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JOBS LOCALIZATION AND ITS IMPACT ON  
THE QUEST FOR TALENT IN THE SAUDI  
BANKING INDUSTRY

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**Abstract:**

Employment Localization policy in Saudi Arabia (Saudization) has passed its eighth year aiming at replacing jobs in the private sector held by foreign workers with Saudi Nationals. This research will explore the consequences of such policy on the human resource management practices in the Saudi banking industry. The scope of this research will evaluate the impacts of the saudization policy on the efforts by banks to recruit, retain, and effectively manage the most skilled and talented labor. The research will draw its conclusion from the analysis of data collected from Human Resource Managers at these banks.

**Introduction:**

The labor market in the Kingdom of Saudi Arabia has depended heavily on expatriates or foreign workers. The Expatriate labor constitutes two-thirds of the total workforce in Saudi Arabia (Pakkiasamy 2004). In the private sector the expatriates found to represent more than 88% of the workforce according to recent report by the Saudi Arabia Monetary Agency (SAMA) in 2006. The rising number of unemployment rate among Saudis ranging from 10 percent to 30 percent has caused the government to launch a policy of jobs localization so called "Saudization" (Rice 2004).

The implications for Saudi Human Resource Management are twofold. First, the private sector have long relied on expatriate managers and employees for technical expertise, which now must be transferred to Saudi citizens. Second, hiring the local employee imposes significant direct and indirect costs on companies (Bhuisan & Abdulmuhmim 1995)

Moreover, The Saudi government has expanded employment of Saudi nationals, as part of its strategic goal of creating a domestic labor force and preparing solid human capital to meet the needs of skilled labor for the large public and private development projects, and to decrease the huge money fleeing the country by foreign labor estimated 20 Billion SAR annually (Ministry Of Economy and Planning Report 2008)

The Saudization Policy

Saudization requires that government and private businesses hire Saudi citizens in place of foreign workers through various quota targets and impose restrictions on the recruitment of foreign workers, reserving certain jobs to Saudis (Looney 2004). The campaign is part of a movement aimed at securing greater self-sufficiency and security within the Saudi society ( Ministry of Labor 2008).

Although talked about in the fourth national development plan (1985-1990), the policy of Saudization was not implemented until the fifth National Development Plan (1991-1996), which highlighted the economic risks of the heavy reliance on expatriate labor and increasing unemployment among nationals. As a set target for the plan, it called for the inclusion of 659,000 Saudi individuals into the workforce, and the removal of 319,000 expatriates (The Fifth Development Plan 1991-1996). 17/A/1995 Ministerial Decree declared that any private firms with more than twenty employees should cut the number of non-Saudis by 5 percent annually. Penalties for noncompliance include the refusal of some types government grants and benefits, a freeze on applications to hire workers from abroad, and suspension of renewal of existing permits (Labor Law in Saudi Arabia 1996)

The first stage of the saudization program achieved some success, especially within government offices where foreigners already made up a relatively small proportion 20 % of workforce. However, there was no significant achievement in the private sector, where expatriates could still be found in 90 percent of jobs. Pakkiasamy (2004) reported that most private businesses were against the localization program because it placed unfair regulations to hire more expensive local employees

improvement on Saudization was reviewed consequently , and amended objectives were set in the Seventh Development Plan (2000-2004), which stated that Saudis were to occupy at least 25 percent of private sector positions by 2004. Organizations were again pushed for a 5 percent replacement of expatriates, and the recruitment of 150,000 individuals each year. The government also announced that it was determined on creating 817,300 new jobs for Saudis in this stage. To this purpose, the Human Resource Development Fund (HRDF) was established with a budget of US\$ 1 billion to finance training programs to qualify and partly fund the salaries of trainees and those employed after training.

According to a report released by The World Bank in 2007 , the labor market in gulf countries including Saudi Arabia is exceptional because “ it has the highest level of labor force growth, the lowest levels of female participation, and except for sub-Saharan Africa the youngest labor force” (World Bank 2007, xvii). However, the labor force growth is not in the most skillfull jobs like engineering or technology. It rather in low skilled jobs like taxi drivers or home maids.

**Statement of The Research Problem:**

Saudization Initiative backed by the full force of Saudi government is undermining the efforts by private firms to recruit and retain the most qualified and skillful labor.

**Research Significance:**

This is the first study to link talent management and the Saudization policy. As will appeared from the following literature review, it is obvious that the shortcomings of job Saudization is underappreciated.

**Research Objectives:**

1. The research will examine the role of Saudization in the lacking of skillful labor.
2. This research will highlight the consequences of Saudization Policy on private firms.
3. The study will lead to better understanding of the relationship between the government intervention in the national Economy and its implication for the private sector.
4. The research will address the needs and the challenges facing Talent Management Systems in Saudi Arabia.
5. The study will assist Human Resource Systems in the private sector in how to cope with the inevitable Saudization policy.

### **Research Questions:**

Are we replacing the talented foreign with less qualified national?

How Jobs Saudization is influencing the decision of recruiting and retaining employees in the private sector?

How much are we losing talent because of Saudization policy?

What are the reasons of some foreign employees decisions to quit their jobs rather than personal reasons?

How are Talent Management Systems responding to the Saudization policy?

### **Literature Review:**

#### Labor Localization

Policies such as the Saudization initiative have been termed "job localization" in the management and economics literature. While academic research on this topic is limited, the localization policy has gained increasing attention-especially in countries that are heavily dependent on expatriate labor, such as those of the Gulf Cooperation Council (GCC). These endeavors was first criticized by Wadea (2000) who maintained that the localization programs didn't take into consideration the labor market structure and the strategic approach to developing national human capital. Some researchers highlighted the lack of coordination between government and private sector in terms of skills needed to fulfill the vacant jobs in the private sector. Almashooq and AlGaith (1996) developed a list of those needed skills and concluded that a quality education system must reinforce those skills in the Saudi graduates.

Despite the localization efforts, the private sector in Saudi Arabia prefers to continue employing foreign workers due to different factors. Ramadi (2005) identified some of those factors; Saudi workers imposed a higher cost on the private employers, negative social and cultural perceptions toward low status jobs,

low skills in English and related jobs tasks, low discipline and commitment to the firm.

Most of the Saudization literature was subjective by favoring and supporting the government initiative due to two reasons (AlShaib2003). First, because most of these studies were conducted by government agencies. Secondly, the public opinion and the mainstream were blaming the government for the high unemployment rate 15% (Ministry Of Economy and Planning Annual Report 2000)

However, Alluhaid was the first to notice that in Saudi Arabia there are many labor regulations on the equal job, some apply to non-Saudi workers in the private sector and others cover only Saudi workers and this will influence the non-Saudi worker in terms of low productivity and low organizational loyalty (Alluhaid 1992). In 1997, Higan discovered that the lack of job innovation is associated with lack of diversity in the public workforce since that 80% of the public working population consists of Saudi nationals (Higan 1997).

Mohsen almost hit the target but he failed to extend the recommendations to all Arab States when he mentioned that jobs nationalization efforts must have distinguished the talented foreign employee from the ordinary foreign employee (Mohsen 2000).

The conventional view back then was how to develop programs by the government to tackle the unemployment rate without inflicting harms on the private firms but now the government is making sure that the whole economy is committed to the unemployment problem and the Saudization efforts (Sahlawi2004).

The most recent research at hand in the Saudization topic was conducted by Mahdi. He found that private firms would suffer from slowdown because of the shortage of foreign talent as a result of the Saudization policy and he calls for a more in depth research of the Saudization effects on Human Resource Management in (Mahdi 2005) .

### **Research Methods and Data Collection:**

Both quantitative and qualitative approaches will be utilized in this research. The data will be collected through the distribution of self- administrated questioners and by conducting interviews with private HR managers. I will

distribute the questioners and gather the data from intended research sample which is all HR Manager and Talent Units managers in private firms in Riyadh, Saudi Arabia. After collected, the data will be analyzed quantitatively by different categories based on the variables given ( employees nationality, employees qualifications, employees Appraisal, employee creativity, employees turnover etc) Moreover, cause-affect analysis will be utilized to determine the significance of the relationship between Saudization and foreign employee turnover.

**Results:**

The study will recommend the modification of Saudization Policy based on the data analysis and interpretation. Additionally, the study will request further research to be conducted in the topic of Saudization and Talent Management highlighting some research areas and issues.

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