

Human Resource Management (HRM) in Saudi Arabia: A Closer Look at Saudization

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Saudi Arabia is the world's leading exporter of petroleum and is one of the richest nations in the Middle East, with major economic and political influence. Saudi Arabia's efforts in economic reform led the way to its ascension to the WTO (World Trade Organisation) in 1999. A number of Gulf countries, including Saudi Arabia, have a very young population. With a massive sixty percent of the population under the age of forty, the youth are the voice of the country.

Many reform measures inside the Kingdom of Saudi Arabia have been initiated by King Abdullah, and the movement is slowly making progress towards reaching the ultimate vision of educators. A more advanced Saudi Arabia, with Saudi nationals employed in the private sector at multiple levels, will help to create the 'Saudization' vision. By equipping Saudis with the necessary tools as contributors to their own country, whilst reducing the dependency on foreign expertise, self-sufficiency will allow them to become global citizens, which is a step towards the internal recognition of their role in the global economy.

Today, Saudi Arabia is faced with the paradox of high wealth and high unemployment. Unemployment among nationals in the GCC is driven by a number of key factors: lack of skills, low motivation to work, and high salary expectations. Saudi Arabia and the wider GCC share a number of unique challenges. As always, reform is challenged by obstacles and restraints. Can Saudization help assist the country's plan for economic reform?

Human Resource Management (HRM)

1. Introduction:

Saudi Arabia, founded by the late King Abdulaziz in 1932, is the largest country in the Middle East with an estimated population of 27 million. In February of 1945, Riyadh was a mud-brick town of approximately 12,000 inhabitants (Freeman, 1998). Today, Riyadh is the cosmopolitan capital of Saudi Arabia with over 4 million people; it's a world class city. Likewise, the oldest university in Saudi Arabia is just over 50 years when compared to some of the leading western universities that are just over 300 years. Riyadh is playing catch-up and will lag behind in the near future; however, it has the potential to overtake leading cities of the world. Globalization has not left any nation untouched, including Saudi Arabia.

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The government of Saudi Arabia is a monarchy, based on a tribal system with a large royal family. The King is the head of the House of Saud, the Chief of State and Head of the Government. The King commands the highest authority in the country and is considered the most powerful individual in Saudi society. The discovery of oil and subsequent oil-generated revenue in the Kingdom during the 1970s was a catalyst for major large-scale changes in Saudi Arabia. The economic prosperity of the 1970s opened the path for a change in lifestyle. Therefore, to gain a comprehensive understanding of Saudi Arabia, it is important to appreciate the historical socio-economic and political conditions of the country. Islam is the official religion, and Arabic is the official language of the state. According to Huyette (1985), during the 1980s Saudi Arabia evolved into a complex society, looking to reap the benefits of the advancements made on social and economic levels. However, the commitment and drive to maintain the country's religious and social traditions remained, causing a power struggle between modernization and cultural preservation. Saudi Arabia is significantly different from other parts of the world due to its deep association with the religion and culture of Islam.

2. Literature Review

Countries across the world are working towards knowledge-based economies for a more agile and secure economy. Past research has shown (Halliday, 1977) that if prospective knowledge-based economies are to succeed, effective utilization and increased participation in human capital is essential. Saudization as terminology is new and is only recognized in some Middle Eastern countries. Management and economic literature would classify initiatives such as Saudization as job localization. Academic research on this subject is somewhat limited. There are numerous definitions of what constitutes human resource management (HRM); however, a simplistic definition as stated by Byars (2006) is that HRM is the management of a workforce. According to the available literature on Saudization, it is evident that there is a shortage of documentary research on this topic. Due to this shortage, there is a reliance on policy documentation. Saudization literature that does exist is mostly from a government perspective, it addresses the unemployment problem, and it is biased. Intentions throughout the study have been to maintain objectivity and be analytical rather than be influenced by policies and policymakers. A wide range of documents have been studied in order to help with this study. The following are some of the core reference materials used:

- The Labour and Workman Law of Saudi Arabia
- Saudization guide for contractors – Saudi Aramco
- The Human Resource Development Fund – The Guide Book

In order to maintain the success of any organisation, it is believed that human resources are a significant contributing factor (Wiesner & Millet 2003). Companies can achieve a competitive advantage by the effective utilization of the workforce and by maximizing their expertise and creativity, with the common goal of reaching the organization's objectives. Contemporary organizations are

constantly faced with a changing environment, which coerces them to change and adapt in order to survive. Human resource management, in principle, aims to employ people that are dedicated, competent, and flexible to maximize productivity within an organization. Mellahi and Wood (2001) explain, human resource management policies and the practices of Saudi Arabia are shaped by the following: the structure of the economy, the political structure, the labour market, the national HRD strategy, and the national culture. Looney (2004a) defines Saudization as the replacement of the expatriate workforce with a locally qualified and skilled workforce. The Ministry of Labour (2008) describes the Saudization policy as part of a greater vision aimed at increasing self-sufficiency and security within Saudi society. In essence, the Saudization programme is a job localization strategy with the broader view of nationalizing the workforce. Nationalization programmes such as Saudization are generally modeled on a quota-based system, where the target is to increase the number of nationals in the private sector while reducing the proportion of expatriate workers (Looney 2004b). Furthermore, Saudization mainly focuses on three primary goals: increasing employment for Saudi nationals, reducing and reversing over-reliance on foreign workers and recapturing and reinvesting income which otherwise would have flowed overseas as remittances to other countries.

To support the drive for Saudization, in 1999 the government set up a number of supporting entities including the Human Resources Development (HRD) Fund, and the Co-operative Training Scheme for Saudis. The following two excerpts from the 'The Labour and Workman Law of Saudi Arabia' give an indication of the actual policies that have been put into place.

- "Saudi workers shall not comprise less than 75% of the total number of the company/establishment [and] workers and their wages shall not be less than 5% of the total wages of workers." (Article 45 of the Labour and Workman Law of Saudi Arabia).
- "The employer shall vocationally train his Saudi workers to replace foreign workers" and the "employer shall keep a register on which he shall record the names of the Saudi workers who have replaced non-Saudis." (Article 45 of the Labour and Workman Law of Saudi Arabia).

3. The Methodology and Model:

The methodology for this paper is comparative analysis. First of all, relevant literature on Saudization was studied. Thereafter, further reading was required to gain a comprehensive understanding of Saudization, and a number of related areas were studied as well, namely the following: history and evolution, religion and culture, and current reform strategies of Saudi Arabia; the labour market and unemployment in Saudi Arabia. With an understanding of the dynamics of Saudi Arabia and Saudization, further research was carried out in exploration of the nationalization policies of some of the other GCC member states including Oman and United Arab Emirates (UAE). Finally, one of the main purposes of the Saudization policy is to address unemployment; therefore, the studies that addressed this issue were critically analysed, including:

- Saudization as a Solution for Unemployment: The Case of Jeddah Western Region (Fakeeh, 2009)
- An Integrated Approach to Combat Unemployment in the Saudi Labor Market (Dosary et al., 2005)
- Meeting the Employment Challenge in the GCC: The Need for a Holistic Strategy (Shediac and Hatem, 2010)

With this suite of information, an evaluation of the Saudization policy was made. The objective is to look at the rationale behind Saudization plans, the practical implementations to date, and the impact the policy has made over the years. In addition, it is necessary to look at the challenges that the Saudization initiative has faced over the years and to evaluate the measures that have been taken to overcome them. Finally, it is imperative to analyze whether the Saudization initiative is effective enough as a policy or whether it needs to be revamped.

4. The findings:

The government of Saudi Arabia has begun the Saudization journey to address the problem of high unemployment among young Saudi graduates and simultaneously re-nationalize the workforce. The Saudization policy seeks to force the private sector to employ more Saudis, reduce the number of expatriate workers, and give preference to the domestic workforce. The government's approach thus far has been enthusiastic, but it lacks long term vision, planning, and at times it has been very ambitious rather than practical. According to the CIA fact book (2011), the estimated unemployment rate in Saudi Arabia in 2010 was 10.8%. Furthermore, in 2009 it was estimated that the labor force stands at 7.337 million, of which 80% are non-nationals. Over a ten year period (1998-2008), it was estimated that approximately 524 billion SAR (\$139 billion) left Saudi Arabia through foreign worker remittances to countries such as Bangladesh, Egypt, Pakistan, and the Philippines, which are major labor exporting countries (Cordesman, 2002). These statistics are of concern for the government and the policymakers of Saudi Arabia.

During the early period of economic reform in the Kingdom, a number of restrictive policies were hindering the progress of Saudization. For example, Maimani (1989) states that prior to 1984, Saudi graduates were forbidden to be employed in the private sector and had to work for the government sector, as they were financed and sponsored by the government. One of the labor market objectives stated in the Sixth Development Plan (1995-2000) was to replace non-Saudis by suitably qualified Saudis in a gradually progressive manner across all occupations and economic sectors. Cordesman (2003) explains that during a four year period (1995-1999) only 10,000 (out of 114,000 graduates) graduated with Engineering degrees compared to 48,000 with Social Science and Literature degrees. According to Ramadi (2005), only a very small percentage of Saudi graduates possess both the scientific and/or the technical training to meet private-sector requirements. This shortage has hindered labor nationalization as

it has become extremely difficult to replace skilled foreign workers with Saudi nationals.

The Saudi government hopes that long-term manpower demand and supply projections will reverse to ensure a majority Saudi labor force by 2020, when non-Saudi labor should be around 2.483 million and the Saudi labor force at approximately 4.69 million. The Human Resources Development Fund (HRDF) was set-up to provide grants for qualifying, training, and recruiting Saudis in the private sector. HRDF has a number of incentives for employers to recruit, train, and employ Saudis. For instance, HRDF pays 75% of the salary of employees while in training (up to a maximum of 1,500 per month) for three months, and 50% of the salary for the first two years (up to 2,000 per month). In addition, the HRDF pays 75% of the training costs of a Saudi employee in the private sector for two years (Alzalabani, 2004). Despite these very generous contributions from the government, actual HRDF results have been modest to date (Ramadi, 2005).

Many researchers, including Al-Hassan (1988), Ramadi (2005) and Shah (2006), have investigated those challenges that are associated with the success of localization in the Gulf and that are specifically more relevant to Saudi Arabia. The following table represents a summary of the primary difficulties faced and the justification from the private sector not to pursue a Saudization policy.

Table 1: Private sector Saudization issues (Ramadi, 2005)

	<i>Issues</i>	<i>Private Sector Justifications</i>
1	Labor cost	The relatively high cost of Saudi manpower compared to foreign manpower results in private sector reliance on imported cheap manual labor deployed in labor-intensive occupations.
2	Social and cultural perceptions	Saudis are reluctant to take up and seriously pursue certain types of jobs, despite Saudization directives. Social Status is still important for young Saudis as it affects marriage and other social relations.
3	Control over process of production	Expatriate workers are easier to control and more disciplined than Saudis. In some cases, there are few legal obligations toward expatriates, who are prohibited from changing jobs without their sponsor's permission.
4	Lack of social integration in a multicultural environment	Local populations are reluctant to integrate into multi-cultural work environments, fearing that it might degrade their existing status.
5	Job tenure	It is more difficult to fire Saudi workers than foreign workers.
6	Inadequate qualifications	Saudi employees may have inadequate qualifications, a lack of good English, or a non-technical background.
7	Mobility	Saudi workers are less mobile than foreign workers

Ramadi (2005) explains that, despite massive localization efforts, the private sector in Saudi Arabia prefers to continue employing foreign workers due to

various factors. In addition to this, there are other factors that are holding back the Saudization program. For instance, private sector employers hold the negative perception of nationals as being less productive than expatriates. Often, government sector jobs are more preferable to Saudi nationals for several reasons, including higher salaries, shorter hours, more job security, and better non-monetary benefits (Feulner, 1989). Accordingly to Al-Ajaji (1995), new Saudi entrants to the labor market prefer employment in the public sector over the private sector due to the following reasons: higher wages at middle and low-level positions in the public sector, greater job security and working conditions in the public sector in terms of working hours and employment regulations, the higher prestige, and better chances of promotion in the public sector.

According to Byars (2006), many researchers have stressed the importance of the effect of culture on a country's HRM policies. Du Plessis (2007) observes that national culture is a concept that includes traditions, values, beliefs, attitudes, and behavior that is often reflected in the HRM policies of a country. With this in mind, there are a number of cultural/social barriers existing in Saudi society that are hindering the Saudization program; the following are just a few prime examples:

- Saudi nationals are culturally disinclined to enter low-skilled posts.
- Many in Saudi society look down upon manual jobs and view vocational training as inferior and lower ranking than a diploma or university qualification.
- Tradition and social ties (e.g. family obligations, such as looking after parents) hinder the social mobility of many young Saudis.

5. Summary and Conclusions

The Kingdom's discovery of oil and subsequent oil-generated revenue during the 1970s was a catalyst to major large-scale changes for Saudi Arabia. During the pre-oil boom, it was largely a subsistence economy with the exception of the Hajj/Umrah (pilgrimage) industry. The Saudi economy has rapidly transmuted over a very short period of time to become a modern developing economy (El Ghonemy, 1998). If Saudization is to succeed at a greater level, the disparity between the private and public sectors needs to be reduced. Therefore, the attractiveness of working in the private sector must be increased by minimizing the wage differential between the sectors, social insurance must be created, with pension plans similar to those available in the public sector, and stricter limits must be introduced on public sector employment.

Secondly, a number of researchers have highlighted the lack of synchronization between the government and private sector employers with regards to the skills needed to fill vacant jobs in the private sector. The current educational system in Saudi Arabia is not adequately equipped to prepare Saudis with traditional work ethics and values that are conducive to a modern multicultural work environment. The Omanization program has been far more successful when compared to Saudization for a number of reasons. One key factor is that Omanization policies

are closely aligned with the country's educational reform strategies. Improved reform policies must push education, including vocational training and revised school curricula, and encourage private sector employers to establish internships, award scholarships, and promote self employment.

Thirdly, the Saudi economy needs to become more diversified in the future if it is to meet the Saudization vision and strengthen the national workforce. One specific sector that needs extra attention is the construction sector. This sector must employ thousands of skilled Saudi workers to achieve its Saudization target, which will require an adjustment of the Saudi mindset to prepare them to work in blue collar jobs. To assist in altering the Saudi mindset, the establishment of career guidance and counseling centers would create more awareness about job prospects, skills training, and market demands. This can only be successful if the government involves the private sector. This shift in mindset can be accelerated if Saudi policymakers focus on the cultivation of Islamic values among the youth. Islam is a great religion that transcends the cultural barriers that exist in current Saudi society. Islamic values promote the value of contributing to society at all levels, be it working as a farmer or a CEO of a multinational conglomerate. In fact, Islam mandates that Muslims must participate in all sectors of society, including all sectors of employment. Islam stipulates that the societal obligation is not fulfilled unless some members of society participate, hence removing the obligation from everyone, including those who did not participate.

Finally, investing in human capital is a major focus for any developing nation. To address the challenges faced by the Saudization policy, a holistic approach is required. According to Shediak and Hatem (2010), the approach could have three fronts, consisting of:

- expansion of the economic base and creation of additional jobs in strategic sectors in which Saudi Arabia has a competitive advantage and can provide sufficient income for nationals
- develop the workforce by reforming the education system and upgrading labor skills to create a generation of skilled nationals to match economic requirements
- put in place effective labor and immigration policies by remaking the system and increasing national labor participation.

If such a holistic view and approach is undertaken, it is realistic to expect for the Saudization 'dream' to become a reality in the near future.

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