Data Analysis and Interpretation**

One of the challenges in qualitative data analysis is to develop a logic that moves from data collection to interpretation. The theoretical aspects such as the logic process used and the method by which the findings might be generalised were discussed earlier in this chapter. Here, the discussion concentrates on the practical steps taken by the researcher. In this study, the processes of data analysis involve six stages:

After finishing the fieldwork, the researcher spent the first few months transcribing all the interviews as a first stage of data interpretation. The interviews were conducted in both English and Arabic. A verbatim transcription was produced for each interview, in Arabic and English. All the Arabic transcripts were translated into English and then back translated into Arabic to minimise the errors. The process of transcription was an extremely laborious process, but it proved to be the best way to retain key information and context in the memory. The researcher could listen, pause, rewind and transcribe all the data. A lot of time was spent reading the transcripts and then listening to the recorded interviews again to make sure all the transcripts were a true record. These were then checked again to validate the transcripts. In case it was difficult to translate a word into English, the closest meaning was mentioned in the

transcript. This was done in order to ensure that the correct meaning was not lost in translation (Temple and Young, 2004) and in this respect it is useful to note the researcher is fluent in both languages.

The next stage was to engage in content analysis, as referred by Patton (2002) which emphasises sense making and data reduction efforts to manage the volume of the qualitative materials and identify key meanings and consistencies. It includes 'identifying, coding, categorising, classifying and labelling the primary patterns in the data' (Patton, 2002, p.463) to prioritise the significance and relevance of the materials. With the interviews scripts, firms' secondary data were examined through an open coding approach (Strauss & Corbin, 1998). This process has applied inductive approach (i.e. allow data speak for itself) and deductive approach, using literature insights, and a thematic analysis approach (Braun and Clarke, 2013), which emphasizes pinpointing, examining, and recording patterns (or "themes") within data. At the end of this process, the research had created some overall insights as patterns, themes and categories emerged from the data such as the major challenges and tensions faced by firms when implementing localisation programmes in their companies or major HRM decisions/practices that has been taken at different stages of the implementation. The emerging themes from both primary and secondary resources were compared with established constructs derived from the literature review and overall conceptual framework.

The process of analysis described above was not undertaken in isolation. The interview schedule had already been created in a thematic structure and each interview transcript was then examined and indexed into concepts and themes using the 'inductive-deductive process', which was to identify common codes in order to link these together in themes. This coding technique allowed, the identification of patterns and recurrent codes (Bryman and Burgess, 1994). These were then typed as concepts on MS Word. After all these concepts were jotted down, they were clustered together under main headings, one document for each case to help create a structure for the following stages of the analysis.

With this complete, the researcher gathered all data, including the interviews themes, and secondary data including the manpower statistics and other secondary data to create case summaries. These are basically reports which were produced to provide a

thorough picture of each case and its context to enable making interpretations. For each case study, the process of constructing the narrative started with assembling the raw case primary and secondary data, and then writing the final case study narrative (Patton, 2002, p.450). This stage was effectively the first draft for the chapters five to seven presented in this thesis.

Next, the researcher engaged in a process of textual analysis, comparing the narratives both subjective and interpretative of each case to understand their response to reforms in quota systems. Specifically, the HRM decision making process during that period, actions that has been taken followed the policy reforms, detect changes in manpower structures and if there were any HRM practices that were need to support such actions. A constant comparative method (Glaser and Strauss, cited in Lincoln & Guba, 1985, p.339) was employed, whereby one piece of data (e.g. one interview, one statement; one theme) was compared to all other pieces of data (i.e. manpower statistics) that are either similar or different. This processes allow 'data triangulation'. Through the process of reading and re-reading, meanings and interpretations of data started to take shape and meanings were constructed using both participant-generated and researcher-generated terms. The analysis then proceeded with matrix analysis (Patton, 2002) which aimed at organising and describing the themes and patterns emerging from each case.

The last stage of data analysis was focused on examining cross-case similarities and differences through employing a pattern-matching procedure (Yin, 2009). As a deeper understanding of each case developed, it became easier to identify divergences and converges across the cases. Likewise, the commonalities and cross-cultural differences between cases started to emerge. The procedure allows 'cases triangulation'. This part of the analysis was therefore to answer the research question about whether HRM capacity is influenced by the shifts in the quota system mechanism, and whether HRM capacity influence the nature of firms' response to such regulation. This investigation was made alongside an emanation of theoretical insights, to allow 'theoretical triangulation'. The data analysis process was done manually. The researcher decided not to use any qualitative data analysis tool and software due to the challenges mainly with language, i.e. some words maybe largely inexpressible in the same terms in the other language (Broadfoot, 2000).

### ***3.7 Ethical Considerations***

Research ethics can be defined as “the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or are affected by it” (Saunders et al., 2009, p. 183). In general, ethical-related issues might be seen as less critical regarding management research compared to other research subjects such as medicine or psychology (Easterby-Smith et al., 2012, p. 95). Nonetheless, the researcher in this study has paid considerable attention to the ethical issues in all of the research steps, mainly during the processes of data collection, sorting and analysis. This is because research ethics should always be a top priority for any researcher, in particular when a conflict emerges between the desire to conduct high quality research on one side and the values (e.g., privacy and honesty) on the other (Blumberg et al., 2005). For the current thesis, an approval by the Research Ethics Committee in the University of Leeds has been granted with an ethics reference: AREA 12-099. (For details of how they applied by the researcher to ensure compliance with the ethical standards, which also fulfils the requirements of the ethical committee, during the occurrence of this study see Appendix 8).

A regular problem for organisational researchers is being used as a conduit to pass information within the organisation or for employees to express frustration with corporate policies (Easterby-Smith et al., 2012). If such comments are then reported there is a risk of placing that interviewee at risk and, fundamentally, the researcher cannot operate as if they were part of the organisation. One particular instance is reported in appendix 8 where an interviewee realised they had been too critical of corporate policy and, at the end of the interview, asked that their comments be treated as being ‘off the record’. This was accepted, even if the material was potentially interesting, and offers a practical example of the dual challenge of wanting to gather and use as much data as possible but wishing to abide by ethical constraints.

### ***3.8 Concluding Remarks***

This chapter has set out the context and logic to the research design adopted. The nature of the broad divide between the ontology and epistemology of objectivism and

subjectivism approaches was discussed. The research aims are to explore the response of private firms in Saudi Arabia as the quote system have altered in recent years as well as exploring the consequential changes in the HRM role and policies with regard to shifts in the regulatory environment. This gives the research an exploratory aspect, which makes the qualitative approach suitable, but it is important to note that the existing literature both about Saudi Arabia (further developed in chapter four) and compliance (chapter two) was important both in framing and in interpreting the research.

This concept of systemic combining grounded in an ‘abductive logic’ provides a useful framework for formulating, collecting and analysing some of the research objectives through utilising previous literature without using tight framework that could obscure important features of the case study or lead to misreading of participants’ perceptions or has no theoretical assumptions that may lead to indiscriminate data collection and data overload.

The research design chosen was that of multiple case studies rather than a survey. The advantage of the case study approach is the ability to explore each instance in depth but also to compare between the cases. The limitation of case study approach has been addressed with a defence of analytical and contextual generalisability regarding the representative value of the case study. Semi structured interviews were argued to be the most appropriate tool for data collection as they strike a balance between the meanderings of ordinary conversation and the rigidity of a strict call-and-response interrogation. Secondary data were also used to increase validity of primary data through triangulation with different sources including documents, annual reports, HRM proposals and manpower statistics.

Then the process of data analysis were presented started from listening to recorded interviews, to transcription, translating, coding and reporting the findings, followed by a discussion of ethical consideration during the research process.

## **Chapter 4 : Labour Market Regulations in Saudi Arabia**

### ***4.1 Introduction***

This chapter sets out some of the key background context for this research. In effect it provides contextual data for the next three chapters (the company case studies) about the Saudi labour market and quota systems pre and post-Nitaqat. Since the cases concentrate on the company perspective, this chapter also includes the results of a number of interviews with Saudi policy makers. Thus, in combination, it presents information that then does not need to be repeated in each subsequent chapter and also shifts focus from organisational response to Nitaqat to the state logic for its introduction.

As briefly discussed in the introduction and in sections of chapter two, the Saudi labour market has a number of unique features. In turn, especially in the context of the recent regulatory changes, this makes Saudi a particularly interesting case study. In particular, the labour market (as elsewhere in the GCC) has come to be dominated by foreign workers. The result has been a notional policy focus on Saudisation – or localisation – as the state has tried to increase employment of Saudi nationals. However, the dynamics of the labour market do not simply derive from shifting employment patterns of Saudis or of non-Saudis. Other critical factors that shape actions of labour market actors stem from, amongst other things, the social and legal limits placed on women in the workplace and the extent this limits the employment of the increasingly well-educated Saudi female population.

In combination, this has led to the situation where the Saudi authorities have a labour market dominated by foreign workers (not all of whom have legal work visas) and rising unemployment among a fast growing (and young) domestic population. The current population in Saudi Arabia is estimated to be 29.9 million people and of these just over 20 million are Saudi nationals (Central Department of Statistics and Information, 2014). Most of the non-Saudis are of working age with the result that they dominate the labour market even as Saudi Arabia faces a growing population. The local population is projected to increase from 20 million in 2013 to 27 million by 2030 (an annual growth rate of 2.15 per cent). Secondly, and in consequence, almost

half of the population in country are under the age of 25 years. This means that a substantial number of people will enter the labour force over the course of the next decade or so (Flynn, 2011).

Reversing the trend to recruit overseas workers has been a policy goal of the Saudi state since the 1970s and there have been a number of regulations aimed at 'localisation'. However, previous policies have failed and this is creating social and economic pressures. As a direct consequence, the Saudi state has recently adopted a reformed quota system, Nitaqat, to address these problems (De Bel-Air, 2013; Fakeeh, 2009). Unlike the previous initiatives, Nitaqat has been developed as an integrated policy combining coercive mechanisms (stricter penalty and monitoring systems) and incentives. In addition, the new approach also included reforms to various immigration policies and implementation mechanisms so as to reduce the scope for firms to evade the rules.

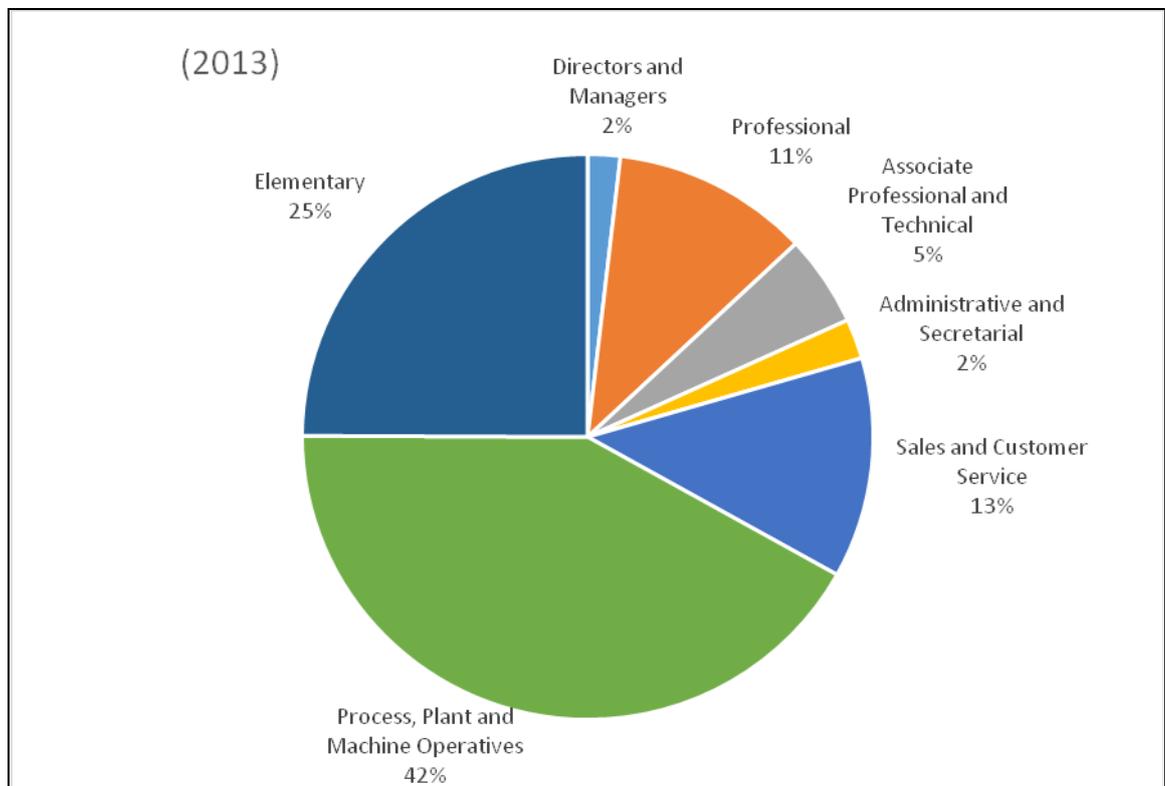
This context provides a good fit to the research objectives for this thesis as it allows for the study of firms' response to external pressures (in this case both a regulatory change and a change in the nature of the labour market), to explore how firms respond under a newly introduced coercive environment and challenging labour market conditions, and what to what extent and how firms' HRM capacity help firms to cope and adapt to such environments.

The structure of the chapter starts by setting out the specific features of the Saudi labour market. This includes the relative dominance of foreign workers, and the concentration of these in low paid, manual or low skilled work. For religious and cultural reasons, there are significant restrictions on women entering employment (but few on them gaining educational qualifications). Equally, due to the importance of social networks and religious demands, many Saudis prefer not to work on Friday or Saturday. In combination with the wealth from oil and gas, this had created a distorted labour market that now sees substantial unemployment among the domestic population at the same time as the Saudi private sector remains reliant on foreign workers.

## 4.2 Labour Market Characteristics

### 4.2.1 National and Non-National Demographic Imbalance

After the discovery of substantial oil reserves in the 1950s, Saudi Arabia became a fairly wealthy country (Wynabrandt, 2010) and the Saudi government used these revenues to pay for public institutions and build infrastructure. Many large projects were launched in the 1960s and this created a huge demand for manpower, exceeding the quantitative and qualitative capacity of the local labour market. As result, the government came to rely on foreign manpower. Foreign workers were found across a range of occupational areas, from manual labour to highly qualified executives, professionals and technicians (Al Humaid, 2003). Today, the Saudi labour market has 8.2 million foreign workers out of the 11 million workforce, representing around 78 per cent of total employees in the labour market. The concentration of foreign workers is particularly strong in the private sector where they constitute 87 per cent of the workforce (Naffee, 2015). As in figure 4-1, most of these work in manual or relatively low skilled roles (Central Department of Statistics and Information, 2013).



**Figure 4-1: Employment by Occupational Groups - Non-Local Workers**

Source: (Source: Central Department of Statistics, 2013)

In terms of industrial sectors, the non-Saudi workforce is concentrated in sectors such as retail, manufacturing and construction (Central Department of Statistics and Information, 2013). In addition, the official figures for foreign workers may be understated as up to an additional four million worked illegally before the recent labour market reforms (De Bel-Air, 2013). The bulk of foreign workers come from Arab, Indian sub-continent and East Asia, as:

**Table 4-1: Foreign Workers by Country of Origin**

| Country of citizenship                     | lower est. | upper est. |
|--|------------|------------|
| 1 India                                    | 2,000,000  | 2,800,000  |
| 2 Pakistan                                 | 1,500,000  |            |
| 3 Bangladesh                               | 1,500,000  |            |
| 4 Indonesia                                | 1,500,000  |            |
| 5 Egypt                                    | 1,000,000  | 2,000,000  |
| 6 Syria                                    | 1,000,000  |            |
| 7 Sudan                                    | 500,000    | 900,000    |
| 8 Yemen                                    | 800,000    | 1,000,000  |
| 9 Philippines                              | 670,000    |            |
| 10 Sri Lanka                               | 550,000    |            |
| 11 Afghanistan                             | 500,000    |            |
| 12 Nepal                                   | 500,000    |            |
| 13 Palestine (holders of travel documents) | 500,000    | 1,000,000  |
| 14 Burma                                   | 250,000    | 600,000    |
| 15 Jordan (workers only)                   | 250,000    | 300,000    |
| 16 Lebanon (2009)                          | 160,000    |            |
| 17 Ethiopia                                | >150,000   | 700,000    |
| 18 Somalia-Eritrea                         |            | ?          |

(Source: De Bel-Air, 2013, p. 7)

If India, Pakistan and Bangladesh are grouped together, they provide something like 5-6 million out of the estimated 13-19 million foreign workers in Saudi Arabia. More generally something akin to 8 million workers come from non-Arab countries. However, a significant part of the foreign workforce comes from neighbouring countries such as Egypt, the Yemen and Jordan. Most of the executive, managerial and some professional jobs (which represent 13 per cent of foreign workers in Saudi Arabia) are largely held by expatriates from Arab and Western countries (De Bel-Air, 2013)

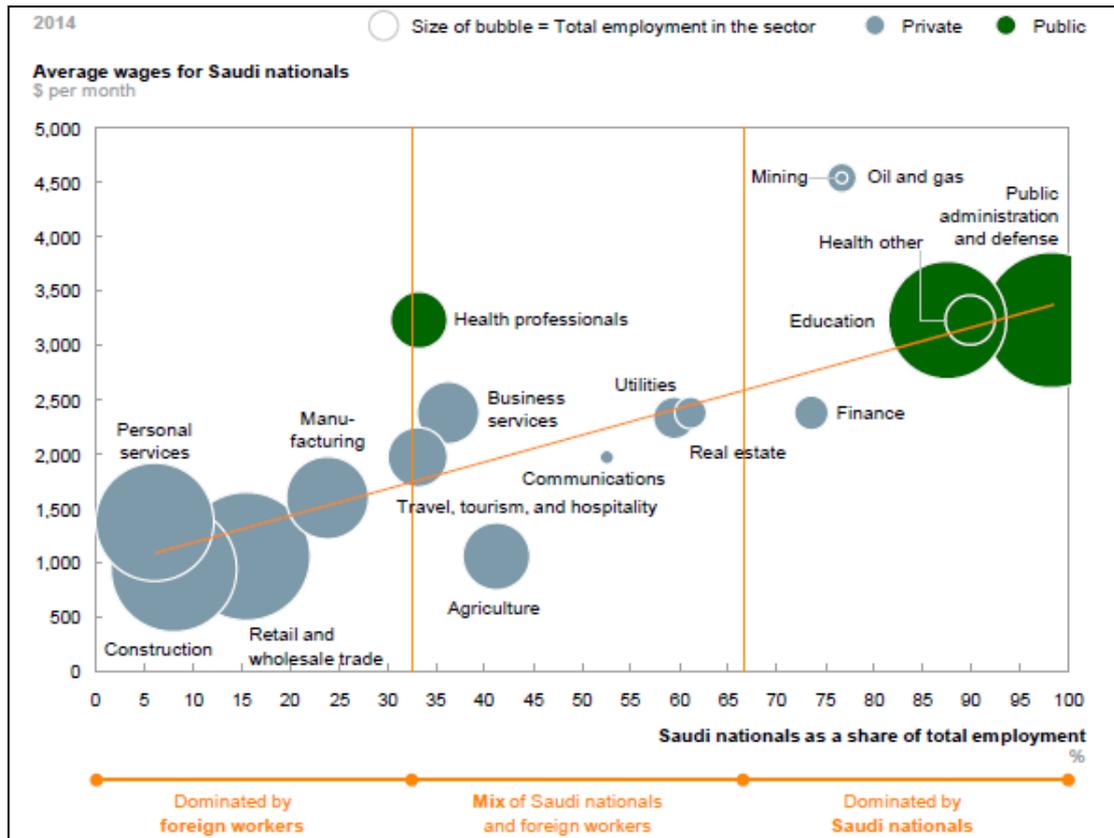
Economically, Saudi Arabia is one of the largest oil exporters and possesses 25 per cent of the world's oil reserves (International Monetary Fund, 2013b). The government retain strong controls over major economic activities. The oil industry comprises about 45 per cent of Saudi Arabia's nominal gross domestic product, compared with 40 per cent from the private sector and oil contributes roughly 75 per cent of budget revenues and 90 per cent of export earnings (International Monetary Fund, 2013b). However, in recent years the government has realised the strategic

importance of economic diversification to reduce dependency on oil due to vulnerability of oil market dynamics in recent years (Bowler, 2016) which may affect the continuation of current and future infrastructure projects (i.e. millions of houses, transportation and economic cities). Therefore, the government has embarked on huge economic diversification projects with longer term strategic non-oil economic objectives (The worldfolio, 2015). Given these likely labour demands, even if the take up of local workers improves, the Saudi labour market will be very likely to continue to require huge number of foreign workers. Even though a substantial number of young locals will enter the labour market in the coming years, there number is still small and yet do not have adequate numbers of full range of required skill sets (Forstenlechner and Rutledge, 2011).

Thus, while Nitaqat is focussed on increasing employment of Saudis and also seeks to raise the productivity of Saudi workers, it does not address low productivity (and a lack of training opportunities) for non-Saudis.

#### **4.2.2 A Segmented and Dual Labour Market**

The distinction between local and non-local workers has led to a dualistic Labour market. This primarily reflects nationality (local and non-local) (Mellahi and Wood, 2001) but there is also a distinction between the public and private sectors.



**Figure 4-2: Duality of Saudi Labour Market**  
(Source: McKinsey Global Institute, 2015)

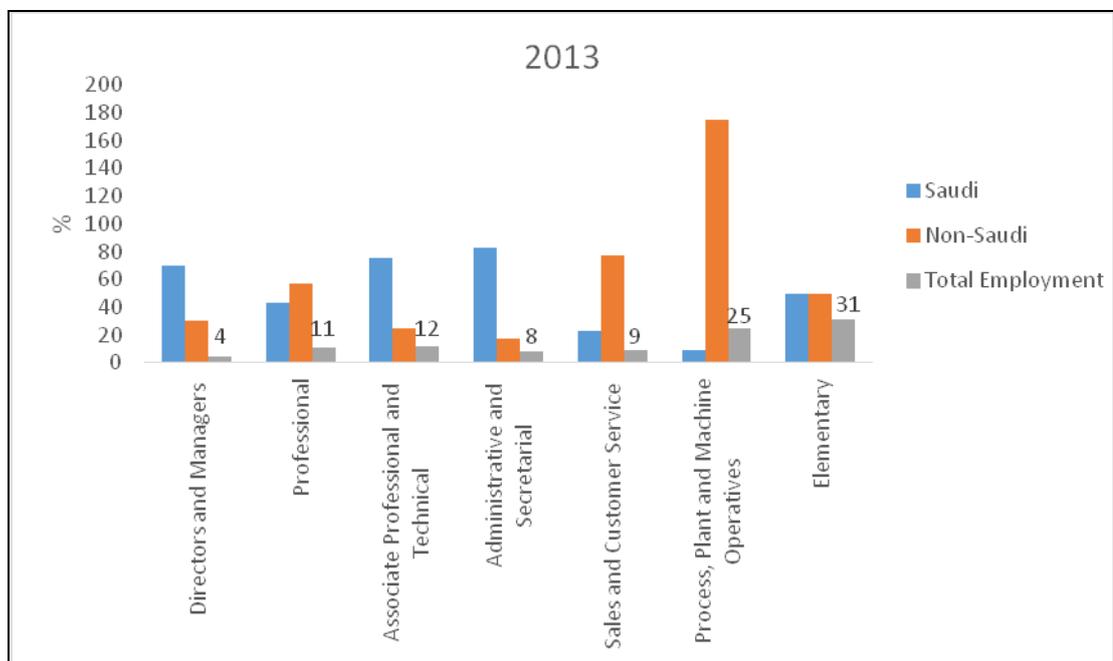
As shown in figure 4-2, on one hand, the major employers in Saudi Arabia are public administration, defence, education and health. Of importance, these sectors pay higher wages and locals represent almost 86 per cent (2.4 million) of the public sector workforce. Equally, although some areas of the public sector are dominated by Saudis (Aljebin, 2012) others, such as health, employ a substantial number of foreign workers.

However, the public sector covers only 25 per cent of total jobs in Saudi (Naffee, 2015). By contrast, the majority of the foreign workers work in the private sectors for lower wages. The average monthly wages of private sector foreign workers is SR 1040 (USD 280), in contrast, the monthly average wage for Saudi nationals is SR 3476 (USD 920) (Ministry of Labour, 2012). In effect, being forced to recruit Saudis has significant cost implications for private sector employers.

This wage difference has two causes. One is the use by the Saudi state of public sector wages and employment as a means to transfer state oil wealth to the population. The other is that Saudi private sector employers have been able to pay

lower wages to non-nationals and have become used to this setting the average cost of labour. In combination, this has informed the social attitudes of Saudis towards preferring public sector jobs and seeing many roles in the private sector as being of lower status.

Ramadi (2012) suggested that wages in Saudi Arabia are determined by the differences of supply and demand between Saudis and non-Saudis. These two labour markets have developed in very different ways. The Saudi labour market is one of low supply and high wages while the majority of foreign labour market is represented by high supply and low wages. Ramadi (2012) also classified the labour wage and supply of foreign workers into three segments running from segment (A) highly skilled foreign workers who work in senior and high technical positions with low supply and high wages to (C.) low skilled manual jobs with high supply and low wages and between this two segments is (B) which represents middle management, accounts, salesmen and supervisory level positions (Ramadi, 2012). In effect, there is a divide between Saudi and non-Saudi employees and within the foreign workforce depending on the skills possessed.



**Figure 4-3: Employment by Occupational Groups – Local/ Non-Local Workers**  
(Source: Central Department of Statistics, 2013)

As seen in Figure 4-3 almost half of the workforce undertakes administrative, associate professional and technical, professional and managerial jobs. The distribution of locals and foreign workers are almost equal in the elementary jobs. However, Figure 4-3 shows how the private sector is dominated by foreign workers who are particularly to be found in sales and operations. This may reflect the relatively low status of these jobs or that firms have previously found it cheaper to employ non-Saudis in these roles (as opposed to having to raise wages to attract Saudis). There is also a possible prejudice among some Saudi employers to recruiting locals for some roles. In effect, some firms may do little to attract Saudis to take up a type of job that many, on cultural grounds, find unattractive in any case (Al-Shammari, 2009).

#### **4.2.3 Barriers to Local Workers to Working in the Private Sector**

Some of the barriers are linked to historically low wages in the private sector but it is clear that Saudis have tended to avoid private sector jobs for social and attitudinal reasons. According to a survey conducted by McKinsey Global Institute in 2015, around 800,000 Saudis are reported to be waiting for public sector jobs as these are widely seen as preferable to jobs in the private sector due to two major issues. One is that within the private sector pay, job security and working conditions are seen to be less favourable and second there are cultural issues affecting employment choice (McKinsey Global Institute, 2015).

In Saudi, employment regulations also differ between the public and private sectors. Within the private sector there are some regulations to govern employer-employee relationships (for Saudi nationals) but these are limited compared to the public sector. Equally, there is no external pressure on employers as the unionizing of workers, collective bargaining or strikes is completely forbidden by the labour laws (Mahdi, 2000). Workers are allowed to have workers' committees in firms with more than 100 workers. However, these committees cannot protect workers as they have no legal rights to give them power to contest management decisions. Most labour disputes are resolved centrally by the Ministry of Labour (MOL) and, more recently, unresolved cases can be transferred to the labour courts (Ministry of Justice, 2014).

However, the main dynamic is that non-Saudi staff do not benefit from even these limited provisions. Private firms use the “*sponsorship system*” for their foreign workers, where employers have the responsibility for hiring foreign workers. In addition, the foreign workers cannot enter Saudi Arabia, transfer employment, or leave the country without the permission of their employers. This system can give substantial control over foreign workers compared to locals. This control can be both illegitimate (for example, overt exploitation shading into human rights abuse) and legitimate in the terms of the laws of the Saudi government. The distinction between these two modes is not always clear: for example, the Saudi government requires foreign workers to obtain employer permission before switching employers or leaving the country. While legal, this can be tantamount to indentured servitude; and moreover, it can shade into legally ambiguous terrain when employers fail to provide the desired "exit visa" to foreign workers (United States Department of State, 2011). For example, according to recent National Society for Human Rights (NSHR), the sponsorship system has created an easy opportunities for the exploitation practises against foreign workers (Alarabiya News, 2015). These practices include holding passports, delaying of salaries, providing poor working conditions and other violation of labour laws with little chance of legal repercussions (Alarabiya News, 2015).

Recently, the government introduced some reforms to the sponsorship system, including allowing foreign workers free movement to other employers in case of salary delay or having disputes with employers but have left the core of the system intact (International Labour Organization, 2015). It is been argued that working conditions in the private sector will not improve unless major reforms of sponsorship system take place since the current approach continues to ensure there are separate labour markets for local and non-local workers (The Economist, 2013).

The disappearance of labour unions and existence of the sponsorship system and the level of control it gives to employers over foreign workers provides one explanation of duality of the Saudi labour market. It has also led to poor working conditions in the private sector since private companies have looked at HRM as a low priority since these systems do not stimulate labour market competition among firms, at least

for the majority of potential employees (i.e. foreign workers). In turn, this feeds into the perception of local workers that private sector jobs are less desirable.

With respect to the cultural issues of local workers, their avoidance of the private sector is seen by some to reflect prevailing perceptions about the relative importance of particular jobs and occupations (Al-Asmari, 2008; Forstenlechner and Rutledge, 2011). These include roles such as business owners and some government jobs that are seen as possessing high status while manual and technical jobs were seen as giving lower social status (Saif, 2010). Ramady (2010) argues that in Saudi society, being unemployed, or even having low status job, is socially unacceptable to some family tribes. This leads to Saudis being reluctant to take up certain types of jobs as social status is important for young Saudis as it affects marriage and other social relations. In consequence, Fakeeh (2009) argued that local workers who enter low pay jobs often seek pay increases and look for better jobs instead of concentrating on their current job and looking for career progression. In addition, the ability to shift jobs means that young Saudis may be less committed to their current employer (MCGLP, 2009).

A number of studies in the GCC countries have confirmed that social constraints have influenced the attitudes of local workers towards manual jobs and certain service-oriented jobs in private sector due to the stereotype of manual jobs as low ranked jobs (Al-Asmari, 2008; Baqadir et al., 2011; Fakeeh, 2009; Mellahi and Wood, 2001). This issue is discussed in the various case studies, but firms have responded in different ways. Some seek to address the issue by minimising cultural reluctance (in effect redesigning jobs to meet Saudi expectations) and others have opted to continue to employ foreign workers in manual jobs.

In Saudi traditions, the extended kinship family is also seen to be important for both economic and social reasons (Saif, 2010). The degree of cooperation between relatives is an important characteristic of Saudi society providing both a social and business network and provides help in the case of illness, death or for events such as marriage. Furthermore, the importance of this networking, and the time involved in a regular process of family meetings (Saif, 2010), may be one reason why many Saudis will not take jobs that make significant demands on Friday and Saturday (El Eqtisadiyah, 2014).

It is within this complex context that the process of localisation needs to be considered and understood. The process of localisation (or Saudization) has not been straightforward and has met substantial resistance, especially in the private sector. Employers reported that they felt ‘victimized’ as it was unfair to blame them for the low levels of Saudi employment in the private sector (Fakeeh, 2009) in the late 1990s. Fakeeh (2009) notes that there was a strong feeling among employers that Saudisation would increase costs and leave them with an unskilled, unmotivated, workforce leading to company failures. In consequence, Fakeeh argues that the effective first reaction to Saudisation was “simply to ignore it” (Fakeeh, 2009, p, 108). She notes that some firms used their personal contacts to evade the requirements and that others felt they could not compete with the public sector for the very limited pool of potentially skilled workers.

However, Fakeeh also suggests that Saudi employer’s traditional bias against Saudi staff lessened as the few they did recruit proved to be committed and effective employees even if other employers persisted in arguing against employment of Saudis. Typical reasons included lack of technical skills, a lack of a customer focussed attitude (common among hotel and catering firms) and an unwillingness to work long hours and to put the needs of the firm over the needs of their family. Despite this resistance, Fakeeh (2009) notes that employers were aware of the need to reduce unemployment among locals but that overall “private business’s opinion of Saudisation’s objectives is generally negative” (Fakeeh, 2009, p. 115). This is a dynamic situation and some studies have suggested that after recent labour market reforms (i.e. Nitaqat policy) local workers have started to take less prestigious jobs in retail and manufacturing with reasonable success (Thunayyan, 2014).

The interviews with Saudi officials supports the notion that private sector employers have biases against Saudis and generally their negative perceptions are related to having been able, in the past, to exploit easy access to cheap labour. Thus, there is little sympathy with those who complain that they now need to adapt:

‘We know that companies in the private sector have accustomed themselves to the way to build their business plans, resources allocations and financial calculations based on the long availability of cheap foreign labour, either legal or illegal, and they took the advantage for this. So it is not surprising if they tell you today that Saudis are expensive because you know from where they come from... But, we believe all these negative attitudes will disappear gradually

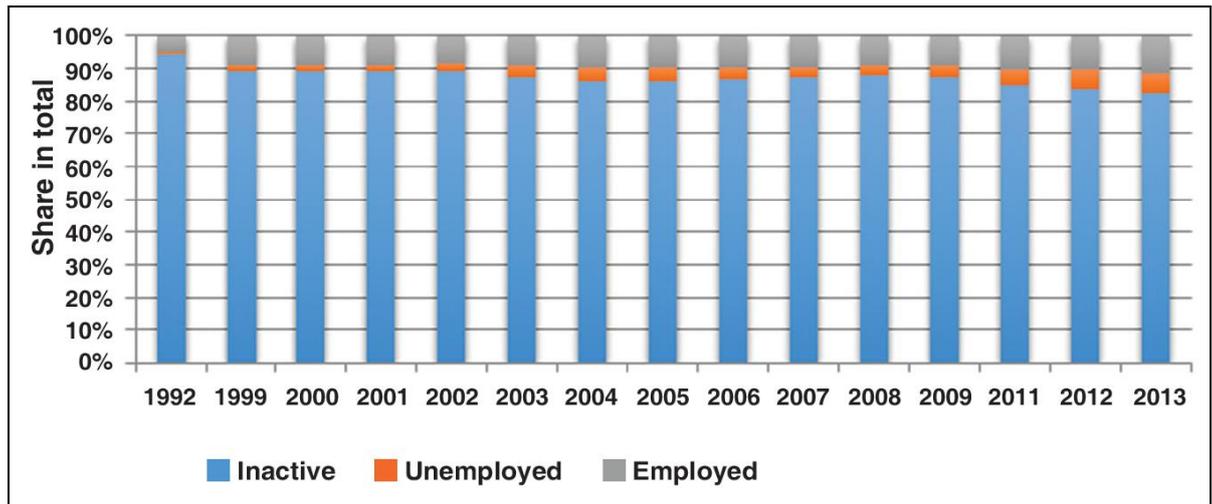
when they start to have no options but to employ locals' [Senior Official at the Ministry of Labour, B].

This lack of sympathy was re-iterated by another interviewee who was in charge of the HRDF with a focus on raising skills and staff development. In this case, they suggested that poor quality working conditions had put Saudis off applying to many companies. Again, easy access to cheap foreign labour (who have no legal rights) can be seen to have distorted the normal functioning of the economy:

'Private sectors employers should ask honest questions to themselves first before complaining about localisation... Do I have fair reward packages?... Do I provide local workers with clear development and promotions plans?... Do I have good working conditions such as reasonable working hours and comfortable workplace? ... if you don't have all of this, you should look in the mirror and blame yourself first and don't expect Saudis to be happy working for you' [Senior Official at Human Resources Development Fund]

#### **4.2.4 Female Unemployment**

The underutilisation of women in the workforce is another major imbalance in the Saudi labour market. Women constitute only 13 per cent of the total workforce in Saudi Arabia and mostly work in the public sector in education and health occupations (Central Department of Statistics and Information, 2013). As can be seen below in Figure 4-4, the overall share of economically active women (employed and unemployed but seeking employment) was 193,786 females in 1992 (around 5 per cent of all workers), increasing to around 1.5 million (around 17 per cent of total employment) in 2013 (De Bel-Air, F., 2015, p. 9).



**Figure 4-4: Saudi female population by relation to labour force (1992-2013)**

Source: (De Bel-Air, F., 2015, p. 10)

One of the explanations for the relatively high rates of female exclusion from the Saudi labour market relates to social norms. Gender segregation is one of key cultural and religious elements in the Saudi society. Social events are largely predicated on the segregation of women and men and the mixing of non-kin men and women remains uncommon (Samovar et al., 2010). This has implications in terms of work as companies traditionally have been expected to create all-female areas if they hire women. Of importance, the segregation rules are relaxed in hospitals, medical colleges and banks so the number of mixed-gendered workplace has increased in recent years, although they are still not common (International Monetary Fund, 2013a).

Saudi women are increasingly well educated and it has been estimated that around 50 per cent of those in work do so for reasons of self-esteem and status (Saif, 2010). However, financial issues are equally important with 52 per cent reporting that they work in order to sustain their families (Saif, 2010). This has led to a growing debate over the role of women in society not least, given the traditional role of women within the family unit, the move towards greater female participation in the labour force has been met with scepticism, debate, and even hostility in some cases (AlMunajjed, 1997). Within Saudi society, there are three different views about female employment. Some wish to see no restrictions or gender inequality in job distribution. Others object to the concept of female employment and believe that female work should be limited to house work. Finally some wish to see limited

participation, as long as this meets social and religious expectations (Al-Assaf, 1986).

In parallel with the recent labour market reforms, the government has responded by setting various rules and regulations as a framework for female employment in the private sector. Until recently most female employment in Saudi Arabia was in fields such as health or education and the private sector had limited experience in the employment of women. The new rules and regulations for the employment of female workers still take account of cultural and religious aspects (Ministry of Labour, 2013a). For example, employers are prohibited from assigning working hours for females in factories before 6 am or after 5 pm. Equally, they must provide separate facilities for female workers dedicated to the performance of prayer, breaks, and toilet facilities. Of particular relevance, genders must be separated in the work place i.e. in production lines in factories, kitchens in fast food restaurants, or check outs (cashiers) in the retail sector (Ministry of Labour, 2013a). Overall these rules have created disincentives for private sector firms looking to hire women since ambiguity still exists around what the rules mean in practice and how actively they are enforced (McKinsey Global Institute, 2015). In addition, there are barriers to work outside the need for gender-separation in the workplace:

‘Women in our country face tremendous barriers to employment in the private sector... besides the non-qualified working conditions and poor HRM systems that their male counterpart experiencing, they face social barriers such as gender mixing, family obligation and transportation issues...’ [Consultant for Nitaqat policy at Ministry Of Labour, A].

#### **4.2.5 Reform of the Education System**

Since 1970, the Saudi public school system has undergone substantial expansion but quality is perceived by some to have lagged behind the growth in capacity (Evosys Consulting Company, 2015). There has been substantial investment of around USD 50 billion per annum but real problems remain in terms of matching educational and vocational institutions to labour market needs (Evosys Consulting Company, 2015). According to the Brooking Institution report on Arab youth education, the pre-college education in Saudi has failed to meet the basic education requirements for

effective employment in particular in terms of mathematics, reading and writing skills (Steer et al., 2014).

Higher education has also witnessed a rapid expansion. Public universities increased from 8 in 2003 to 25 in 2014. Again there are quality issues in the delivery of higher education and poor links between programme provision and labour market needs. For example, on average, 60 per cent of female graduates in the last decade specialised in humanities, religion, and teaching which employers in the private sector say are ill-suited to current labour market demand (De Bel-Air, F., 2015). In addition, universities face dropout rates of close to 50 per cent (McKinsey Global Institute, 2015) indicating either problems with the quality of provision or care in selecting students. Over the last decade the Saudi government has tried to remedy some of the quality issues by sending more students abroad for postgraduate programmes (De Bel-Air, F., 2015).

In respect of technical and vocational education, in Saudi Arabia there are now around 120 public vocational institutions along with more than one thousand accredited private institutions (run independently as a training institutions, or under large firms tailored to their specific needs). These offer practical courses in fields such as electrical, electronic, computer, mechanical engineering, communication, construction and business (Evosys Consulting Company, 2015). Despite the availability of technical and vocational institutions, only around 10 per cent of each cohort of students entering tertiary education join such institutions (McKinsey Global Institute, 2015). The low participation may reflect the cultural bias against technical jobs. According to the McKinsey's survey on vocational perception, 75 per cent of Saudi youths sample viewed an academic degree as being more valued by society than vocational qualification (Mourshed et al., 2014).

A senior official acknowledged deficiencies in the education system and highlighted that one of Nitaqat Challenges is

‘The Ministry of Labour found itself held accountable for the mismatch between the education output and labour market requirements ... we know that this is not our responsibility in the first place, it is the Ministry of Education... However, we have to deal with it and encourage the private sector through our subsidised training programmes to help us bridging the gaps and smoothen the

transition of Saudis graduates to the labour market' [Senior Official at Human Resources Development Fund].

In the individual case studies, there are examples where firms cannot recruit Saudis due to gaps in the educational system not producing the type of skilled graduates needed.

### ***4.3 Pre Nitaqat Quota Systems (1970s- 2010)***

By the early 1970s, the government acknowledged that the labour market was distorted by the low participation of local workers in the private sector (Fakeeh, 2009). Therefore, the government introduced quotas as the main tool to encourage the private sector to employ more Saudis (Achoui, 2006; Al-Dosary and Rahman, 2009; Forstenlechner and Rutledge, 2011; International Monetary Fund, 2013a; SAMIRAD, 2010), with this known as the 'job localisation policy'. The aim was to ensure that 75 per cent of the workforce would be locals and around 50 per cent of salaries paid by firms should go to locals (Al Smari, 2008; Fakeeh, 2009) and to encourage Saudi nationals to take jobs in the private rather than the public sector (Ramady, 2010). However, ongoing rapid economic growth and the need to employ foreign workers in the construction industry undermined the policy which was not systemically implemented in any case.

A second attempt at localisation occurred in the mid-1990s when it became apparent that Saudi Arabia was employing millions of foreign workers at the same time as 11 per cent of the potential local workforce was unemployed. The government introduced a new workforce localisation policy with three main objectives: 1) immediate reduction of unemployment levels; 2) ensure jobs for local workers entering the labour market; and, 3) gradual replacement of foreign workers (Fakeeh, 2009). In order to achieve this, the government imposed localisation quota to make firms increase the proportion of local workers by 5 per cent annually (Al-Asmari, 2008). This replaced the earlier 75 per cent target as it was realised this was not realistic as local workers simply could not take up all the jobs being created in a period of significant expansion. Again, implementation was flawed especially as there was no information collected to check on progress and the targets took no account of the circumstances of different firms (Mahdi, 2000; Mellahi, 2007).

In 2003, this approach in turn, was revised and a localisation quota of 30 per cent for the private sector was introduced (Wynabrandt, 2010). Again, the intention of the regulations was to increase employment of Saudis (Looney, 2004) and the quota was supported by restricting certain jobs and commercial activities to locals (Al Humaid, 2004). In addition, there was an overall goal of reducing the number of foreign workers by 3 million in the next decade, and that the total number of foreign workers was not to exceed 20 per cent of the total population by 2013 (Ramady, 2010).

In 2006, the 30 per cent quota was reduced to 10 per cent for some sectors after negotiations between business executives and senior officials as few Saudis applied for these jobs in any case (Ramady, 2010). In 2008, other sectors saw their target reduced, this time to 20 per cent (Hawari, 2008). A common criticism again was that the targets were arbitrary and took little account of the realities of the Saudi economy (Al Humaid, 2003; Fakeeh, 2009) In addition, inspection and review was weak with a number of cases of corruption of inspectors.

This allowed some firms to record non-existent Saudi workers in order to meet the notional quota. Sometimes this involved paying individuals for the use of their name and in other instances use was made of people who were "disabled ", "semi-permanent residents abroad ", "inactive women" and the "elderly" None of these categories were likely to look for work and therefore they would not discover that a company was registering their names (Bagazi, 2010). This process of "*phantom employment*" became a 'practice whereby private sector companies list names of Saudis on their payrolls that either do not exist or do not work at the company in order to achieve set targets of quota' [Nitaqat Policy Consultant, Ministry Of Labour].

In addition, the government undermined its own localisation process by not dealing with the supply of foreign workers. The process of issuing visas remained decentralised and poorly monitored leading to corruption, favouritism and an increase of foreign workers beyond what the economy needed (Al Humaid, 2003). Furthermore, weak monitoring and enforcement of the immigration laws led a black market where foreign work visas were traded between companies, individuals and foreign workers (Al Humaid, 2003) and the emergence of illegal outsourcing

companies who took on the role of recruiting foreign staff for companies. Even when a company was caught breaching the regulations, fines were limited and it was possible to evade any restrictions that were imposed by resort to the black market. Even if a firm was officially barred from recruiting foreign workers, it was easy to do so from the illegal recruitment sector. In effect, the regulatory system was characterised by close relations between officials and certain firms that led to favourable decisions. An interviewee involved in designing the new process noted that past practice meant it had been:

‘Easy for companies to evade localisation implementation because there were many loopholes in design of penalty and monitoring system. Let’s say you didn’t comply with the quota required, what’s going to happen to you? Nothing! You still can buy illegal foreign workers visas from the black-market, recruit undocumented labour, or clean your record if you know someone at the Ministry of Labour’ [Consultant for Nitaqat policy at Ministry Of Labour, A]

However, the pre-Nitaqat systems were not just about monitoring and targets. To support workforce localisation efforts, the government established a Human Resources Development Fund (HRDF) in 2000 as an independent entity backed by US\$ 1 billion aiming to increase private sector employers preference for local workers through providing subsidies for training and employment. This included paying a proportion of newly recruited locals’ wages for between two years to four years in order to allow them build up work experience (Human Resources Development Fund, 2010; International Monetary Fund, 2013a). Officials have stated that the HRDF has ‘helped some large companies to recruit and invest in local workers training and development’ [Senior Official at Human Resources Development Fund] and is becoming an important tool to help the private sector adapt.

However, the lack of effective monitoring again undermined the impact, as some firms were able to receive the subsidy without meeting its objectives. In addition, in many cases, firms misused the subsidy by dismissing local workers after the subsidy period, use of phantom workers to claim allowances or asking employees to transfer half the wages subsidy back to the firm [Monitoring and Inspection Manager at Ministry of Labour].

Overall, the pre-Nitaqat localisation regulations were characterised by poor design and very weak enforcement. The result was that most firms continued to rely on foreign workers resulting in low labour costs and also low productivity. A major practical problem was the weak linkage between the notional localisation targets, the differences facing different sectors of the Saudi economy and the issuance of visas for foreign workers. Finally, even though the HRDF was an attempt to build up the skills of Saudi workers, it was mainly focussed on training rather than wider HRM issues.

## ***4.4 Objectives of Nitaqat***

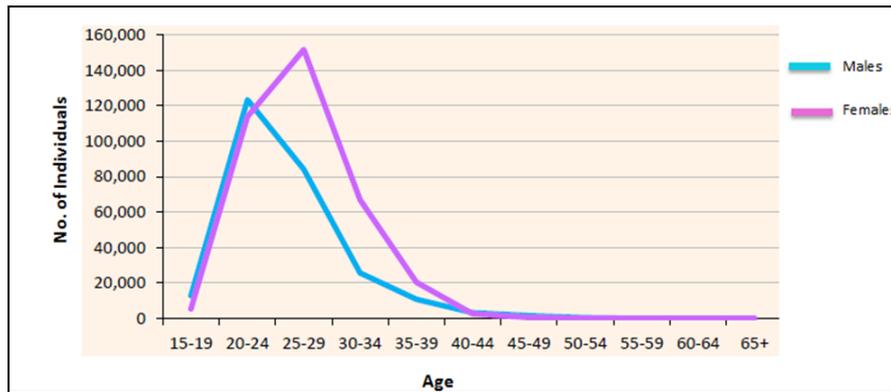
### **4.4.1 Reasons for its Introduction**

By 2010, it was clear that previous localisation attempts had failed to either increase the take up of Saudis in the private sector or to raise productivity. An official responsible for the design of Nitaqat noted:

‘When you look back at localisation practices in the private sector in 2010, very few large companies have fulfilled the objectives of the previous policy, by having locals in various jobs in their organisation. However, the majority have continued to rely mainly on the foreign workers, and if they recruit Saudis, you will see them in few inactive positions’ [Senior Official at Ministry of Labour, A]

Equally, growth of employment in the public sector stalled and this led to a steady rise in domestic unemployment. In consequence, the need to increase the employment of Saudis in the private sector became more pressing.

Official statistics show that the number of unemployed locals in 2013 was over 600,000 giving an unemployment rate of 11.7 per cent of those in their twenties to late thirties. The unemployment rate for local males is 6.1 per cent, whereas for females this is 33.2 per cent. Given the high birth rate, this situation will worsen unless jobs are found for the young people currently in full time education (De Bel-Air, 2013).



**Figure 4-5: Unemployment by Age and Gender**  
(Source: Central Department of Statistics, 2013)

One particular problem in Saudi Arabia is the high number of individuals who are unemployed after gaining a university level qualification. This is closely related to recent changes which encouraged women to take up higher education but was not matched by providing employment opportunities. In consequence, 70 per cent of the unemployed graduates are women (Central Department of Statistics and Information, 2013).

The government in recent years has realised the implications of the rapid growth of a young adult population and stressed the importance of job creation of between two to three million jobs every five years in the period ahead in order to provide employment for local workers (Central Department of Statistics and Information, 2014). There are two options to achieve this. One is of general economic growth and the second is workforce localisation to bring Saudis into the labour market and reduce the number of foreign workers.

Related to the problem of domestic unemployment is a need to raise the productivity of other sectors as all the Gulf States try to reduce their dependence on petrochemicals. In this respect, one of the long term aims of labour market reforms objectives is support the new economic objectives to transfer the economy gradually from labour intensive work to a knowledge based economy (Forstenlechner and Rutledge, 2011). This requires a shift of private sector dependence from cheap labour particularly in menial and low skilled jobs to become an innovative sector which invests in technical advances and requires greater reliance on human intellectual competences. In turn, this means that Nitaqat cannot just focus on quantitative targets

but also needs to address the low productivity of the Saudi private sector (International Monetary Fund, 2013a).

#### **4.4.2 Structure of Nitaqat**

Overall Nitaqat has taken a different approach to previous localisation policies. It is still concerned with reducing the reliance on foreign workers but has also tried to address fundamental issues such as the reluctance of firms to recruit locals and local workers unwillingness to work in the private sector. Linked to this, is a focus on improving the employment of women (Ministry of Labour, 2013a). The *Nitaqat Manual* (Ministry of Labour, 2013b) identifies three official objectives of: 1) Provide more job opportunities for local citizens; 2) Bridge the gap in competitive advantage between local job seekers and foreign workers by raising the cost of foreign workers; and, 3) Encourage firms to invest more in human resources to provide quality jobs that meet the ambition of local workers. The goal is that in combination, this will both reduce unemployment and raise productivity.

However, while these are the formal goals set out in the manual for Nitaqat from the various sources of secondary data provided, through the interviews with policy level participants, it was possible to identify three different types of objectives (Macro, Labour Market, and Organisational).

The macro-level goals match those in the manual but also stress the contribution to social, economic and political stability jobs (Ministry of Labour, 2013). The wider political stability is considered as an important goal and that Nitaqat was designed to return the domestic labour market to a normal structure where local workers were employed in a range of jobs. Thus, senior officials who were interviewed both identified wider political stability as an important goal and that Nitaqat was designed to return the domestic labour market to normal working:

‘When we designed and implemented Nitaqat, we looked at the country from a holistic perspective, we have looked at the countries short and long run political, social and economic stability’ [Nitaqat Policy Consultant at Ministry Of Labour]

This links to overall economic plans as the intention was to raise the cost of labour and encourage investment in capital and staff development.

‘To correct the deformations in the Saudi economy and its dependency on intensive foreign labour.... We expect Nitaqat to strangle the supply of cheap foreign workers and hence encourage new and existing business to move toward capital-intensive production’ [Senior Official at Ministry of Labour B].

This is important as it suggests that the Saudi authorities are aware that Nitaqat will increase labour costs. Equally, it suggests that officials are expecting to see labour substitution (by technology). However, it is equally clear that neither of these goals have been explicitly communicated in Nitaqat official manual.

The labour market objectives are as set out in the manual (Ministry of Labour, 2013b) and include increasing the demand for local workers and decreasing the demand of foreign workers. The organisational level objectives also revolve around reducing the employment of foreign workers and provide job opportunities for local workers as well as improving the HRM system in the private sector. In particular, there were high emphasise on HRM role as one of the main tools the government want to influence in companies to enhance localisation in the private sector. Officials argued that they are not trying to influence particular HRM approach inside firms but they do believe that Nitaqat will make the old hire and fire practices hard to maintain

‘Today we are expecting a demand increase for Saudi labour by the private sector and therefore competition amongst companies to recruit and retain Saudis will increase... Those companies who invested in HRM infrastructure will survive and those who are not will face problems and instability’ [Senior Official at Ministry of Labour, B]

This infrastructure includes an

‘HR management teams and systems that can attract locals through offering for them good job contents in various level of the organisation with attractive reward packages, career development and promotions, and provide reasonable working conditions’ [Senior Official at Ministry of Labour, A].

From the interviews with policy level participants, there was also a linkage between the goal of reducing foreign labour and automation ‘... lead to lower dependency on cheap foreign workers and higher dependency on innovative solutions such as automation’ [Senior Official at Ministry of Labour, A], however, this is not articulated consistently. Staff in firms, saw the challenge as improving the proportion of Saudi staff in their workforce rather than use automation to reduce overall labour demand. This maybe a matter of timing, in effect, the early strategic response to

Nitaqat has focussed mostly on improved recruitment of Saudis but as the labour market becomes more constricted, firms may shift their attention to a reduction of overall numbers of workers.

The new approach to HRDF also combines both penalties and incentives. In particular, it is funded from a levy on private sector employers who have a workforce made up of more than 50 per cent of foreign workers. These companies have to pay SR 2,400 (USD 640) a year for each foreign worker. Thus, the levy is both designed to help the employment of Saudi nationals and funded by those firms most reliant on foreign labour (Ministry of Labour, 2014b). HRDF has also altered its focus from training and wage support and started to take on the role of promoting better HRM practices.

In addition to much stricter implementation, the MOL for the first time has created an overall communication plan for Nitaqat as a support mechanism, using different media source, such as live TV, YouTube and Twitter to communicate policy implementation mechanisms, aims and results to stakeholders. In 2011, the MOL launched introductory short episodes to promote Nitaqat using illustrative infographics on live TV and YouTube (Ministry of Labour, 2011). In addition, detailed conferences about Nitaqat implementation mechanisms, incentives and penalties were held with different cities' Chamber of Commerce where officials directly interacted with business owners and executives (Riyadh Chamber of Commerce, 2011). This has been supplemented by the production of videos showing how some firms have successfully created localisation strategies using the framework of "*Pillars of Localisation Success*" (Ministry of Labour, 2012). In addition, case studies of how some firms have adapted and have been prepared (Ministry of Labor, 2012).

In summary, Nitaqat represents a major change in the implementation of the Saudi Government approach to localisation as the state has decided that attempts at voluntary compliance have failed. As a result, Nitaqat is backed by clearly articulated targets and strict enforcement. It retains incentives (such as retaining access to the foreign labour market) for compliant firms, and the HRDF has been expanded to provide more support for employers but it is essentially a coercive approach designed to ensure compliance. The different ways that the individual

firms have interpreted Nitaqat, is explored in the later chapters but all note the importance of being compliant with the new regulations – at least in terms of meeting the quantitative targets. However, there are areas where the policy views articulated by interviewees and those set out in the documentation are not yet in line with each other.

One is the goal not just of improving the ratio of Saudis in the labour force but reducing overall labour demand via automation. Second, although the problems of poor existing HRM are noted by policy makers (low wages, lack of career structure, poor working conditions) improving HRM practice is not a direct goal. There are elements that contradict this (such as the HRDF) but these are focussed primarily on using training to ease the process of recruiting Saudis to existing jobs. As identified above, overall, Saudi officials are aware that they cannot directly influence this aspect of organisational behaviour but hope that the pressures created by Nitaqat will lead to improvements in HRM practice as firms adapt in order to cope.

#### **4.4.3 The Quota System within Nitaqat**

The new approach has sought to deal with localisation in the wider context of economic management. Thus, it preserves the basic goal of increasing the employment of Saudi nationals but does not use the simple, quantitative, quota system of the earlier approaches. In terms of targets, Nitaqat classifies firms depending upon their localisation performance and firms are segmented into four zones or bands, as Platinum, Green, Yellow and Red.

However, the proportion of locals required for each level varies by sector and company size (Ministry of Labour, 2013b). In addition, the salary levels of local workers' wages has been included as part of the target setting as it is necessary to pay a monthly salary of at least SR 3,000 (USD 800) in order to count as a "full" Saudi employee (Ministry of Labour, 2013b). This is important as it effectively sets a minimum wage for Saudi employees and this has an impact on how firms seek to recruit staff. In addition, the quota percentages are subject to slight amendments after periodical reviews of firms' performance and labour market conditions and economic demand evaluation (Ministry Of Labour, 2011).

Moreover, as set out in table 4-2 (next page), the penalties and incentives shift according to company performance. Firms that perform well (i.e. are in the platinum and green ranges) are given more flexibility in how they access the foreign workers labour market. While there are also incentives to assist firms in the yellow and red zones improve their recruitment practice, fundamentally Nitaqat is framed to penalise their behaviour. Thus, such firms are barred from further recruitment of non-Saudis and severely restricted in terms of their ability to manage their existing foreign workforce. A senior official stressed that Nitaqat has deliberately been made more coercive as relying on good will has:

‘Been exhausted in the past twenty years with very little success. Private companies have invented various tricks to circumvent the workforce localisation initiatives contributed to the deepening of the existing distortion in the labour market’ [Senior Official at Ministry of Labour].

**Table 4-2: Localisation Performance Incentive and Penalty Schemes**

|  |                   |  |
|--|-------------------|--|
| <b>PLATINUM RANGE</b><br>Entities achieving beyond average quota performance | Incentives        | <ul style="list-style-type: none"> <li>• Complete freedom in hiring employees</li> <li>• Easier visa processing</li> <li>• Freedom to issue new visas</li> <li>• Freedom to change profession of employees</li> <li>• Condition-free visa transfer</li> <li>• Freedom to hire employees from Red and Yellow zones and transfer their visas</li> <li>• Receive employment or training subsidy for newly recruited locals receiving monthly of \$1060, \$800, \$530, \$260 for four consecutive years</li> </ul> |
| <b>GREEN RANGE</b><br>Entities achieving a good quota performance            | Incentives        | <ul style="list-style-type: none"> <li>• Freedom to apply for new visas</li> <li>• Freedom to change foreign workers'' profession</li> <li>• Freedom to renew work permits</li> <li>• Freedom to recruit employees from Red and Yellow zones and transfer their visas</li> <li>• Receive employment or training subsidy for newly recruited locals, receiving monthly of \$800, \$530, \$260 for three consecutive years</li> </ul>  |
| <b>YELLOW RANGE</b><br>Entities achieving below average quota performance    | Incentives        | <ul style="list-style-type: none"> <li>• Free to issue one visa after the departure of two expatriates</li> <li>• Receive employment or training subsidy for newly recruited locals receiving monthly of \$530 for two years</li> </ul>  |
|  | Punitive Measures | <ul style="list-style-type: none"> <li>• Not free to issue new expat visas</li> <li>• Not free to transfer expatriate visas and change professions</li> <li>• Banned from renewing their expatriate work permit after completing six years</li> </ul>  |
| <b>RED RANGE</b><br>Non-compliant entities                                   | Incentive         | <ul style="list-style-type: none"> <li>• Receive employment or training subsidy for newly recruited locals receiving monthly of \$530 for two years</li> </ul>   |
|  | Punitive Measures | <ul style="list-style-type: none"> <li>• Banned from changing expatriate workers profession, renewing permit, transferring visas, issuing new visas and opening files for new branches.</li> </ul>   |

(Source: Ministry of Labour, 2013b)

#### 4.4.4 Monitoring

An important difference between Nitaqat and earlier localisation approaches is in terms of monitoring with this linked to other official databases such as the General Organisation of Social Insurance (GOSI) for local workers' data and Ministry of Interior (MOI) for foreign workers' data. This step is claimed to revolutionise the localisation monitoring system as it allows the MOL to monitor all firms remotely, instead of the previous random manual inspections, helping to close most of previous implementation monitoring loopholes (Ministry of Labour, 2013b). In addition, all the service transactions between MOL and private firms have become electronic as individual firms interact through their own portal in the MOL website.

All foreign workers visa issuance and approval now goes through committees instead individuals to increase the efficiency of the control and monitoring system. Some types of foreign work visas are approved electronically (Ministry of Labour, 2013b) and this has reduced the scope for evasion and bribery that undermined the older systems. This is supplemented by the recruitment of additional inspectors, as the MOL recruited around 1200 first line inspectors (previously there were only 25) to ensure private firms compliance with immigration laws (Al Hamid, 2013). These inspections are systematic and responsive to analyses of suspicious patterns derived from the monitoring system (Ministry of Labour, 2013b; Ministry of Labour, 2014b).

‘We have tried to close all the loopholes in the system and strictly monitor the behaviour of the firms electronically... if we discover any new loopholes we deal with it immediately... no one can escape and we have no exceptions whatsoever’ [Nitaqat Program Manager at Ministry of Labour]

In addition, there has been a major crack down on the black market in work visas. Non Saudis found in breach of immigration laws such as having overstayed their permission to remain in Saudi Arabia or working with a non-sponsor are likely to receive fines (SR 15 thousands [USD 4 thousands] to SR 50 thousands [USD 13 thousands]), possible imprisonment (from 3 to 6 months) and a deportation order with possible travel ban to Saudi Arabia for a period of time. Firms who do not comply with foreign workers laws (i.e. by employing illegal workers) can face substantial fines and possible imprisonment (Ministry of Interior, 2012).

## ***4.5 Concluding Remarks***

The Saudi economy has much in common with that of the other Gulf States but there are some critical differences. Until recently, all were largely reliant on petrochemicals for state revenues. In turn, these revenues were then used to fund relatively generous social benefits for nationals and a large public sector (Boer et al., 2008) and these approaches were used to transfer state wealth to private individuals. More recently, the theme of localisation has become a major concern. In the smaller Gulf States, this has concentrated on take up of jobs in areas such as petrochemicals, health and education (Al-Ali, 2008; Al-Rashdy, 2007; Common, 2008; Forstenlechner et al., 2012b; Salih, 2010). The dynamics in Saudi Arabia are different, in part due to the much larger domestic population. To ensure full employment of the local labour force, there is a need to ensure that the private sector also adapts (Al Humaid, 2003; Sadi and Henderson, 2010; Salih, 2010).

The process of Saudisation has been formal state policy since the late 1970s but overall has had little effect (Al Humaid, 2003; Sadi, 2013) until recently. In part, it has faced problems of the attitudes of Saudi nationals towards working in the private sector, but also that private sector firms have become reliant on cheap, relatively well trained, non-local staff. This has led to a culture of cheap labour and low productivity, which holds back the wider economic goal of developing the non-petrochemical sector.

From my interviews with the private sector and available documentation, it is clear that Nitaqat is essentially seen as a coercive attempt to force major change in the Saudi private sector. As discussed in chapter two, the core is a quota system where firms are given a target of a proportion of their total workforce who have to be Saudi nationals. Help is available in terms of defraying the costs of training but fundamentally, if a firm is non-compliant, it will lose access to the foreign labour market. Since this access remains critical for company success, meeting the Nitaqat targets is very important. However, as with other quota systems, there is a risk that the focus on meeting numerical targets (Reskin, 1998) will be more important than addressing other goals such as raising labour productivity (Mellahi, 2007).

In terms of the discussion about Dynamic Capabilities in chapter two, the pre-Nitaqat labour market can be characterised as being stable and making little demand on the firms to improve their HRM capacity (Ambrosini et al., 2009). However, at the very least, Nitaqat has raised the cost of labour and introduced substantial competition for Saudi workers. As discussed in chapter two, Gilbert (2006) argues this type of situation creates a need for very different approaches to HRM if the firm is to survive. In effect, if the assumptions of Dynamic Capabilities are correct, then the introduction of Nitaqat should see either firms improve their HRM capacity or find other coping strategies (Lengnick-Hall et al., 2011). Since Nitaqat has such a strong emphasis on compliance to the targets, it is feasible that most firms have initially concentrated on this aspect rather than the less well articulated goals of raising overall productivity.

## **Chapter 5 : LocalSteelCo and SugarMillsCo**

### ***5.1 Introduction***

As identified in chapter three it was possible to cluster the six separate case studies into three rough groups. This chapter concentrates on two firms that were already recruiting substantial numbers of Saudi nationals even before the introduction of Nitaqat. From the discussion in chapter four, it is clear this was relatively unusual given the high level of evasion and low level of effective monitoring of the earlier rules. Against this background what this chapter explores is what other factors, besides the formal regulatory structure, might explain this difference.

Two primary reasons stand out in this respect. First, the management of both companies include a high proportion of Saudi nationals and this seems to have led them to a chosen commitment to localisation. In effect, organisational culture played an important role. However, this led on to the second issue. Both firms had problems (one with imports and the other a dispute with some local people) and were backed by the Saudi state. They believed they received this support as they were already committed to localisation but then increased their recruitment of Saudis as a means to repay the favours they had received. This suggests that reliance on the state reinforced their existing commitment.

This chapter starts by setting out some background issues for both companies, in particular their staffing profile before and after the introduction of Nitaqat. It then considers what factors may have led to their, relatively unusual, pre-Nitaqat staffing profile before moving on to consider what impact Nitaqat has had on their HRM capacity. In the case of these two firms, the evidence is that Nitaqat did not lead to a radical shift of strategy but the capacity they already possess meant they were well placed to adapt to the new labour market and to adjust their recruitment and retention strategies. The final section considers how the information from these two case studies informs the theoretical discussion in chapter two.

## ***5.2 Background***

### **5.2.1 LocalSteelCo**

LocalSteelCo is a private local steel manufacturing factory that was established in the early 2000s. It has a current production capacity of over 1 million ton/year. The factory is running all year and produces about 35 per cent of the local market needs and also exports to Gulf countries, as well as other neighbouring countries.

The company is looking to increase production to reach more international markets and maintain quality and competitive prices. The factory floor contains large smelting furnaces for the raw materials, refinery, pouring, rolling mill, surfacing, inspection and testing and then the cut off zones. Each production zone has its managers, specialists, supervisors, operators, technicians and labourers. The company's total workforce is around 1300 employees and almost 78 per cent of the workforce is located in the factory floor. The company has explicitly expressed its commitment to workforce localisation through its objectives posted on its website. The website describes their approach to recruiting Saudis as: 'We are a multi-national workforce Saudi company. We acknowledge our national duties and are proud of our heritage. We continue to attract Saudis and qualify them for technical and leadership positions. Saudisation percentage now stands at around 35 per cent of the total workforce'. In addition, the firm identifies both progress in localisation and improving relations with the local community as important parts of its Corporate and Social Responsibility strategy.

The staffing profile is:

**Table 5-1: Employment Data: LocalSteelCo**

| <b>2010</b>  |  |                                |  |  |   |  |   |
|--|--|--------------------------------|--|--|---|--|---|
| <b>Main Job Titles in different floor divisions</b><br>(Production, Quality Assurance, Technical and Maintenance, Health & Safety, Utility, Warehouse) | <b>No. Local Employees</b>   | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local Workers</b> | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>                   | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> | <b>Annual Local Employees Turnover Rate (%)</b> |
| <b>Managers</b>  | 9  | 29                             | 0  | 38   | 24  | 3  | Less Than 5%                                    |
| <b>Engineers and Specialists</b>   | 32   | 12                             | 0  | 44   | 73  | 3  |   |
| <b>Supervisors and Forman</b>  | 4  | 162                            | 0  | 166  | 2   | 12   |   |
| <b>Operators</b>   | 36   | 95                             | 0  | 131  | 27  | 10   | 5   |
| <b>Technicians</b>   | 165  | 238                            | 0  | 403  | 41  | 30   | 14  |
| <b>Low Skilled Labours</b>   | 0  | 65                             | 132  | 197  | 0   | 15   | N/A   |
| <b>Other Floor Employees</b>   | 32   | 19                             | 0  | 51   | 63  | 4  |   |
| <b>Non- Floor Employees</b>  | 124  | 193                            | 0  | 317  | 39  | 24   |   |
|  | <b>402</b>   | <b>813</b>                     | <b>132</b>                                 | <b>1347</b>  | <b>30</b>   |  |   |
|  | Total No. of Employees Without Outsourced Non-Local Workers= <b>1215 Employees</b> |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= <b>33%</b>  |  |   |
| <b>2013</b>  |  |                                |  |  |   |  |   |
| <b>Main Job Titles in different floor divisions</b><br>(Production, Quality Assurance, Technical and Maintenance, Health & Safety, Utility, Warehouse) | <b>No. Local Employees</b>   | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local</b>         | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>                   | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> | <b>Annual Local Employees Turnover Rate (%)</b> |
| <b>Managers</b>  | 14   | 23                             | 0  | 37   | 38  | 3  | Less Than 5%                                    |
| <b>Engineers and Specialists</b>   | 37   | 16                             | 0  | 53   | 70  | 4  |   |
| <b>Supervisors and Forman</b>  | 21   | 153                            | 0  | 174  | 12  | 13   |   |
| <b>Operators</b>   | 55   | 84                             | 0  | 139  | 40  | 10   | 25  |
| <b>Technicians</b>   | 204  | 268                            | 0  | 472  | 43  | 34   | 32  |
| <b>Low Skilled Labours</b>   | 0  | 83                             | 65   | 148  | 0   | 11   | N/A   |
| <b>Other Floor Employees</b>   | 36   | 23                             | 0  | 59   | 61  | 4  |   |
| <b>Non- Floor Employees</b>  | 119  | 183                            | 0  | 302  | 39  | 22   |   |
|  | <b>486</b>   | <b>833</b>                     | <b>65</b>                                  | <b>1384</b>  | <b>35</b>   |  |   |
|  | Total No. of Employees Without Outsourced Non-Local Workers= <b>1319 Employees</b> |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= <b>37 %</b> |  |   |

Perhaps the key issue is that overall the company's workforce has remained static and that pre-Nitaqat the proportion of local employees was already high at 33 per cent and has increased slightly to 37 per cent at the time of the research. The company was fully aware that Nitaqat contains both incentives and penalties, as:

‘Nitaqat is a carrot and stick programme, trying to raise the representation of local workers in all job levels in private firms and make companies improve Its HR systems, to develop and maintain them’ [Recruitment Manager, LocalSteelCo]

Since overall staffing numbers have remained static, this growth in the number of Saudi staff has come through a continuation of the ongoing strategy of employing Saudis in most roles. The company only uses external outsourcing firms to recruit low skilled workers and the number recruited from this source has dropped from 132 in 2010 to 86 in 2013 as the costs of using these services has increased. However, the company continues to rely on non-Saudi staff to fill this role and has substituted

directly employed foreign workers to compensate for the reduction in the number of outsourced workers.

The outsourced workers were a particular problem. On the one hand, they did not count for the localisation quota (as they notionally remained employed by another firm) but on the other hand, recruiting from the outsourcing companies left the firm vulnerable to being charged with employing illegal workers:

‘We were relying on nearly 120 low-skilled illegal foreign workers because it is not easy to recruit them internationally, at the same time, you don’t want them to be counted in your workforce localisation quota. Also, these outsource companies give you the advantage to get rid of all the hassles of accommodation, transportation, government paperwork, and visa costs ...’ [Human Resources Director, LocalSteelCo].

As with many firms, Nitaqat has brought increased turnover of Saudi staff due to competition for labour. Thus, turnover of Saudi plant operators and technicians has increased from 5-14 per cent to 25-32 per cent. As discussed below, this has led to an increased use of HRM systems in an attempt to reward staff who stay. As noted in the quote above, the firm clearly links coping with Nitaqat to having to improve HRM approaches:

‘Nitaqat has been introduced to encourage the private industry investment on local workers and create a sense of urgency to push private firms to improve working conditions for the local worker and improve its HR systems to recruit, develop and retain local workers’ [Vice President, LocalSteelCo].

In addition, despite their relative success in localisation, the firm believes it still faces attitudinal problems from its new Saudi recruits. In turn, it believes this is a major factor in increasing turnover:

‘Local workers are not patient enough to stay in a specific role for a reasonable period. This is making localisation a hard task for us... We want to promote local employees but they have to show in return some patience to learn... Local workers don’t always show a desire to climb the ladder moving from entry operation to supervisory or managerial level. They even sometimes reject taking some assessment to be promoted. Most local workers do not understand the importance of investing in developing themselves’ [Human Resources Manager, LocalSteelCo].

This suggests that the firm still faces challenges with its staff development strategy. It clearly wishes to develop and promote Saudi staff, but faces some resistance if it asks those staff to undertake extra work or study. On the other hand, although the

numbers are relatively small, a measure of LocalSteelCo's commitment to localisation is the shifting proportion of Saudi staff in management roles at a time when the total number of such jobs has not increased.

Overall, the main additional recruitment of Saudi nationals has been among operators and technicians. The only function with no local staff is that of 'low skilled labourers' and here the firm has reduced the number of such posts in any case. Generally, the firm was already recruiting both Saudi and foreign staff to most roles in the firm and has continued to do this under Nitaqat. This fits with the company's underlying goal of appointing Saudis to all types of work.

### **5.2.2 SugarMillsCo**

This company was established in late 1990s as a private local sugar refining factory specialised in producing white sugar. The production is distributed to local and global markets, especially in Asia, north and east Africa. The company went through financial challenges for couple of years after its establishment as a result of increasing competition from imported sugar traders. The company started to make a profit after receiving government support through imposing 20 per cent tariff protection against imported sugars. In the mid-2000s, the company expanded its facilities and now operates constantly, reaching production capacity of 1 million ton each year (3,000 ton each day). In addition, it has increased its local market share from 20 per cent in 2005 to 60 per cent in 2013. The company aims to provide high quality sugar, securing long-term stability of price and continuously expanding its sales locally and internationally.

The company has around 807 employees, and has no female employees. Almost 77 per cent of the company's workforce is located in the refinery floor. The main jobs titles distributed in floor for different production zone are: managers and specialists, supervisors, operators, technicians and low skilled labourers. The company is considered to be the best achiever among all participating companies in workforce localisation implementation. The local workforce percentage has been maintained above 50 per cent for the last 5 years.

The staffing profile is:

**Table 5-2: Employment Data: SugarMillsCo**

| <b>2010</b>   |   |                                |  |  |   |  |   |
|---|---|--------------------------------|--|--|---|--|---|
| <b>Main Job Titles in different floor divisions</b><br>(Production, Chemical Lab, Quality Assurance, Maintenance, Development, , Health & Safety, Utility, Warehouse) | <b>No. Local Employees</b>  | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local Workers</b> | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>                   | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> | <b>Annual Local Employees Turnover Rate (%)</b> |
| <b>Managers</b>   | 38  | 27                             | 0  | 65   | 58  | 6  | Less than 2%                                    |
| <b>Engineers and Specialists</b>  | 33  | 62                             | 0  | 51   | 65  | 5  |   |
| <b>Supervisors and Forman</b>   | 27  | 57                             | 0  | 84   | 32  | 8  |   |
| <b>Operators</b>  | 83  | 79                             | 0  | 162  | 51  | 16   | 14  |
| <b>Technicians</b>  | 49  | 57                             | 0  | 106  | 46  | 10   | 12  |
| <b>Low Skilled Labours</b>  | 115   | 19                             | 123  | 257  | 45  | 25   | 26  |
| <b>Other Floor Employees</b>  | 38  | 7                              | 0  | 45   | 84  | 4  |   |
| <b>Non-Factory Floor Employees</b>  | 120   | 77                             | 0  | 197  | 61  | 19   |   |
|   | <b>503</b>  | <b>385</b>                     | <b>123</b>                                 | <b>1011</b>  | <b>50</b>   |  |   |
|   | Total No. of Employees Without Outsourced Non-Local Workers= <b>888 Employees</b> |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= <b>57 %</b> |  |   |
| <b>2013</b>   |   |                                |  |  |   |  |   |
| <b>Main Job Titles in different floor divisions</b><br>(Production, Chemical Lab, Quality Assurance, Maintenance, Development, , Health & Safety, Utility, Warehouse) | <b>No. Local Employees</b>  | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local</b>         | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>                   | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> | <b>Annual Local Employees Turnover Rate (%)</b> |
| <b>Managers</b>   | 41  | 22                             | 0  | 63   | 65  | 7  | Less than 2%                                    |
| <b>Engineers and Specialists</b>  | 34  | 52                             | 0  | 43   | 79  | 5  |   |
| <b>Supervisors and Forman</b>   | 35  | 46                             | 0  | 81   | 43  | 9  |   |
| <b>Operators</b>  | 70  | 82                             | 0  | 152  | 46  | 17   | 69  |
| <b>Technicians</b>  | 38  | 60                             | 0  | 98   | 39  | 11   | 62  |
| <b>Low Skilled Labours</b>  | 45  | 32                             | 96   | 173  | 26  | 19   | 80  |
| <b>Other Floor Employees</b>  | 36  | 10                             | 0  | 46   | 78  | 5  |   |
| <b>Non-Factory Floor Employees</b>  | 133   | 71                             | 0  | 204  | 65  | 23   |   |
|   | <b>432</b>  | <b>375</b>                     | <b>96</b>                                  | <b>903</b>   | <b>48</b>   |  |   |
|   | Total No. of Employees Without Outsourced Non-Local Workers= <b>807 Employees</b> |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= <b>53 %</b> |  |   |

Overall, in SugarMillsCo, the total employment has dropped from 1,011 employees and the proportion of Saudis is actually down a little from 57 per cent to 53 per cent. In 2010, the firm was employing Saudis in almost every position and this has been maintained. It is clear the firm sees its commitment to recruiting Saudis as a key part of its overall strategy:

‘Our company is very careful to keep its image to local workers that we are one of the best in localisation, and we care about Saudis. This will attract them to our company and retain them too’ [Resourcing Manager, company SugarMillsCo].

As with LocalSteelCo, there has been a small increase in the number of Saudi managers (at a time when the number of such roles has dropped a little). However, in

general the firm has reduced the number of staff working as operators and technicians and this has actually seen a small reduction in the proportion of Saudis in these roles. In particular, increased labour competition post-Nitaqat has led to significant retention problems for these grades. The significant drop in the number of low skilled labourers (both Saudi and non-Saudi) reflects the company's decision to invest in additional automation.

This is an unusual approach, as discussed in chapter four, where one weakness in the early stages of Nitaqat is that while firms have started to address the challenge of recruiting Saudi nationals, there has been relatively little focus on improving productivity. SugarMillsCo has invested in automation to reduce the amount of low skilled labour required in the packing process from 350 in 2007 to 123 in 2010. Of importance, this is expected to continue to reduce demand for unskilled labour since this is becoming much more expensive (whether Saudi or non-Saudi).

‘Therefore, the top management and shareholders have examined the possible future impact on operation in such unpredictable and unstable labour laws. So they decided to go with another automation project to be accomplished in different stages in the next 3-4yrs costing the company 48 million US dollar aiming to free the company from dependence on casual foreign labourers. Thus, this will ensure the sustainability of the business in the long run’ [Chief Executive Officer, SugarMillsCo].

Automation is an effective response if the firm is able to either reduce the number of workers across the entire business or specifically in sectors currently reliant on foreign workers. In the case of SugarMillsCo since they recruit Saudis to a variety of jobs, if they downsize labour due to automation then they can expect to lose both foreign and Saudi workers. In effect, maintaining a high number of jobs in a very particular function is not a part of their compliance strategy.

### ***5.3 Pre-Nitaqat***

These two case studies are important as they strongly indicate that there is no direct link between the design of the regulations and organisational response. As discussed in chapter four, the pre-Nitaqat localisation rules were laxly enforced, easy to evade and poorly designed. Reskin (1998) suggests that even if a company was compliant under these conditions it is likely to have opted for ‘surface’ compliance (i.e. to meet the numerical quota) but as identified in 5.2, both these firms employed Saudis in the

majority of their positions. In effect, both the firms in this chapter were already allocating resources to support an effective localisation strategy when most Saudi firms were able to evade these costs (Lengnick-Hall et al., 2011). Thus, LocalSteelCo suggests that while Nitaqat has led to even more attention to localisation: ‘it wasn’t our main driver ... we started localisation before the transition in the policy and its punishment system... of course it gave us more push to localise and make sure we conform to the policy requirement’ [Recruitment Manager, LocalSteelCo]. In addition, the Government Affairs Officer of LocalSteelCo indicated that the firm had started localisation both to return a favour to the government and avoid problems with the local community:

‘Today we have around 500 national employees in our company out of 1300. This will show the government our good intentions towards the society and the responsibility we hold towards the citizens of the country; our efforts in recruiting and training them. Also, in the case of any malicious complaints against the company, the government will review the case with more details to avoid the consequences of shutting down our factory which means 100s of jobs for locals will be lost ... No doubt being good in localisation will strengthen our relationship with all stakeholders especially the governmental side of it’ [Government Affairs Officer, LocalSteelCo].

SugarMillsCo is even more clear that the pre-Nitaqat commitment was a product of previous state support and a belief that they had to return this favour. Equally, they clearly believed that they received this earlier state support as they were already seeking to employ local workers:

‘We went through financial downturns in the first two years after the establishment of the company as the other sugar imports traders had competed us very aggressively.... our CEO at that time went to the government to seek help through introducing our company as the first and only local sugar refinery and active employer of locals. As a result, this ended up by the government imposing 20 per cent tariff protection against any imported sugar by our competitors for four years.... I would say at that period, we invested in localisation, not because of the laws, but to repay the government of the favour they gave to us and aimed to extend the tariff protection period too’ [Human Resources Director, SugarMillsCo].

This evidence supports the wider argument in chapter two that firms do not simply engage with the regulatory environment in isolation. Response to regulations is informed not just by the regulations but other external relations (in this case a belief that the state treated them favourably in the past) and internal culture. Of note, both firms point to a degree of reciprocity. They believe they received favourable

treatment as they were already making efforts to localise their workforce, they then put more effort into this as a way to repay the support they received.

Other reasons why these firms recruited Saudis even before the introduction of Nitaqat include that senior staff in both firms had a commitment to localisation. LocalSteelCo has a high proportion of Saudis in its senior management and this influenced their intention to employ Saudis in as many roles as possible. They saw engagement with localisation as part of contributing to the wider society. There was, however, a pragmatic aspect. Commitment to localisation meant they could recruit skilled local staff and it reduced their dependence on relatively closed groups of foreign employees who have been slowing localisation as: ‘One of the weaknesses we have is that many line manager positions are controlled by specific non-local groups who share the same nationality... these groups know that they are core employees to our operations so they play the game with us in slowing our localisation programmes’ [Staff Training and development manager, LocalSteelCo]. Localisation became a tool to reduce the power of this group but had consequences in terms of the cost of staff development:

‘When local workers graduate from technical schools they have theoretical knowledge, without any practical experience... you will not believe me if I tell you some electricians or mechanics don’t know the practical basics of their field when you assess them for selection’ [Recruitment Manager, LocalSteelCo].

An important aspect to their pre-Nitaqat compliance was that both had received state support at a critical stage so there may be a degree of reciprocity in their approach. SugarMillsCo noted that it the government support had rescued the company: ‘The government support at that time has helped us to stand again and make big profit in a very short period’ [Human Resources Director, SugarMillsCo].

This state support was not just in the form of tariff protection but also took the form of direct funding to assist with localisation. In effect, the firm believed there was both a need to reciprocate for the favour in terms of tariffs and received substantive support to enable it to pursue a structured localisation programme:

‘During the same period at that time, because of the good relationship we build with the government, we received around 700 thousand US dollars to enhance localisation, injecting this money on the employment and training of locals’ [Human Resources Director, SugarMillsCo].

At LocalSteelCo again there was a degree of reciprocity to previous state support. In this case, the firm had faced legal action that led ‘to a closure from the government lasted 20 days until we found ways to appeal and win. The closure had cost the company millions of dollars’ [Recruitment Manager, LocalSteelCo]. In this case, the state had backed the firm and overturned complaints that the firm was using chemicals that were harming local villages.

As with SugarMillsCo, once the situation was resolved, the company then undertook substantial recruitment from the local population. This had the dual advantage of enabling localisation (returning a favour to the state) and defusing tensions with the local community:

‘However after the closure, we have called our Saudi employees in our company who were living in the neighbouring village to deny the malicious complaints claims and support us in our appeal and we succeeded to open the factory again’ [Recruitment Manager, LocalSteelCo].

This suggests some similarities in the reasons for their adaptation to the earlier localisation demands even when the rules were easy to evade. In both cases, the Saudi state had backed the firm directly during a difficult period and this created a climate of reciprocal favour giving. However, there were important differences. LocalSteelCo has used the recruitment and training of Saudis to weaken the control of a particular sub-section of their foreign workforce. In addition, recruitment from the local community was seen as a tool to manage any local concerns about the operating process. By contrast, SugarMillsCo was the beneficiary of substantial state support that enabled it to follow a localisation strategy. As above, this is a case where the firm believes it received state support as it was trying to localise and then followed a localisation strategy with even more commitment to repay the state support.

In combination, this suggests that simply looking at the regulatory environment divorced from the wider external environment is flawed. Both of these firms shared the regulatory environment with the rest of the Saudi private sector but had very particular relations with the state, and, for LocalSteelCo, their local community. Finally, SugarMillsCo received substantive funding for its localisation strategy and LocalSteelCo saw localisation as a means to reduce costs (as it faced a very particular group of foreign workers in possession of hard to replace skills).

### ***5.4 Impact of Nitaqat on Organisational HRM Strategy***

Although both firms were compliant with the earlier localisation rules, Nitaqat has still had a substantial impact on them. Of importance, both already recruited Saudis to most jobs (the only substantive exception was that LocalSteelCo relies almost entirely on foreign workers for their low skilled workforce) and this meant they could not use the common response of expanding the range of roles open to Saudis. At one level, it is possible to argue that neither firm significantly altered either their overall strategy or their approach to HRM as a result of the introduction of Nitaqat. As noted earlier in this chapter, both firms have continued to recruit Saudis to most jobs and have expanded their HRM capacity rather than radically alter what they were already doing.

Participants in both LocalSteelCo and SugarMillsCo reported that their HRM activities were integrated into the business strategic objectives before Nitaqat. In LocalSteelCo, the HR managers were involved in board meetings discussing the current and future needs of manpower, there was constant coordination of HR department with operational department and integration of HRM activities with business goals and needs. This continuity is expressed as:

‘Since the establishment of our company, we had an HR department that has different functions, such as manpower planning, recruitment, training and development, compensation and benefits, and government relations... these functions have been almost integrated together to serve the organisational objectives through ensuring the availability of efficient manpower within the legal framework’ [Vice President, LocalSteelCo]

The quote above indicates that the role of HRM in LocalSteelCo is not only concerned with delivering of specific functions (HRM only) instead it is an integration of different HRM functions with both external and internal environment (Bratton, 2001). SugarMillsCo also argued that its HRM approach based around effective recruitment and training was part of their:

‘Social and patriotic duty to help in enabling Saudis to work efficiently and succeed in their jobs, which will at the end of the day, help our business too. We are proud of our efficient training programmes and we believe it’s one of our competitive advantages, especially After Nitaqat when the competition has

increased. Our training programmes are keeping us miles ahead compared to the others' [Training and Development Managers, SugarMillsCo].

Thus, SugarMillsCo clearly locate an effective approach to training and longer term staff development as a key means to cope with the greater labour market competition produced by Nitaqat.

However, participants indicated that Nitaqat had forced them to expand their HRM capacity and allowed improved links to the firm's general strategy formulation (Wellbourne, 2003) and then how these goals were reflected in HRM policy and practices (Ulrich, 1987). As an example, the HR Director of SugarMillsCo noted that 'it is my responsibilities as an HR director to translate the goals into HRM initiatives'.

This is one example of how the adoption of a strategic approach to HRM is not only a source of capacity for localisation implementation success but for general company performance (Hunt, 1995). So even while both firms point to having had an effective HRM capacity pre-Nitaqat, they also made changes such as to give HRM greater power to monitor implementation and compliance. In this respect, SugarMillsCo had introduced elements of the workforce localisation targets to the unit managers KPIs. KPIs can be important in managing change and, in slightly different ways, Tyler (2011) and Greenwood and Hinings (1996) noted that clear target setting can overcome internal reluctance to embrace a new approach. In this context, there is an argument to suggest they are emphasising management command and control (Tyler, 2011) as part of the process of managing change.

LocalSteelCo had also changed the use of internal control mechanisms to encourage workforce localisation implementation. The mechanism depended on the penalty and sanction system. The company had set workforce localisation quota bands for each department imitating the bands given by Nitaqat. Based on each department workforce localisation band, the HR department can accept or reject the visa requirement request from unit managers. As:

**Table 5-3: Internal Localisation Rules for LocalSteelCo**

| <b>Platinum band<br/>46% and above</b>                          | <b>Green band<br/>31%-45%</b>                             | <b>Yellow band<br/>26%-30%</b>                                | <b>Red Band<br/>25% and Less</b>                  |
|---|---|---|---|
| Accept up to 5 Foreign worker recruitment request each 3 months | Accept 3 Foreign worker recruitment request each 3 months | Accept only 1 foreign worker recruitment request each 3 month | Reject any new foreign worker recruitment request |

This suggests a deliberate mirroring of the Nitaqat rules in terms of organisational procedures. Thus, managers in the company are given a strict quota of visas and these can only be used if their department already recruits a substantial number of Saudi nationals.

SugarMillsCo and LocalSteelCo have a particular problem in that they need technically skilled entrants for many roles. Nitaqat has increased both their recruitment and retention problems and this has affected their approach to recruitment. LocalSteelCo has opted to reduce the level of prior experience for locals entering skilled jobs such as operators and technicians. The linkage between this and the need to meet the Nitaqat quota is clear as:

‘They have to reduce their selection criteria for local workers. I have told them; it will be impossible to do localisation if they insist on having let’s say 70 per cent of experience and knowledge, and now it’s the time to accept the reality and reduce the expectations to 40 per cent. In the same time, we bridge any experience or knowledge gaps through training programmes’ [Recruitment Manager, LocalSteelCo].

For more technical skills, both LocalSteelCo and SugarMillsCo have developed close links with local technical colleges. LocalSteelCo now involves technicians and operators in their internship programme through forming partnership with technical colleges. Participants at both companies have highlighted the importance of partnership through internship programmes as a way to attract local engineers, technicians and operators. This is a practical example of how the firm is responding strategically, adapting its HRM processes, to the demands of Nitaqat. One respondent explained this as:

‘In past, it was easy for us to go to job fairs and have many CVs for local engineering and technical graduates. However, today if you go to the same career fairs, you will see many companies promoting their jobs to graduates in

a very high competitive environment. Therefore, the recruitment of Saudis became a hard task for all of us, which made many of us take more proactive steps through building relationships with local university and technical institutions through offering well-designed internship programmes for final year students' [Recruitment Manager, LocalSteelCo].

SugarMillsCo went further in terms of recruitment by building relationship with universities and collage academic staff and engaging them in some internship programme design. The participants believe that engaging academic and technical staff may have direct impact on attracting local operators, technicians and engineers as those staff may play the role of advisors to student in choosing internship programmes.

'We believe the academic staff may have the ability to convince local students to sign for our internship programmes, because they serve as advisers, and very often students ask them for advice, concerning which companies they should do an internship with' [Resourcing Manager, SugarMillsCo].

As noted in section 5.2, SugarMillsCo continues to use foreign workers for its unskilled jobs. It now employs more of these directly but even so, their decision is driven by their perception of the labour market. Part of the reason is that they believe Saudis are unwilling to do this type of work but they note a major barrier is that there is no plausible career progression from such jobs: 'the problem with low skilled jobs for local workers, is that you can't promote them, because they don't have opportunities for this' [Recruitment Manager, SugarMillsCo]. In effect, rather than argue, as other firms do, that Saudis are unsuited for some jobs, the firm acknowledges that the lack of potential career progression is the major barrier to recruiting Saudis to such roles.

In addition to training and job design, both firms have extended their pre-Nitaqat approach of providing medical insurance and annual bonuses to introduce various other benefits for local operators and technicians such as small loans (4 months' salary without interest), housing allowance, annual bonuses and gifts at times of important religious festivals.

In the post-Nitaqat environment, a commitment to training was not just about raising productivity as offering a structured training package is very attractive to potential recruits:

‘After Nitaqat when the competition to attract or recruit locals has increased, we didn’t get affected much, because our well-established training programmes still kept us miles ahead compared to the others’ [Training and Development Managers, SugarMillsCo].

SugarMillsCo also stressed that training and development were critical for competitiveness and they adopted an integrated Learning Management approach seven years before Nitaqat was introduced:

‘We have a very advanced learning management system in our company. Our training system aims to increase the efficiency of our employees (for both locals and non-locals), which we consider as one of our essential assets to lead the market’ [Training and Development Managers, SugarMillsCo].

In addition, the HR director of SugarMillsCo believes that that relationship with academic staff in local colleges can have indirect influence on local graduates through delivering employment-branding messages in lectures.

A particular problem for both has been the poaching of their Saudi staff which has led to the increased turnover indicated in tables 5-1 and 5-2. This has been a particular problem for trained staff as;

‘Our company’s name and reputation of good localisation and development programmes is an essential element of turnover, as companies poach our local employees who are well trained to be supervisors or managers because they receive efficient training here in our company... especially after Nitaqat, the turnover has multiplied four times’ [Resourcing Manager, SugarMillsCo].

Despite having seriously committed to localisation before Nitaqat, neither firm recruits female staff. LocalSteelCo argues that the integrated nature of their production process, and the relatively harsh working conditions, mean that it is impractical to manage to segregate any part of the process. In addition, especially for their production and engineering jobs, it is highly unlikely that suitable female graduates exist in any case. SugarMillsCo faces a similar problem in its production process of a lack of potential staff, an integrated process and difficult working conditions. The only option they identified was in terms of packaging:

‘Our refinery is not equipped for the employment of female... it is a hazardous environment, a massive refinery, and not safe for women. The jobs offered to females in other factories are limited to packing jobs where you can isolate females. Here in our refinery, we don’t need any manual packing services almost all the packing area is automated’ [Chief Operating Officer, Company F].

In effect, automation has closed off the one option they have to recruit female staff. The company clearly believes that the rewards (cost and efficiency) that stem from this decision more than outweigh any benefits from being able to recruit Saudi female staff. This is a significant contrast to the employment practice of one of the other firms (discussed in chapter seven). Of note, neither firm has considered if improving working conditions might be a feasible option.

### ***5.5 Discussion and Conclusion***

These two firms are relatively unusual in the Saudi private sector in that both were compliant with the pre-Nitaqat localisation rules. As suggested in section 5.3, this difference can be explained if wider factors than simply the design of the regulations are taken into account. Of importance, both firms received help from the Saudi state when facing particular challenges and this may well have led to them towards compliance as a means to reciprocate (Edelman and Talesh, 2011). It may also reflect the wider finding in chapter two that firms that are particularly reliant on state contracts are those that adapt quickest to quota based employment regulations (Smith and Welch, 1984). In addition, both firms have a senior management team that has a cultural commitment to localisation. Equally, both have found that recruiting from their local communities has helped reduce tensions with that community. Finally, and very specifically, LocalSteelCo may be using recruitment and training of Saudi nationals to reduce their reliance on a very specific group of foreign workers who effectively dominate a critical part of their manufacturing process.

An important issue in this chapter is that both firms had invested substantially in their HRM capacity before the introduction of Nitaqat. As discussed in section 5.4, both firms had both a full range of HRM delivery function such as training, staff development, consideration of rewards and non-pay benefits (including the common package of special payments around religious festivals and if staff were due to become married) and involved their senior HR staff in setting the overall organisational strategy. This has enabled both firms to adopt a varied recruitment and training approach designed to attract and retain suitably trained Saudi staff. As

noted in section 5.4, SugarMillsCo believes there is little value in trying to recruit Saudis to those jobs that lack career progression.

In effect, this suggests that the decision to invest in building up HRM capacity reflects their wider strategic goals and predates Nitaqat. With this in place, they have been able to strengthen the internal monitoring role of HRM (to ensure the organisation meets its own targets) and to use its existing capacity to respond to the increased competition for staff that has come from Nitaqat. Relatively unusual, for SugarMillsCo this has even seen the adoption of automation in order to reduce overall demand for staff and to help raise productivity.

In this case, the development of HRM capacity cannot be traced to the new regulations. However, as is clear from section 5.4, the increased demands of Nitaqat has led to an expansion of previous HRM practice and the refinement of existing approaches to recruitment. As above, while the HRM capacity predates Nitaqat, both firms have been able to use their well-developed HRM functions to inform their revised strategy. Mostly this can be characterised as adapting existing procedures and making them more effective but there are instances of substantive innovation. For LocalSteelCo, there has been a deliberate decision to lower the recruitment demands for new Saudi staff and to balance this by investing substantively in staff training. For SugarMillsCo, increasing staff costs and competition has led them to invest in automation in their packing function – substantively reducing the number of low skilled jobs they need to fill and reducing their reliance on needing to recruit non-Saudi workers.

For both firms, it appears that they have created a HRM capacity that matches their organisational strategy. Since pre-Nitaqat they both wished to recruit Saudis to most jobs and then to encourage these staff to progress, they in turn, both needed a HRM function that could support this process. The main impact of Nitaqat has been to increase the competition for labour and they have responded by investing more in staff development and training. Equally, in both firms, HRM now has a more substantive monitoring role as meeting internal localisation targets has become a key goal for line managers.

In summary, the two companies discussed in this chapter are relatively unusual in the Saudi private sector in that they were compliant with the localisation regulations even before Nitaqat. This suggests the following key conclusions.

First, organisational response is not simply one of responding to regulations. In this case, both firms were involved in the exchange of favours with the Saudi state and this may well have influenced their decision to invest in being compliant. In effect, this confirms the research in chapter two that firms which are more exposed to public contracts are more likely to conform to employment quotas. Of interest, their commitment to localisation was not just a response to previous state support, instead both firms believe they received that support as they were already making efforts to localise their workforce. Equally, both have found there are substantial advantages that flowed from recruiting from their local communities. However, organisational culture also plays a role in that the commitment to localisation was clearly shared among the senior staff.

Since both of these firms had engaged in localisation pre-Nitaqat, they had already created an effective HRM function. These two cases strongly suggest that HRM capacity is a precondition to moving beyond hire and fire and seeking to recruit and develop the workforce. For these firms, this capacity predated Nitaqat and this suggests that organisational strategy, rather than the regulatory framework, is what determines the level of investment in HRM. Following on from Nitaqat, much of their response can be characterised as effectively developing existing practice. However, both firms have also undertaken new initiative suggesting both that Nitaqat has brought new demands (both note higher turnover and more staff poaching as well as greater recruitment challenges) and that their existing capacity has enabled them to respond to these new demands.

## **Chapter 6 : SPharmaCo and FastFoodCo**

### ***6.1 Introduction***

The two firms studied in this chapter are typical of those Saudi private sector firms that effectively ignored the pre-Nitaqat localisation regulations and have had to adapt their approach radically since 2011. This chapter starts by setting out the background to both firms and discussing their pre and post-Nitaqat staffing structures. Consideration is then given to their very different strategic responses (which reflect their own specific labour market) and the, more similar, way in which they have built up their HRM capacity.

What is clear in this discussion is that SPharmaCo's strategy has been significantly informed by the particular problem that there are too few trained Saudi pharmacists (and most graduates prefer to enter the public sector). For FastFoodCo, the problem is that they are mostly recruiting people with no particular educational background (i.e. who could undertake a range of jobs) and this has led them to some innovative solutions – in particular in terms of increasing the range of jobs undertaken by women. In summary, this leads to an interesting conclusion. While the firms can be clearly seen to be reacting to a changed regulatory environment, their responses are strongly grounded in the particular challenges of their respective industrial sectors. Equally, while their strategies are very different, they have taken a very similar approach in terms of building up their HRM capacity in order to deliver their new strategy.

### ***6.2 Background***

#### **6.2.1 SPharmaCo**

SPharmaCo is a large private pharmacy chain, founded in the late 1980s, and now has 700 outlets in most high streets throughout the country. The company plans to expand further and to have one thousand pharmacies by 2017. Since 2010, the company has also expanded its product range by adding beauty products in some of its outlets (as discussed below, this has also created new roles reserved for Saudi

nationals). In 2013, the company had 60 million transactions and increased its net sales by 240 million US dollars to around 1 billion US dollars of net sales. In the period after 2006, it had had several legal problems with the Saudi authorities and resolved the problem by re-organising its business structure so as to reduce its apparent monopoly control over the pharmacy sector.

**Table 6-1: Employment Data: SPharmaCo**

| <b>2010</b>  |   |                                |  |  |  |  |
|--|---|--------------------------------|--|--|--|--|
| <b>Main Job Titles retail floor</b>                | <b>No. Local Employees</b>  | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local Workers</b> | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>            | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> |
| Retail Pharmacists (act as pharmacist and mangers) | 0   | 1750                           | 0  | 1750   | 0  | 43   |
| Pharmacy Technician                                | 0   | 0                              | 0  | 0  | 0  | 0  |
| Beauty Advisors                                    | 0   | 0                              | 0  | 0  | 0  | 0  |
| Low Skilled Labours                                | 0   | 530                            | 1115                                       | 1645   | 0  | 40   |
| Other Floor Employees                              | 0   | 52                             | 0  | 52   | 0  | 1  |
| Non- Floor Employees                               | 122   | 493                            | 0  | 615  | 20   | 15   |
|  | <b>122</b>  | <b>2825</b>                    | <b>1115</b>                                | <b>4062</b>  | <b>3</b>   |  |
|  | Total No. of Employees Without Outsourced Non-Local Workers= 2947 Employees |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= 4 %  |  |
| Number of outlets                                  | 570   |                                |  |  |  |  |
| <b>2013</b>  |   |                                |  |  |  |  |
| <b>Main Job Titles retail floor</b>                | <b>No. Local Employees</b>  | <b>No. Non-Local Employees</b> | <b>No. of Outsourced Non-Local</b>         | <b>Total No. of Employees + Outsourced Workers</b> | <b>Local Employees Rate at Each Job Title (%)</b>            | <b>Distribution of Employees + Outsourced Workers based on Job Title (%)</b> |
| Retail Pharmacists (act as pharmacist and mangers) | 1   | 1978                           | 0  | 1979   | 0  | 41   |
| Pharmacy Technician                                | 695   | 0                              | 0  | 695  | 100  | 14   |
| Beauty Advisors                                    | 320   | 0                              | 0  | 320  | 100  | 7  |
| Low Skilled Labours                                | 0   | 420                            | 630  | 1050   | 0  | 21   |
| Other Floor Employees                              | 16  | 59                             | 0  | 75   | 21   | 2  |
| Non- Floor Employees                               | 241   | 525                            | 0  | 766  | 31   | 16   |
|  | <b>1273</b>   | <b>2982</b>                    | <b>630</b>                                 | <b>4885</b>  | <b>26</b>  |  |
|  | Total No. of Employees Without Outsourced Non-Local Workers= 4255 Employees |                                |  |  | Total % of Locals Without Outsourced Non-Local Workers= 30 % |  |
| Number of outlets                                  | 700   |                                |  |  |  |  |

The company is aware of how much Nitaqat has changed the labour market as:

‘Nitaqat is one of the most powerful labour market policy in the countries' history ... today the government has adopted a very strong sanction system that can create immediate harm to the companies that don't show a response, ... today the government don't approve any request of foreign labour visas without relating this to your localisation performance... things have completely changed' [VP Business Support, SPharmaCo].

In addition, as the firm has altered its staffing profile, it has sought to develop positive relations with the Ministry of Labour. This has included joint media events with officials combined with public announcements about their future localisation plans. Individuals in the firm were clear that this public statement of commitment was an attempt to build good will with officials in case of future problems:

‘Keeping good government relations is an implicit requirement for us... tomorrow it will pay off when you want to apply for expatriate pharmacist visa for our expansion plans... by showing to the government your achievements in localisation, your expatriate visa applications approvals may be considered differently ...’ [Regulatory Affairs Officer, SPharmaCo].

The consequence of this commitment is that in the last three years, the employment profile of the company has changed radically. Overall the number of employees has increased from just over 4,000 to nearly 5,000 (table 6-1) at the same time as the number of Saudi employees has grown from 122 to 1,273. This has increased their localisation ratio from 4 per cent to 30 per cent (in Nitaqat terms this has moved them from being non-compliant to the Green zone). Pre-Nitaqat, the 122 Saudi staff were only employed in the head office, but the increase in Saudi staff since then has seen major changes in their roles. In particular, new jobs such as pharmacy technicians and beauty advisors have been created but there has been relatively little increase in the number of Saudi staff in the roles that were previously dominated by non-Saudi labour. The main reason for this is that Saudi educational system does not produce many trained pharmacists, and most who do graduate prefer to work in the public sector. This shortage has had a major impact on how the firm has responded to Nitaqat. Thus, there is only one Saudi national working as a pharmacist but all 695 Pharmacy Technicians and 320 Beauty Consultants (the two new jobs created since 2010) are Saudis.

To achieve this a major organisational and attitudinal change were required, as pre-Nitaqat, the firm had little commitment to localisation. As an example, they were dismissive of the potential value of a state prize for localisation - the “Saudisation Trophy” – as winning such a prize would do nothing to offset the additional costs of localisation:

‘If they give us Saudi “Trophy” so what! ... I need more special service that distinguishes me from the rest who don’t comply... what’s the point in complying when someone else receiving expat visas without complying

because he has his channels through the MOL' [Administration and government affairs manager, SPharmaCo].

This deliberate rejection of indirect rewards (i.e. presumably the publicity that stems from winning such an award) is in contrast to the firm deliberately launching localisation initiatives in conjunction with the Ministry of Labour post-Nitaqat. One reason for this shift is that the firm clearly felt there were no real sanctions and that they could recruit foreign workers as they needed:

'The labour offices in the past were something unbelievable. For example, if I have the same company as you, there were possibilities for me to take 40 expatriate work visas and you take only four, you know why? Because I know some people there and you know none... no one can deny there were exceptions given to some people through deals or verbal persuasions as a result of no clear process. Some labour offices were corrupt, and you may see cronyism and favouritism a common practice' [Government affairs officer, SPharmaCo].

In effect, the firm was probably typical of the Saudi private sector pre-Nitaqat. Localisation was seen as an avoidable cost, not as something they needed to take account.

One other change post-Nitaqat has been to reduce the number of outsourced workers from 1,115 to 630. As identified in chapter five, outsourcing originally had a number of advantages. Such staff were not counted towards the localisation ratio (as they were notionally employed by an external firm) and the outsourcing company took on responsibility for visas, accommodation and supply staff to demand. However, as identified in chapter 4, as part of the wider labour reforms, the Saudi state has sought to reduce the number of foreign workers who lack a valid visa. As discussed later in this chapter, SPharmaCo has reacted to this by re-organising the work of its cleaning staff so that it needs less unskilled non-Saudi workers and thus reduces their need for outsourced labour.

## **6.2.2 FastFoodCo**

This Company was established in the early 1970s as a fast-food restaurant chain. The Company has an aggressive growth strategy and, in the last three years, has increased its number of outlets from 180 to 230 and is planning to reach 300 outlets by 2016.

Table 6-2: Employment Data: FastFoodCo

| 2010                         |                     |   |   |                                     |  |  |   |  |   |
|------------------------------|---------------------|---|---|-------------------------------------|--|--|---|--|---|
| Main Job Titles retail floor | No. Local Employees | No. Local female employees from No. Local Employees | No. Non-Local Employees   | No. of Outsourced Non-Local Workers | Total No. of Employees + Outsourced Workers                  | Local Employees Rate at Each Job Title (%) | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) |   |
| Restaurant Managers          | 0                   |   | 256   | 0                                   | 256  | 0  | 3   |  |   |
| Restaurant Assistant Mangers | 0                   |   | 330   | 0                                   | 330  |  |   |  | N/A   |
| Supervisors                  | 0                   |   | 359   | 0                                   | 359  | 0  | 5   |  |   |
| Front Line Workers           | 0                   |   | 1493  | 0                                   | 1493   | 0  | 20  |  |   |
| Back Line Workers            | 120                 |   | 2320  | 455                                 | 2895   | 4  | 38  | 33                                       |   |
| Home Delivery Drivers        | 0                   |   | 725   | 0                                   | 725  | 0  | 10  | N/A                                      |   |
| Dispatchers                  | 30                  |   | 70  | 0                                   | 100  | 30   | 1   | 43                                       |   |
| Low Skilled Labours          | 0                   |   | 75  | 450                                 | 525  | 0  | 7   | N/A                                      |   |
| Other Floor Employees        | 45                  |   | 102   | 0                                   | 147  | 31   | 2   |  |   |
| Non-Retail Floor Employees   | 197                 |   | 534   | 0                                   | 731  | 27   | 10  |  |   |
|                              | 392                 | 0   | 6264  | 905                                 | 7561   | 5  |   |  |   |
|                              |                     |   | Total No. of Employees Without Outsourced Non-Local Workers= 6656 Employees |                                     | Total % of Locals Without Outsourced Non-Local Workers= 6 %  |  |   |  |   |
| Number of outlets            | 180                 |   |   |                                     |  |  |   |  |   |
| 2013                         |                     |   |   |                                     |  |  |   |  |   |
| Main Job Titles retail floor | No. Local Employees | No. Local female employees from No. Local Employees | No. Non-Local Employees   | No. of Outsourced Non-Local         | Total No. of Employees + Outsourced Workers                  | Local Employees Rate at Each Job Title (%) | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) | Downsizing  |
| Restaurant Managers          | 0                   |   | 270   | 0                                   | 270  | 0  | 3   | 7  |   |
| Restaurant Assistant Mangers | 26                  |   | 402   | 0                                   | 428  | 6  | 5   | 12                                       |   |
| Supervisors                  | 45                  | 6   | 458   | 0                                   | 503  | 9  | 6   | 14                                       |   |
| Front Line Workers           | 320                 |   | 1377  | 0                                   | 1697   | 19   | 20  | 56                                       | In 2010, on Avg 8 workers/ rest, In 2013, 7 workers / res   |
| Back Line Workers            | 430                 | 73  | 2506  | 0                                   | 2936   | 15   | 35  | 42                                       | In 2010, on Avg 15 workers/ rest, In 2013, 13 workers / res |
| Home Delivery Drivers        | 400                 |   | 526   | 0                                   | 926  | 43   | 11  | 26                                       |   |
| Dispatchers                  | 170                 | 170   | 0   | 0                                   | 170  | 100  | 2   | 30                                       |   |
| Low Skilled Labours          | 0                   |   | 12  | 253                                 | 265  | 0  | 3   | N/A                                      |   |
| Other Floor Employees        | 66                  |   | 156   | 0                                   | 222  | 30   | 3   |  |   |
| Non-Retail Floor Employees   | 277                 |   | 646   | 0                                   | 923  | 30   | 11  |  |   |
|                              | 1734                | 249   | 6353  | 253                                 | 8340   | 21   |   |  |   |
|                              |                     |   | Total No. of Employees Without Outsourced Non-Local Workers= 8087 Employees |                                     | Total % of Locals Without Outsourced Non-Local Workers= 21 % |  |   |  |   |
| Number of outlets            | 230                 |   |   |                                     |  |  |   |  |   |

FastFoodCo has seen relatively little overall growth in employment (from 7,500 to 8,300) in the last 3 years (despite the expansion of the number of outlets) but the number of local employees has increased from just under 400 to over 1,700. Its manpower strategy can be summarised as a combination of seeking operational efficiencies (less manpower per outlet) and recruiting Saudis to jobs previously solely done by non-national labour. This has seen the recruitment of a substantial number of female workers to roles such as call centres and organising the dispatch of orders for home delivery. More generally, in 2010 there were just under 1,500 front

line workers (who serve customers, taking the orders and collecting cash) in 180 outlets (none of whom were Saudis) and by 2013 there were just under 1,800 front line workers (including 320 Saudis) in 230 outlets. In general, Nitaqat is making the company very cautious about the number of staff it recruits (both Saudi and foreign) as:

‘Now even if the government grant me 1000 foreign workers visas, I won't take it, because I have to secure 350 jobs for locals at the same time, train them and maintain them... this will cost me a lot’ [Human Resource Director, FastFoodCo].

One important change, following the increased recruitment of more local workers, is the much higher annual turnover rates. For back line workers (those who cook and prepare food in the kitchens) turnover was 33 per cent in 2010 and 42 per cent in 2013 in a period when the number of local employees increased from 120 to 430. Overall, the company seems to have accepted the higher costs that have resulted from Nitaqat as a necessary part of adapting to the new regulations:

‘We are a large company, and this time, the government seems serious... so no one wants to put his company at risk of a bad reputation even if we pay more’ [Human Resource Director, FastFoodCo]

As with other companies, the wider changes connected to Nitaqat has seen a significant reduction in the number of employees recruited from specialist agencies. Thus, the number of non-Saudi workers recruited this way has dropped from 906 in 2010 to 253 in 2013. The only role these staff now fill is unskilled work (mostly as restaurant cleaners) for which it is particularly hard to recruit Saudis, As with SPharmaCo, this reduction has been facilitated by a job redesign that reduced the number of cleaning staff needed for each restaurant.

In effect, compliance may have brought new costs, but non-compliance is seen as a far bigger threat. More widely, this shift in attitude frames the overall reason for responding to Nitaqat as more than just simple compliance with the numerical targets:

‘We all need to participate in paying this bill... The consumers may get affected slightly or the shareholders relinquish some profits... In fact, the shareholders benchmarked their profits wrongly in the first place and utilised the chaos in the labour market and gaps in the system. Speaking the reality, there is no market correction without pain, we all know that the market has been wrongly

built... let's be honest, all companies have gained a lot from the labour market mess for long years in the Saudi Arabia' [HR Director, FastFoodCo].

As with SPharmaCo, this implies a significant attitudinal change on the part of most senior managers. Previously localisation was seen as an avoidable cost, now they are framing their response as part of their contribution to rebalancing the Saudi labour market. In addition, there is evidence that senior staff have effectively internalised the Nitaqat process, describing it as: 'a living organism; it is a creature that lives with us to monitor us' [Human Resource Director, FastFoodCo]. However, the reason for responding to Nitaqat is not just negative, FastFoodCo shares with SPharmaCo a belief that being acknowledged to take localisation seriously will lead to longer term benefits:

'By successfully implementing localisation in our company, and investing in different HR practices that serves workforce localisation, we will send a signal to local workers that our company is a large company that has carefully thought about creating a good work environment where people want to work with us and have long lasting careers' [Regional Recruitment Manager, FastFoodCo].

This may also suggest that those firms that are seen to embrace Nitaqat at the start are hoping for long term advantages in the wider labour market. If so, this indicates that firms that have rapidly shifted their recruitment practice may well be doing so not just to meet the immediate demands but for long term benefits.

### ***6.3 Strategic Responses***

As is clear in section 6.2, both of these firms have had to radically revise their staffing profile in order to avoid serious sanctions under the Nitaqat regulations. The pre-Nitaqat labour market was one of relatively cheap labour and a hire and fire culture mostly drawing on a readily available pool of foreign labour. As such, both these companies felt that compliance with the old regulations was both expensive and unnecessary. This applied even if the HR staff in FastFoodCo had been pushing for some changes as: 'if you speak to the board of directors about localisation initiatives before Nitaqat, you will be rejected, because is costly for the company, top management think all the time of cost cut...' [Human Resource Director,

FastFoodCo]. At its core, Nitaqat left neither firm in any doubt that they needed to adapt and this became a critical goal for the staff involved:

‘When the government announced Nitaqat and its different colours, and gave all companies six months to correct their localisation, just before the activation, it became a nightmare for me, every time I pass by a traffic light it reminds me of our company’s situation and how to ensure our company will be in green zone because I was the person in charge to deal with it at that time’ [Administration and government affairs manager, SPharmaCo].

Failure to meet the quota was believed to be fatal for a company. The HR director for FastFoodCo summarised the fear of non-compliance quite starkly as: ‘The government made it very easy for private companies, if you don’t comply with Nitaqat, you will shut down your business in less than 6 months’. The threat was not just from the Government (mainly through withholding visa applications for non-Saudi workers) but also from other private companies. Since the penalties included not renewing existing visas (as well as not granting any new ones), the fear was that other firms would then recruit any foreign workers who needed a new visa. For example, ‘if any competitor hears that we are in the yellow or red zone... they will race to take all our pharmacists...’ [Manpower planning and resourcing manager, SPharmaCo]. In effect, non-compliance would not just remove the capacity to access the foreign workers market in the future, it will lead to the loss of those foreign workers who are currently employed. For FastFoodCo, the HR Director has stressed this concern as:

‘If we enter the yellow or red zone, next day you will see our competitors knocking our door recruiting all our non-local workers who operate more than 75 per cent of our operation. In addition, it will be very hard to rebuild our workforce again... I’m telling you it is a very tough system and there is no joke about it’ [Human Resources Director, FastFoodCo].

This strongly suggests that both firms were aware of the coercive nature of Nitaqat meaning they needed to ensure they adapted and Nitaqat was seen as ‘a push strategy rather than a pull strategy’ [Human Resources Director, FastFoodCo].

However, while both firms effectively had almost no Saudi employees before Nitaqat (section 6.2), their responses were heavily conditioned by the reality of their own labour market. For SPharmaCo, their core problem was that few pharmacists graduate from Saudi universities and most of those that do, then prefer to work in the

public sector. In effect, pharmacists made up 1750 out of 2825 employees before the introduction of Nitaqat and there was no method they could use to recruit substantial number of Saudis into these roles. FastFoodCo faced a very different labour market challenge, in effect most of their workers have no particular skills before joining the firm meaning they face substantial competition from other parts of the Saudi private sector.

### **6.3.1 Strategy of SPharmaCo**

As above, the core challenge for SPharmaCo was that almost 70 per cent of their employees pre-Nitaqat were trained pharmacists and the supply of Saudi nationals for these jobs was very limited. This meant they could not substitute Saudis for foreign workers and, as shown in table 6-1, they only had one Saudi pharmacist in 2013. Instead, they redesigned their operating approach. This saw two main strategies.

One, was to reduce their unskilled workforce (these were also mostly foreign workers) by reducing the number of cleaning and support staff and grouping individual outlets. This meant a small group of specialist cleaners could service a number of stores reducing the total number of staff employed in this role from 530 to 420 at the same time as they expanded the number of stores from 570 to 700. This was a project called “Mobile Cleaning”. The project used 70 teams (4 individuals for each team) and each team was responsible for cleaning 10 pharmacies a day. This effectively reduced demand for a role that has traditionally been hard to fill with Saudi applicants and allows them to use their quota of foreign workers visas on recruiting key trained staff. Thus, job redesign helped with the move to compliance as it reduced the number of foreign workers required. This was important as:

‘Previously, we used to have 2-3 low skilled labour for the half of our pharmacies that operated 24 hours. So imagine how many unskilled foreign labours we had... of course, it is hard to register them all legally today under your payroll because they will affect the localisation ratios in your company... Today, after Nitaqat, the situation is different, every foreign worker is considered very seriously due to the change in regulations and inspections... so we came up with mobile cleaning initiative to reduce the large amount of our low-skilled jobs. At the minimum, we reduced 420 low skilled jobs’ [Manpower Planning and Resourcing Manager, SPharmaCo].

In addition to reducing the number of foreign workers, their key response was to add two new roles to most outlets. Pharmacist assistants required less qualifications and could be trained by the company to support the qualified pharmacists. On average, one of these posts was created for each store (in 2013 there were 695) and they were supplemented by 320 Beauty Advisors. All these new posts were reserved for Saudis. This is important to the firm as they have further expansion plans and to recruit the pharmacists they need means they must be able to access the foreign workers' labour market. As such, they have replicated a common pre-Nitaqat strategy of creating new jobs just for Saudis (rather than labour substitution to existing roles) but the underlying reason was a weakness in the supply of suitably skilled labour. Since they have started to recruit substantial number of Saudis to work with their customers, their previous negative attitudes have shifted and they value the longer term commitment of Saudi staff:

‘Foreign workers are here for a specific time and have specific financial goals once they finish, they will go back to their countries while Saudis can stay longer with you if you give them the right working environment’ [VP Business Support, SPharmaCo].

In effect, SPharmaCo's strategic response to Nitaqat has mostly been driven by gaps in the Saudi labour market. It is unable to recruit Saudi pharmacists due to a preference for public sector work and a lack of graduates. At the same time, carrying on recruiting non-local pharmacists was key to their expansion programme, as: ‘we can't expand by even one outlet without a new expatriate pharmacist visa issued by the government...’ [Government Affairs Officer, SPharmaCo].

However, despite the challenges it faces in terms of recruitment, the firm has rejected the option of trying to recruit Saudi female staff:

‘As you know, gender mixing in education or workplace is not common in our culture and also prohibited in many cases. So, this has created a barrier for us to go ahead to recruit local females in our pharmacies as it would mean redesigning the workplace, with its facilities to get approval from the official bodies... currently, we don't have the capacity to do so’ [ Manpower Planning and Resourcing Manager, SPharmaCo].

Overall, the lack of Saudi pharmacists has meant the firm was unable to engage in job substitution between foreign and Saudi workers in this key role. As a result, they effectively created jobs for which there were suitable Saudi staff – in essence, the

labour market dictated their strategy. In turn, they tried to reduce the number of non-Saudi staff in roles other than pharmacists by job redesign. In particular, they were able to substantially reduce the number of cleaning staff (all of whom are foreign workers) by a new approach to store cleaning. Overall, their response might be pragmatic but it showed a willingness to adapt their operating approach to the available workforce.

### **6.3.2 Strategy of FastFoodCo**

FastFoodCo has the problem that its potential workforce needs no particular pre-entry skills or qualifications. This has the advantage that they have a potentially very wide recruitment pool but equally they are fully exposed to the labour market competition that Nitaqat has created. This exposure to the full labour market means they are in competition not just with other private sector companies but with the Saudi state as when they lost most of the staff they had just recruited when ‘suddenly the government announced 60 thousand military jobs, we lost almost 70 per cent in one shot... It is very hard when you lose your recruitment and selection efforts of 6 weeks in one night’ [Human Resources director, FastFoodCo].

Their core challenge is that historically Saudis have avoided the fast food sector as the work is seen to be relatively low status, challenging and to involve inconvenient working hours. Status is important and may lead Saudis to avoid directly dealing with the public as ‘some jobs in our company are rejected ... because local workers prefer to work in the backline to avoid confronting the society’ [Regional Recruitment manager, FastFoodCo]. The company also noted that Saudis were unwilling to drive their delivery cars with the company logo ‘because it seems that they feel too shy to face the society seeing them driving firm’s delivery car’ [Regional Recruitment manager, FastFoodCo]. In addition, the work is hard as:

‘Fast Food restaurants are a very tough working environment, either in front line dealing with different people with different class and background expecting to make them pleased and satisfied, or in the back line dealing with oil and machines in a very repetitive physically demanding routine’ [Human Resources Director, FastFoodCo].

A related problem is the clash between the demands of the work and expectations of Saudi staff that they would be free at certain times of the week. Especially in the

service sector firms, there was an expectation that staff would work when other Saudis were on holiday but to meet this expectation was a challenge as:

‘To give workers weekend holidays, this is a joke in our business ... the maximum we give is one day because 60 per cent of our sales happens in the weekends’ [Regional operations manager, FastFoodCo].

In effect, the busiest times in the week for the firm (the weekend holiday period) coincided with the period when many Saudis wanted time off to be with their families. For service companies, family expectations can cause problems as these meetings tend to happen when many Saudis are not at work (Saif, 2010), but these are precisely the times when FastFoodCo has its busiest period of the week.

A further problem for the company is due to a lack of recruitment pre-Nitaqat they now have a lack of local workers with the skills to take on management and supervisory roles. This is a wider problem as they have found that there was no ‘supply in the Saudi labour market for well experienced supervisors and restaurant managers because these jobs are historically filled by non-locals’ [Regional Recruitment manager, FastFoodCo]. Their solution has been to change the selection criteria for supervisory and managerial local candidates. The company has reduced the requirement for supervisory local applicants to 2 years experience in the industry (at least 1 year in supervisory level) when it was previously at least 3 years in the industry (at least 2 years in supervisory position). Likewise Managerial position experience has been reduced to 3 years (2 years in supervisory level) when it was previously 5 years (3 years in supervisory level).

Their solution to a number of these problems has revolved around structured recruitment, training and adapting working conditions. These are covered in the next section as this is closely related to the important issue around the creation of HRM capacity to meet new challenges. One innovative part of their response has been to ease their recruitment problems through the deliberate recruitment of Saudi women. As discussed in chapter four, women in Saudi society are often unemployed or underemployed.

Their strategy has had two strands. In one respect, they have followed the Saudi norm and created a work role that can be segregated on the basis of gender thus meeting Saudi social and religious expectations. FastFoodCo has thus expanded its

call centre operations and staffs this entirely with female workers. More innovatively, they have also managed partially to integrate female staff in their restaurants by having women in the backline (i.e. food preparation) and men in front line (i.e. serving customers). To achieve this meant first addressing staff attitudes:

‘There is a reluctance in both local genders to deal with each other comfortably... today the supply of local males are very few, sooner or later we have to increase the local female manpower to survive the Nitaqat’ [Human resources manager, FastFoodCo].

More importantly, having identified increasing female recruitment as critical, the firm then approached the Saudi religious bodies in order to acquire acceptance of their plans. This was seen as challenging but essential:

‘When we talk about employment of females in floors, we are talking about very culturally and regulatory sensitive issue. However, due to the shortage of local male supply, we had to access the huge inactive female labour market because we knew that the government has allowed factories to have employ females in separated production lines under specific guidelines’ [Human Resource Director, FastFoodCo].

In order to access this part of the labour market, the firm had not only to engage in an innovative job redesign but also to engage with the Saudi authorities for their approval. In effect, recruiting from the large pool of unemployed Saudi women became a critical aspect in their strategic response to Nitaqat but to do this meant negotiating an acceptable arrangement with both civil and religious authorities:

‘Therefore, I had to go to the labour minister and met him personally, and then went to the Committee for the Promotion of Virtue and the Prevention of Vice (CPVPV)<sup>1</sup> to convince them to consider the back line of restaurants as a production line and also showed them all the training and prevention measures we intend to take in order to reduce inter-gender interaction and prevent negative consequences... they approved it at the end’ [Human Resource Director, FastFoodCo].

Of note, this is the creative approach FastFoodCo has used in this respect. As noted in section 6.3.1. SPharmaCo has decided not to recruit women as it cannot see how to manage gender segregation within its pharmacies. FastFoodCo has managed to resolve this problem, in negotiation with the authorities, and has created an approach

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<sup>1</sup> Committee for the Promotion of Virtue and the Prevention of Vice (CPVPV): Saudi Official body to enforce Sharia law in respect to religious behaviour and morality.

that means they can recruit substantively from the Saudi female population if they run into a male labour shortage.

As noted in 6.2, the firm also has an ambitious growth strategy. Meeting the Nitaqat objectives was seen as being critical to realising this goal:

‘I have told the HR director to tell the shareholders, either we perform good in localisation or let them forget to open another 70 outlets in the coming years, because they government will not give us the visas we want for foreign workers, instead, we will have gradual damage to our current business, by losing our current manpower’ [Regional Personnel and Government Affairs Manager, FastFoodCo].

In a presentation to senior management, the HR Director re-affirmed this linkage between the growth strategy and meeting the Nitaqat objectives. In effect, the core strategy of the firm (growth) has led to a careful attention to the enabling goal of achieving at least a green band rating for localisation.

## ***6.4 Building HRM Capacity***

As identified above both these firms have significantly increased the number of Saudis they employ since the introduction of Nitaqat. Equally, both faced significant challenges due to specific labour market issues and have developed their own strategic response to these challenges. In consequence, it is to be expected that they have both overhauled and improved their HRM practices in order to create the capacity to support these new strategies. In addition, it is worth noting that both firms have ongoing expansion plans which makes full compliance with Nitaqat (at least into the Green Band) essential as both continue to need to recruit foreign workers as well as Saudi nationals.

### **6.4.1 HRM Capacity in SPharmaCo**

Before the introduction of Nitaqat, SPharmaCo left the process of hiring new staff to managers of each of its local stores. This usually involved dealing with specialist outsourced recruitment companies, as foreign worker visas were easy to acquire (either legally or illegally). The firm responded to the demands of Nitaqat first by addressing a range of recruitment and staff development issues, as:

‘For Nitaqat policy to be successful from the beginning, the localisation plans needed to be integrated into the annual manpower planning and budgeting activities... it has to be aligned with other HR activities such as recruitment, training and development’ [Manpower planning and resourcing manager, SPharmaCo].

However, SPharmaCo previously had had no-one who could make links between the need to improve recruitment and retention and overall organisational strategy. Therefore, the HRM function was further strengthened by recruiting from ‘reputable large local and international firms such as Unilever and Savola group who both have a strong HRM systems and successful implementation of workforce localisation...’ [CEO, SPharmaCo]. Further capacity was added by recruiting a Manpower Planning and Resourcing manager and placed him in charge of a newly created department. In effect, their initial response was to draw expertise from other firms in order to build up their own capacity.

Having created this expanded HRM capacity, the consequence was a much closer linking of HRM decisions with corporate strategy:

‘Nitaqat made the work clear for us when putting our strategy and get the approval from the senior management. It became one of the main element when we do the annual manpower planning ...we discuss with the top management If we want to go to the platinum band and the benefits we may gain from it. Nitaqat made our role more important than before; the government policy helped me as an HR planning manager to have a voice during the board meetings... Nitaqat is an enabler tool... It made the private sector rethink about HR practice from personnel to strategic HR mode’ [Manpower Planning and Resourcing Manager, SPharmaCo].

Thus, Nitaqat was credited in creating a clear link between corporate strategy and manpower planning. Elsewhere, the same individual noted how the HR department was now effectively rationing applications for foreign worker visas within the firm. However, while the focus still seems essentially on manpower planning, there is evidence that other aspects of HRM practice are also being adopted, In particular, to:

‘Offer right reward packages and working conditions to ensure locals' retention with the firm... especially today when the competition to recruit locals is very high’ [Manpower Planning and Resourcing Manager, SPharmaCo].

Although this approach to HRM has been effective, it does not eliminate the fundamental problem of the lack of trained Saudi pharmacists who could manage their stores. Their shift to recruiting Saudi assistant pharmacists and beauty

consultants has brought with it substantial costs in terms of staff training and development, especially as SPharmaCo lowered the qualification standards from having at least high school diploma or equivalent to have secondary school diploma due to increased labour competition. In addition, the pharmacy technicians' qualification standard has been lowered from pharmacy diploma to high school and secondary diploma.

SPharmaCo has run several recruitment campaigns and job fairs and recruited more than 1000 local workers in semi-skilled and skilled jobs. This enabled them to evade the problem of a shortage of trained local pharmacists and allowed them to carry on using non-Saudi staff in this role. In particular, they designed the new jobs to fit with the existing labour market and ease the challenge of meeting the overall localisation target. This was described as:

'The newly created jobs are a major opportunity for us to fix our workforce localisation at a time when it's impossible for us to recruit local pharmacists at our pharmacies or in low-skilled jobs. We were looking for good job contents acceptable by Saudis and together go along with our high number of expat pharmacists and ... we also believe this will increase our sales volume; as a result of manpower increase in each pharmacy' [Administration and government affairs manager, SPharmaCo].

However, some of this recruitment has been from other firms. SPharmaCo has recruited Beauty Advisors directly from other retailers that specialise in cosmetics and make-up. It may be that this reactive model was a reflection that SPharmaCo has not had time to build its training programmes (HRM capacity) and develop their own skilled and beauty advisors because the deadline to meet the Nitaqat quotas is more pressing than the time that is needed to build internal capacity. As noted in section 6.3, SPharmaCo's wider strategy can be seen as pragmatic and reactive. Their fundamental problem is that there are no Saudis for their primary job (pharmacists) and their entire approach can be seen as working around that core problem.

In turn, the increased cost of manpower has also pushed SPharmaCo to increase the responsibility of those staff so as to raise the productivity of the local workers that it employs (Streeck, 1987). This provides a strong example of how shifting external circumstances created an internal concern (in this case to raise productivity so as to recoup the extra labour costs). In effect, according to participants, with few Saudi

staff employed, low productivity was acceptable to the firm but with hundreds of local workers, it became essential to maximise the return of investment on the salaries paid.

The company has also adjusted the working conditions for Saudi staff. SPharmaCo, for the newly recruited local pharmacists assistant and beauty advisors, has allowed them two days off per week so they can participate in family and kinship meetings. The company has also sought to make itself attractive to young Saudis by its wider benefits package with these deliberately designed to be attractive to their parents:

‘We have introduced parents insurance given to locals. As you know, the influence of parents here in Saudi is high among their sons. So in case, if local workers have the intention to leave us, their parents might tell them, don’t, because they are getting benefits from using the insurance we are providing’ [Manpower planning and resourcing manager, SPharmaCo].

As discussed in chapter four, kinship groups are an important part of Saudi society as is the expectation that younger members of a family will take care of their parents. While in other respects young Saudis are unwilling to take on what are seen as low pay and low status jobs, SPharmaCo was making it harder for their staff to leave as doing so will directly harm their parents’ wellbeing. The loans for marriage also reflects the challenges facing young Saudis as such benefits target a need for local workers and may act as an attraction and retention tool as the typical marriage age is between 23-28 years of age which is also the age range of the local candidates the company is looking for.

Overall, this suggests that SPharmaCo has sought to address two problems in its previous HRM practice. It previously lacked almost any HRM capacity as local managers engaged with the various foreign worker recruitment agencies to recruit staff as they needed. Thus, there was a need to create the capacity to handle the routine work of recruitment and staff development. At the same time, the firm realised it lacked any strategic capacity in its HRM function and addressed this by recruiting externally. Thus, while its specific HRM related responses can be seen as practical steps to address its strategic goal, before Nitaqat it lacked the capacity to identify these strategies and to implement them. The coercive nature of Nitaqat has clearly been a major shock to the company leading them to alter their behaviour.

The extent that meeting the localisation targets became a key goal is clearly articulated:

‘The top management knows this clearly... when the Ministry of Labour announced this, even before we have a manpower planning manager or even the VP of Business Support was recruited, ... it was my responsibility to deliver the policy requirements to the top management. You may laugh if I tell you that at every traffic light I stop I remember the Nitaqat ranges with its colours (because the colours of the traffic light reflect the Nitaqat bands)’ [Administrative and Regulatory Affairs Manager, SPharmaCo].

In effect, the officer with original responsibility for leading SPharmaCo’s response was so worried that he was seeing the Nitaqat banding rules on his way to work. It appears as if senior management needed some convincing that Nitaqat was going to be seriously prosecuted and the Administrative Affairs Manager noted that ‘I started to use my contacts and they replied to me that the government is having serious implementation and no one can be excluded.’ Armed with this new information, the senior management then:

‘Started to look for people with professional HR background to rescue the company, at that time, the company recruited our VP of business support and manpower planning manager from well-known companies that already had good reputation in localisation...’ [Administrative and Regulatory Affairs Manager, SPharmaCo]

In turn, one of these new appointments after being recruited stated:

‘Two years ago the company approached me when I was working in P&G to put the foundation of the HR system in this company. Then, I have recruited different HR managers to support me in building different HR departments and functions to deal with different labour market challenges and government pressures as well as to achieve the new expansion goals of the company... most of the HR team is recruited from big firms...’ [VP Business Support, SPharmaCo].

Again, this indicates that the firm lacked much HRM capacity pre-Nitaqat has effectively created its HRM function by recruiting from other firms. In this instance, it is possible to link the development of HRM capacity in SPharmaCo to the shift in regulatory framework. However, having created this capacity, the firm has since been able to develop a range of strategic responses that protect their basic organisational goal (expansion) while meeting the Nitaqat quota targets.

### 6.4.2 HRM Capacity in FastFoodCo

FastFoodCo has faced the same HRM challenge as SPharmaCo. Before Nitaqat, it could rely on the foreign worker labour market and individual store managers worked with agents to recruit staff to meet short term demands. However, one important difference was they had already appointed a HR manager who had been pressing the firm to improve their recruitment of Saudis. This proved to be critical in influencing their response to Nitaqat, especially as:

‘Even before Nitaqat, I used to believe that localising the jobs is a strategic option for the company, and even if local workers have issues, these problems can be solved through training programmes and HRM solutions’ [Human Resource Director, FastFoodCo].

As discussed in section 6.2, initially these options were discounted as being too expensive since none of their competitors were prepared to substitute relatively expensive Saudi nationals for cheaper foreign workers. However, the preplanning and consideration of options was important as it appears that FastFoodCo has been less reactive (and dependent on drawing in external resources) than SPharmaCo.

The firm’s response to Nitaqat was to build up their HRM capacity in two respects. As with SPharmaCo, they introduced a range of practical measures and needed HR professionals to both set up and monitor these schemes. So the firm revised its employment contracts to raise productivity by, for example, adding cleaning duties to the contracts of staff working in their outlets, thus removing the need for some specialist cleaning roles. Equally, the contracts for Saudis were adjusted to allow them to have two days a week off and the firm is exploring offering marriage loans for local staff who work for the company for a number of years. As with SPharmaCo’s linkage of benefits to the wider family group, this is designed to encourage staff to stay with the firm and offset some of the cultural prejudice that working in the fast food sector will damage marriage prospects.

The need for training was a large challenge as they felt they ‘had no option but to take the available unskilled local job seekers and provide remedial courses’ [HR director, FastFoodCo]. However, training was not just about initial entry but also in terms of future progression. FastFoodCo has tried to address barriers to internal promotion for local staff to supervisory and managerial level jobs and the firm has

established a fast-track programme designed specifically for local workers with an existing diploma and bachelor degree in hospitality. More than seventy local workers have been fast tracked to supervisory and managerial positions since the start of the programme. The HR Director noted the difference between well-educated and skilled foreign workers and the critical need to invest in substantial internal training and development for local staff. If this additional support was not offered then productivity would decline rapidly: ‘I pay male local workers almost 200 per cent extra money for semi-skilled local workers compared to foreign workers to gain on average 30 per cent of the foreign workers’ productivity’ [HR Director, FastFoodCo].

However, this also underlines the creation of a two tier workforce both within the firm and in the wider economy. Today, for most firms the training of Saudis can be seen as capacity building and addressing skills deficits (Glaister et al., 2013; Yavas, 1999) and in this context, almost by definition, the foreign workers are excluded. In the case of FastFoodCo, the HR Director draws a distinction between the degrees in Hospitality Management of the foreign workers compared to high school diplomas of the Saudi recruits. In the short term, the investment in training is designed to eliminate the competence gap between the two groups but there is no focus on further raising the skills of the non-Saudi workforce. Since the longer term policy aim is to raise the competitiveness and productivity of the entire Saudi economy that will be hampered if a significant proportion of the workforce is excluded from ongoing staff development. This matters as even if Nitaqat significantly reduces unemployment among Saudi nationals, there will still be a substantial reliance on non-Saudi staff.

While the firm had some HRM capacity pre-Nitaqat (unlike SPharmaCo), the shock of having to adapt was a major driver to FastFoodCo being prepared to invest in increasing this key resource.

‘Investors and shareholders always tend to look for shortcuts and manipulated tactics when it comes to implementing job localisation ... But now the strong electronic monitoring system has left them with no option but to conform to the requirements of the government’ [Regional Personnel and Government Affairs Manager, FastFoodCo].

This linkage was reinforced:

‘I told the senior management in the company; either you take serious and immediate actions to implement Nitaqat through ensuring all the HR systems to recruit and retain locals, or you forget to sustain the business or to meet the company’s strategic plan in reaching 300 restaurants by 2016 from 230 today... they choose to go with the expansion plan and they had no option but to increase the manpower budget from 10 to 25 per cent’ [Human Resources Director, FastFoodCo].

The result, as discussed in section 6.3, has been major changes as the firm has retained its wider strategic goal of expanding the number of fast food outlets. Having identified female workers as a key solution to the demands of Nitaqat, the company had a HR director who was able to redesign the work processes so as to allow women to work in the fast food outlets and still meet the demands of the Saudi religious authorities. Some of this capacity existed before the introduction of Nitaqat, but there was no stimulus to engage in far reaching changes in terms of employment contracts.

## ***6.5 Discussion and Conclusion***

In contrast to the cases reviewed in chapter five, both these firms had to implement major changes to their staffing profile in a relatively short time. From the data in chapter four, these firms are typical of many Saudi private sector firms in having ignored localisation pre-Nitaqat but having adapted since then. What is interesting is that while their individual circumstances heavily influenced their main strategy there are close similarities in terms of how they built up their HRM capacity.

For SPharmaCo, a fundamental issue was the lack of trained Saudi pharmacists who could manage their stores. For this vital staff group they continued to be reliant on foreign labour and, as discussed above, they also have ambitious expansion plans. This in turn, drove their strategy, they both need to be fully compliant to access the foreign labour market and they identified a job role they could add to their stores where the Saudi educational system was producing significant numbers of graduates. FastFoodCo face a different problem. To a large extent, their workforce does not need specific skills so they can access the broad Saudi labour market, but equally are fully exposed to competition from other private businesses especially as FastFoodCo both faces competition in the labour market and has an ambitious expansion plan.

However, both have had to make similar adjustments to their HRM capacity. Pre-Nitaqat both used the common approach of seeing this mostly as about recruitment and dismissal of foreign staff according to work needs and with this mostly handled by local managers. Both have had to put in place a range of HRM approaches to improve their recruitment approach, offer training to bridge the gap between their new recruits and the job demands and adjust the working patterns (for their Saudi staff) to reflect social expectations. At a strategic level, SPharmaCo has had to recruit all their current senior HR staff while FastFoodCo had the advantage of having an existing director with ideas about how to improve recruitment of Saudis.

This difference in terms of existing resources has perhaps conditioned some of their early responses. SPharmaCo opted not to recruit women, as it was too difficult to design their outlets to meet the needs for gender segregation. Equally, they had to resort to poaching potential staff from other firms to bridge the gap in terms of recruitment and their training programmes. FastFoodCo has been able to negotiate a working structure with the Saudi authorities that allowed them to employ women both in a segregated environment (their call centre) and in the non-segregated environment of their fast food outlets.

One aspect that is shared by the two firms is the belief that being seen to take Nitaqat seriously will help them both to recruit Saudi staff and with the Saudi authorities. As with the cases in chapter five, this indicates some degree of voluntary alignment to the goals in the search for competitive advantage. For both, they clearly believe that being seen to be enthusiastic and early adopters of localisation (at least since Nitaqat) will allow them to gain a long competitive advantage in the Saudi labour market.

Drawing on the discussion about Dynamic Capabilities, the evidence in this chapter fits some of the main expectations. The new labour market conditions are challenging and have led to significant change with both firms now using strategies they ignored pre-Nitaqat. However, FastFoodCo perhaps has had the advantage of a unique resource (their more experienced HR Director) who has enabled the firm to make a more radical shift in their approach. However, it is clear that both firms are responding to Nitaqat, in this sense, unlike in chapter five, there is a closer linkage between regulatory change and organisational behaviour. As both would have been non-compliant, and both saw this as a threat to their existence, this is not surprising

as the firms needed to adjust substantially in a short period of time. However, this is not just about responding to regulatory change. The discussion in this chapter implies that a company with a growth strategy is more exposed to the problems that would follow from non-compliance and this may contribute to explaining why SPharmaCo and FastFoodCo have both radically improved their HRM practices.

This suggests, as in the conclusion to chapter five, that organisational response is influenced by the regulatory change, the wider social environment and organisational strategy (for both these firms their growth strategy has meant they are particularly exposed to the threat of losing access to visas for foreign workers). What is interesting is that while the two firms have produced very different strategies in response they have had to engage in very similar approaches to building up their HRM capacity in order to deliver these new strategies.

## **Chapter 7 : HomesCo and GAGlassCo**

### ***7.1 Introduction***

These two companies are grouped together as there are similarities in their staffing profiles both before and after Nitaqat. Equally, both have tended to adopt a strategy of meeting the quantitative quotas embedded in Nitaqat while making few, if any, changes to their wider staffing profile and HRM practices. In this, they form an interesting counter-balance to the discussion in chapter five where both firms already had substantial HRM capacity and used this to ease their adaption to Nitaqat. Equally, they form a contrast to chapter six where both firms had to increase their HRM capacity in order to cope and to implement a very different post-Nitaqat staffing strategy.

The linkage between HRM policies and initiatives and wider business strategy is important in understanding their actions. In particular, GAGlassCo has managed to find a response based around recruiting local women to work in a segregated part of the business (basically packing). They already did this pre-Nitaqat and have simply expanded the staffing numbers to give them sufficient numbers of Saudi nationals in order to meet the quota and essentially ignore Nitaqat in terms of the rest of their business. For HomesCo, their approach can be seen as being conditioned by attitudes that Saudi nationals cannot perform certain roles. Thus, they have created a number of new jobs (which usually do not directly deal with the public) and reserved these for Saudis. Their approach seems to have been one of pragmatic adaptation hindered by this core belief that Saudis cannot work effectively in a sales role. Again, this allows them to meet the quota, but unlike GAGlassCo there is also evidence that they are starting to adjust their approach as they find that Saudis can work effectively in their sales roles. In turn, this is leading them to reconsider their HRM capacity.

As with the previous two chapters, the next section is a short overview of the two firms and their changing staffing profile. Their strategic response to Nitaqat is then discussed and the implications of this for their chosen HRM approach.

## 7.2 Background

### 7.2.1 HomesCo

HomesCo is a large flooring and furniture retail chain founded in the late 1950s. The company now has 57 stores with different sizes (14 large, 23 medium and 20 small) with 1255 employees. There are no substantial expansion plans. Almost 80 per cent of jobs are found in floor jobs such as showroom managers, section heads, supervisors, sales co-workers and representatives, cashiers and stockers and low skilled labourers. The proportion of local workers in the total workforce of the company has increased from 14.8 per cent in 2010 to 39 per cent in 2013. Table 7-1 sets out the employment profile, as:

**Table 7-1: Employment Data: HomesCo**

| Main Job Titles<br>retail floor  | 2010  |   |                         |                                     |   |  |   |  |
|----------------------------------|---|---|-------------------------|-------------------------------------|---|--|---|--|
|                                  | No. Local Employees   | No. Local female employees from No. Local Employees | No. Non-Local Employees | No. of Outsourced Non-Local Workers | Total No. of Employees + Outsourced Workers | Local Employees Rate at Each Job Title (%)                     | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) |
| Show Room Managers               | 0   |   | 39                      | 0                                   | 39  | 0  | 3   | N/A                                      |
| Section Heads                    | 0   |   | 43                      | 0                                   | 43  | 0  | 4   |  |
| Supervisors                      | 0   |   | 94                      | 0                                   | 94  | 0  | 8   |  |
| Customer Service Representatives | 0   |   | 37                      | 0                                   | 37  | 0  | 3   | N/A                                      |
| Sales Co-workers                 | 17  |   | 170                     | 0                                   | 187   | 9  | 16  |  |
| Sales Representatives            | 0   |   | 30                      | 0                                   | 30  | 0  | 2   |  |
| Stockers                         | 0   |   | 35                      | 0                                   | 35  | 0  | 3   |  |
| Cashiers                         | 0   |   | 70                      | 0                                   | 70  | 0  | 6   |  |
| Data Entry                       | 0   |   | 0                       | 0                                   | 0   | 0  | 0   |  |
| Home Delivery Truck Drivers      | 0   |   | 57                      | 0                                   | 57  | 0  | 5   |  |
| Low Skilled Labours              | 0   |   | 41                      | 190                                 | 231   | 0  | 19  |  |
| Other floor Employees            | 49  |   | 37                      | 30                                  | 116   | 42   | 10  |  |
| Non-Retail Floor Employees       | 72  | 0   | 190                     | 0                                   | 262   | 27   | 22  |  |
|                                  | 138   | 0   | 843                     | 220                                 | 1201  | 11   |   |  |
|                                  | Total No. of Employees Without Outsourced Non-Local Workers= 932 Employees  |   |                         |                                     |   | Total % of Locals Without Outsourced Non-Local Workers= 14.8 % |   |  |
| Main Job Titles<br>retail floor  | 2013  |   |                         |                                     |   |  |   |  |
|                                  | No. Local Employees   | No. Local female employees from No. Local Employees | No. Non-Local Employees | No. of Outsourced Non-Local         | Total No. of Employees + Outsourced Workers | Local Employees Rate at Each Job Title (%)                     | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) |
| Show Room Managers               | 0   |   | 55                      | 0                                   | 55  | 0  | 4   | N/A                                      |
| Section Heads                    | 0   |   | 69                      | 0                                   |   |  |   |  |
| Supervisors                      | 26  |   | 92                      | 0                                   | 118   | 22   | 8   | 32                                       |
| Customer Service Representatives | 27  |   | 8                       | 0                                   | 35  | 77   | 2   | 25                                       |
| Sales Co-workers                 | 152   | 33  | 163                     | 0                                   | 315   | 48   | 22  | 52                                       |
| Sales Representatives            | 12  | 9   | 29                      | 0                                   | 41  | 29   | 3   | 39                                       |
| Stockers                         | 0   |   | 32                      | 0                                   | 32  | 0  | 2   |  |
| Cashiers                         | 69  |   | 0                       | 0                                   | 69  | 100  | 5   | 26                                       |
| Data Entry                       | 37  |   | 0                       | 0                                   | 37  | 100  | 3   | 35                                       |
| Home Delivery Truck Drivers      | 0   |   | 39                      | 0                                   | 39  | 0  | 3   |  |
| Low Skilled Labours              | 0   |   | 42                      | 129                                 | 171   | 0  | 12  |  |
| Other floor Employees            | 71  | 30  | 46                      | 28                                  | 145   | 0  | 10  |  |
| Non-Retail Floor Employees       | 98  | 22  | 188                     | 0                                   | 286   | 34   | 20  |  |
|                                  | 492   | 94  | 763                     | 157                                 | 1412  | 35   |   |  |
|                                  | Total No. of Employees Without Outsourced Non-Local Workers= 1255 Employees |   |                         |                                     |   | Total % of Locals Without Outsourced Non-Local Workers= 39 %   |   |  |

In this case, the total number of foreign workers has reduced from 843 to 763 while the total workforce has increased from 1201 to 1412. Following the implementation of Nitaqat, the company developed the role of data entry staff and reserved these for Saudis. More generally, they have tended to increase the number of Saudis in a number of identified roles. As an example, for the role of cashiers, the previously foreign workforce has been completely replaced by Saudis but the staff employed for stocking duties all remain foreign workers. At more senior levels, there are still no Saudi store managers or section heads. However, the number of Saudi supervisors has increased from zero to 26 and there has been a similar increase in the number of Saudi Customer Service Representatives. However, the firm has not been able to promote staff to these roles and instead poaches trained staff from other companies, as: 'I had to go and search for them in different companies to have them work for us' [Recruitment and administration manager, HomesCo].

Before Nitaqat, there were very few Saudi Sales Co-Workers (and, as discussed later these were moved around so they were in a store that was likely to be inspected by the Ministry of Labour). Now, there are 152 Saudis in this role and 12 working as Sales Representatives. The previous practice was to regard these staff as purely employed to satisfy government inspectors:

'We used to have regular inspections in some of our showrooms by the Ministry of Labour... they come to our showroom and want to see some Saudis there. If they see one Saudi, they will be fine and not take any further action or go for detailed inspection. During those days, we had about 190 stores; you might say we need one Saudi for each. In fact, we distributed only 17 Saudis only in the most inspected showrooms [Recruitment and Administration Manager, HomesCo].

Female employment remains relatively limited but now makes up 7.4 per cent of the workforce in roles such as sales co-workers and representatives, tailors and designers. Some stores are gender segregated either by physical division or by setting aside different times for men and women. Of note, a relatively high proportion of the new Saudi Sales Co-Workers and Representatives are female and these new staff are supported by 30 female 'other floor employees'. The second source of female employment is the newly created department that makes soft furnishings from off-cuts from carpets and other furnishings.

As in the previous chapters, HomesCo continues to be reliant on outsourced workers even if the numbers have dropped from 220 to 157. Even if these staff now need to be legally employed (i.e. have a valid work visa etc.) their employment can be advantageous in meeting the Nitaqat target as they do not count for the localisation quota. This matters as HomesCo is compliant in terms of directly employed staff (it has 492 Saudis out of 1255 directly employed staff) which places it in the platinum category but it would drop to the green category (i.e. less than 34 per cent localisation) if these staff were counted.

As with other firms, Nitaqat has brought a substantial increase in the turnover rate. For example, for Sales Co-Workers this has increased from 20 per cent to 52 per cent reflecting the retention problems that have followed from increasing the number of Saudi employees. This has particularly hampered their plans to recruit Saudis to sales jobs as:

‘One of the recruitment decisions we made, was the employment of 50 local male sales co-workers. After the changes in labour market policies related to workforce localisation, In just six months, almost of 80 per cent of them have left the company’ [Recruitment and administration manager, HomesCo].

The CEO of HomesCo has used the new threat of Nitaqat to bring their board to take localisation seriously. In effect they are clear that they needed to adapt but, as discussed in the following sections, they have not really followed a structured strategy. Despite this, adaptation is seen as being critical:

‘I have discussed the new policy "Nitaqat" to the owners if we don't comply, we will be in serious trouble... we will lose our foreign workers who are at the moment, the bond of our company. If we fall in the yellow band, we won't be able to renew their visas or retain them in our company or even bring new foreign workers in the future’ [Chief Executive Officer, HomesCo].

The issue is not in terms of commitment to meeting the quota but in terms of willingness to adapt to a situation where they recruit Saudis to all roles. This ambivalence has perhaps hindered their build of their HRM capacity as they remain slow in recruiting Saudis to their core sales jobs. In effect, so far, as discussed below, they use training as a tool to address weaknesses of Saudi staff when first recruited rather than as the basis of a structured approach to longer term staff development.

### **7.2.2 GAGlassCo**

This Company is one of the leading local private glass factories in Saudi Arabia and was established in early 1990s. The company produces containers, tableware, and perfume bottles that are exported to more than 100 countries across the world. The factory floor production area constitutes different zones. The first zone has large furnaces to heat the raw materials to high temperatures reaching above 1500°C with capacity to produce more than 500 tons a day. The second zone has around 25 production lines that need to run all day, all of the year, producing 70-200 glass articles each minute. In addition, there are cooling, quality control, decorating and packaging zones.

The company employs around 874 employees; 82 per cent of the company's workforces are on the factory floors. The company is considered to be a major employer of local female employees and has increased the employment of women from 10 per cent in 2010 to 23 per cent in 2013. However, the jobs assigned to them are low skilled jobs such as the packing and decorating areas. In terms of the proportion of Saudi staff this has increased from 17 per cent in 2010 to 32 per cent in 2013, primarily due to the increased recruitment of women.

Table 7-2 summarises the staffing profile:

**Table 7-2: Employment Data: GAGlassCo**

| 2010   |  |   |                         |                                     |   |  |   |  |
|--|--|---|-------------------------|-------------------------------------|---|--|---|--|
| <b>Main Job Titles in different floor divisions</b><br>(Production, Chemical Lab, Furnaces, Quality Control, Decorating, Packing, Warehouse) | No. Local Employees  | No. Local female employees from No. Local Employees | No. Non-Local Employees | No. of Outsourced Non-Local Workers | Total No. of Employees + Outsourced Workers | Local Employees Rate at Each Job Title (%)                           | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) |
| Managers   | 0  |   | 33                      | 0                                   | 33  | 0  | 4   | N/A                                      |
| Engineers and Specialists  | 0  |   | 55                      | 0                                   | 55  | 0  | 6   |  |
| Supervisors and Forman   | 0  |   | 72                      | 0                                   | 72  | 0  | 8   |  |
| Operators  | 0  |   | 127                     | 0                                   | 127   | 0  | 14  |  |
| Technicians  | 0  |   | 48                      | 0                                   | 48  | 0  | 5   |  |
| Low Skilled Labours  | 70   | 56  | 81                      | 137                                 | 344   | 20   | 38  | 10                                       |
| Other Floor Employees  | 23   |   | 26                      | 0                                   | 49  | 47   | 5   |  |
| Non-Factory Floor Employees  | 25   |   | 144                     | 0                                   | 169   | 15   | 19  | Less than 2%                             |
|  | <b>118</b>   | <b>56</b>   | <b>586</b>              | <b>137</b>                          | <b>897</b>                                  | <b>13</b>  | <b>100</b>  |  |
|  | Total No. of Employees Without Outsourced Non-Local Workers = <b>704 Employees</b> |   |                         |                                     |   | Total % of Locals Without Outsourced Non-Local Workers = <b>17 %</b> |   |  |
| 2013   |  |   |                         |                                     |   |  |   |  |
| <b>Main Job Titles in different floor divisions</b><br>(Production, Chemical Lab, Furnaces, Quality Control, Decorating, Packing, Warehouse) | No. Local Employees  | No. Local female employees from No. Local Employees | No. Non-Local Employees | No. of Outsourced Non-Local         | Total No. of Employees + Outsourced Workers | Local Employees Rate at Each Job Title (%)                           | Distribution of Employees + Outsourced Workers based on Job Title (%) | Annual Local Employees Turnover Rate (%) |
| Managers   | 6  |   | 30                      | 0                                   | 36  | 17   | 4   | 33                                       |
| Engineers and Specialists  | 7  | 4   | 60                      | 0                                   | 67  | 10   | 8   | 10                                       |
| Supervisors and Forman   | 0  |   | 74                      | 0                                   | 74  | 0  | 8   | N/A                                      |
| Operators  | 0  |   | 139                     | 0                                   | 139   | 0  | 16  |  |
| Technicians  | 0  |   | 52                      | 0                                   | 52  | 0  | 6   |  |
| Low Skilled Labours  | 208  | 198   | 79                      | 0                                   | 287   | 72   | 33  | 66                                       |
| Other Floor Employees  | 33   |   | 28                      | 0                                   | 61  | 54   | 7   |  |
| Non-Factory Floor Employees  | 23   |   | 135                     | 0                                   | 158   | 15   | 18  | Less than 2%                             |
|  | <b>277</b>   | <b>202</b>  | <b>597</b>              | <b>0</b>                            | <b>874</b>                                  | <b>32</b>  | <b>100</b>  |  |
|  | Total No. of Employees Without Outsourced Non-Local Workers = <b>874 Employees</b> |   |                         |                                     |   | Total % of Locals Without Outsourced Non-Local Workers = <b>32 %</b> |   |  |

Overall total employment has dropped slightly (from 897 to 874) and the main shift has been to reduce the number of ‘non-factory floor employees’, who were mainly non Saudi, and replace them with an increase in the number of ‘low skilled employees’ recruited locally. It is worth noting that this shift has been accompanied by a radical increase in the number of female employees. These are mostly working as low skilled labourers (basically in the packing and distribution role) and this increase has been a major part of the company’s response to Nitaqat. While a few locals now work as managers, engineers or specialists, all the staff employed as Supervisors, Operators or Technicians are non-Saudis. This reflects the belief that Saudis will not work in this type of role due to the challenging working conditions. One post-Nitaqat change to their staffing profile has been the decision to no longer use outsourced labour and by 2013 the firm only had directly employed staff. This

was a deliberate decision related to the increased degree of monitoring of such contracts:

‘Due to the new inspection mechanisms and government campaigns to deport undocumented workers, we had to get rid of all illegal workers using different strategies to fill the gap they left. We did this by replacing them with local females in specific jobs and cover the rest with our new legal outsourcing company’ [Administration Manager, GAGlassCo].

However, the decision to rely on female staff as the core of their localisation strategy predates Nitaqat:

‘When the inspectors of the labour ministry used to come to us at that time, they were happy seeing that we employed local females. It was new for manufacturing companies to have females. During that period, females were available to work in most of the low skilled jobs. We had and still having them in the packing and decoration area...’ [Administration Manager, GAGlassCo].

Having identified the scope to meet the Nitaqat target through the employment of female labour, the firm redesigned its physical layout in order to enable an expansion of the packing function:

‘We created a cooling area and private facilities. From a long time ago, we realised that local females were valuable due to their desperation for jobs because many of them were single mothers, or look after their parents or divorced with no income ... they were very stable, and had good performance and productivity... even there were happy of the pay we used to give them’ [Administration Manager, GAGlassCo].

While in the interviews some members of the company indicated they were aware that Nitaqat had wider social and economic goals, and that compliance was important as ‘We breath Nitaqat, to be in the green band it means you are inhaling oxygen and stay alive as a company, once you get in the yellow band the oxygen will reduce gradually’ [Executive Director, GAGlassCo]. Nonetheless, they remained content with their very particular method of meeting the set quota:

‘Today I have no issue with Nitaqat; I’m in the green band... We have succeeded in recruiting almost 200 local females in the packing and decorating area’ [Plant operations manager, GAGlassCo].

### ***7.3 Strategic Response to Nitaqat***

Of key importance, is that both firms have stressed the quantitative elements of meeting the quota and saw Nitaqat as a compliance task. Despite their lack of commitment, both firms were clear about the serious threat if they were found to be non-compliant. HomesCo felt it was important to carry on recruiting foreign workers for some roles and GAGlassCo saw the importance of compliance as “to be in the green band it means you are inhaling oxygen and stay alive as a company” [Executive Director, GAGlassCo]. This dual framing seems to have informed their approaches. In particular, both believed that Saudis were either unsuitable or unwilling to take up the core jobs in their respective firms.

The CEO of HomesCo, uniquely in the six cases, argued that the target to meet the green range (24-34 per cent) was too challenging for a firm working in his sector (basically selling home furnishings). This contrasts with the acceptance shown by other companies and, in reality, their targets are the same as for other service companies. Their reluctance seemed to reflect their fear that the bulk of their staff required no particularly specialist skills – thus they were in competition with almost all other potential employers – and this would make meeting the quota very difficult.

#### **7.3.1 Attitudes towards Saudi workers**

A common theme for both companies was a belief that Saudis were unwilling (or unable) to work in their main roles (sales or glass making respectively). This attitude appears to be fundamental in determining their response to Nitaqat and the approach they adopted to meet the quotas.

The CEO of HomesCo felt that Saudis were ill-suited to work in the frontline sales function. This was seen as being attitudinal, as Saudis were unwilling to interact with potential customers as well as demanding time off at weekends (for family reasons) at a time when the shops were at their busiest. Pre-Nitaqat, the firm, as stated previously, had had a small number of Saudi sales staff who were moved to a branch that was due to be visited by the Government inspectors. Under Nitaqat, the firm was unwilling to move beyond this as:

‘Local workers tend to wait and have very low level of proactive and courteous customer approach skills, let’s be frank, most of those young local workers have been raised in a high parent dependency environment which is reflected their negative attitudes and behaviour in the workplace’ [Director of Operations, HomesCo].

As discussed in chapter four, the prejudice against Saudi workers was common before the implementation of Nitaqat and clearly still informs the current response by HomesCo. GAGlassCo noted something similar in terms of its glass making operation as they felt that local staff would both lack the attention to detail necessary for safe operation and

‘Even if we offer such jobs to local workers, I doubt if anyone of them could accept this challenging job under this challenging environment. There is heat exposure in most of the fieldwork, besides the high noise coming from the furnace extraction systems and overall vacuum systems’ [Plant Operations Manager, GAGlassCo].

This mindset was reinforced by concerns about the work discipline of Saudis:

‘The majority of local employees in entry level jobs have problems with work attitudes, disciplines, coming to work on time, respecting their colleagues and managers as well as respecting and honouring their employment contracts. When they joined the company, they all have signed a contract that says they have to give us a one month notice before leaving; the majority has disappeared without any notice’ [Administration Manager, GAGlassCo].

Thus, the problem is presented as partly attitudinal but also a reflection that Saudis are unwilling to work in adverse conditions. GAGlassCo also argues there are areas of their business where they believe they cannot employ Saudi staff. In part, this is because Saudis would not tolerate such adverse working conditions but also that they believed their foreign workers were more professional.

‘‘It is not in our plan in the near future to have local workers working in the furnace area or production lines as supervisors or operators. From our side, it is impossible to allow irresponsible local workers dealing with machines that have very high temperature reaches up to 1500 C [...] any low vigilance or negligence of safety measures, could cause a natural disaster’ [Plant Operations Manager, GAGlassCo].

In this context, it is worth noting that this also provides evidence of the emergence of both in the firm and the wider economy of a dual labour market. The firm has no reservations about using foreign staff and expecting them to adapt to the conditions.

It is not, at this stage, prepared to invest in changing the working conditions to make them tolerable for Saudis.

Related to the belief that Saudi staff were unwilling to undertake challenging work was a belief that locals were unprofessional as they had no fear of dismissal:

‘Because local workers know they are highly demanded by the private sector, if you have little difference in the views with him/her they will say goodbye to you. The localisation policy has created a perception in local workers’ mind that firms are in need of me, not the opposite. This perception has participated in local workers low productivity and discipline towards work in the private sector’ [Recruitment officer, GAGlassCo].

In contrast, as discussed in chapter four, if foreign workers were sacked they would lose any right to live and work in Saudi Arabia.

### **7.3.2 Response**

Since neither firm was really prepared to recruit Saudis to key jobs they had to find alternative methods of meeting the Nitaqat quotas. HomesCo followed a strategy of deliberately creating jobs for which there was an existing pool of suitably skilled workers:

‘We started to scan the available workers in the market and our current jobs in our showrooms. We found that the magic key to localisation was the cashiers, sales co-workers jobs and new positions created as Data entry. These were the best solution we came out with, easy to find, cheaper, we have the positions to fit them in, easy to train and above all this, the government will fund your training. I think it is the smartest move’ [Chief Executive Officer, HomesCo].

These roles were believed to be suited for Saudis as ‘I have injected locals in sales and data entry jobs because it’s very hard to see them fit anywhere else’ [Recruitment and administration manager, HomesCo]. Even so, after initially focussing on recruiting locals for data entry and cashier jobs, the company also recruited around 150 local workers in its outlets and showrooms. This implies that despite the firm’s initial bias against Saudis in such roles, in practice, it is proving to be successful and perhaps will lead to a more structured change.

An important part of their wider solution is to increase the employment of Saudi female staff. HomesCo employed females in its show rooms in different sections (these are open spaces but split into sections so are sufficiently segregated) at

different times of the day. Thus they allocate different accessories and sofa sections to the retail showrooms to be run by females in the morning and evening shifts. In addition, the company has identified new product lines that took advantage of a potentially skilled, female workforce. Here, their Public Relations manager identified that there were unemployed female graduates with weaving skills and there was also substantial waste from residual fabrics. In consequence:

‘We reuse all the thousands of meters of residual fabrics from the fabric rolls after sales, making cushions and rugs and display them in our outlets. She mentioned by doing so, we will make a profit from waste and provides jobs for Saudi females in the field of their speciality, which might increase the satisfaction and retention level. Today, we have more than 30 Saudi females working in our workshops with all the machines needed...’ [Director of Operations, HomesCo].

This suggests an interesting degree of pragmatism to their strategy. This innovation makes use of what would otherwise be waste products, it meets the rules about gender segregation and allows the firm to access a substantial pool of ready trained workers. Equally, the proposal came not from their HRM function but the head of PR who happened to be aware of the possibility. In this sense, it is less a well developed strategic option and more a case of pragmatic adaption once an opportunity was identified. In contrast, for GAGlassCo the employment of women is not just an addition to their overall (fragmented and pragmatic) approach but absolutely core to their response to Nitaqat.

Even before the introduction of Nitaqat, GAGlassCo made use of substantial numbers of female staff and this was based on the creation of specialised roles and working conditions. GAGlassCo managed to construct a working space that met expectations of gender separation through a redesign of the packing and decorating area; building partitions to ensure gender separation in the factory field and installing air-condition systems to order to make the workplace acceptable to female local workers and thus increase retention. Beyond having to pay slightly higher wages (so their employees count towards the Nitaqat quota) the only significant change had been to adjust the working hours off the female staff so they can take the weekend off and they only work in the morning shift for 8 hours a day.

However, there is more to this response than simple segregation. The firm implicitly acknowledges previously that foreign workers were expected to work in worse conditions and that this was a barrier to the recruitment of locals.

Female employment has become the core of GAGlassCo's localisation strategy but the work is low paid, with no career possibilities or training. As indicated in table 7-2, this has led to a substantial increase in turnover and indicates that women are looking for more than the firm currently offers. At the moment, female unemployment is high enough to allow them to match turnover with recruitment but there is no reason to believe this will persist in the longer term as other companies start to explore how to recruit more women. GAGlassCo is already experiencing greater competition and believes its current recruits are less committed than before Nitaqat:

'For years, we had very efficient and disciplined local females... they stayed with us for a long time... today most of them were gone, and the newcomers have much less discipline and have no patience for the job at all. They became like local male workers, unfortunately!... You won't believe if I tell you that more than 70 per cent of them don't complete even six months with us" [Plant Operations Manager, GAGlassCo].

This may point to a weakness in GAGlassCo's overall strategy. They are able to meet the quantitative Nitaqat target by increasing the number of women they employ. However, as Nitaqat is increasing the overall demand for Saudi labour, their female employees in turn have many more employment options. If so, their reliance on female labour is a risky strategy especially as they offer no training or job progression.

## ***7.4 Implications for HRM Capacity and Practice***

Section 7.3 suggests that the firms have a common reason for their implementation strategy – a belief that Saudis cannot do certain jobs – but have developed different solutions. HomesCo has partly adapted by creating a range of jobs for Saudis and is slowly experimenting with employing them in a sales role. GAGlassCo has followed an approach of recruiting women to a very narrow range of work and is relying on

the levels of female unemployment to allow them to recruit as many people as they need regardless of increased turnover.

This difference in strategy has seen differences in terms of their HRM capacity and practice. Pre-Nitaqat both lacked any HRM function beyond the capacity to hire and fire (with responsibility usually delegated to local managers) as they took on foreign workers to meet short term demands. Uniquely, in this selection of case studies, GAGlassCo has made almost no investment in HRM capacity beyond this. They still recruit non-Saudi workers for most roles and offer very limited training, and almost no development opportunities, to the women they recruit to pack their goods. The only real impact of Nitaqat for GAGlassCo has been to increase wages and ensure it recruits foreign workers with legal visas.

GAGlassCo clearly had not invested in HRM capacity and was basically gambling that its recruitment profile at the time of this research can be sustained and allow it meet the Nitaqat quotas. In consequence, although the company appears to be compliant, the recruitment officer and plant operations manager have both expressed their deep frustration about the increasing turnover of local females after the introduction of Nitaqat and criticized the approach of top management to dealing with Nitaqat. The recruitment officer stated an analogy to reflect on the situation as

‘The CEO or the administration manager think if they fill the cracked water tank every day (by new women recruited in packing jobs), things will be fine, but they don’t know or ignoring the fact that Nitaqat has widened and still widening the crack (turnover). At any time the whole tank could break. Sooner or later the crack has to be fixed or at least should be reduced’ [Recruitment Officer, GAGlassCo].

This indicates a degree of concern at the overall approach. The firm offers no training to the women recruited for its packing roles and relatively low wages.

‘It might look to you that we have a high number of female workers but every month 10 of them leave us, and we hire another 10. This is very time-consuming. We are not stable you might think we are successful, but we are not, because those local workers are not stable. The top management prefers to put high pressure on us to fill the gap of those who left and ignore to look or give time to know the reasons behind the turnover...’ [Recruitment officer, GAGlassCo].

This quote is important as it reflects the risks the firm is taking. From section 7.2, it is clear that GAGlassCo has already seen a substantial increase in the turnover of low

skilled local workers from 10 per cent in 2010 to 66 per cent in 2013. It also suggests that some staff are aware of the risk and that while Nitaqat may not have directly affected the HRM approach it has left the firm exposed to the loss of local manpower stability. This raises a larger question which is whether or not the Saudi state is using workforce instability as a tool to encourage compliance, even among firms that may be able to initially cope by simply meeting the quantitative quotas. This theme is returned to in chapter eight.

By contrast, HomesCo has developed its HRM capacity as it is now recruiting more Saudis to a greater range of jobs. However, reflecting their overall strategy this improvement has been piecemeal and is yet to see a clear linkage between HRM and organisational strategy. HomesCo recruited a HR manager from the Pepsi Cola Company to help them deal with Nitaqat and this led to some important changes as the CEO argued that the new policy is to increase the importance of the HR department so that they are involved in designing HRM practices to deal with the recruitment and development of local workers. The CEO of HomesCo put it as

‘Today we need an HR managers who has experience from well-known companies in designing and managing different HR policies and functions to support the localisation implementation... in today’s challenging regulations and constant changes in the labour market and increasing competition in local workers’ recruitment , our current strategies in managing people is not going to work anymore ... firefighting to maintain a certain level of locals in our company is not going to work in the long run I think we need strong HR functions’ [CEO, HomesCo].

The above quote reflects role of Nitaqat in increasing the uncertainty (“it is not going to work anymore”) as to how the human resources should be managed. However, there is still a view that investing in HRM capacity is a cost rather than the creation of a valuable asset:

‘Let me be frank with you; the profit maximisation represents a simple equation in any company... it is logical for the business owner to obtain low paid labourers. Often, these are cheap foreign workers. As long as they are available by one way or another’ [Recruitment and Administration Manager, HomesCo].

Despite these changes, there is strong evidence that the firm is adapting unwillingly to the new regulations;

‘The government want us to show them that we have a certain number of local workers, that’s fine, I have injected locals in sales and data entry jobs because it’s very hard to see them fit anywhere else’ [Recruitment and Administration Manager, HomesCo].

HomesCo has made some changes to reflect the wider demands of Nitaqat. It makes use of the Human Resource Development Fund (HRDF) to enable it to recruit less well qualified local workers and then train them to meet the required work competencies. This support helps offset uncertainty in some firms about recruiting local workers and to cope with an influx of inexperienced less qualified local workers. Furthermore, subsidised training has enabled them to recruit some Saudis to customer service roles helping to overcome their initial reluctance to employ Saudis in such jobs. This access to state supported training was a major reason why the firm opted to replace foreign workers with Saudis as cashiers and in the newly created data processing jobs.

More generally, training is seen as a tool to address skills gaps when Saudis are first recruited. Using the training subsidy provided by the HRDF, HomesCo started a three to six months training programme for fresh secondary and high school graduates entering the new semi-skilled jobs. The programmes entail theoretical and practical skills, on the job training covering various employability skills including soft and technical skills besides cultural programmes and English language courses. That this is seen as a tool to bridge the entry into work is clear:

‘We can’t risk our business by letting inexperienced and unskilful local workers (who are they only ones available in the market) to interact with our customers without ensuring they have the basic skills to do so. Therefore, we have developed training programmes for local applicants to be sales co-workers after Nitaqat policy as a tool for us to act as a bridge to ensure their smooth transition’ [Chief Executive Officer, HomesCo].

A secondary advantage is that new recruits can be counted for the Nitaqat quotas while they are undergoing this initial training.

Equally, HomesCo has adjusted working conditions for Saudis and plans to change the usual two shifts a day for all employees to one continual 8 hour shift instead (all showroom employees currently work two shifts with a gap in the middle of the day). Traditionally, their stores were open in the morning and then later in the

afternoon/evening and they believe that this pattern of employment discourages potential Saudi recruits.

## ***7.5 Discussion and Conclusion***

These two firms share three key aspects in common. Both tend to see Nitaqat as being about meeting the quantitative targets and both have tended to believe that Saudi nationals are ill-suited to their core roles (sales and glass making respectively). These attitudes have heavily conditioned their response to Nitaqat. The new regulations have had an impact on their behaviour, both are clear that they must reach the Green Zone at least, but their approach is one of minimal adaptation. Finally, neither firm has expansion plans in the near future.

HomesCo essentially followed a pragmatic approach of looking for roles (outside its sales function) where it believed there were a substantial number of potential recruits. Some of these jobs were especially created (such as data entry) and others saw them replace foreign workers with Saudis (cashiers). In addition, they employed a number of women to work with fabric fragments and produce soft furnishings. If there is a consistent strategy here, it was to avoid recruiting Saudis to work as sales-staff on their shop floor. This has led to some changes in their HRM capacity, as they need to recruit more staff, retain them, and offer training and development. They also recruited some additional HR staff to build up their capacity but now it does not appear as if the firm has fully developed its HRM approach.

Despite this, there was some evidence at the time of interviews of some changes. They had recruited some Saudis as sales staff and found that they were working effectively (with training). This suggests that the firm could well adapt further and overcome its previous prejudices. If so, it is to expect that they would need to enhance their HRM capacity to meet the levels of the firms reviewed in chapters five and six.

GAGlassCo offers evidence that adapting to a quota based regulatory framework does not always mean an improvement in HRM practice. Their strategy was to expand their segregated packing and finishing functions and recruit only Saudi

women to these roles. This was conditioned by a belief that Saudis would not work in the challenging conditions on their glass production lines. The result was a continuation of their pre-Nitaqat HRM practice of hire and fire to need and the only substantive change was an increase in the cost of labour. In their case, the capacity of their pre-Nitaqat HRM practice was deemed to be sufficient.

The relationship between HRM strategy and response to Nitaqat is different in these two firms compared to the case studies in chapters five and six. In contrast to the others, neither needs a substantial HRM capacity as this would be an unnecessary cost given their approach of minimal compliance with Saudis recruited to do specific jobs with no real long term career development. In effect, we are left with examples where Nitaqat has forced compliance with the quota but has yet to really affect HRM practice and capacity. In this respect, there is a clear disconnect between the style of HRM in use, their successful compliance with the rules and the wider goals of Nitaqat articulated by Saudi policy makers in chapter four. Their ability to respond in a very limited way can be seen as a product of their particular circumstances.

These two cases suggest that the Saudi private sector has differential exposure to the consequences of Nitaqat. Neither is planning to expand so they may escape some of the additional pressures identified in chapter six. GAGlassCo is able to exploit the particular dynamics in the Saudi labour market around female employment and effectively side-step the full implication of Nitaqat. This fits with the discussion about the importance of Dynamic Capabilities (chapter two) in that they are not investing in capacity as they see no pressure to do so. It also suggests that GAGlassCo has no interest in raising productivity for its Saudi staff as this would reduce the absolute number they need to recruit. In effect, their strategy relies on continuing to employ substantial numbers of low skilled workers.

In contrast, HomesCo is perhaps better seen as a firm that is slowly changing and is hampered by its traditional prejudice against using Saudi nationals in a sales function. If their strategic response is pragmatic and piecemeal then so is their creation of HRM capacity. They have invested in senior HR staff, they now offer more training and development (and with this linked to changes in recruitment practice) but there is a feeling that this is not as fully developed as the approaches identified in chapters five and six.

In summary, this chapter adds to the argument that changes in the regulatory environment have an indirect effect on organisations. In particular, their response is influenced by attitudes and beliefs within the firm and their existing strategy, as well as the particular characteristics of their own segment of the labour market. However, both are at risk as Nitaqat develops. HomesCo is perhaps best seen as an example of a firm that is slowly adapting and will match the response of the firms in chapter six over time. GAGlassCo is potentially very exposed if the current strategy starts to fail, perhaps as more firms start to offer more interesting jobs to Saudi women.

## **Chapter 8 : Discussion**

### ***8.1 Introduction***

This chapter extends the discussions in chapters five to seven by drawing together the material from all six case studies to provide a cross-case analysis. It starts in section 8.2 by considering the evidence for the research objectives set out in chapter two. For convenience, these are restated below:

- 1 To what extent, and how, do coercive regulations (in this case around employment quotas) have an impact on the wider labour market?
- 2 In turn, how does this influence the behaviour of individual firms particularly in the area of HRM capacity?
- 3 To what extent does the HRM capacity of firms shape different responses to the regulatory demands?

Section 8.3 builds on this analysis to draw out the theoretical contribution of the research. In particular, this section critically evaluates the value of the dynamic capabilities framework for studying the range of responses by different firms to shifting regulations. The final section in this chapter then evaluates the extent to which these findings are specific to the context of contemporary Saudi Arabia and or whether they can be generalised beyond this arena. This approach led to the identification of four main theoretical developments from this research. These include: that we can reject the concept of firms simply responding to regulatory demands; that how a given regulatory regime has a variable impact on organisations (with this mediated by other exposure to state pressure, organisational strategy and specific variances in the labour market); that regulations bring unintended consequences (primarily as a result of these differences between firms but also that firms will adapt in unexpected ways); and, that the concept of the capacity required to cope is linked to differences in organisational strategy rather than the regulatory framework.

## ***8.2 Discussing the Findings against the Research Objectives***

This section considers the findings from the various case studies in the context of the three main research objectives. The goal is to bring together the findings scattered across chapters five to seven and to set out common themes and any identifiable variances between the firms. In turn, section 8.3 will move on to consider the wider theoretical implications, in particular in the context of Dynamic Capabilities.

### **8.2.1 Impact of Coercive Regulations on the Labour Market**

The first specific research goal was to explore the impact of coercive regulations on the labour market. In this context, ‘labour market’ is both used to describe shifts in overall patterns of employment and unemployment (as discussed in chapter four) in Saudi Arabia but more specifically the pool of workers that each firm can recruit from and the consequences of Nitaqat – in particular higher pay, more competition and an increasing need (for most firms) to recruit less well qualified staff (and thus invest in at least some training to compensate).

The literature review in chapter two suggested that quota based systems tended to be primarily coercive (when implemented and monitored effectively) as they forced companies to respond in a very particular way. Most quota based systems are designed to create employment opportunities for groups who are otherwise excluded from, or marginalised in, the labour market. Such groups can be identified in terms of gender, ethnicity, social status (such as the Indian regulations designed to reduce discrimination on the basis of caste) and, usually, the underlying argument for quotas is that the extent of this wider level of social exclusion is such that only by creating a positive impact on the labour market will such groups have a fair chance (Feder, 2012).

In this respect, quota based systems seek to have a very direct impact on the labour market but the actual effect can be complex. In India, for example, the norm with their approach to setting quotas was to see some professions and jobs (within the public sector) as being effectively reserved for disadvantaged groups (Harish et al., 1994; Woodard and Saini, 2006). In the US, the norm has been to encourage all employers (Golden et al., 2001) to improve employment opportunities on the basis of ethnicity and gender. The literature review revealed that quota based systems do

appear to have some success and do alter the labour market even if some firms focus on surface compliance with numerical aspects of the regulations (Reskin, 1998). In particular, there is a risk that firms will focus on meeting the overall requirement, yet pay much less attention to issues such as labour productivity, integration or career progression (Golden et al., 2001). Furthermore, the impact of quotas (and the potential punishment for failing to meet them) was of more direct relevance to firms that were reliant on public sector contracts (Smith and Welch, 1984), suggesting that both the legal framework and a firm's very specific position in the wider economy had an influence on their actual behaviour.

In turn, as discussed in chapters two and four, the quota based approaches to localisation policies across the GCC region have a number of very specific features. First, they all seek to bring the domestic (otherwise relatively privileged) population into the labour market. This is a significant difference to practice in most other systems where coercive quotas are usually used to address systemic discrimination (Kelly and Dobbin, 1998). Second, most GCC states (and here Saudi is very different even to other states in the region) have tended to focus their localisation programmes on the wider public sector. Saudi is unique in the extent of the focus on trying to ensure the private sector adapts and starts to recruit significant numbers of nationals as opposed to foreign workers.

The literature review and the contextual analysis in chapter four suggests that this approach has created a two-tier labour market in Saudi Arabia. Nationals are increasingly gaining access to work, receive higher wages, training and promotion opportunities (International Monetary Fund, 2013a) but at the same time foreign workers (who will remain very important to the functioning of the economy) lack employment protection, receive lower wages and have far less opportunities for in-work development. This weakness is critically important, as chapter four identified that one secondary goal of Nitaqat was not just to increase the employment of Saudi nationals but to raise productivity across the Saudi economy.

Many of these issues are prominent throughout the analysis of the case studies. One key conclusion is that all six firms saw Nitaqat as a coercive mechanism and believed that their businesses were at risk if they failed to at least achieve the 'green'

category of compliance. This had led them all to adopt strategies to adapt, or, in two cases, preserve their previous performance.

The pre-Nitaqat labour market was one of relatively cheap labour and a hire and fire culture mostly drawing on a readily available pool of foreign labour. As such, some companies (SPharmaCo, FastFoodCo, and HomesCo) felt that compliance with the old regulations was both expensive and unnecessary. Critically, the shift to a more robust regulation regime raised the cost of non-compliance meaning that paying higher wages and changing approach to recruitment and staff training became essential if the firm wished to avoid the adverse consequences of non-compliance. All six firms, regardless of their actual implementation strategy, noted that Nitaqat had raised the cost of labour (both Saudi and non-Saudi), and some of them now had to pay attention to issues of both recruitment and retention and, start to address the issue of low productivity of their Saudi staff. The exception to much of this is GAGlassCo and the reasons for this, and implications, are explored later in this chapter.

However, the evidence in Chapters 5-7 also shows how the responses of firms to the changes in the labour market reflect their own specific circumstances. For SPharmaCo, a fundamental issue was the lack of trained Saudi pharmacists who could manage their stores. For this vital staff group, the company continued to be reliant on foreign labour, whilst ambitious expansion plans also shaped their recruitment strategy. These factors drove their strategy, with a need to be fully compliant with the regulations to continue to access the foreign labour market, whilst also identifying job roles they could add to their stores where the Saudi educational system was producing significant numbers of graduates. So whilst this company had replicated the pre-Nitaqat strategy of creating new jobs just for Saudis (rather than labour substitution into the full range of jobs), the underlying reason for this was to address and overcome a weakness in the supply of suitably skilled labour.

This finding points to a recurring theme in the literature on quotas. Firms, especially early in the implementation period, can sometimes, quite genuinely, find themselves facing labour shortages for particular roles. As such, quotas can sometimes only slowly affect the supply of specifically skilled labour with firms remaining

constrained by historical patterns of provision in the educational system or becoming reliant on their own training and development investment.

Another difference across the cases related to future planning and the regulations. Of the six firms in this study, two firms had substantial expansion plans (SPharmaCo and FastFoodCo) whilst one had moderate growth plans (HomesCo). The key issue is that the need to grow exposed the firms to the demands of Nitaqat. They need to increase the number of Saudi employees to meet the targets as in turn, this would allow them to recruit the necessary foreign staff. Of note, both SPharmaCo and FastFoodCo have sought to reduce the number of employees in each branch as a result of job and work redesign so as to ease this pressure. In this case, their decision to take this approach, reflects the additional pressure that expansion combined with Nitaqat brings. Both wanted to avoid taking on too many extra non-Saudis and to reduce their exposure to the growing competition for Saudi staff.

A common feature in the literature (chapter two) is that quota based systems are vulnerable to unintended consequences. One unintended impact of Nitaqat is the continuation of poaching of staff by firms as a recruitment tool (although there is some evidence in chapter four that the Saudi authorities may see this as a blunt instrument to force employers to improve working conditions). Poaching might provide a pragmatic short term solution for a given firm but does little to increase the overall employment rate of Saudis and might reduce the commitment of other firms to training and development as they fear the loss of staff after investing to improve their potential performance. SPharmaCo for example, poached Beauty Advisors from multinational retailers that specialise in cosmetics and make-up such as Body Shop and Sephora. This, in turn, allowed them to put less effort to staff development and training as the firm was under pressure to build up its workforce in this area as it was unable to recruit sufficient pharmacists from the Saudi labour market. Clearly this is something that could change. In effect, the firm used external recruitment (poaching) as it did not have the time to create the needed capacity from its internal resources. One option going forward would be to invest in training and development so the firm could recruit Saudis leaving school or college for these roles.

Training and development is also an area where there is a risk that Nitaqat is having unintended consequences. A combination of the need to address shifting recruitment

approaches and the funding provided by HRDF means that firms are concentrating their staff development on Saudi nationals. This excludes the substantial number of foreign staff still employed in the private sector. Since the Saudi state is clear that Nitaqat is meant to raise productivity across the private sector (chapter four), this is potentially a serious gap. Even if the Nitaqat quotas are met by all the private sector firms in Saudi Arabia, the majority of those employed will be non-Saudi nationals and their exclusion from staff development opportunities will make it hard to raise overall productivity. Thus, SPharmaCo will remain reliant on its foreign chemists for the near future but is not really investing in the training or career development of a critical portion of their workforce.

This leads to a potential major problem with Nitaqat. There is ample evidence across the cases that it is leading to a stratified labour market with foreign workers expected to work for less and often in worse working conditions. In turn, they have no access to training and development (usually being recruited for a very specific role) and have little scope for career progression. This has potentially significant implications in terms of the longer term goal of raising the productivity of the Saudi private sector, especially, as even if Nitaqat leads to full domestic employment, there will be a continuing demand for substantial numbers of foreign workers.

Some of these findings match the literature review in chapter two. Thus, US research confirms the risk of ‘surface’ compliance (Reskin, 1998) where firms simply try to match the required quantitative rules. Prakash (2009) also indicates in India many firms have reached set quotas by sub-dividing their operational organisation and employing identified individuals in very specific roles. Equally, the same study notes that a lack of a suitably educated workforce has a strong influence on the approach adopted. The evidence in this chapter supports this overall argument of surface compliance. There are instances where firms are opting for surface or quantitative compliance by identifying certain roles and employing Saudi nationals in those jobs. Equally, as for SPharmaCo, the lack of trained Saudi pharmacists has had a major impact on their response to Nitaqat.

On balance, the quota based Nitaqat system has significantly changed the labour market in Saudi Arabia. For Saudi nationals, wages are higher, many firms are offering training (even if just to compensate for having had to lower entry

qualifications) and some are expanding female employment. Foreign workers are also now more costly (due to the demise of the illegal recruitment processes common pre-Nitaqat) but there is no real change in approach to employment or training. Overall of the six cases (table 8-1), four have improved their recruitment of Saudi nationals and the other two have maintained their previous compliance with the regulations. This suggests that the coercive Nitaqat regulations have affected the labour market by forcing firms to recruit more Saudi nationals. However, as in the next section, there is considerable variation in how they have addressed this challenge and not all firms have adopted the more qualitative goals embedded in Nitaqat. This strongly suggests that firms are still following quite unique strategies, even in response to a common external pressure.

### **8.2.2 Impact of Coercive Regulations on Organisational Behaviour**

If section 8.2.1 effectively confirms that Nitaqat has significantly affected the structure of the labour market, it is less clear that this external shift has been matched by consistent changes in organisational strategy or behaviour. As identified in the earlier chapters, this lack of consistency may reflect either the firm's position pre-Nitaqat (both LocalSteelCo and SugarMillsCo were already compliant), that GAGlassCo could effectively meet the quota by using its previous strategy or like HomesCo were unwilling to adapt substantially. This strongly suggests that while coercive regulations tend to force, at least, surface compliance, how a firm manages a regulatory shock this is very reliant on the firm's strategy, market position and internal culture.

This section, shifts focus to an analysis of the linkage between the shift to Nitaqat and organisational behaviour particularly in the area of employment strategy and HRM capacity. For convenience, table 8-1 sets out a very short summary of each of the six firms and how they have responded to the introduction of Nitaqat.

**Table 8-1: Key Attributes of Each Company's Nitaqat Strategy**

| Company              | Chapter | Sector  | Growth Strategy? | Employment Strategy | Employ more Female Workers | Significant Increase in % of Saudis? | Localisation Status: Pre and post Nitaqat |
|----------------------|---------|---------|------------------|---------------------|----------------------------|--------------------------------------|---|
| <b>LocalSteelCo.</b> | 5       | Manuf   | No               | Labour Substitution | No                         | No                                   | Green-Platinum                            |
| <b>SugarMillsCo.</b> | 5       | Manuf   | No               | Labour Substitution | No                         | No                                   | Platinum                                  |
| <b>SPharmaCo.</b>    | 6       | Service | Yes              | Create new jobs     | No                         | Yes                                  | Red-Platinum                              |
| <b>FastFoodCo.</b>   | 6       | Service | Yes              | Labour Substitution | Yes                        | Yes                                  | Yellow-Green                              |
| <b>HomesCo.</b>      | 7       | Service | Yes but limited  | Create new jobs     | Yes                        | Yes                                  | Yellow-Platinum                           |
| <b>GAGlassCo.</b>    | 7       | Manuf   | No               | No change           | Yes                        | No                                   | Yellow-Green                              |

The criteria chosen reflect both organisational characteristics (such as sector) and their wider strategy (especially in terms of growth). In turn, table 8-1 summarises four parts of their Nitaqat response (overall strategy, employment strategy, whether they have recruited female workers and if they have significantly increased the number of Saudis they employ). All this data comes from a cross-case analysis of the material already presented in chapters five to seven. The final column shows how their localisation performance has changed since the introduction of Nitaqat (drawn from chapter three and four).

Before moving onto the detail of the cross-case findings, some further information is provided here on the rationale and logic for the categories used. Some of these descriptions, such as the distinction between service and manufacturing firms and their localisation banding before and after the introduction of Nitaqat are essentially descriptive and non-judgemental. Others are derived by applying a verbal description to a range of information (Bevir and Kedar, 2008; Ragin, 2000). In this case, the judgement about growth follows on from an analysis of their shifting employment data and their stated intentions as reported in chapters 5-7. This is inherently judgemental and while it is clear that FastFoodCo has grown substantially (from 7,700 to 8,300 employees) and added more outlets in reality SugarMillsCo has actually see a small contraction from 1,000 to 900 employees (as they have reduced non-Saudi labour). In consequence, even the use of a two level scale is a choice and it could be feasible to have added the concept of 'contraction' in the same way that

the categorisation of the growth strategy for HomesCo is qualified. In this case, this was not done, as while SugarMillsCo is seeking to reduce employment via investment in technology it has no plans to alter output.

The category ‘significant increase in the percentage of Saudis’ comes directly from the data in chapters five to seven. Again, this is expressed as a simple verbal summary of the statistical data provided. The two categories of ‘employment strategy’ and ‘female workers’ are again an attempt to label two important ways in which the firms have tried to cope with Nitaqat, both being recurrent themes in the analysis in chapters 5-7. In terms of employment strategy firms have made a basic choice between the creation of new roles (and reserving these for Saudis) or trying to employ Saudis in jobs that pre-Nitaqat were held by foreign workers. Again, this is a subjective attribution as HomesCo, as an example, has both replaced foreign workers in existing jobs and created new roles reserved for Saudis so the two strategies are not mutually exclusive.

In terms of chosen strategy, the main issues for each company are summarised below:

**Table 8-2: Impact of Nitaqat on Organisational Strategy**

| Company              | Chapter | Change in Employment strategy?   | Change in HRM capacity?   |
|----------------------|---------|--|---|
| <b>SPharmaCo.</b>    | 5       | Yes – create new jobs that match the available Saudi workforce   | Yes – substantial investment and new procedures                             |
| <b>FastFoodCo.</b>   | 5       | Yes – appoint Saudis to almost every role, expansion of female employment  | Yes – substantial investment and new procedures                             |
| <b>LocalSteelCo.</b> | 6       | No – carry on recruiting Saudis to most jobs   | Limited – some expansion of the role, especially for internal monitoring    |
| <b>SugarMillsCo.</b> | 6       | Limited – carry on with previous approach but introduce more automation to reduce demand for labour  | Limited – some expansion of role and changes to employment conditions       |
| <b>HomesCo.</b>      | 7       | Limited – some creation of new jobs reserved for Saudis, some replacement of foreign workers, very slowly recruiting Saudis to most other jobs | Limited – more resources but not really affecting behaviour across the firm |
| <b>GAGlassCo.</b>    | 7       | No – carries on relying on the ability to easily recruit Saudi women to a single function within the firm                                      | No – largely retains the hire and fire approach pre-Nitaqat                 |

Taking the first outcome, changes in recruitment strategy, Table 8-2 combined with the information in table 8-1 suggests a complex pattern in how the various firms have

adapted to the new demands. What is clear is that every firm's strategy is unique, reflecting their previous performance, existing capacity, strategy and how the wider labour market impacts them directly. Thus, while Nitaqat has ensured that every firm at least reaches the 'green' category, it has not seen convergence in terms of strategy. As discussed throughout this section, every firm has adopted a unique strategy reflecting their own particular circumstances.

One explanation for the shift from non-compliance with the old localisation rules, where this existed, to compliance with the new rules is that more firms are now reliant on state goodwill (Salancik, 1979). In effect, all now need goodwill from the state to continue to access the foreign labour market (which remains critical). Previously, this only applied to LocalSteelCo and SugarMillsCo. However, while this may have produced some convergence in terms of performance, it has not led to similarity in terms of strategy.

One reason for this is that the Saudi labour force is not homogeneous. SugarMillsCo and LocalSteelCo have the problem that they need technically skilled entrants for many roles. As discussed in chapter five, this has influenced their approach to graduate recruitment, staff training and retention. Equally, both are relatively geographically isolated and can recruit unskilled workers from their local population. This approach both helps with community relations and also provides a pool of labour with less competition than in urban areas. Even despite their broad similarities it is important to note that SugarMillsCo is unique in being the only firm investing in technology to reduce overall employment levels (and raise productivity). SPharmaCo (chapter six) faced the major problem that there were not enough trained Saudis to fill a critical role in their operation (pharmacists). This gap in the labour supply, led them to meet the Nitaqat quota by creating a range of jobs that matched the output of the Saudi educational system. In their case, the demands of the coercive quota, led to a radical change in internal organisation of their shops and stores.

FastFoodCo faced a different problem. To a large extent, their workforce does not need specific skills so the firm can access the broad Saudi labour market but equally the organisation is fully exposed to competition from other private businesses. FastFoodCo faces competition in the labour market and also has an ambitious

expansion plan. As their Director of HR argues, it is this combination (rather than Nitaqat alone) that has forced them to adopt SHRM and embed HRM issues into their operational and strategic planning. It is clear that post-Nitaqat, FastFoodCo have altered their approach and sought creative solutions to some problems such as men and women working in close proximity.

HomesCo shares a similar exposure to the labour market as FastFoodCo, yet, interestingly, their response is quite different to FastFoodCo. It has tried to create Saudi-only jobs so as not to have to rely on Saudis in its key sales jobs. Unlike SPharmaCo, this is not a response to fundamental bottleneck in the labour market but instead that the CEO of HomesCo persisted in a view that Saudis are not suitable for sales jobs and thus employs them where there is less need for customer contact. This fits with the discussion in chapter two that a common complaint of firms expected to adapt to a quota is that there is a lack of suitably trained staff available.

However, HomesCo is interesting in that there were significant internal differences of preferred strategy on show. The CEO emphasised the quantitative implementation aspects and complained that the level of the set quota was misguided or wrong. In turn, this had led the company to adopt a strategy of identifying jobs that it was felt that Saudi staff could do. On the other hand, the recruitment and administration manager identified the importance of qualitative elements when discussing his understanding of how localisation should be implemented and argued that the only feasible solution was to recruit and train Saudis for the main sales jobs. This disagreement could be interpreted in different ways. Either the CEO is aware of the recruitment and administration manager's qualitative implementation suggestions but he is not convinced (due to conflict of interests and power). Alternatively, the recruitment and administration manager lacks power and authority to bring on change and the CEO feels constrained due to the lack of commitment by the company's shareholders. In either case, it adds to the evidence that at the time of this research, HomesCo had not really settled on a clear response to Nitaqat.

In terms of recruitment of Saudi nationals, GAGlassCo has a similar employment profile to FastFoodCo and HomesCo. They recruit Saudis to unskilled generic packing and distribution work and thus draw from the broad labour pool. However, this is by choice as they state that Saudis cannot (or will not) undertake jobs in their

manufacturing function. As they have physically separated packaging from the rest of the business and employ only women, for the moment they avoid the worst of the labour market competition. They may now face high turnover, but they can also still recruit from the large number of unemployed women in Saudi Arabia. Again, as with HomesCo there is evidence in chapter seven that some senior staff are worried about how sustainable the organisational strategy will be as other opportunities become available for women in Saudi Arabia.

GAGlassCo was also the outlier in the wider group of six firms in that it had not significantly changed its employment or HRM practices. All the other firms have improved their HRM capacity to a level that can deliver a strategy that is about more than meeting the quantitative targets. However, for GAGlassCo, its HRM practices are still essentially focussed on hiring to need.

This leads to the second important aspect of the implication of major external namely the implications for HRM capacity. This is developed more substantially in section 8.2.3 (below) but the discussion in this section implies that strategic direction is important to explain shifts in HRM capacity. Companies with growth strategies are more exposed to the problems that would follow from non-compliance and this may well explain why SPharmaCo and FastFoodCo have both radically improved their HRM practices – and capacity – as a result of Nitaqat. The importance of developing a capacity to match (and enable strategy) is clear from the cases – all of the four firms that were aiming for qualitative implementation of Nitaqat (Saudis in most jobs, focus on staff development as well as recruitment) rather than simple quantitative compliance, have also brought their HRM up to the sort of level that could be seen as SHRM (van Gestel and Nyberg, 2009). This also supports Paauwe's (2004) assertion that firms will develop the HRM capacity needed to meet the demands they believe they face rather than seek to acquire a capacity that meets an abstract concept of 'best practice'.

This suggests that there is a close relationship between attitudes towards the regulations, identification with underlying goals and power relations within the firm. Power relations can affect both the willingness to implement the changes and also the extent to which a chosen strategy is accepted across the firm. It was clear in chapter six that senior staff in both SPharmaCo and FastFoodsCo in effect used the impetus

of Nitaqat to bring about changes they had been seeking for some time. Equally, the CEO of HomesCo was clear that he used the additional leverage of Nitaqat to force his shareholders to invest more in HRM and staff development. Looking at internal power relations (i.e. is the current strategy widely accepted) then in five firms there either commitment to the strategy and the power to enact the needed changes or a shared lack of commitment and thus no interest in making changes (as is the case in GAGlassCo). HomesCo appears to have a mismatch of low commitment but an understanding (at least by some actors) that more change is needed. This interaction between understanding and approach has been studied by Scott (2008) who suggests that firms have a range of feasible responses and their choice is driven by both culture and belief. Scott (2008) also notes how different power structures in a firm can influence behaviour and how different sections of an organisation can press for different responses (Parker and Nielsen, 2011). It may also suggest that HomesCo is more likely to adapt its current practices than GAGlassCo as its current approach is unstable – forming a mix of the pre-Nitaqat approach (Saudis in particular jobs), a slow expansion of Saudis in the salesforce and some improvement in HRM capacity and the situation at the time of the research can be seen as a stage as the firm works out how to respond.

Overall, the shift between the regulatory systems captured in the case studies, allows a useful exploration of whether or not company response are essentially conditioned by the nature of the regulations or whether they reflect company culture and strategy. There is some evidence for the importance of the regulatory environment. The pre-Nitaqat system can be best described as voluntary, in other words, it was up to the firms whether they complied or not. Nitaqat, at least at the level of meeting the prescribed quotas, is clearly involuntary, the monitoring is effective and the sanctions severe, so no firm wishes to be non-compliant (in Nitaqat terms, not in the green zone at least).

In turn, the cases provide evidence that within such a coercive regulatory system, some changes will be triggered, but the precise nature of any change is dependent on the circumstances of the individual firm and in particular on their prevailing business strategy, and HRM strategy and capacity. There is also evidence that factors specific to each firm are important in determining just what sort of response is made.

Meeting the quantitative targets in Nitaqat is clearly essential (i.e. non-voluntary) but quite how these targets are met varies substantially across the six firms. Two (HomesCo and GAGlassCo) have opted for what can be seen as quantitative compliance, they ensure they meet the numerical targets with very specific recruitment strategies. On the other hand, while each of the other four firms face their own challenges, it is clear that each also is trying to do more than just comply with the formal numerical targets.

In summary, this section supports an assumption that while coercive quota based regulations will tend to ensure that firms adapt to meet the quantitative targets there is no direct correlation between regulatory approach and organisational HRM behaviour. In the case studies, there are examples of surface compliance to the new rules and of full compliance with the previous, lax, rules.

### **8.2.3 Interaction between HRM Capacity and Response to Regulatory Demands**

One final cross-cutting theme across the cases is the importance of capacity as a means to enable a given response to regulations. From table 8-2, it is clear that most firms' pre-Nitaqat had a very low level of HRM capacity essentially based around hiring to immediate need of foreign staff who could provide the required skills for the work. This very basic approach fitted the desired goals (cheap labour and low levels of investment in staff) and allowed a firm to cope with a labour market where labour was cheap and easy to replace (as long as they were not interested in raising overall productivity). As in table 8-2, and the discussion in 8.2.2. HRM can be identified as a key capacity in allowing a firm to cope with the new demands.

In effect, for most firms, Nitaqat created strong pressure to adopt a structured approach to workforce planning, job design, recruitment when facing competition from other firms, the importance of retention and, for some firms, a need to increase labour productivity (even if only to reduce the additional pressures of following a growth strategy). Facing these demands, most firms then needed a form of HRM capacity that matches the requirements. However, as is clear in chapter seven, one firm (GAGlassCo) has effectively managed to evade these wider consequences and achieved surface compliance without adapting its recruitment model.

This strongly suggests that the adoption of an effective SHRM model is both a precondition and a consequence of a strategic adaptation approach. It is noticeable that two firms (SPharmaCo and HomesCo) responded to the demands of Nitaqat by recruiting senior HR staff from other firms in order to create the required capacity that was perceived to be missing. In contrast, FastFoodCo had an existing HR director who used the pressures exerted by Nitaqat to set in place changes he had long promoted. This tends to suggest that there is an interplay between constraints (here, this is external legislation), usage of particular approaches and overall strategy (and, in turn, Nitaqat compliance level). There is no simple causality as each of these dynamics are grounded in both the shared environment (the nature of Nitaqat and its implication for the Saudi labour market) and features specific to each firm. However, in effect if a firm is to meet the wider qualitative goals of Nitaqat it is clear it needs a HRM capacity that is substantially developed over the older hire and fire approaches commonly in use pre-Nitaqat.

In turn, this HRM capacity does create the scope for choice, although firms exert these choices in very different ways. A firm that lacks the SHRM capacity seems, from these cases, to be unable to fully adapt to the regulatory shock, its HRM processes are too weak for anything more ambitious. This may be quite deliberate, if, like GAGlassCo, the firm believes it can meet the formal targets using an old fashioned HRM model (based on its ability to employ large numbers of, currently, easy to recruit female employees), then it makes some sense to do this. But until the HRM model is shifted, actors within the firm appear trapped and confined to very functional responses and vulnerable to either future changes in the regulations or the easy supply of female workers ending. The situation of HomesCo fits this analysis. It has increased its HRM capacity, made some significant changes to its HRM processes but is trapped between seeing compliance as a purely quantitative role and slowly adapting to a situation where it is recruiting more Saudis to jobs that it previously did not employ them in. In turn, that sets off demands in terms of staff development, pay and conditions for which it needs a more structured HRM approach.

The discussion in chapter two suggests that SHRM is needed when the external environment is challenging (Ulrich, 1987) either due to uncertainty or significant

demands such as a lack of suitably skilled labour. Nitaqat has produced both characteristics and the evidence from chapter four argues this is deliberate reflection of state policy ( Martinez Lucio and Stuart, 2011) reflecting a shifting view as to how the economy should function. Part of the challenge comes from the more restricted labour market, but no attempt by the state to prevent poaching. However, it is clear that this pressure is not being felt by all the firms. Those that need to enhance their capacity can develop creative solutions to their HRM challenges (Achoui, 2009; Aljebrin, 2012) and there is ample evidence that for four firms, the pressure has forced them to develop (or maintain) an approach to HRM where HRM itself should be seen as a unique capacity enabling the firm to cope and prosper (De Saá-Pérez and Garcia-Falcon, 2002; Reilly et al., 2007; Schuler and Jackson, 1987).

However, while the actual strategy adopted by the firms differs substantially, there is a degree of commonality in the practical HRM policies they follow. Additional recruitment has been the most immediately obvious challenge for almost all the firms. Only two were compliant at the start of Nitaqat, and this meant the other four had to review and revise their recruitment strategies. One strand to this was to alter the type of jobs they recruited to. Therefore, SPharmaCo created a new role in its pharmacist shops, as they knew they could fill this with people leaving the Saudi educational system.

In addition, a range of recruitment strategies have been adapted. Most firms, whether they needed recruits with specific technical skills or not, have lowered their entry thresholds (and compensated with more staff development). Given the historical approach of recruiting ready trained foreign workers to fill roles this can be seen as a significant shift of practice. Equally, none of the firms continued to use illegal foreign labour, mostly due to the consequences of being caught, and this has led to changes in both Saudi and non-Saudi recruitment sectors and generally seen an increase in the cost of labour for both types.

In terms of pay, Nitaqat has seen an increase in the cost of labour (although this is partially offset by HRDF grants) for Saudi staff in particular. The main reason is of course increased competition for labour but a secondary reason lies in the Nitaqat rules. Unless an employee receives at least USD 800 per month, they are not treated as a full contribution towards meeting the quotas. Equally, foreign workers have

become more costly as firms can no longer recruit illegally (this has implications in terms of non-pay benefits such as the provision of accommodation). Again, from chapter four, this is intentional by the Saudi state as they hope that pushing up wage costs will provoke firms to invest in technology. However, so far this is not really happening.

A combination of increased labour competition and the Nitaqat rules have seen pay rates start to equalise, especially for unskilled Saudi workers. This has led firms to reconsider their non-pay benefits as a means to differentiate themselves and to help to retain staff. Some solutions have been creative such as SPharmaCo offering benefits effectively to the parents of their staff. Their hope is this will reduce staff turnover, as people will feel under pressure from their family to retain their current jobs. Others offer marriage loans, special payments around religious festivals and other non-salaried incentives. Again the evidence is that foreign workers are mostly excluded again leading to the emergence of a two tier workforce which may have longer term negative consequences.

With this increase in the cost of labour, labour substitution by investment in capital might be expected to be one response to Nitaqat. In the conventional sense this is usually taken to mean reducing the number of workers needed via investment in machinery. So far, this has not been a common response. Two firms (SPharmaCo and FastFoodCo) have used job redesign to reduce the number of cleaning staff they employ but only one firm (SugarMillsCo) has responded to the tighter labour market by using automation to replace low skilled workers.

Instead, labour substitution has most often taken on one of two forms. The standard approach has been to replace foreign workers with Saudis (in effect companies have responded to the core demand of Nitaqat). Three firms (FastFoodCo, HomesCo and GAGlassCo) have also replaced male foreign workers with female Saudi staff, reflecting the relatively high levels of unemployment among Saudi women. At this stage, for the Saudi private sector, labour substitution is more about determining who does a particular job rather than using technology to reduce the overall number of staff. Feasibly, it is possible to argue that GAGlassCo has almost no interest in labour efficiency among its Saudi staff as it needs as many jobs as possible in one

job category (i.e. packing) in order to balance out its wider reliance on foreign workers.

Shifts in terms of recruitment practice have also led to important changes in the approach of some firms towards training and development. Some have explicitly identified the need for more training due to lower entry standards such as FastFoodCo, LocalSteelCo and SugarMillsCo. SugarMillsCo in particular has moved from just seeing training and development as a means to correct skill and knowledge deficits on entry to being a key tool for its long term profitability.

Equally, at the moment, the firms are seeing non-pay benefits as essentially a retention tool. This perhaps is to be expected given the need to become compliant and the serious consequences of non-compliance. However, this does mean that little attention is being given to using non-pay benefits as means to reward (or encourage) productivity. A risk is that staff will be motivated to retain their current jobs due to the secondary benefits, but that this may not, over time, feed into improved productivity. This is an example of where company responses to recruitment and retention problems may have long term problems. Those firms that have developed a benefits package have tended to structure this around the social norms of Saudi society (additional payments at major religious festivals, helping to fund marriage, benefits for parents). These are constructed to address problems of recruitment and retention but will have no impact on productivity. Indeed they may encourage workers to stay with the firm but to only make minimal effort in their jobs.

Overall, this suggests that Nitaqat has led to significant changes in HRM practice in five firms (the exception is GAGlassCo). Currently, these changes are more directed towards improving recruitment and retention practice. Raising productivity (apart from as a further benefit to more training and development) is not the key focus (the exception to this maybe SugarMillsCo), although both SPharmaCo and FastFoodCo have engaged in job redesign to reduce the number of foreign workers they employ.

On balance, the evidence suggests a complex relationship between the need for HRM capacity, regulatory demands and organisational strategy. Four firms in the case studies (SPharmaCo, FastFoodCo, SugarMillsCo and LocalSteelCo) can be seen to have adopted a wider strategy that needs to be underpinned by a substantial well

developed HRM capacity. In different ways, they are engaged in job redesign, the creation of pay and benefits packages, enhanced staff developed as well as having to pay more attention to their recruitment strategy. One firm (GAGlassCo) has found a means to meet the quantitative aspect of the Nitaqat targets without needing to alter its wider employment practices. Here, they find that the style of HRM capacity common pre-Nitaqat is still quite adequate. The final firm (HomesCo) is interesting in that its current response to Nitaqat can be seen as a mixture of traditional Saudi employment practice and a small degree of adaptation. In turn, their current HRM capacity reflects a half-way position between the weak hire and fire models that used to be common and the more robust approaches adopted by the other firms. This does support an argument that the relationship between regulatory demand and HRM capacity is strongly mediated by organisational strategy. In other words, HRM capacity reflects and enables organisational strategy rather than the regulatory environment. This is not to say that the regulatory environment has no impact.

In the case of Nitaqat, it has led to increased competition for Saudi staff and raised wages (both of Saudi and foreign workers) and this fundamental shift is something that all firms have to deal with. However, from the material above, what is clear is that not all firms have responded the same way – either before or after Nitaqat. Pre-Nitaqat, chapter five presents evidence of two firms that had substantial HRM capacity, primarily as this was needed to underpin their existing strategy of employing Saudis in most roles and of offering staff and career development. On the other side, chapter seven presents evidence of firms that have developed a low (in one case almost non-existent) level of HRM Capacity even post-Nitaqat. So while the regulatory environment may well shift the conventional strategy of most firms (in effect from non-compliance to compliance with the localisation rules), the actual response of each firm is still strongly influenced by factors specific to that firm. HRM capacity, in turn, follows this strategy rather than the external rules.

### ***8.3 Dynamic Capabilities as a Framework***

The conclusions to section 8.2 in turn, leads to a consideration of which wider theoretical framework can best explain the observed findings. The discussion about the theoretical reasons for compliance in chapter two suggested that company responses are a product of both how the external environment is understood (what is their interpretation of the rules) and the internal dynamics of the firm (Schuler and Jackson, 2007). In the neo-institutional framework the argument is made that there is a trade-off between the regulatory framework, organisational culture (Scott, 2008) and firm capacity to cope with change (Oliver, 1991).

This led to Edelman and Talesh (2011) arguing that a combination of willingness to comply and capacity to comply are the main reasons why a firm may opt to comply with the spirit of the regulations, merely meet the set requirements or fail to comply at all. In turn, Al-Horr (2011) indicated that localisation in Qatar has led to firms falling into three categories of strategic adaption (i.e. they are adjusting their internal approach to meet the set targets and other goals), pragmatic acceptance (the focus is on meeting the quantitative targets) and implicit avoidance (seek to meet the targets by poaching staff or setting aside designated roles). The nature of the Nitaqat penalty system, combined with the importance of continuing to access the foreign labour market, means that non-compliance is not a valid choice. This matters as in a neo-institutionalist model, this should see considerable convergence between the firms.

While it is an over-simplification to suggest that neo-institutionalism tends to assume conformity between firms, nonetheless researchers such as DiMaggio and Powel (1983) argue for institutional isomorphism as an expected outcome. Institutional theorists suggest that interconnectedness facilitates the voluntary diffusion of norms, values, and shared information (Meyer and Rowan, 1977; Pfeffer and Salancik, 1978; Powell and DiMaggio, 1991). This occurs as highly interconnected environments provide relational channels through which institutional norms can be diffused and in turn tends to create more implicit coordination and collectivization in a given environment, more consensus on diffused norms, and shared response. The argument that a high degree of interconnectedness leads to organizational acquiescence to institutional pressures is consistent with Meyer and Rowan's (1977)

argument that closely networks lead to the creation of collective myths and values and that this, in turn, leads to conformity with these institutional elements. In effect, high degrees of interconnectedness in an institutional environment should promote institutional isomorphism and conformity (DiMaggio, 1983).

However, the data in this study does not support the arguments for institutional isomorphism. To a limited extent, the data suggests that the shift in the type of regulations has brought about some homogenous reactions in the nature of organisational response. More strongly, the data suggests that the regulatory environment can tell us a lot about whether or not a firms' response is voluntary or involuntary, but not what that response will be.

From the evidence we have, a complex pattern of areas of conformity and areas of differences. This can be split into three dynamics: first, is the shift in the regulatory framework before and after Nitaqat; second, is the strategy adopted to cope with Nitaqat including the HRM capacity created in order to cope or adapt; and, third, the HRM policies put in place.

Taking each of these in turn, all firms have faced the same shift in regulatory framework but this clearly is not sufficient to explain the findings. Most of the firms pre-Nitaqat made voluntary choices about compliance (given how weak the monitoring and penalty rules were) and four opted to ignore the regulations and two were fully compliant. Chapter five has argued that a major reason for this was the relationship between SugarMillsCo and LocalSteelCo and the Saudi state (where they felt they had to conform to repay other support). Nonetheless, this suggests that the regulatory environment is not the only factor at play and that while institutional isomorphism (Powell and DiMaggio, 1983; Powell and DiMaggio, 1991) is useful, it is an incomplete explanation.

The strategies adopted by the firms vary substantively and are clearly more a product of internal dynamics (such as a focus on growth), HRM capacity and the particular section of the labour market affecting the firm. If there is an external element, it is that Nitaqat eliminated the option to continue to ignore the labour market regulations. Equally, as argued in section 8.2.3, the issue of HRM capacity can be better

explained by the fit to organisational strategy rather than the shifting demands of the external regulatory framework.

However, there is a degree of conformity in terms of the specific HRM policies adopted. Ignoring GAGlassCo, there are common themes about how firms are recruiting Saudi staff, usage of the HRDF to improve training and the sort of changes to pay, benefits and working conditions that are being introduced. This suggests policy convergence within firms (how to deliver HRM) rather than strategy convergence. Equally, despite the broad degree of policy convergence there remains substantial difference in some aspects such as the policy around the recruitment of female staff. SPharmaCo, for example, cannot see how to cope with mixed gendered shops while FastFoodCo has managed to integrate male and female workers into its fast food outlets.

On balance, this argues that theories of institutional isomorphism have some validity but fail to capture the full range of organisational responses. The question posed in chapter two was whether the concepts of Dynamic Capabilities offered a more robust theoretical framework. Following from the discussion in chapter two this was seen as offering a valuable balance between the focus on the external environment (from institutional theory) and on internal resources (from RBV). In particular, Dynamic Capabilities suggests that not only do unique resources give a potential advantage but that what forms a valuable resource varies according to the external demands. Thus, in a stable low productivity, low wage economy, investment in HRM is not automatically the creation of valuable capacity – it can be an expensive divergence of effort for which there is little return. As was noted in chapter two, Dynamic Capabilities adopts some concepts from RBV (in particular the importance of certain internal resources) while RBV was rejected as a separate framework for this thesis as it lacks a structured focus on external dynamics.

If so, this suggests, following Eisendhardt and Martin (2000), that different capabilities are needed for different market conditions. Also, the external environment will influence what level of capabilities are needed both for basic functioning and to gain a competitive advantage (Ambrosini et al., 2009).

From this approach, it is feasible to argue that LocalSteelCo and SugarMillsCo faced a different combination of the labour market and regulatory pressure pre-Nitaqat to the other firms. Both felt they had to employ substantial number of Saudis (and the management of LocalSteelCo wanted to do so in any case) as this gained them goodwill from both the state and their local communities. This meant investing in substantial HRM capacity was a necessity if they were to achieve their strategic goals.

In turn, GAGlassCo can be seen as having managed to find a niche response to Nitaqat that means it is still really engaged with a low pay (in that it has not taken on additional training costs etc.) workforce that it can hire as it needs. Saudi female unemployment is high enough that they can meet the Nitaqat quota without needing to worry at the moment about staff retention or long term development. Again, as with LocalSteelCo and SugarMillsCo pre-Nitaqat, this suggests that there is sufficient variation across the labour market that certain firms effectively face very different challenges to the bulk of companies.

More generally, the relative convergence on a particular set of HRM policies fits with Ambrosini et al's (2009) distinction between resources needed for basic functioning and resources that provide competitive advantage. The mechanics of HRM policy have to draw from a relatively limited range of options and, if well delivered, create a situation where the firm can survive. However, if we look at FastFoodCo we can see the advantages that can flow from relatively unique resources. Their HR director not only sought to recruit Saudi women to segregated roles (a relatively common strategy), such as their call centre. He devised an overall package, negotiated with both the Ministry of Labour and the religious authorities and has managed to create a situation where both genders can work in the fast food restaurants. By contrast, SPharmaCo decided not to recruit female employees, as it would have been too difficult to address the expectations of gender separation within its pharmacies.

If Dynamic Capabilities offers a valid framework, this leads to the question of whether the existing framework is adequate. As noted in chapter two, the conventional application of Dynamic Capabilities has been to fields in wider management research such as entrepreneurship. Here the tendency is to look for

external environments that encourage firms to innovate and, in turn, what capacities and resources (hence the common link back to the Resource Based View of the firm) are needed to enable a firm to cope with a dynamic situation. As such, the framework is not really applied to studying organisational response to regulatory shifts although there is no obvious reason why this is the case. In particular, it is useful to combine Ambrosini et al's (2009) argument about the difference between resources needed to function and resources needed to prosper and Eisendhardt and Martin's (2000) argument that what constitutes useful resources varies with the market conditions.

The first key iteration is that regardless of what can be seen as the market norm, individual firms may well vary substantively in their response. In this research, pre-Nitaqat, the norm was low HRM capacity precisely as there was mostly no need to invest any more resources in this area. Low capacity allowed firms to recruit cheap, relatively well trained, foreign workers to need and to reduce labour if demand fell. Post-Nitaqat, the norm is for more HRM capacity as investing in HR brings rewards. The reason for needing to do so include the impact of higher wages (and thus the need to recoup higher labour costs) and that increased competition is forcing most firms to recruit less readily qualified staff (so at the least, they have to address skills deficits at the moment of recruitment).

However, there are clear variances from this norm. Pre-Nitaqat, two firms had invested substantially in HRM capacity as this was essential to meet the demands they faced. What is interesting is that some of these demands were internally generated (senior staff voluntarily committing themselves to localisation) but some reflected the way in which the lax regulations were applied to their particular situation. As explored in chapter five, both firms felt they had gained state support as they had already made efforts to localise and felt they needed to continue with a localisation strategy as a means to repay the substantial support they had received at critical stages in their development. This suggests a useful extension of Dynamic Capabilities to consider that some firms may face an external environment very different to most other firms – whether this is driven by their own commitment, closer regulatory scrutiny or that they work in a sector with very specific demands – despite apparently all being involved in the same regulatory system.

This can, equally, be shown in reverse. Two firms post-Nitaqat (chapter seven) have not built up their HRM capacity. In one case (HomesCo), there have been some changes as they cope with higher wages and the need to improve training for new entrants but the other (GAGlassCo) has not even gone this far. The argument is that both, in different ways, have reduced the impact of the external environment on their own strategy. HomesCo can almost be said to do so deliberately based on their own beliefs – they are unsure that Saudis can work in a sales function (despite some evidence to the contrary) – and this makes them unwilling to recruit Saudis to those roles. It is perhaps the uncomfortable clash between these attitudes and the emerging evidence that accounts for their rather confused response. GAGlassCo though has clearly identified a very specific aspect of the Saudi labour market (female unemployment) and sought to use this to meet the formal targets while making minimal changes to most of their business.

As such, this argues that the interaction between the wider environment and organisational behaviour needs to acknowledge a different set of relations. Traditionally Dynamic Capabilities tends to argue that the environment broadly requires a particular range of capacities and responses in firms. Those that possess, or can develop, key capacities (fitted to this environment) will do well, those that lack these capabilities will struggle. However, taking GAGlassCo as an example, this research provides an instance where the firm effectively redefines the external environment in a way that enables them to sustain their previous strategy. Such a response is unlikely to work for most firms, and may even not be sustainable in the longer term, but does suggest that firms can be very active in defining their interaction with the wider social and labour market dynamics.

In summary, the material in the various case studies strongly supports the view that Dynamic Capabilities creates a theoretical framework that can be usefully used to explore the three key questions in this thesis. It offers an explanation as to why there is no simple relationship between the type of regulatory environment and organisational response. It captures how a coercive quota based system can shift the balance of response for many organisations (at least towards surface compliance). In turn, it grounds the details of organisational response in a combination of their own resources (and how, sometimes, firms need to invest in extra capacity) and the

shifting external environment. It is not, as noted in section 2.3.4 a predictive model of organisational behaviour but the key assumptions captured in its framework have been validated by the findings of the six case studies in this study. More importantly, using Dynamic Capabilities goes some distance to allowing us to generalise from the six cases and to say something about the wider theoretical implications of this research.

## ***8.4 Generalising and Theory Building***

### **8.4.1 The Logic of Generalising**

As discussed in chapter three, a major issue in qualitative research design is the process of generalising from the findings. Within an experimental empirical research design the common assumption is that the sample in the study is representative of the wider population and that any analysis (usually statistical) applied to the data collected can then be seen as valid when applied to the wider population. This is not the case in a qualitative design and the process of generalising often relies on techniques such as process tracing, pattern matching or narrative building (Yin, 2009). In effect, the wider process of data interpretation (i.e. moving beyond the material in the cases and making statements of wider theoretical value) has to be one of carefully arguing from the available data and the existing literature.

A key first step is to consider if we can generalise from the six case studies. This can be usefully be split into two related questions. Is it possible to generalise from the case studies to make assumptions about the response of the wider Saudi private sector and is it possible to generalise from a set of case studies based in Saudi Arabia to a more universal set of theoretical issues?

As set out in chapter three, the sample selection was non-random and very reliant on the willingness of the firms to voluntarily participate in this study. This does mean that one important sub-category of Saudi firms is missing – those that are failing to adapt. It maybe that these are relatively few, given the significant penalties they would face, but clearly it is not possible to make any comments about how a firm in this position has managed the interaction between regulatory change, organisational

strategy and organisational capacity. Beyond this, the six cases do include examples of most plausible combinations of compliance pre and post-Nitaqat as well as an interesting range of very specific circumstances.

Two firms were compliant pre-Nitaqat (LocalSteelCo and SugarMillsCo) and this allowed exploration of how weak regulations could combine with specific interaction with the state to encourage compliance. Two firms (SPharmaCo and FastFoodCo) have had to make an adaption from non-compliance to at least managing to meet the requirements of the green category. Given the wider data about Saudi employment rates (chapter four), this shift of performance is one that is probably widely shared in the private sector. One firm (HomesCo) can be seen as having improved its performance but in an unstructured manner and unwillingly. Equally, the current strategy of this firm seems to be unstable – in that there are senior staff pushing for full compliance and others worried about the cost implications and impact on performance. The final firm (GAGlassCo) had opted for surface compliance meeting the Nitaqat target by recruiting Saudi women to a very specific part of their business. This range of responses is important as it allows us to use the findings to generalise by arguing that for a firm in this type of situation, regulations of this type will have a particular impact but that, as argued in section 8.3, the external situation does set norms that most firms have to adapt to.

Secondly, the six cases offer a range of response strategies with these very much reflecting their own specific situation (in this respect, conforming to the arguments of the RBV model of organisational behaviour). Some have opted to rely on recruiting women, one has even tried to integrate male and female workers (FastFoodCo) with the same work place. Others, by choice (GAGlassCo) or necessity (SPharmaCo) have decided the best solution is to recruit Saudis to a particular range of jobs and continue to use foreign workers in other roles. This matches the conclusion to the previous paragraph, this might not have captured all the possible response strategies but the range of case studies does include the bulk of feasible approaches to coping with Nitaqat.

Thus, in summary, it is possible to use the six cases to make comments about the response of the wider Saudi private sector to Nitaqat. However, at first sight it is harder to generalise from the very specific situation in Saudi Arabia to other

instances of organisational response to regulatory change. One reason is that while Nitaqat is a quota based system, unlike the USA or India, it is designed to bring a relatively privileged sector of the population into the labour market. Equally, even in the wider GCC context, Saudi is unusual in making the focus of its localisation efforts the private rather than the public sector. This might make it harder to generalise if the focus was on the details of the policy environment, but it remains feasible if the focus is the impact of a shift of regulatory system to a strictly enforced, coercive, one. More generally it opens up insights into what might happen in any instance where the regulatory framework changes.

### **8.4.2 Theoretical Implications**

Working from this argument it is possible to identify several theoretical developments that are strengthened by the material presented in this thesis. One, as discussed in section 8.3 is that the framework of Dynamic Capabilities can be usefully applied to regulatory response and the creation of key capacity to implement a chosen strategy and cope with change. This is important given that chapter two identified the two dominant strands are institutional theory and the resource based view of the firm. The argument at the end of chapter two was that both these offer valuable insights but each is limited by tending to focus too much on external or internal factors. Dynamic Capabilities bridges this divide and, as in 8.3, can help explain many of the observations in the case studies.

A second major theoretical discussion is that varying impact of different regulatory structures on different firms. The six cases provide enough variance across two regulatory systems to enable this theme to be developed.

One important conclusion is that the findings contradict the orthodox economic model of regulatory response (Edelman and Suchman, 1997) that sees compliance as a cost-benefit trade off reflecting both the likelihood of effective enforcement and the level of penalty that would apply if found to be non-compliant. If this was a sufficient explanation, then no Saudi firm would have been compliant with the pre-Nitaqat regulations due to lax enforcement and the lack of effective penalties. However, as is clear in chapter five, two firms were compliant and it is useful to

explore the logic behind this as it offers an insight into why the regulations are not the only feature that influences organisational behaviour.

Drawing from chapter five, it appears as if their earlier response can be explained by three separate issues. First, the senior management in both firms have a commitment to the recruitment and development of Saudi staff. Second, LocalSteelCo wished to use localisation also to improve relations with their local community – in effect employing locals in their business helps offset any criticism of the environmental impact of their work. Related to this, LocalSteelCo also wished to bring in Saudi staff to reduce its reliance on a particular group of foreign workers. Finally, and probably most important, both firms received substantial state support during earlier difficulties. It is clear that both then felt they had to return this favour by embracing localisation.

This starts to create an argument that the impact of a given regulatory regime is moderated by other links between the firm and the state and internal dynamics. It is not clear if both firms would have been compliant even without the additional reliance on state support but this clearly left them feeling they had no real choice but to comply. Thus, an initial tentative theoretical development is to argue that the regulatory framework sets a form of baseline for organisational response (i.e. what the firm must do) but that the specific situation facing individual firms can be quite different to this baseline.

This idea can be developed by studying the post-Nitaqat environment. Here all six firms emphasised the importance of compliance (at least into the green category) and the more coercive, effectively enforced, regulatory framework led to changes in the firms that were previously non-compliant. However, the means of compliance varies substantially. In part, this is, as discussed above, a matter of strategy but some strategies in turn meant greater exposure to having to meet the regulatory demands. In particular, for the two firms that had significant expansion plans (SPharmaCo and FastFoodCo) finding some means to comply was a precondition to their strategy, as they needed to carry on being able to recruit foreign workers. Of note, these two firms (in quite different ways) have tried to adopt both the quantitative and the qualitative elements of Nitaqat (i.e. Saudis in most jobs, commitment to raising productivity and staff training). Two firms that do not have expansion plans

(GAGlassCo and HomesCo) are also the two that are meeting the quotas but have yet to fully engage with the wider demands of Nitaqat. So this supports a view that the wider strategy of a firm creates more or less exposure to the impact of external regulations.

This adds to the argument that a particular form of regulatory approach sets a baseline for organisational response but the actual response is still moderated by organisational strategy and the differences in how they have to interact with the labour market. This is important at a policy level as well as in terms understanding organisational behaviour. Variances in response may not always be connected with evasion or lack of commitment but more a product of how the firm interacts with the wider external environment. On the other hand, as with GAGlassCo, there is a risk of surface compliance if the firm can find a niche that enables this.

This leads onto the third theme, that of unintended consequences. It is clear from the policy makers interviewed in chapter four that the authorities wished to see an increase in productivity as a consequence of the introduction of Nitaqat. From the sample, only one firm has actively tried to reduce its overall labour force via automation (SugarMillsCo) and only two have really engaged in job redesign to reduce the demand for staff (SPharmaCo and FastFoodCo). It is worth noting that both of these have done so primarily to ease their expansion plans rather than to reduce the labour costs of their pre-Nitaqat business. On the other hand, the common focus on staff retention and the often used strategy of offering incentives to staff who stay (parental grants, wedding and holiday loans and so on) may actually provide little incentive for increasing productivity and more for staff to ensure that they can retain their jobs. Most firms, at the moment, seem to have focussed on Nitaqat as a recruitment and retention challenge and are not looking to cut back staff numbers, especially where they can easily recruit Saudi nationals. Perhaps the most extreme example of this is GAGlassCo that quite simply has no incentive to reduce Saudi staff numbers by raising productivity in its packing section. If it did this, and had to reduce Saudi staff as a result, it would undermine its basic Nitaqat compliance strategy.

A final element to being able to generalise from these cases is the interaction between HRM capacity and regulatory demands. This was explored in detail in

section 8.2 but it is clear the linkage between these two issues is weak. The stronger link is that between HRM capacity and overall strategy. Thus, if the combination of regulations and firm specific factors means that a given company can operate using hire and fire, then it will do so and ensure that its HRM capacity meets this very limited goal. This is most clearly exemplified by GAGlassCo which has managed to retain a hire and fire capacity precisely as it has reduced Nitaqat compliance to a matter of meeting the quota while it recruits from a section of the potential Saudi labour force where supply is still plentiful.

On balance, this section suggests various ways in which it is possible to generalise using Saudi data despite the many unique features of the Saudi regulatory approach. In particular, the research design of six cases and capturing data for each firm under two different regulatory regimes allows for a rich exploration of the interaction between regulatory system and organisational response. In turn, this allows the creation of a theoretical framework showing the links between regulations, overall labour market, organisational strategy, organisational capacity and the various ways in which the wider labour market affects a given firm. What the uniquely Saudi aspects do is to suggest ways in which firms might vary from the norm and thus adds to the argument that even when facing a common environment it is likely that many firms will respond in different ways.

### ***8.5 Concluding Remarks***

This chapter has brought together the main findings of the case studies to explore the impact of Nitaqat on firms within the Saudi private sector. As argued in section 8.4 the six cases while not representative of the Saudi private sector (in a statistical sense) do capture a range of the plausible variants in how firms might be adapting. More importantly, although the Saudi context is unusual (the nature of the economy, some social issues and also the focus of using quotas to improve employment among the domestic population) it is possible to use the shifts pre and post the introduction of Nitaqat to explore a number of issues of much wider relevance to the literature on organisational response to regulatory change and the importance of HRM capacity in enabling organisational strategy.

This leads to the development of a number of insights that add to existing findings in the wider literature set out in chapter two. Of particular importance, is the clear indication that the relationship between type of regulatory regime, organisational response and the type of HRM capacity required is weak. Two firms were found to be compliant even when the previous regulations were poorly designed and laxly enforced. Equally, several firms have opted to meet the numerical quotas set by Nitaqat by making minimal changes to their previous practice. In the pre-Nitaqat situation, four of the firms had very low HRM capacity as they could rely on hire and fire to find the foreign workers they needed to run their businesses. In the post-Nitaqat regime, one firm still has low HRM capacity as it has met the numerical quota by recruiting from the large pool of unemployed Saudi women to work in a segregated section of their packing process.

Thus, we are left looking at processes that influence each other but where there is substantial variance between firms. One suggestion is that the nature of the regulations interacts with the extent that the company relies on state support. This has been found in other studies and offers a plausible explanation as to why LocalSteelCo and SugarMillsCo were compliant pre-Nitaqat. Equally, the data suggests a no strong link between HRM capacity and the regulatory system.

This leads to a second important conclusion as the HRM capacity required is not really a function of the regulatory system but more closely related to organisational strategy. In this respect, it is useful to acknowledge that shifts in the regulatory system can of course influence strategy but the linkage to the important issue of HRM capacity is not strong. If a firm wishes to recruit in a competitive labour market, retain staff, use staff development to offset skills gaps on recruitment and, perhaps, develop its staff over the longer term, then it needs a certain level of HRM capacity to sustain this. However, from the cases, it is clear that while most firms made use of some (or all) of these tools, they were using their HRM capacity to pursue quite different strategic goals and the choice in this respect had more to do with aspects of strategy (growth or stability) and the dynamics of their particular section of the wider labour market.

The two firms with ambitious growth plans are very vulnerable if they fail to at least meet the 'green' compliance levels and the desire to secure their strategic plan may

well explain some of their substantial investment in HRM since Nitaqat was introduced. Equally, one firm (SPharmaCo) was forced to find a strategy that enabled them to cope with the severe lack of trained Saudi specialists (in their case pharmacists) by creating complementary roles that could be filled by Saudis while they continued to recruit foreign workers. The two firms that see Nitaqat as essentially about compliance also have concerns that Saudis cannot do their jobs and both have a quantitative approach (i.e. comply with the numerical targets) and their approach can be characterised as ‘involuntary-pragmatic-acceptance’. However, some of the other firms indicate that their attitudes have changed as their employment practices alter. So in FastFoodCo, one driver to raise productivity (and thus take an interest in the training of their Saudi staff) was that they were employing a lot more (and having to pay them higher wages). Equally, while the CEO of HomesCo remains sceptical of employing Saudis in a sales function, others in the firm believe this attitude is weakening as some are employed and perform competently in the role.

A final goal in this chapter was to evaluate the value of Dynamic Capabilities as a theoretical framework. From the discussion in section 8.3, it is clear that it has a valuable role in this regard. It can be used to explain when firms will not invest in HRM capacity as well as the situations when HRM capacity can become a critical resource. This matters as it supports a key argument in this chapter that there are few if any linear effects between the regulatory system, organisational strategy and the type of HRM capacity that becomes essential. If, as GAGlassCo does, a firm can meet the revised numerical targets by basically expanding its pre-Nitaqat employment model and, for both Saudi and foreign workers, can continue to rely on a hire and fire culture, then creating additional capacity is an unnecessary cost not a critical asset.

The final chapter evaluates these findings in terms of the overall thesis, considers gaps that still exist in the literature, discusses what changes might have been useful in this study and identifies areas for further research.

## **Chapter 9 : Conclusions**

### ***9.1 Introduction***

This thesis covers key aspects of the response by Saudi private sector firms to the recently introduced Nitaqat regulations. These regulations directly aim to increase the numbers of Saudi nationals employed by the private sector by setting a series of compliance bands and the use of differential penalties or rewards depending on how the firm performs. Indirectly, they are also about balancing the Saudi economy away from its dependence on petrochemicals and to raise productivity. An important finding is that all the firms involved in this research have responded to the explicit quantitative goals but only four have responded to the more qualitative goals about raising productivity. This suggests that a target driven regulatory regime can be effective in ensuring the set targets are met, but still have problems in bringing about 'softer', more behavioural and attitudinal change. It also suggests that the divide between quota driven compliance regulations and those designed to affect wider behaviour by specifying procedural changes are not as different as is sometimes suggested.

Overall, both state statistics and the data in this study suggests that Nitaqat has already led to a significant increase in the number of Saudis employed in the private sector. It also suggests that it has led some firms to a significant rethink of their approach to staff recruitment, retention and development. In effect, improving HRM practice is one of the Government's goals and this seems to be vital if a firm is to respond creatively to the agenda of raising productivity. However, as is clear from chapter seven, simply creating a coercive regulatory framework does not guarantee that firms will create the type of HRM capacity required for longer term staff development and productivity gains.

Chapter eight has drawn together the main themes from this research and focussed on combining the various empirical findings with the existing literature review in order to explore the interaction between regulatory changes, organisational strategy and the concept of organisational capacity (in this case, specifically HRM capacity). The research took place in Saudi Arabia and covers the introduction of a new set of employment regulations, Nitaqat, between 2011 and 2013. Although as set out in

chapter four, the Saudi labour market has a number of unique features, this study has wider relevance than just as research into the impact of Nitaqat.

This relevance stems from the radical nature of the change, the spread of companies covered in the case studies and that pre-Nitaqat HRM procedures in Saudi Arabia were relatively weak. The substantive change embedded in Nitaqat means that all Saudi private companies have had to address the consequences. This is useful as often regulatory change is incremental, meaning that studying the consequences in a complex real world economy can be difficult due to other factors changing at the same time. The Saudi state has clearly (chapter four) designed Nitaqat to sweep aside the old reservations in the private sector about employing Saudis and, indeed, the reluctance of Saudis to take those jobs, not least as they did not believe that the old norm (domestic unemployment and substantial usage of foreign workers) actually reflected a desirable labour market.

In this sense, we are not studying the organic evolution of the labour market (say as new technologies are introduced or new regulatory constraints make some aspects more important) but almost a binary shift from the labour market pre-Nitaqat to that after Nitaqat. That this has led to significant changes in HRM approach is perhaps less a surprise as it is an instance where the state reconfigures the labour market with little or no concern for the practical implementation of its new policy. Thus, SPharmaCo cannot recruit Saudi pharmacists as the educational system does not produce them and had to reconfigure the staffing profile of its chemist shops in consequence. The Saudi state has effectively challenged the private sector to cope. This does suggest that the role of the state in framing what is normal in the labour market (MacKenzie and Martinez Lucio, 2015) should be an important part of HRM models.

In turn, while the six cases are not statistically representative of the private, the range of pre and post-Nitaqat responses, their different strategies and their different approach to HRM capacity means they embody the bulk of the more plausible responses:

**Table 9-1: Company Characteristics**

| Criteria                                   | Company    |            |         |          |         |       |
|--|------------|------------|---------|----------|---------|-------|
|  | SugarMills | LocalSteel | SPharma | FastFood | GAGlass | Homes |
| Compliant before Nitaqat?                  | Yes        | Yes        | No      | No       | No      | No    |
| Compliant after Nitaqat?                   | Yes        | Yes        | Yes     | Yes      | Yes     | Yes   |
| Significant Female recruitment?            | No         | No         | No      | Yes      | Yes     | Yes   |
| Significant growth strategy?               | No         | No         | Yes     | Yes      | No      | No    |
| Substantial HRM capacity pre-Nitaqat       | Yes        | Yes        | No      | No       | No      | No    |
| Substantial HRM capacity post-Nitaqat      | Yes        | Yes        | Yes     | Yes      | No      | No    |
| Nitaqat strategy focuses on meeting quota? | No         | No         | No      | No       | Yes     | Yes   |

The importance of this spread of characteristics is it captures almost the full range of company responses to localisation in Saudi Arabia. The only gap, and this is discussed below, is that there are no non-compliant firms post-Nitaqat in this study. Beyond that, given the nature of the Saudi economy (as discussed in chapter four) table 9-1 suggests that the study sample is relatively comprehensive in terms of options and organisational responses.

## ***9.2 Main Findings***

Table 9-1 can also be used to summarise the main findings in this research. The first is that there is a weak connection between specific organisational response and the formal regulatory environment. This issue was explored in chapter eight and the strongest evidence for this assertion is that some firms were compliant with the pre-Nitaqat localisation rules. Thus, compliance cannot be explained simply in terms of the costs of regulatory non-compliance. Post-Nitaqat, while all the firms are compliant, they have clearly adopted very different means to achieve this. In turn, these variations in compliance strategy indicate a much more complex linkage between regulatory approach and organisational response.

One argument, developed in chapter eight is that some firms are more, or less, exposed to the impact of regulations. Pre-Nitaqat, the compliant firms had an internal

commitment to localisation (in other words were much more prepared to adapt than the bulk of firms) and felt they were more in receipt of state support (in other words, that the scrutiny of their performance was much closer). Post-Nitaqat, the reverse can be found. Two firms were found to be very reluctant to localise their workforce due to attitudinal beliefs about Saudi workers. Neither were following a growth strategy and this may well have lessened the extent that Nitaqat impacted on them (at least at the very early stages). So this suggests that firms will vary from the norm (in this case a norm of non-compliance pre-Nitaqat and of compliance post-Nitaqat) according to their culture, attitudes and strategy and the extent to which they feel exposed to the demands of the regulators.

A second major finding is even if firms are following broadly similar strategies (improve the number of Saudi nationals they employ), they will do so in very different ways. Since gender is such an important dynamic in Saudi society with social, religious and economic implications, it is not surprising that these differences in strategy often revolve around the employment of women. In this research, three different models are encountered. One is to only recruit men, at the moment still the most common single response as this is relatively easy (it fits with social and religious expectations) and means a firm does not need to think about how to adapt its approach to address these challenges. A second approach was to recruit women but to segregated functions. All of the three firms that employ women do this either to work in call centres (FastFoodCo), separated sections of a store (HomesCo) or completely segregated parts of the production process (GAGlassCo). The final version was rare but meant recruiting women and looking to integrate the two genders in the same workplace (FastFoodCo).

Ignoring the essentially Saudi nature of this debate, these differences have much wider application and offer a strong reason why the Dynamic Capabilities approach is so useful (as it is based on RBV). What we are presented with is evidence of different degrees of innovation. In terms of meeting the Nitaqat target, raising female employment is an important tool (due to historically lower employment rates and thus more Saudi women being available to be drawn into the labour force). Three firms argue that they cannot adapt to using this resource (mainly as they cannot see how to gender segregate their workplaces), two have adapted in a conventional way

(arranging the workplace so it is gender segregated). One has adapted in an innovative way – looking at how to integrate both genders and still meet the rules and expectations of the Saudi authorities (both state and religious). As identified in chapter six, this provides evidence for the possession of unique resources in terms of building competitive advantages. Specifically, FastFoodCo has a director of HR who could identify how to organise the work of their restaurants to meet the rules and then negotiate with the appropriate authorities to gain approval.

Again, this point to the value of the basic argument that the external environment sets norms and individual firms then find various ways to respond. However, a creative, innovative, response tends to rely on the firm already possessing certain key resources.

### ***9.3 Contribution of this Research***

From the analysis in chapter eight, it is possible to point to a number of contributions from this research. These include: (a) an early evaluation of the impact of Nitaqat; (b) evidence of the type of responses available to firms when faced with a substantive regulatory change; and, (c) application of the concepts of Dynamic Capabilities to the fields of regulatory compliance and HRM capacity.

#### **9.3.1 An Evaluation of Nitaqat**

As noted in the introductory comments, Nitaqat can be seen as a significant shift in the wider environment facing private sector firms in Saudi Arabia. The main challenge that has flowed from the introduction of Nitaqat is increased competition for Saudi labour. This has led most of the firms to improve their approaches to both recruitment and staff retention. However, the impact of the growing competition for labour actually has had a number of different consequences depending on the firm. One common theme has been to raise salaries for Saudi staff and the overall cost of employing non-locals. For Saudi employees, relative shortages and the need to retain staff have been one driver but so has been the Nitaqat rule that staff can only be counted if they earn a state mandated minimum amount. For foreign workers, the

elimination of the old illegal recruitment systems means that firms need to pay for accommodation and visas as well as wages.

However, as discussed in chapters five to seven, different firms effectively face very specific labour market constraints. In the case of SPharmaCo, they were unable to recruit Saudi pharmacists due to a lack of suitable graduates. GAGlassCo defended their overall strategy of not recruiting Saudis by claiming that Saudis lacked both the technical skills and attitudes that they needed. On the other hand, LocalSteelCo and SugarMillsCo were both able to recruit and retain suitably qualified Saudis, even if they had to adjust their recruitment criteria and put more emphasis on staff training and development.

The ability to recruit women has also had a strong effect on each firm's response. Three now do so in substantial numbers (FastFoodCo, HomesCo and GAGlassCo) while two argue that they have no suitable jobs (LocalSteelCo and SugarMillsCo) and SPharmaCo cites problems of achieving gender segregation in its chain of chemists. Of the firms that do recruit women, one (GAGlassCo) has created a completely segregated function (unskilled packaging and shipment) and thus easily meets Saudi religious and social restrictions (chapter four). The opposite is FastFoodCo that has negotiated an approach with the Saudi authorities that allows men and women to work together in its fast food outlets (as well as just using women in its new call centres for home delivery).

In effect, labour shortage is a common consequence of Nitaqat, as is the impact of higher wages. As is clear from the discussion with policy makers in chapter four, this is quite deliberate on the part of the Saudi authorities. However, there is substantial variation across the six firms as to the practical implications of this wider labour shortage and the type of response they have developed.

Finally, although Nitaqat has positive effect in altering specific HRM practices for the benefits of local workers, there is a risk that Nitaqat is having unintended consequences some of these alterations designed specifically for local workers and excludes the substantial number of foreign staff, especially when it comes to access to training, benefits and working conditions. This may lead to a stratified labour market with foreign workers expected to work for less and often in worse working

conditions. Since the Saudi state is clear that Nitaqat is meant to raise productivity across the private sector, this is potentially a serious gap. Even if the Nitaqat quotas are met by all the private sector firms in Saudi Arabia, the majority of those employed will be non-Saudi nationals and their exclusion from staff development opportunities will make it hard to raise overall productivity.

### **9.3.2 Theoretical Contributions**

Chapter eight has discussed the main theoretical contribution in terms of organisational response to regulatory change. The key contribution here is that the substantial shift in regulations embedded in Nitaqat, in turn forced all the case study firms to pay direct attention to meeting the new rules. This matters as one issue identified in chapter two is that firms often face multiple regulatory demands and make choices as to which are the most important (Edelman and Talesh, 2011). The relative importance of Nitaqat means we can study the organisational response and be reasonably sure that their response is to Nitaqat rather than other external changes.

In turn, the analysis in chapter eight points to the importance of other factors than simply the nature of the new regulations in triggering change. As an example all four of the firms that have accepted that Nitaqat means more than simply meeting the quotas (LocalSteelCo, SugarMillsCo, SPharmaCo and FastFoodCo) expect this to yield secondary benefits. They hope that being seen to take the employment and development of Saudis will ease their position in the labour market as locals will look to join them by choice. Equally, being seen to be fully compliant may also lead to favourable interaction with the state authorities over other issues.

Equally, the analysis of organisational behaviour across two regulatory systems points to different reasons why firms may either not comply or only comply at the most pragmatic level (meeting the quota aspect). Pre-Nitaqat it is clear that many firms saw the costs of both Saudi labour and HRM capacity as an avoidable extra cost that none of their competitors were likely to meet.

However, the key contribution in this thesis is in terms of the relationship between regulatory change, organisational strategy and HRM capacity. The key element, as identified in chapter eight, is that the HRM capacity a firm needs is not related to the regulations but to the strategy the firm follows (and it is this strategy that is more

directly influenced by the regulatory system). Those firms that have a personnel strategy based around raising productivity, recruiting and developing staff, and longer term staff development need a HRM capacity to deliver this. What is clear is that this approach to HRM is linked to organisational strategy not the regulatory framework. The research in chapters five to seven presents instances of firms with substantial HRM capacity when the regulatory system was weak (LocalSteelCo and SugarMillsCo) and with limited HRM capacity even when the regulatory demands are substantial (GAGlassCo). As Paauwe (2004) argued, the level of investment in HRM does not follow some notional idea of 'best practice' but instead is related to the demands facing the firm. This matters as organisational capacity can then be seen not as an absolute concept (i.e. more is always better) but one that is related to the environment facing the firm (of which the regulatory framework is a portion). This in turn leads to the role of Dynamic Capabilities as a useful academic framework.

### **9.3.3 Dynamic Capabilities and Regulatory Changes**

Chapter two identified how the literature on organisational response to regulations often makes use of variants of Institutional Theory while that on (S)HRM contribution to organisational success often used theoretical frameworks such as the Resource Based View (RBV) of the firm. Both theories share some common aspects, in particular that both reject the classical micro-economics theory of the profit maximising firm and instead argue that organisational decision making is influenced by the wider environment, past strategy, culture and existing resources of the firm. However, they tend to divide in that Institutional Theory stresses the importance of external factors (and argues that firms will start to adopt similar approaches when faced by common demands) while RBV remains focussed on how an organisation's past decisions and current resources inform its opportunities and strategy.

Dynamic Capabilities is attractive in part as it offers a means to bridge these two theoretical domains. It can be seen as a development of RBV (and certainly shares with RBV an interest in how the firm's past actions inform its future opportunities) but one that places more emphasis on how organisational actions match external demands. Of particular use in this research is Eisenhardt and Martin's (2000)

argument that a firm will seek to acquire the level of capacity that matches the external demands. So if a firm faces a labour market where labour is cheap, relatively well trained and be hired then there is very little demand to build HRM capacity. If, on the other hand, the labour market is one of shortage (leading to both higher wages and having to recruit less well trained staff), then there will be a need to create a more substantial HRM capacity. In turn, Ambrosini et al. (2009) link this process of acquiring capacity to some of the themes in RBV, in particular the potential value of unique, or hard to replicate, assets.

In combination, this offers a useful theoretical framework to explain the observations in chapters five to seven. For example, FastFoodCo's response to Nitaqat can be seen as being more informed than that of SPharmaCo. In part, this is linked to the differences in their immediate labour market (SPharmaCo being constrained by the lack of Saudi pharmacists) but fundamentally, FastFoodCo has a competitive advantage stemming from their HR director. Thus, they have managed to solve the enduring problem of employing both genders in relatively close proximity in their stores while SPharmaCo has opted to keep its pharmacy stores single (male) gender. Thus, SPharmaCo has no means to access the substantial number of potential Saudi female employees.

On the other hand, GAGlassCo can be seen as having side-stepped the full implications of the new Nitaqat influenced labour market. While it has had to pay higher wages (to at least ensure its staff count for the Nitaqat quota), in general it is able to recruit from a large pool of workers (Saudi women looking for work), who it does not subsequently train or promote. Against this labour market, it is no surprise to find it has not really invested in its HRM capacity. The unexplored issue is whether or not their strategic choice can be sustained when either the Nitaqat rules are refined or the pool of unemployed Saudi women is reduced as more firms work out how to recruit this part of the labour force.

### ***9.4 Limitations of the Research***

One limitation to this research is the nature of the sample. As discussed in chapter three, the firms voluntarily agreed to be part of this sample and it is reasonable to

assume that a firm struggling to meet the Nitaqat goals would be unwilling to take part. Equally, in Saudi terms (Sadi, 2013b), all the firms are large (500-2999 employees) or very large (over 3000), thus there are no small or medium firms. This leaves it unclear how smaller firms are coping and this may be particularly important given the focus on the importance of capacity in enabling a firm to respond. The additional regulatory burden may be harder for a small than a large firm.

A second issue is that each firm operates in a different sector. This leaves open the question of whether the differences between firms (as identified in chapter eight) are actually differences between sectors. In other words, the approach and mind set of say HomesCo is more a reflection of the norms in the soft furnishings sales sector rather than of that particular firm. In turn, this means it was impossible to investigate whether organisational response was in part of product of groups of staff who tend to spend much of their career working in a similar industry or professional role. This might have led to more emphasis being placed on the value of Institutional Theory and concepts such as Institutional Isomorphism (Powell and DiMaggio, 1983).

One important question is to consider whether it is possible to generalise from the findings. It is clear that much of what has been presented is very dependent on the specifically Saudi context and even that localisation in Saudi Arabia is different to the process in other Gulf States. However, in this respect, seeing localisation and Nitaqat as a form of quota based employment regulation is important. Such an approach is used in other countries, usually to offset perceived bias and failings in the labour market. As discussed in chapter two, employer attitudes in the US to such quotas has much in common with the reported attitudes of firms in Saudi Arabia towards localisation. As such, this suggests that the key findings and developments from this thesis (chapter eight) do have wider applicability, especially when regulations are introduced that are based on achieving numerical quotas.

### ***9.5 Themes for Future Research***

Some of the gaps identified above also suggest ways in which this research could be taken forward. A focus on several firms in the same industry might allow more robust conclusions to be drawn about the relative importance of regulatory approach

(i.e. presumed conformance) and different culture and resources (i.e. presumed differences) and of varying levels of capacity (i.e. presumed ability to choose how to respond). With the firms operating in a single industry, some of the variation inherent in choosing six firms spread across the private sector would be reduced. A related theme would be to consider the differences, if any, between Saudi and multinational firms and what lessons could be learnt. Equally, the evidence of the importance of capacity as the means by which the competing demands of type of regulation and differences between companies might be resolved is an important insight. In addition, this research develops a theme found in other studies that the state is important in creating the form of the labour market. It would be valuable to explore instances where a relatively significant shift of HRM capacity has occurred without such a state created impetus (for example in terms of major technological change) and how that differs to the emerging evidence from the Gulf Region.

In addition, to further academic research, there are a number of practical themes that could be explored. These include working with policy makers to identify the sometimes unintended results of regulations and ways in which regulatory regimes can be constructed. There is also a need to help Saudi companies adapt by identifying key strategies. Localisation, in one form or another, is an important theme and the demands are unlikely to ease in the coming years. In this respect, as discussed at several points in chapters five to seven, Saudi firms face problems that stem from the approach and coverage of the Saudi educational system. Thus, addressing Nitaqat is not just a matter of regulations and company response, it has wider implications.

## ***9.6 Final Concluding Remarks***

This study has looked at the early stages of the Nitaqat localisation rules in Saudi Arabia. Since these rules specify quite harsh penalties for non-compliance with the numerical quotas it is perhaps of little surprise that all the firms in the case studies have made serious efforts to ensure they are compliant with the core numerical expectations. Equally, it is obvious that even in the early stages after its introduction,

Nitaqat has forced firms to recruit far more Saudi nationals than had been achieved with the previous localisation rules stretching back to the 1970s.

This combination provides an interesting opportunity to study the impact of regulatory change on organisational behaviour and HRM capacity. The rules have changed radically and there has been an almost immediate, and dramatic, response by firms in the Saudi private sector (not all of which are related to the stated aims of the officials who introduced Nitaqat). However, despite the nature of these changes, what has been found is considerable variation between the firms in terms of how they have responded and the HRM capacity they have created. In conclusion, this points to the importance of issues such as organisational culture, existing strategy, existing capacity and differences in the labour market as major influences on organisational responses to external regulatory changes.

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## Appendixes

### *Appendix 1: Invitation Letter to Policy Makers and Consultants*

**UNIVERSITY OF LEEDS**  
**LEEDS UNIVERSITY BUSINESS SCHOOL**  
*[WORK & EMPLOYMENT RELATIONS DIVISION]*

Date: .....

**To: (The Participant Name, and his/her position)**

This letter is an invitation to consider participating in a study I am conducting as part of my PhD degree in the Department of Work and Employment Relations at Leeds University Business School. I would like to provide you with more information about this research and what participant's involvement would entail if they decide to take part.

Over the course of the past decade, Saudi Arabia has been marked by an increase in both numbers of young citizens approaching wage and unemployment rate among locals with high school education or less. Since the mid-1990, the Saudi government has undertaken efforts and enacted policies to promote job localisation in the private sector; these initiatives are broadly referred to as Saudisation or more recently "Nitaqat".

Given this context, the purpose of my study is to understand from the perspective of private sector the shift (if there is any) in the Saudisation policy objectives and mechanisms as well as understanding the challenges and tensions (if there are any) that Nitaqat might create, both in term of wider labour market and for firm's internal operations. Finally, how firms responded to the changes in localisation policy (if there are any) and what is the role of HRM in it

It would be very beneficial before going to company level data collection, to understand the background of localisation policy (its achievements and limitations) and the shift that has occurred recently (this may include the policy aims and new implementation mechanisms). You may decline to answer any of the interview questions if you wish. Further, you may decide to withdraw from this study at any time without any negative consequences by advising the researcher. Your name will NOT appear (unless you accept otherwise) in any thesis or report resulting from this study; however, with your permission anonymous quotations may be used. There are no known or anticipated risks to you in this study.

If you have any questions regarding this study, or would like additional information to assist you in reaching a decision about participation, please contact me at ..... or by email at ..... You can also contact my supervisor, at ..... or email .....

I would like also to assure you that this study has been reviewed and received ethics clearance through the university ethical review committee at the University of Leeds. However, the final decision about participation is yours. I hope that the result of the study will benefits those firms who are directly involved in the study, policy makers who are involved in Nitaqat as well as the broader research community. I very much look forward to seeing you and thank you in advance for assistance in this project.

Kind Regards,

.....

Lead Research

## ***Appendix 2: Semi Structure Interviews Schedule- Policy Makers/ Consultants***

| <b>Previous localisation Policy</b>   |
|---|
| <ul style="list-style-type: none"> <li>• Can you provide me a brief history about Saudisation Policy in general?</li> <li>• What were the main aims/objectives of the previous localisation policy? What were the short/medium and long term objectives? What were the priorities of objectives?</li> <li>• How was the policy designed? What were the strengths and weaknesses in it?</li> <li>• What were the support mechanisms to localisation policy for example, the role of training and employment subsidies, policies and procedures of foreign workers' recruitment, control and enforcement mechanisms?</li> <li>• What were the reactions of the private firms to the previous localisation policy?</li> <li>• What were the major loopholes of the previous policy design (if there were any), implementation and enforcement mechanisms? If yes? Why the loopholes existed?</li> <li>• Were there any unintentional consequences resulted from the the previous localisation policy?</li> <li>• In your opinion, which industry were impacted positively/negatively the most from the Saudisation policy? What were the challenges associated with different industry?</li> </ul> |
| <b>Goals and Objectives of the revised approach to localisation “Nitaqat”</b>   |
| <ul style="list-style-type: none"> <li>• Why has the government needed to impose a refinement on the localisation policy goals? How this happened?</li> <li>• How does the new policy “Nitaqat” aims differ from the previous one? What are the short medium and long term goals of Nitaqat?</li> <li>• Who are the main target audiences (type of sector, type of job categories?) Why?</li> <li>• How do you see the future of the Nitaqat in 5, 10, 15 years' time? What changes the policy might bring in the next 5 years, how do you see the labour market characteristics in 10 years' time?</li> <li>• How do you measure the success of Nitaqat policy?</li> </ul>   |
| <b>Mechanisms for “Nitaqat” Implementation</b>  |
| <ul style="list-style-type: none"> <li>• How is the new policy “Nitaqat” implementation monitoring and enforcement mechanisms differ from the previous one? What are the main features of the reformed mechanisms?</li> <li>• Why did the government need to impose mechanism refinements to Nitaqat implementation and enforcement? How this happened?</li> <li>• What are the success measures for implementation mechanisms?</li> <li>• How has the Nitaqat been communicated down to the organisational level? What are the communication channels used for implementation in the private sector?</li> </ul>  |

***Appendix 3: Invitation Letter  
to Employers of Private  
Sector***



**UNIVERSITY OF LEEDS**

**LEEDS UNIVERSITY BUSINESS SCHOOL**

[WORK & EMPLOYMENT RELATIONS DIVISON]

Date: .....

**To: (The Company Name)**

This letter is an invitation to consider participating in a study I am conducting as part of my PhD degree in the Department of Work and Employment Relations at Leeds University Business School under the supervision of .....

I would like to provide you with more information about this project and what your involvement would entail if you decide to take part. Participation in this study is voluntary, it will involve an interview of approximately 45 minutes in length to take place in a mutually agreed upon location. You may decline to answer any of the interview questions if you so wish. Further, you may decide to withdraw from this study at any time without any negative consequences by advising the researcher. With your permission only, the interview will be audio recorded to facilitate collection of information, and later transcribed for analysis. Shortly after the interview has been completed, I will send you a copy of the transcript to give you an opportunity to confirm the accuracy of our conversation and to add or clarify any points that you wish.

**The Study:** Over the course of past decade, Saudi Arabia has been marked by an increase in both numbers of young citizens approaching working age and a high unemployment rate among locals with high school education or less. Since the mid-1990, the Saudi government has undertaken efforts and enacted policies to promote job localisation in the private sector; these initiatives are broadly referred to as Saudisation or “Nitaqat” recently. Given this context, the purpose of my study is to understand from the perspective of private sector the shift (if there is any) in the Saudisation policy objectives and mechanisms as well as understanding the challenges and tensions (if there are any) that Nitaqat might create, both in term of wider labour market and for firm’s internal operations. Finally, how firms have responded to the changes in localisation policy (if there are any) and what is the role of HRM in it.

Participation in this study is voluntary; it will involve interviews with General Manager or CEO, Operational director, HR Director, different HR function managers (i.e. recruitment manager, training and development manager, government relations managers.. etc. , and other HR department members.

**Themes to be discussed with Top management or CEO , operational and HR Director - Approximately 45 minutes**

- 1- Knowing their opinion about the Nitaqat programme and how it differs from the old Saudisation polices.
- 2- Knowing their opinion about effectiveness of the penalty and incentive systems used in Nitaqat.
- 3- Knowing their opinion about the benefits and losses of Nitaqat programme to the firm. (Advantages and Disadvantages of Nitaqat programme)

- 4- Knowing their opinion about the alignment of Nitaqat programme with the nature of the manufacturing/retail industry (tensions and contradictions)
- 5- Knowing their opinion about the obstacles of Nitaqat programme implementation. Ways to overcome it.
- 6- Knowing their opinion about the alignment of Nitaqat programme with the organizational strategy and objectives (tensions and contradictions)

**Themes to be discussed with HR Director, different HR function managers, and other HR department members - Approximately 45 minutes**

- 1- Discussing the different HRM policies and practices (i.e. recruitment, training, job structure, pay and benefits, employment of female... etc.) that has been affected by Nitaqat programme
- 2- Discussing the obstacles in Nitaqat programme implantation.
- 3- Discussing the unintentional consequences developed (if there are any) as a result of implementing Nitaqat programme.

**Confidentiality and Data protection**

- No sensitive data will be requested, any participants may decline to answer any of the interview questions if they wish. Further, they may decide to withdraw from this study at any time without any negative consequences by advising the researcher.
- The participants name or the company name will NOT appear in any thesis or report resulting from this study. Data will be used synonymously. The information obtained will be used for research purposes only and will be treated confidentially and will not be seen by anyone except the researcher. All information you provide is considered completely confidential. Your name will not appear in any thesis or report resulting from this study, however, with your permission anonymous quotation may be used.
- Data collected during my study will be retained for three years after the data collection in my account at university local drive. Only researcher associated with this project will have access.
- Any findings displayed in the thesis will be presented in a synthesised findings and conclusions without giving any reference or indication to any company
- There are no known or anticipated risks to any participants from your company or anticipated risks to the company name in this study.

If you have any questions regarding this study, or would like additional information to assist you in reaching a decision about participation, please contact me at ..... or by email at ..... . You can also contact my supervisor, at ..... or email .....

I would like also to assure you that this study has been reviewed and received ethics clearance through the university ethical review committee at the University of Leeds. However, the final decision about participation is yours. I hope that the result of the study will benefits those firms who are directly involved in the study, policy makers who are involved in the Nitaqat policy design and implementations as well as the broader research community. I very much look forward to seeing you and thank you in advance for assistance in this project.

Kind Regards,

.....  
Lead Researcher

***Appendix 4: Sample  
Secondary Data Request  
Letter to Participants***



**UNIVERSITY OF LEEDS  
LEEDS UNIVERSITY BUSINESS SCHOOL**

[WORK & EMPLOYMENT RELATIONS DIVISION]

Date: .....

Dear Sir,

I would like to thank you so much for participating in my PhD study. Your participation was very valuable to me. I know you are very busy and very much appreciate the time you devoted to participating in this study. In order to strengthen the claims of my PhD findings, further documents would really help as a multisource of evidence. The information and documents obtained will be used for research purposes only and will be treated confidentially and will not be seen by anyone except the researcher and will be destroyed once the PhD thesis is finished. Any findings displayed in the thesis will be presented in a synthesized findings and conclusions without giving any reference or indication to any company or individuals. There are no known or anticipated risks to any participants from your company or anticipated risks to the company name in this study.

**There are two type of documents are needed**

The first one (facts documents) such as

- 1- Company's departments and job structures. (If the company is a multinational, KSA region is enough)
- 2- Distribution of manpower in Saudi in terms of numbers, job positions and nationality (Saudi or Non-Saudi only)
- 3- Company's goals and mission statements, general facts about the company.
- 4- The Saudisation rates during the last years

The second types of documents are policy documents, proposals that may relate to HRM practices and Saudisation i.e.

- 1- Any available plan for Saudisation
- 2- HRM policies or new proposals that is related HRM practices i.e. recruitment, training, pay and benefits, female employments to boost Saudisation
- 3- Any activities or reports, emails related to HRM practices and Saudisation
- 4- Any photos that is related to HRM practices and Saudisation

It would be extremely helpful to my PhD if the documents above could be used in my analysis. In the same time I absolutely understand your right not to share some of the documents that you see sensitive to share.

Please accept my apologies for taking from your valuable and busy time to do this task for me.

Your support is highly appreciated

Kind Regards,

.....

Lead Researcher

## Appendix 5: Sample Consent Letter



Consent to take part in study of [Research Title]

[WORK & EMPLOYMENT RELATIONS DIVISON]

|  | Add your initials next to the statements you agree with |
|--|---|
| I confirm that I have read and understand the information sheet/ letter dated on..... explaining the above research project and I have had the opportunity to ask questions about the project.   |   |
| I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline.<br>Contact number of lead researcher: .....                           |   |
| I give permission for members of the research team to have access to my anonymised responses. I understand that my name will not be linked with the research materials, and I will not be identified or identifiable in the report or reports that result from the research.<br>I understand that my responses will be kept strictly confidential. |   |
| I agree for the data collected from me to be used in relevant future research.   |   |
| I agree to take part in the above research project and will inform the lead researcher should my contact details change.   |   |

|                         |  |
|-------------------------|--|
| Name of participant     |  |
| Participant's signature |  |
| Date                    |  |
| Name of lead researcher |  |
| Signature               |  |
| Date*                   |  |

\*To be signed and dated in the presence of the participant.

Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, the letter/ pre-written script/ information sheet and any other written information provided to the participants. A copy of the signed and dated consent form should be kept with the project's main documents which must be kept in a secure location.

## ***Appendix 6: Semi Structure Interviews Schedule- Private Firms***

### **Tailored Interview questions for Executives and Top management**

**Theme 1: How have different firms understood the shift in the Saudisation objectives and mechanisms (before and after the recent changes)?**

**Participants questions:**

- Can you tell what Saudisation policy is?
- Why has the government implemented Saudisation policy in the first place?
- Do you think the objectives of Nitaqat differ from the previous localisation initiatives? If yes, how?
- Do you think the implementation mechanisms of Nitaqat differ from the previous localisation initiatives? If yes, how?

**Theme 2: What are the challenges that Nitaqat has created, both in terms of the wider labour market and for the firms' internal operations?**

- What are the issues for the labour market today?
- What were the positive and negative consequences of the localisation policy (before and after Nitaqat) for the labour market?
- What are the main challenges the company faces when implementing the localisation policy?
- To what extent Saudisation policy harmonious with company's overall strategy? If the Saudisation policy was not there, how would you have set the company's strategy?
- What were the advantages and disadvantages of the localisation policy (before and after Nitaqat) for your firm?

**Theme 3: To what extent has the introduction of Nitaqat led to changes in the HRM role and practices and, if so, was this a response to the regulations or to enable the firm to construct a valid strategy that allowed them to deal with the demands?**

- Can you tell me the story of what has happened in your company when the government announced the activation of Nitaqat?
- Is there any major decisions needed to be taking at that stage?
- What was the HRM role at that time (before Nitaqat) with regard to localisation? To what extent you think that the HRM role is important in Nitaqat implantation? How?
- What are the measures of successful Saudisation implementation in your company?

**Theme 4: To what extent have firms responded differently to the shift in the Saudisation objectives and mechanisms (before and after the recent changes)? If so, why?**

- How important is it to fulfil the requirement of Nitaqat policy today?
- How does being in the red zone can affect your company?
- How does being in the yellow zone can affect your company?
- How the company can gain benefits by complying (or being in the green zone)?
- How match advantage the company can have when over complying (being in the platinum zone)?
- Can you explain to me what localisation initiatives have started in the company?

- Why it happened?

### **Tailored Interview questions for HR Directors / Manpower Planning Managers**

#### **Theme 1: How have different firms understood the shift in the Saudisation objectives and mechanisms (before and after the recent changes)?**

- Can you tell me what Saudisation policy is?
- Why do you think that the government implemented Saudisation policy in the first place?
- Do you think the aims of Nitaqat differ from the previous localisation initiatives? If yes, how?
- Do you think the implementation mechanisms of Nitaqat differ from the previous localisation initiatives? If yes, how

#### **Theme 2: What are the challenges that Nitaqat has created, both in terms of the wider labour market and for the firms' internal operations?**

- What are the issues of the labour market today?
- What were the positives and negatives of the localisation policy (before and after Nitaqat) brought to the labour market?
- What are the main challenges the company face when implementing the localisation policy?
- To what extent are Saudisation policy harmonious with company's overall strategy? If the Saudisation policy was not there, how would you have set the company's strategy?
- What were the advantages and disadvantages of the localisation policy (before and after Nitaqat) brings to your firm?

#### **Theme 3: To what extent has the introduction of Nitaqat led to changes in the HRM role and practices and, if so, was this a response to the regulations or to enable the firm to construct a valid strategy that allowed them to deal with the demands?**

- Can you tell me the story of what has happened in your company when the government announced the activation of Nitaqat?
- Were there any major decisions needed to be taking at that stage?
- What was the HRM role at that time (before Nitaqat) with regard to localisation? To what extent you think that the HRM role is important in Nitaqat implantation? How?
- If the Saudisation policy is not there, how were you going to set your HRM strategy?
- To be specific, what are the different HR policies and practices that needed refinement after Nitaqat? What is the most affect policies and practices that has been affected by the Nitaqat? Why? (Discussing topics such as Nitaqat impact on department and manpower budget, department structure, emergence of new players, policy changes in specific HRM functions i.e. pay structure, job design, new targets, female employment, new programs adopted, manpower restructuring (foreign vs. local workers, jobs distributions in different levels ... etc.)

- What are the measures of successful Saudisation implementation in your company?
- Is there any unintentional consequences developed as a result of implementing specific HRM policy
- How Nitaqat has influenced the manpower budget in your firm?

**Theme 4: To what extent have firms responded differently to the shift in the Saudisation objectives and mechanisms (before and after the recent changes)? If so, why?**

- How important to fulfil the requirement of Nitaqat policy today?
- How does being in the red zone can affect your company?
- How does being in the yellow zone can affect your company?
- How the company can gain benefits by complying (or being in the green zone)
- How much advantage the company can have when over complying (being in the platinum zone)?

#### **Tailored Interview questions for Operational Directors/ Plant Managers**

**Theme 1: How have different firms understood the shift in the Saudisation objectives and mechanisms (before and after the recent changes)?**

**Participants questions:**

- Can you tell me what Saudisation policy is?
- Why did the government implement Saudisation policy in the first place?
- Do you think the aims of Nitaqat differ from the previous localisation initiatives? If yes, how?
- Do you think the implementation mechanisms of Nitaqat differ from the previous localisation initiatives? If yes, how?

**Theme 2: What are the challenges that Nitaqat has created, both in terms of the wider labour market and for the firms' internal operations?**

- What are the issues of the labour market today?
- What were the positive and negative effects of the localisation policy (before and after Nitaqat) for the labour market?
- What are the main challenges the operation face when implementing the localisation policy?
- What were the advantages and disadvantages of the localisation policy (before and after Nitaqat) brings to your operation?

**Theme 3: To what extent has the introduction of Nitaqat led to changes in the HRM role and practices and, if so, was this a response to the regulations or to enable the firm to construct a valid strategy that allowed them to deal with the demands?**

- Can you tell me the story of what has happened in operations when the government announced the activation of Nitaqat?
- Are there any major decisions needed to be taking at those moments? Why?
- To what extent Nitaqat has affected operations? How much of the HRM policies and practices have influenced positively or negatively the operation flow under the implementation of Nitaqat?
- What are the measures of successful localisation implementation in your company?

**Theme 4: To what extent have firms responded differently to the shift in the Saudisation objectives and mechanisms (before and after the recent changes)? If so, why?**

- How important is it to fulfil the requirement of Nitaqat policy today?
- How does being in the red zone can affect your company?
- How does being in the yellow zone can affect your company?
- How the company can gain benefits by complying (or being in the green zone)
- How match advantage the company can have when over complying (being in the platinum zone)?

**Tailored Interview questions for different HR unit managers (i.e. manpower planning, recruitment, training and development, government relations managers )**

**Theme 1: How have different firms understood the shift in the Saudisation objectives and mechanisms (before and after the recent changes)?**

**Participants questions:**

- Can you tell what the Saudisation policy is?
- Why do you think that the government implemented Saudisation policy in the first place?
- Do you think the aims of Nitaqat differ from the previous localisation initiatives? If yes, how?
- Do you think the implementation mechanisms of Nitaqat differ from the previous localisation initiatives? If yes, how?

**Theme 2: What are the challenges that Nitaqat has created, both in terms of the wider labour market and for the firms' internal operations?**

- What are the issues for the labour market today?
- What were the positive and negative aspects of the localisation policy (before and after Nitaqat) for the labour market?
- What are the main challenges the company faces when implementing the localisation policy?
- What were the advantages and disadvantages of the localisation policy (before and after Nitaqat) brings to your firm?

**Theme 3: To what extent has the introduction of Nitaqat led to changes in the HRM role and practices and, if so, was this a response to the regulations or to enable the firm to construct a valid strategy that allowed them to deal with the demands?**

**Theme 3: tailored questions for Manpower Planning, Recruitment/Resourcing Officers/Managers**

- Can you tell me the story of what has happened in your company when the government announced the activation of Nitaqat?
- Are there any major decisions needed to be taking at those moments? Why?
- What was the HRM role at that time (before Nitaqat) with regard to localisation?
- To what extent you think that the manpower planning and recruitment activities are important in Nitaqat implantation? How?

- Are there any major recruitment decisions had to be taken after the activation of Nitaqat programme? For specific jobs? For specific gender? What are they? Why?
- What were the old selection criteria for those jobs? Any changes in the selection process or criteria?
- Are there any challenges of attracting specific locals? How you overcome them?
- To what extent the pay and benefits policy has changed after Nitaqat? Of yes? Is it for all jobs or specific jobs?
- If the Nitaqat were not there , how would you set your recruitment/selection strategy
- How the employment and training subsidy given by the government is helping the recruitment decisions of local workers?
- What are the measures of successful localisation implementation in your company?
- How has Nitaqat influenced the manpower planning role and budget in your firm?

### **Theme 3 tailored questions for Training and Development Managers**

- Can you tell me the story of what has happened in your company when the government announced the activation of Nitaqat?
- Are there any major decisions needed to be taking at those moments? Why?
- What was the training and development role at that time (before Nitaqat) with regard to localisation?
- To what extent you think that the training and development role is important in Nitaqat implantation? How?
- Are there any major training and development decisions had to be taken after the activation of Nitaqat programme? For specific jobs? For specific genders? What are they? and Why?
- What were the old training programmes for those jobs? Any changes in the selection process or criteria in accepting trainees?
- Are there any differences between the training policy for Saudis and non-Saudis?
- If the Nitaqat was not there, how would you set your training and development strategy
- How the employment and training subsidy given by the government is helping the recruitment decisions of local workers?
- What are the measures of successful localisation implementation in your company?
- How has Nitaqat influenced the training budget in your firm?

### **Theme 3 tailored questions for Government Relation Officers/ Managers**

- Can you tell me the story of what has happened in your company when the government announced the activation of Nitaqat?
- Were there any major decisions needed to be taking at those moments? Why?

**Theme 4: To what extent have firms responded differently to the shift in the Saudisation objectives and mechanisms (before and after the recent changes)? If so, why?**

- How important to fulfil the requirement of Nitaqat policy today?
- How does being in the red zone can affect your company?
- How does being in the yellow zone can affect your company?
- How the company can gain benefits by complying (or being in the green zone)
- How much advantage the company can have when over complying (being in the platinum zone?)





***Appendix 8: Table of Code of Ethics Applied in this Thesis***

| No. | Principles of conducting ethical research | Description of principle   | How it is addressed in this study?   |
|-----|---|--|--|
| 1   | <b>Harm to participants</b>               | Should ensure that no harm can be caused to participants through the research process. | <p>There was no potential harm to any of the participants, as the study has been approved by the research ethics committee of the University of Leeds. Ethics reference: AREA 12-009</p> <p>The researcher reiterated that interviewees were free not to be included in the interview if in any way they felt pressurised by the management to participate in the study. No interviewee refused to participate. The researcher also underlined that interviewees were also allowed to refuse to answer questions should they feel uncomfortable or afraid that it may harm their position.</p> <p>On one occasion, the researcher found himself in an awkward situation where one interviewee told him very bluntly about the things going on in firm's localisation practices and ways in which the firm used to avoid complying with the policy. He was very open to talk about it. Although at that point there was another colleague in the room, he did not seem to be cautious about what he was saying. He seemed to have bottled up frustration about the organisation for years. However, at the end of the interview he seemed to realise that he has conveyed too much information to the researcher and realised that what he said might endanger his position in the organisation; therefore he asked what he said to be off record. Although the contents of his accounts were very important, the researcher decided not to use them as it may harm his position.</p> |

| No. | Principles of conducting ethical research | Description of principle   | How it is addressed in this study?  |
|-----|---|--|---|
| 2   | <b>Dignity</b>                            | Respect the dignity of research participants, and avoid causing discomfort or anxiety to them. | All participants have been given the chance to select the place and time for conducting the interview.  |
| 3   | <b>Informed Consent</b>                   | Should ensure the fully informed consent of research participants.                             | <p>Participation on the research was based on informed consent and the subjects' privacy was preserved. At the beginning of each interview, a brief outline of the research was communicated to each interviewee, upon which they might decide whether they wished to participate. This was not only ethical but also practical and beneficial as researchers are more likely to get good data if subjects are informed about the research topic.</p> <p>The participants were informed that the research would be made available to them at the conclusion of the study via the completed thesis. They were also told that their data may be published in academic papers and presented at educational conferences. Throughout dissemination of the study their entitlement to privacy and rights to confidentiality and anonymity were guaranteed. The five ethical issues highlighted here were incorporated into an informed consent form which was signed by the participants prior to data collection (see Appendix 5).</p> |
| 4   | <b>Privacy</b>                            | The privacy of the research subjects should be protected.                                      | The identities of all participants have been coded using a converting code that is only known by the researcher. This code has been used throughout the study report so no one knows who said what. In addition, pseudonyms have been used for company names to protect firms from any harm.  |
| 6   | <b>Anonymity</b>                          | The anonymity of participants should be permanently protected.                                 |   |

| No. | Principles of conducting ethical research | Description of principle   | How it is addressed in this study?   |
|-----|---|--|--|
|     |   |  |  |
| 5   | <b>Confidentiality</b>                    | Ensure and maintain the confidentiality of research data.  | <p>All audio records and other confidential data were stored and utilized (e.g., analysis, coding, reporting) in campus using only university secured PCs. No confidential data were stored on laptops or home computers.</p> <p>Confidentiality and ownership of the research data was discussed transparently and ensured from the beginning. It was also emphasised that all information gathered, about the individual employee and the organisation, would be treated in the strictest confidentiality.</p> |
| 7   | <b>Deception</b>                          | To avoid deceiving/misleading the participants regarding the nature of the study.  | Full description of research objectives has been delivered to all participants prior to the interview, as illustrated in Appendix 1 and 3.   |
| 8   | <b>Affiliation</b>                        | The need to declare the affiliation of the research / researcher, funding sources, and any potential of conflicts of interest. | The researcher has informed all participants of his affiliation with the University of Leeds as a postgraduate researcher.   |
| 9   | <b>Honesty and transparency</b>           | Ensuring honesty and transparency in communicating information about the research to all interested parties.                   | All participants have been sent back the scripts of the interview for their revision and approval.   |

| No. | Principles of conducting ethical research | Description of principle  | How it is addressed in this study?  |
|-----|---|---|---|
| 10  | <b>Misrepresentation</b>                  | To avoid any misleading, misunderstanding, misrepresenting or false reporting of research findings. | The researcher adopted several quality measures such as applying theoretical and empirical triangulation, provide thick descriptions of individual cases, provide details of research design and analytical process to ensure credibility (establishing confidence in the truth of the findings), conformability (ensured the findings are determined by the research participants, not by the researcher biases), transferability (transferring the result to the wider context) and dependability (finding the same data if repeating the research) of the research findings. |

Source: Adapted from Bell and Bryman (2007) and Easterby-Smith et al. (2012, p. 95-96)