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The Impact of Human Resources Practices On The success of job Localization policy in Saudi Financial Industry

Research Abstract:
Job Localization policy in Saudi Arabia (commonly known as ‘Saudization’) has passed its fourteenth year aiming at replacing foreign employees in the private sector with local employees. This research will examine the role of human resource practices on the success of localization efforts in the Saudi financial industry. Within localization literature, it seems that the impact of HR practices is rarely understood. The main objective of this research is to understand the localization phenomena from Human Resource Management’s (HRM) perspective through empirical findings. The study will draw its conclusion from the analysis of quantitative data collected from Human Resource Managers.

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 has 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 & Abdulmuhim 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. The campaign is part of a movement aimed at securing greater self-sufficiency and security within the Saudi society (Ministry of Economy 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. 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.

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 skillful jobs like engineering or technology. It is rather in low skilled jobs like taxi drivers or home maids.

Statement of the Research Problem:

Within localization literature, it seems that the impact of HR practices on Localization success is rarely understood.

Research Significance:

This is the first comprehensive study to understand the localization phenomena from Human Resource Management’s (HRM) perspective through empirical findings.

Research Objectives:

1. The main objective of this research is to understand the localization phenomena from Human Resource Management’s (HRM) perspective through empirical findings.

2. 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.
3. The study will assist Human Resource Systems in the private sector in how to cope with the inevitable Saudization policy.

**Literature Review Summary**

From a HR perspective, Mellahi & Wood (2001) examine HRM policies and practices in Saudi Arabia, and present a clear picture concerning how the socio-economic and political contexts of Saudi Arabia are able to shape HR policies and practices. They claim that the labour market structure and localisation policy are key factors concerning the kinds of HR practices which companies choose to employ. They compare the characteristics of Saudi employees with expatriates, and stress the preference of Saudis to work within a government role.

It is claimed by Achoui (2009) that the disappointed achievement of saudisation in the private sector so far is mainly owing to the preference of foreign workers and the negative role of the private sector on the national HRD strategy. The study has also considered the HRD functions of two companies which have achieved a high percentage of Saudi staff, and concludes that one of the main reasons as for why such companies achieved such a high rate is owing to having an effective HRD programme.

Subsequently, Forstenlechner (2010) considered those effective HR practices which helped the adoption to the localisation process. Although mostly neglected by previous research, HR implications for localisation were found to be very important; this is owing to the political nature of the localisation policy, which some writers classify as ‘a national security matter’ (Harry, 2007).

After conducting an extensive survey of the relevant literature of Saudization, the following gaps have been identified:

- There are no coherent theoretical foundations of the saudization or any workforce localisation process. It seems that most of the studies have been concerned with the practicality of the policy without developing theoretical understanding based on empirical findings.
- There is no conclusive study which investigates the roles and influences of HR practices on the implementation of workforce
localisation policy. Most researchers have rather used their common sense and rational thinking to determine that such HR roles and influences exist.

- There is no single study which verifies the different roles of the HR Director on the successful implementation of workforce localisation. Notably, all of the previous studies neglect to examine the role of the HR Director in relation to such a policy.

- There is no extensive study which examines the workforce localisation in the entire financial industry in Saudi Arabia. However, several studies mention that this industry is very promising for researchers interested in the localisation policy. The reasons behind this are two: first, owing to the strong willingness by the Saudi government to support localisation in the financial industry for security issues; and secondly, it seems that this industry has mixed success and failure scenarios in regard to localisation. Therefore, it would be very interesting to investigate the roles of HR practices on workforce localisation in this industry.

- Most studies in the context of saudization or localisation in general have used individual HR managers, other managers or case studies as a unit of analysis. With this in mind, no single study thus far employs organisations as a unit of analysis. This is very important if we are keen to establish theoretical foundations of the relationship between HR practices and workforce localisation.

- The existing literature neglects to examine the variations in the influence of HR practices on workforce localisation based in terms of firm size and firm age. No single study examines whether or not HR practices impact localisation more in either big or small organisations; this is very imperative if we are to draw a clear conclusion concerning the realities of the relationship between HR practices and localisation.

**Research Hypotheses**
Based on what has been mentioned in the theoretical and empirical literature, we propose the following hypotheses:

**H1:** There will be a positive relationship between the different roles of the HR Director and the percentage of workforce localisation.

**H2:** There will be a positive relationship between HR practices and the percentage of workforce localisation.

- **H2a:** Recruitment and selection will impact positively the percentage of workforce localisation;
- **H2b:** Training will impact positively the percentage of workforce localisation;
- **H2c:** Incentives and rewards will impact positively the percentage of workforce localisation;
- **H2d:** Performance appraisals will impact positively the percentage of workforce localisation; and
- **H2e:** Internal career opportunities will impact positively the percentage of workforce localisation.

**H3:** There is a significant variation in the impact of HR practices on the percentage of workforce localisation in terms of firm size and firm age.

**Research Design and Methodology:**
To fulfill the research objectives, the study will implement a quantitative approach. The rational for using the quantitative method is its naturalistic approach to observe how the phenomena unfold in the real world settings. Also, the quantitative approach is widely preferred when investigating sensitive issues like the links between a government policy and HR practices.

**Research Sample:**
The research sample will be drawn from a pool of top HR managers in the financial firms who achieved high employment rates of Saudi nationals. The
criteria for such selection are based on the involvement of those managers with the saudization policy and HRD programs.

**Data Collection Technique and Process:**
Surveys composed of a bundle of open and closed questions will be implemented in a real work situation in Saudi Arabia to collect the data from the research sample.

**Data Analysis Techniques:**
Multi-variate analysis, regression analysis and other tools will be employed in this study.

**References:**


