Indigenization of Staffing in MNEs: The Case of Saudi Arabia

Abstract

In the Gulf States, there has been increased emphasis on requiring MNEs to indigenize their staffing. Based on a survey of 157 HR directors in MNEs headquartered in Saudi Arabia, this article explores why so little headway has been made through applying and extending Resource Curse Theory. Surprisingly, we found formal ties with government had little effect; Resource Curse Theory would suggest this would be due to the concentration of regulatory scrutiny and support on the oil and gas industry, where, indeed, indigenization was most pronounced Again, although they may compensate for regulatory shortfalls, we found intra firm ties made little difference in advancing indigenization. Again, Resource Curse Theory would suggest that non-minerals sectors suffer a drain in capital and human resources, which would make indigenization more challenging. Resource Curse Theory assumes that mineral endowments negatively impact on macroeconomic and societal outcomes, but only accords limited attention to how these pressures are transmitted via organizations. Through providing organizational level evidence, we both further illuminate Resource Curse effects in practice, and contribute to extending the base and scope of application of the theory. We draw out the implications for practice.

Keywords: Indigenization of Staffing; MNEs; Resource Curse Theory; Middle East.

Introduction

Indigenization (sometimes referred to as localization) refers to the recruitment and development of local employee skills and capabilities and the delegation of decisions to them, with the final objective to replace foreign workers with local employees (Porter 1989; Jain et al. 2015). As well as complying with the law, indigenization may reduce the costs associated with the usage of expatriates and help MNEs to secure local legitimacy and indigenous knowledge (Collings et al. 2007; Oppong and Gold 2016). At the same time, the oil and gas industry is historically very conservative, with a tendency to favour the usage of expatriates, often even in the case of semi-skilled workers (see Wood 2004).

This is a study of the scale and scope of indigenization within the staffing of MNEs operating in Saudi Arabia. Along with the other Gulf petro states, Saudi Arabia has placed a strong

premium on indigenization. Yet, such efforts have made little headway; this study explores why. It is officially estimated that in Saudi Arabia, foreign workers constitute more than 75 % of the total workforce and 86% of the workforce in the private sector: within private firms, there are only two Saudis for every eight expatriates (SAMA, 2015). By default, the Saudi state has ended up as the main employer of Saudi nationals, with some 94% of jobs in the public sector being held by Saudis, yet there are only 15% Saudi nationals in private sector jobs (ibid.). Budgetary pressures have made it increasingly difficult to sustain large scale state employment, yet rising unemployment would be likely to add to the problems faced by the country (see Albassan 2015).

There has been a growing body of work on MNEs operating in the Gulf region, including the challenges of indigenization (Harry 2007; Williams et al. 2011; Niblock and Malik 2007; Mellahi et al 2011; Mellahi 2007; Forstenlechner and Mellahi 2011); much on this has focused on systemic issues pertaining to the operation of the labour market, including persistent skills gaps (ibid.). This study seeks to supplement this literature through exploring where, and how, given the present condition, indigenization has been most successful. In other words, rather than cataloguing systemic failures, it explores which areas and why indigenization has been most successful, focusing on the density of ties with the state and relative contextual embeddedness. Resource Curse Theory explores why petro states often perform far worse than the degree of wealth generated by oil and gas windfalls might suggest (Auty 2007; Robinson et al. 2006; Sachs and Warner 2001). It has been argued that the resource curse is associated with uneven institutional coverage and ineffectual policy interventions (Auty 2007; Robinson et al. 2006; Sachs and Warner 2001); the extent to which local embeddedness of MNEs may mitigate some of these effects forms the core concern of this study.

Resource curse theory holds that petro states are more likely to experience sub-optimal growth, economic underdevelopment, chronic corruption and autocratic or dysfunctional governments; oil and gas revenues provide easy sources of enrichment, which can be readily expropriated and breeds policy complacency (Rosser 2006; Frankel 2010). The consequences of the Resource Curse, which can include institutional shortfalls around the development of human capital, and the creation and support of unproductive public sector jobs to help shore up political stability, are likely to mitigate the employment of locals in more productive areas of the economy (see Auty 2007; Robinson et al. 2006). Again, non-resource linked areas of the economy tend to be relatively neglected in terms of the relative availability of capital and skills (ibid.). On the one hand, the resource curse makes for regional, sectoral and labour market inequality, which can jeopardise political, economic and social stability (ibid.); on the other hand, it also is associated with inconsistent and ineffective government policy (ibid.). In short, although it may be important for petro state governments to promote more equal and broad based labour market inclusion for locals, at the same time, it may be much more challenging; this study explores variations in how MNEs respond to government policy interventions, and, hence, seeks to shed light on challenges and options in doing business in Saudi Arabia, and the limits and potential of government interventions.

The paper is structured as follows: we first discuss selected literature that has highlighted as to why indigenization by multinational companies may be viewed as a strategic choice; this is followed by a discussion on resource curse theory and its application in the present context, leading to derivation of hypotheses in the next section. We then present our methodology followed by data analysis and results. Discussion and conclusions with implications for theory and practice occupy the last section of the paper.

Indigenization as a Strategic Choice

MNEs may overcome the liability of foreignness, high failure rates for international assignments, and gain external legitimacy from the host environment through indigenization (Law et al. 2009; Forstenlechner & Mellahi, 2010; Hymer, 1976). Hence, indigenization may enable access to resources and enhance competitiveness (Baum & Oliver, 1991). There are, however, also good reasons why MNEs may make a strategic choice not to press ahead with indigenization, including shortages of skilled local workers and parent country nationals' likely greater knowledge of the parent company's culture and orientation (Collings, 2007).

On the one hand, it has been argued that indigenization primarily reflects internal strategic choices of HR policies and processes (Law *et al*. 2009). On the other hand, it has been argued that indigenization may prove very difficult in contexts where skills and capabilities of locals are poor, and where more lucrative, secure and/or less demanding employment is available in the public sector (Al-Lamki, 1998; Al-Waqfi and Forstenlechner, 2010). It may be similarly challenging if they may be prevailing cultural norms which hold certain types of work in higher esteem than others, and/or if certain jobs are seen as being challenging to reconcile with religious beliefs, or inappropriate for a particular gender (Zamani-Farahani and Henderson, 2010; Elomin and Alomein, 2011). A bloated and patronage-orientated public sector is a feature of many countries suffering from the resource curse (Auty, 2007; Sachs and Warner, 2001), and a willingness to branch out into new careers may also be constrained by strong family ties, and the operation of clan systems (Mellahi, 2007). This is not to deny that individuals may have the individual motivation to develop their skills, or that they might be incentivised to do on extrinsic grounds (Haak-Saheem et al, 2016a).

The Resource Curse in Theory and Application

Although a significant body of literature takes contexts as interchangeable, a defining feature of comparative HRM is that it matters (Cooke 2018). Again, there is much debate on what really constitutes theory and the theoretical basis of spatial variety (Cooke 2018; Wood et al. 2018). However, there has been growing recognition that dominant modes of HR practices vary according to context, and, that particular sets of countries share broadly common experiences (Wood et al. 2014). Whilst the latter may partially be explained in terms of distinct institutional traditions (ibid.), a further factor is natural resource endowments; there is an enduring puzzle as to why countries with extensive mineral riches often do much worse than might be expected (Williams et al. 2011). Resource curse theory holds that in petro states, resource extractive industries may suck in human and investment capital, crowding out investment in other areas (ibid.; Robinson et al. 2006). In addition, national currencies are likely to be overvalued, rendering other areas of industry uncompetitive (Robinson et al. 2006; Sachs and Warner, 2001). There are also likely to be great regional imbalances with peripheral, mineral-poor districts doing particularly badly (ibid.). Resource rich countries are more likely to have poorly formed or distorted institutional arrangements and predatory elites leading to persistent inequalities (Auty, 2007). Currency over-valuation and the sucking up of investment capital and skills into the oil and gas sector and supporting industries – where returns are the greatest –make other areas of the economy uncompetitive and employment therein unattractive (Auty 2007; Robinson et al. 2006; Frankel 2010).

Whilst being a swing petroleum producer, Saudi Arabia has suffered many of the developmental problems of the resource curse. Indeed, the Saudi GDP per capita has shrunk from an all-time high of $22,000 in 1977 to $18,000 in 2014 (Trading Economics, 2015) and

there have been persistent fears of future instability (Hertog, 2011). Mellahi and Wood (2002) describe Saudi Arabia as being underpinned by a *petroleum growth regime*, with institutional arrangements being erected around the promotion of oil and gas extraction, and the distribution of the resultant revenues. They argue that such arrangements have been only partially successful in providing the basis of stability, given volatile oil and gas prices and the extent to which short term revenue flows may be used as a temporary fix, hence, deferring the resolution of deeper structural problems (ibid.). Although the government has sought to diversify the national economy, this has proven extremely difficult (Hertog, 2011; Wilson, 1994). Fears of political disorder and chronic structural unemployment have led to the government promoting the indigenization of the labour force, yet the latter has proven very difficult to secure (see Mellahi and Wood, 2001; Sadi and Al-Bureay, 2009).

Statement of Hypotheses

As Morgan (2012) notes, MNEs are different to other types of firm in that, at best, they are only partially embedded in a particular national institutional setting. With their trans-national scope, MNEs are subject to a range of competing home and host country pressures, and hence are better equipped to innovate new policies in particular countries of domicile and/or to exit if regulatory circumstances prove too inflexible or daunting (ibid.; Myer et al 2011). In contrast, local firms are likely to have dense or 'thicker' ties to their indigenous peers (see Jackson and Deeg, 2008). However, if an MNE is particularly dependent on accessing the benefits flowing from operating in a particular context, it will be more inclined to fit in with local norms (Morgan, 2012). In the United Arab Emirates, Forstenlechner & Mellahi (2011) found that peer pressure exerts a significant influence on the adoption of indigenization, as MNEs tend to

benchmark themselves against each other; when ties with local actors are stronger, the need for social legitimacy will be taken more seriously. Hence, it could be argued that:

Hypothesis 1. The higher the degree of interconnectedness (with local actors) between MNEs, the higher the likelihood of indigenization success.

It has been argued that, institutional arrangements in many emerging markets are less closely coupled, with interventions by different arms of government less closely aligned (Wood et al. 2014). Hence, key actors may be pulled in different directions, making it difficult to adopt coherent policies and practices (Oliver, 1999). Hinnebusch (2010) argues that rent-funded clientalist states in the Gulf states are both 'overdeveloped' in terms of their role in exercising patronage and allocating rents, and very much more limited in terms of their capability to provide the institutional basis for investment and growth.

Requiring firms to indigenize may open up new job opportunities for clients, and hence, enhance the indirect patronage capabilities of the state (Hinnebusch, 2010; cf. Hyden, 2006). Most MNEs operating in Saudi Arabia operate on concessions, or some or other type of government licence (Mellahi *et al.*, 2011). Such licenses can be revoked if indigenization regulations are not followed (Mellahi, 2007). Moreover, the Saudi government requires companies who win any government contract to meet strict indigenization requirements (Achoui, 2009; Al-Dosary & Rahman, 2005; Ramadi, 2010). More broadly speaking, it could be argued that those firms that are more dependent on government are more likely to pursue localization. Hence:

Hypothesis 2. The higher the degree of resource dependence on government, the greater the likelihood of MNE indigenization.

Firms may indigenize in response to legislation or because doing so is quite good for business: indigenization reduces the costs associated with the usage of expatriates, allows the capture of local knowledge, and may facilitate in deepening relations with peer firms and other actors. In short, irrespective of legislation, firms may pursue the indigenization of staffing because it fits with their overall strategic goals (cf. Meyer et al., 2011). However, in line with institutional shortcomings, if regulation is incoherent, unpredictable or unevenly enforced (owing to multiplicity of factors as described above), firms may be reluctant to independently advance an ambitious indigenization policy, as this makes it difficult to make further concessions in negotiating with local power holders, who may be more guided by capriciousness and personal rent seeking than recognizing good progress under the law. As noted above, MNEs are in a relatively powerful position in that they are at best only partially rooted in a particular institutional domain, and can mitigate risk in one country through diversifying investments elsewhere (Morgan, 2012); MNEs are likely to push back on any indigenization pressures that challenge the overall direction of the firm (Brewster and Harris, 1999). Hence, we test the following hypothesis:

Hypothesis 3. If indigenization is perceived as consistent with overall organizational goals, then it will be more advanced.

It can be argued that, in contexts where there are chronic skills gaps, the degree of indigenization may be bound up with firm size. Larger firms have a greater capacity to 'carry' underqualified or poorly performing staff, and have greater resources to undertake 'window dressing'; they may also have more resources to invest in training up talented locals with potential. Again, larger firms are likely to be more bureaucratic, with extensive usage of set rules and procedures, making it easy to enforce internal coherence, even when there are fewer parent country nationals in place (Morris et al., 2001). Finally, larger firms are likely to be

more conspicuous, and hence likely to attract the attention of regulatory authorities (Morris et al., 2001). In contrast, smaller players, are characterized by more hands-on management, with more flexible – and often unwritten – rules and procedures, and, hence, are often better equipped to find ways of evading those aspects of legislation not to their liking (Bischoff and Wood, 2012). Again, it is much harder for the authorities to monitor the activities of many smaller players than a few large ones; this disparity is likely to be particularly pronounced when regulatory authorities have serious capacity problems. Hence:

Hypothesis 4: Indigenization is likely to be less advanced in smaller firms.

As the resource curse literature alerts us, the attention of regulatory authorities in petro states is likely to be most closely focused on the oil and gas sector, with other areas of the economy, to a lesser or greater extent, being characterized by benign (or malign) neglect (Auty, 2007; Sachs and Warner, 2001). Again, MNEs in the oil and gas industry will have the most to lose from falling foul of regulatory authorities; in other sectors, the benefits of operating are very much lower, and, given structural impediments to competitiveness, the costs of exit may be relatively light. Harry (2007) argues that in the Gulf region, government pressures to indigenization tended to be driven by short term expediency, and directed towards areas where job creation for locals is the easiest; there has been less an emphasis on building local skills, which would make a better business case for indigenization. As the oil and gas industry is by far the most lucrative area of the economy, it is likely to be here where the pressure towards indigenization will be most pronounced (Williams et al., 2011). Again, work in such a sector is likely to hold greater prestige, intensifying pressures for local job creation (Williams et al., 2011). Hence, it could be hypothesized that:

Hypothesis 5. Indigenization will be most advanced in the oil and gas sector.

It would, of course, be unusual if this state-dominated sector did not conform to its own regulatory directions, unless of course, the skills gaps are so pronounced as to make even 'window dressing' appointments problematic. However, of greater interest is the exploration of other sectors where indigenization is less advanced, and why this is so, which could reflect lop-sided institutional coverage and/or the extent to which organizations operating in some sectors are so under-resourced as to make indigenization unaffordable.

In Saudi Arabia many different government organisations control the indigenization process within MNEs, and represent different constituencies and sets of clients. The Ministries of Labour and Trade both have responsibility for directly enforcing indigenization laws, the Saudi Arabian General Investment Authority (SAGIA) regulates the activities of MNEs, whilst the Human Resources Development Fund (HRDF) is responsible for upgrading the skills of Saudi job seekers (Achoui, 2009; Aldosary & Rahman, 2010; Ramadi, 2010). These bodies may interpret regulatory priorities in different ways, and place competing or overlapping demands on MNEs. Figure 1 demonstrates the proposed relationships between institutional determinants and indigenization success.

Figure 1 about here

Methodology

The Saudi Context and Indigenization

In many petro states, governments play a central part in encouraging, planning, implementing and monitoring indigenization policies. However, as Mellahi (2007) argues, top-down localisation plans prompted by autocratic governments may be unrealistic and, in practice,

actually decrease the commitment of firms toward indigenization. In the case of the Emirates, Forstenlechner and Mellahi (2010) found that the primary rationale for hiring local employees was to extract rents from government.

Widespread corruption may hamper indigenization: Not only may politicians, and/or government officials force underqualified or otherwise unsuitable clan members or clients on private firms, but those firms with good connections with government may be able to defy the indigenization regulations with impunity, undermining the latter's legitimacy (Whiteoak *et al*., 2006). Budhwar and Mellahi (2007) argue that the tribal culture of such relations-based economies mean that rules are rarely systematically enforced and/or implemented equitably. In turn, this may encourage firms to resort to measures such as the fake, nominal or under-employment of nationals (Al-Qudsi, 2006).

As is the case with many of her Gulf neighbours, the Saudi state has implemented a policy of indigenization, in this instance dubbed 'Saudization'. Although the 2003 initial goal was quite ambitious, the results have been mixed (Niblock and Malik, 2007; Tripp and North, 2009). Poor headway lead to the introduction of the Nitaqat system in 2011, relaxed visa requirements for foreign staff of firms making good progress in indigenization (Tripp and North, 2009). Yet, even if it was not for Saudization, there are strong reasons to indigenize. The country provides a particular challenging working environment for highly skilled expatriates. They, or their families, can easily fall foul of a myriad of local strictures, forcing their replacement; these difficulties mean expatriates are able to secure pay premiums for working in the country (cf. Tripp and North 2009). However, expatriate staff from around the region may find the process of adjustment somewhat easier, and, indeed, several norms and regulations in many GCC countries require firms to consider the potential of staff from the MENA region should no

national citizens (i.e. in Saudi Arabia, Saudis) be available. However, such expatriates would lack access to local networks of support, and, would not relieve pressures to appoint Saudi nationals. At the same time, it is recognized that such expatriates, owing to their greater knowledge and capacity to navigate the local cultural environment, would find themselves in a very different position to Western ones, an issue which goes beyond the scope of this study[1].

Data and Sample

As stated earlier, this study explores variations in how MNEs respond to government policy interventions, and, hence, seeks to shed light on challenges and options in doing business in Saudi Arabia, and the limits and potential of government interventions. This study is based on a survey of HR directors of MNEs headquartered in Saudi Arabia. It is recently held that HR directors in MNEs are more likely to pursue a strategic role within their institutions than their domestic peers (Darwish et al., 2017). Hence, the way in which HR managers design and implement HR policies and practices is of key importance in understanding localisation polices within MNEs headquartered in Saudi Arabia.

Our target population comprised of all MNEs operating in the country. The starting point was to collect a list of MNEs for which the office of SAGIA (Saudi Arabian General Investment Authority) was approached which supplied us with a list of 808 MNEs operating in Saudi Arabia at that time. However, on a closer examination and cross checking the data supplied, it was discovered that this number reflected all licensed MNEs, including those that have not yet

[1] Data is not available in KSA or GCC (for comparison purposes) that outlines the success or otherwise of localization policies. We can only make an inference from data related to local and non-local labour force and labour force that is employed which shows a fairly consistent ratio over the years. Latest data for GCC countries put nationals at 25.75m and non-nationals at 26.39m. Corresponding data for KSA is 20.06m and 11.68m. Net migration in the case of KSA has stood consistently at 118,000 for last three years (2018-2016). Forecast of net migration in 2025-2035 for KSA is put at 60,000. This indicates that locals would replace expats; however only time will tell. (GLMM, 2018). Skepticism arises from a recent government report that concluded "a disproportionate reliance on foreign labor within the private sector". Expats still constitute 56% of all job high skilled jobs and 42% of medium skilled jobs (MLSD. 2016).

started their operations in the country; in other words, not only those operating in the country were included in the list, but also those who had taken out licenses to enable future investment, which may or may not be forthcoming. After a careful examination of data, it was established that in real practice there were 214 MNEs operating in the country. Given that this population was manageable, it was decided to approach all 214 enterprises for the survey, of which 157 agreed to complete the survey.

Measurement

Indigenization success: for the purpose and the context of the current research, the measures of localisation success are based on Law *et al*. (2009), Al-haran (2004), and Al-Zaid (2001). Indigenization success was measured by five items on a Likert scale. HR directors of the targeted companies were asked to indicate their opinions of the following items: 'Saudisation is an important business objective for our company'; 'the Saudisation policy in our company is successful'; 'the Saudisation policy is hindering our firm's competitive advantage [reverse question]'; 'our company has a sufficient number of capable local workers'; 'our number of Saudi workers increased due to the implementation of Saudisation'.

Institutional determinants: Oliver (1991, 1997) argues that organisational responses to institutional pressures reflect why, where, how and by whom they are applied. Hence, we focus on a specific set of institutional determinants, namely: context (interconnectedness), constituents (dependence on government), and content (indigenization consistency) (c.f. ibid.). In addition, we have also considered the effects of firm size and sector.

Control variables: it could be argued that larger firms are more likely to be subject to regulatory scrutiny, and indigenization will be greatest among firms that have been in the country longest: hence, size and age are employed as control variables, measured respectively in natural logs (Huselid, 1995) by workforce size and years in operation in Saudi Arabia.

Data Analysis

To test the proposed hypotheses, we adopted the following statistical methodology; we first employed factor analysis for indigenization success and institutional determinants in order to test the correlation amongst the factors and group them together. We also assessed construct validity for all constructs by examining factor loadings, Average Variance Extracted (AVE) and reliability. We also tested discriminant validity by comparing the square roots of AVE values with the constructs' correlations as explained below. Harman's one-factor test was used post hoc, to assess whether or not common method variance is a serious concern. We then present the means, standard deviations and zero-order correlations of all variables under consideration. We finally employed hierarchical regression analysis through multiple steps to determine the impact of the institutional determinants and other variables on indigenization success.

Reliability and Validity

Three main indicators were used for the assessment of the convergent validity in the form of factor loadings, average variance extracted (AVE) and the reliability of the construct (see Hair *et al*., 2010). The results show that the factor loadings of each construct indicator are significant, ranging from 0.56 to 0.88, demonstrating a strong association between constructs and their respective factors, with the results indicating that AVE values were higher than the

threshold value of 0.50, thus demonstrating adequate convergence of the constructs. Finally, the results of Cronbach's alpha indicate that the scales satisfy the reliability criterion, with values ranging from 0.70 to 0.86. When taken together, the results of factor loadings, AVE, and reliability tests, confirmed convergent validity. Fornell and Larcker (1981) suggest that discriminant validity may be established if the square root of the average variance extracted for a specific construct is greater than the absolute value of the standardised correlation of it with any other construct. Table 1 compares the square roots of AVE values with the constructs' correlations: the squared roots of the AVE values were higher than any correlation of the institutional factors constructs, indicating an acceptable level of discriminant validity.

Common Method Variance (CMV)

The usage of single respondents being used to collect the data for both the predictor and outcome variable may result in Common Method Variance (CMV) bias. This may lead to both Type I and Type II errors. Hence, we sought to minimize CMV. Firstly, we used 'scale reordering' (see Podsakoff and Organ, 1986) which requires that items related to the independent variables are placed before items measuring the outcome variable. Our survey instrument was structured in a way that questions on institutional factors are encountered earlier, whilst the indigenization questions are encountered in the last section. In addition, Harman's one-factor test was used *post hoc*, as recommended by Podsakoff and Organ (1986), to assess whether or not common method variance is a serious concern. Principal component analysis with varimax rotation revealed the presence of seven distinct factors with eigenvalues greater than 1.0, rather than a single factor. The factors accounted for 59% of the total variance. Notably, the first factor did not account for a majority of the variance (21%), which explains why no general factor is apparent (Steensma *et al*., 2005). The results of Harman's one-factor

test suggest that CMV bias was not a major shortfall in this instance (cf. Podsakoff and Organ, 1986).

Results

Descriptive Results

Table 1 reports the means, standard deviations and zero-order correlations of all variables. It is instructive to note, at the very outset, the high values of means of interconnectedness and consistency in indigenization. Also, the relationship between some of the institutional determinants and workforce indigenization success is significant, which provides preliminary support for some of the stated hypotheses. However, age and size of the MNE are not significantly related to workforce indigenization. This is somehow at odds with prior work, which suggested that firm size is a relevant determinant of workforce indigenization (see, for example, Law *et al*. 2009). We explain this further in the paragraphs below.

Table 1 about here

Multivariate Results on the Test of Hypotheses

Preliminaries:

In order to test the five hypotheses listed in the paper following the literature review, we employed hierarchical regression analysis through multiple steps to determine the impact of the institutional determinants and other variables on indigenization success. In the first step, control variables – namely the ages and sizes of the MNEs – are entered, followed by the institutional factors in the second step (Table 2). We begin by evaluating the fit of the

regression model and then move on to state the results of the hypotheses-testing. The value of R^2 (determination coefficient) for this model is significant ($R^2 = 0.114$, $F = 2.750$, $p < 0.05$), indicating that the predictors account for 11% of the variation in indigenization. The *F*-ratio (the ratio of the explained variation to the unexplained variation) is 2.75, which indicates that the stepwise model improved our ability to predict the outcome variable. In addition, the adjusted R^2 value of 0.08, indicates that this model could generalise and reflect the same – or a similar – value of R^2. When only controls are included, R^2 does not come out to be significant for this model, and hence it did not explain a significant amount of variance in the outcome variable (R^2 =0.004, *F* for R^2 =0.275, $p > 0.10$). In the second step, when the ages and sizes of MNEs are introduced, significant changes in R^2 over what the controls explain provide initial support for the stated hypotheses (ΔR^2 =0.111, *F* for ΔR^2 =3.731, $p < 0.01$).

Specific results on hypotheses:

We then tested hypotheses 1-3. The results in Table 2 show that the coefficients for hypotheses 1 and 2 were insignificant (0.054 and −0.005). Hypothesis 3 was confirmed ($b = 0.201$, $p < 0.05$), telling us that when MNE find indigenization fits their goals indigenization will be more advanced. The results as shown in Table 2 (models 1 and 2) do not support hypothesis 4. In both the models, the organization size coefficient, though positive, was not significant (0.038/0.049; $p > 0.10$).

To test hypothesis 5, we classified sectors based on research and development intensity and the type of products offered by these firms (Hatzichronoglou, 1997) (see table 3). These are high-technology industry (encompassing aircraft and space craft, pharmaceuticals, media equipment, medical equipment and electrical); low-technology (food, beverages, paper

products, printing and publishing); the motor industry (automobiles and components); financial services (banking, insurance, business services and real estate); other services (trade, retail distribution, hotel and catering); and other industries not listed in the previous categories (including agriculture). We created industry dummies; we treated the oil and gas sector (the largest sector) as a baseline/benchmark group (Table 3). The values of R^2 and *F*-ratio for this model are significant ($R^2 = 0.102$, $F = 2.84$, $p < 0.05$); sector explains a significant amount of the variation in indigenization (10%). Full results are provided in Table 3: it can be seen that we broadly confirmed hypothesis 5. With the exception of financial services, indigenization is significantly less advanced across all other areas of the economy. Indigenization was concentrated in the oil and gas, and financial services sectors, where the greatest potential rents are concentrated, and where the limited pool of highly skilled job seekers would focus their attentions. It could also reflect the extent to which other areas of the economy are so marginal so as to render indigenization unaffordable.

Table 2 about here

Table 3 about here

Discussion

This is a study of workforce indigenization in an emerging market petro state, where strong affirmative action measures favouring country of domicile nationals are in force, where indigenization has made most – and least – headway, and why. We tested a number of hypotheses regarding indigenization of MNEs operating in the Saudi context, to explore where

it has made the most progress, and what this tells us about mitigating the effects of the resource curse at the policy level.

The disproval of H1 on firm ties confirms institutional approaches that link institutional coverage with the quality of ties between peer firms (Jackson and Deeg, 2008). This would provide further evidence of institutional weakness and pliability; in the absence of a mutually supporting set of regulations and associated institutional infrastructure, there are likely to be fewer incentives to follow a particular set of practices (Boyer, 2006). The resource curse literature highlights a tendency for petro states to be highly segmented, given chronic imbalances in influence and resources between oil and gas, and other areas of the national economy. This would suggest that, no matter how deeply locally embedded, foreign MNEs outside of oil and gas, will have limited impact and influence, and, by the same measure, will be less responsive to regulatory pressures.

We also had to reject H2; firms more dependent on government do not pursue indigenization more vigorously than those that are less dependent (cf. Karlsson and Honig, 2009). This may reflect structural differences between Saudi Arabia and the West (Ali, 1995; Bremmer, 2004; Chaudhry, 2013). Resource curse theory would suggest that weaker institutions and higher corruption in the former may mean that irrespective of formal dependence on government, firms are likely attract the attentions of rent seeking officials, and forge deals or accommodations with powerful individuals in return for weaker oversight. Indeed, the existing literature would suggest that the creation of nominal jobs that exist only on paper is widespread (Al-Dosary & Rahman, 2005; Al-Qudsi, 2006). Again, it would be harder to justify committing resources to following a policy that is capriciously and unevenly enforced (cf. Al-Qudsi, 2006; Harry, 2007; Mellahi, 2007).

It has often been argued that MNEs are more likely to respond favourably to local pressures if they are seen as compatible with organizational strategies (see Dowling *et al*., 2008). This was confirmed by H3, which suggested that was greater if it was seen as consistent with the overall organizational goals. This would provide further evidence as to the partial decoupling of regulation from actual practice; firms pursued indigenization if it was seen as compatible with their strategic interests rather than being legally obliged to. Again, this would confirm Regulation Theory's assumption that formal and informal rules and conventions are never perfectly aligned, or even in coverage, and that institutional pressures occur at both the national and trans-national levels (cf. Boyer and Hollingsworth, 2007). Finally, as suggested by Resource Curse Theory, regulatory concerns in petro states are likely to be primarily concerned with the capture of oil and gas rents (Auty, 2007); this makes for considerable regulatory flexibility. In other words, although it may be in the interest of governments to promote broad based development, the distraction supplied by high - and volatile oil and gas revenues – and all that goes with this will divert state attention and resources. We found that firm size has no impact on indigenization policy (disproving H4); although larger firms are normally subject to closer regulatory oversight, weak and fluid institutions may open up a wide range of opportunities for evasion or accommodation irrespective of size.

The results also provide support for H5 on the sectoral basis of indigenization. Resource curse literature alerts us to the fact that governments in resource rich countries often focus on the relevant minerals industry, with a tendency to neglect other areas of the economy (Auty, 2007). As a result, this industry along with the financial sector through which oil revenues are channelled within the country and from overseas, gets the most attention for job placements for locals. This results in draining of skills and resources from other areas of the economy. Again, oil and gas companies will typically have the resources to generate more jobs for locals,

in contrast to firms in non-hydrocarbon sectors, who are liable to suffer from the negative effects of the resource curse (see Williams et al, 2017).

Conclusion

We find that the relative dependence of firms on government does not necessarily make for greater local advancement; rather close government ties may enable firms to reach accommodations or trade-offs with key officials. Again, although it may be easier to police large firms, we find no relationship between firm size and indigenization. The resource curse literature suggests that the focus of policy and regulation – and the implementation thereof – will be centred on the oil and gas industry (Williams and Le Billon 2015). Although governments may seek to devise more encompassing policies, they may be difficult to implement not only owing to the distractions posed by hydrocarbons, but also through limited resource availability in other areas of the economy (ibid.). Not only does the oil and gas suck investment and human capital from other sectors, but also firms in the latter typically face crises of competitiveness, the latter inter alia owing to overvalued currencies (making it hard to compete against imported goods or competitively price exports) and lop-sided infrastructural development (Williams and Le Billon 2015; Darwish et al. 2017).

In contrast, advancement is most pronounced in the oil and gas industry; quite simply, there are more opportunities for new job creation there, and the resources to support it. Again, it could be argued that the industry is most likely to attract the attention of rent seeking officials pursuing opportunities for clan members or other clients. Given progress in oil and gas, it cannot be assumed that MNEs are intrinsically hostile to indigenization; indeed, they may prefer to do so, inter alia, to access local knowledge and to gain better access to local networks

(Rana and Morgan, 2016). Whilst formal regulations may encourage indigenization, there may be many local factors mitigating against it in other areas of the economy, including relative shortages of locals with technical and language skills, and international experience, competition with the public sector, and a tendency to job hopping amongst the best qualified locals who may seek to capitalise on demand for their capabilities (Zeffane and Bani Melhem, 2017). In turn, these are bound up with the above-mentioned effects of the resource curse.

Implications for Theory

The existing literature has argued that the country has experienced a volatile, highly uneven and unsustainable accumulation trajectory, or a *petroleum growth* regime with revenues being disproportionately captured by elites and external players (Mellahi and Wood, 2002). Within this context, indigenization represents an attempt to ensure that a greater number of indigenous Saudis benefit from, and have a stake in, the existing system. In other words, it represents part of a broader process of *co-optation* through direct state largesse and the broader provision of job opportunities, to maintain princely *domination* (cf. Baylis, 2001). If the system was genuinely effective in promoting greater egalitarianism and large scale local employment, then the proportion of rents accruing to the elite would potentially diminish; this is unlikely in the absence of a predictable stable basis of growth, which may be difficult or impossible to secure in a natural resource based economy (Auty, 2007; Balland and Francois, 2000). Again, although progress has been made in technical education, there remains shortages of both vocational and generic tertiary educational skills (Achoui, 2009; Mellahi & Wood, 2001; Moddarress et al. 2017). This then make the process of co-optation through the provision of greater employment in the private sector (including MNEs) more difficult; in the highly lucrative oil and gas sector, the hiring of under skilled locals may be a price worth paying in

order to achieve continued access to concessions and contracts. Again, those locals with high skills would find their services in high demand, and would be able to bid up their pay through job mobility (c.f. Morris et al., 2001). With the Resource Curse comes institutional weakness. However, natural resources provide easy revenue inflows; not only is growth uncoupled from formal institutions, but also the incentives for institution building are diminished. However, as Boyer (2006) notes, in contexts where institutional arrangements are less than functional, firms and other actors devise their own local solutions through reaching local accommodations. Such accommodations might range from outright corruption, to informal and semi-formal accommodations with more far-sighted local power holders, providing a modus operandi that allows some coherence in activities and planning; in both instances, this may involve pressures to extend patronage through the provision of jobs, pressures that will be particularly intense in the oil and gas sector. This is not to suggest that multiple stakeholders might not promote indigenization for very different reasons, including on altruistic grounds; however, in seeking to bring this about, they may be challenged by religious and cultural obstacles (which at the same time, help legitimise the existing order), including the relative status of women (Berger, 2011; Le Renard, 2008). This does not mean that there may not be counter-pressures. Whilst the oil and gas industry has made more progress to indigenization than many other sectors, it is still the case that expatriates may have little interest in helping develop local capabilities. Indeed, they may withdraw into closed communities, shutting out and avoiding interactions with locals, and perpetuating the situation through favouring recruitment from among their peers (Forster, 2000).

This study further highlights the extent to which resource curse effects may be wider ranging than commonly identified in the literature (Frankel, 2010), affecting inter organizational HR practice. The Resource Curse literature has tended to focus on the macro societal level,

focusing on the relationship between inputs (natural resource endowments) and outputs (in terms of economic performance and stability); organizations are seen as moulding their practice in terms of the former, leading to the latter. However, much less attention has been accorded as to what goes on within organizations. This study highlights how the context impacts on great imbalances in practice between sectors. Firms in the oil and gas industry are more sensitive to regulatory pressures, and more likely to employ significant numbers of locals. In contrast, in non-resource industries, indigenization has made much less headway, reflecting both the drain of skilled labour to the oil and gas, and public, sectors, and lighter or less effective regulatory scrutiny. There are many dimensions to the 'backwash effect', but, as this study reveals, it encompasses human resources, worsening the lop-sided nature of the Saudi economy. Hence, the study extends the base of resource curse theory, through transcending the view of the firm as something that simply transmits systemic pressures, and in drawing out the human dimension of the resource curse.

Implications for Practice

At an applied level, the findings both highlight the challenges of operating in emerging markets, and how firms cope with a challenging and unpredictable working environment. In such circumstances, firms may revert to a coping mode, adjusting what they do in response to the sometimes unpredictable demands of the law and local power holders. More sustainable growth regimes are associated with sets of mutually supportive and complementary firm level practices (Boyer and Hollingsworth, 1997). In contrast, in more challenging environments, such coherence in practice is much less common; hence, it is less likely that firms with high levels of indigenization will follow a particular overall HR recipe. This makes HR management more challenging, but at the same time, it does mean that firms may have less to lose through

experimenting with new techniques in a particular area; as individual practices are less closely aligned, there is less chance that these new techniques will disrupt the overall HR system. At the same time, this also means that the gap between the official HR policy and actual practice may be relatively large; the former may assume more an *aspirational* or *anticipatory* character than a real guide to practice (cf. Walsh, 2004).

Firms may indigenize because it allows a fuller utilization of local knowledge and capabilities and makes fuller usage of the advantage stemming from a local production regime, or because they are legally obliged to do so. Following results from this study, we can possibly assert that regulation may result in a greater rather than lesser variety of firm practices, even in (or because of) an authoritarian environment. Policy interventions may not work, not only due to limits of enforcement capabilities, but also owing to the relative embeddedness of firms within a particular context. Not only may firms push back on regulation through the threat of exit, but they also may negotiate their own accommodations with local power holders, making for much diversity in practice. And, as complementarities are absent or less developed, firms have less interest in aligning their practices with a common dominant paradigm, the extent of ties with their peers notwithstanding.

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Figure 1: Theoretical model of institutional determinants and indigenization success

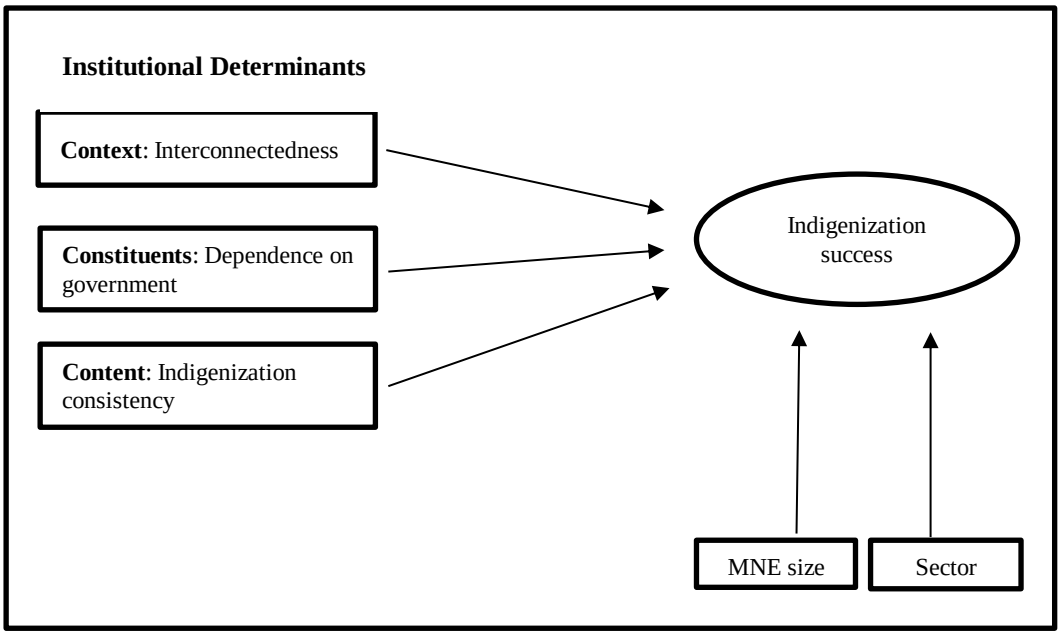

Table 1: Mean, standard deviations, discriminant validity, and zero-order correlations

Variables		Mean	S.D.	1	2	3	4	5	6
1.	Interconnectedness	3.59	.87	**.81**					
2.	Dependence on government	1.89	.71	-.01	**.76**				
3.	Indigenization consistency	3.92	.75	.16*	.06	**.79**			
4.	Indigenization success	3.11	.88	.18*	.04	.23**	**.70**		
5.	Log. firm age	.91	.29	.09	.07	.14	.05	---	
6.	Log. firm size	2.29	.43	.18*	.33**	-.02	.05	.39**	---

Notes: *n* =157.** Correlation is significant at the 0.01 level (two-tailed).
* Correlation is significant at the 0.05 level (two-tailed).
Bolded diagonal elements are square roots of average variance extracted.

Table 2: Hierarchical regression analysis for indigenization success

	Model 1	Model 2
Variables	*Localisation Success*	
	Coefficient	Coefficient
Step 1: Control Variables		
Log. Firm Age	.034	.020
Log. Firm Size	.038	.049
Step 2: Institutional Determinants		
Context:		
Interconnectedness		.054
Constituents:		
Dependence on government		-.005
Content:		
Indigenization consistency		.201*
R^2	.004 (-.009)	.114 (.08)
ΔR^2	---	.111
F for R^2	.275	2.750*
F for ΔR^2	---	3.731**

Notes: *n* =157. Standardised regression coefficients are shown. Adjusted R^2 in parentheses.
† *p*<.10, *p< .05, **p< .01, ***p< .001.

Table 3: Regression analysis for indigenization success with sector

Variables	Indigenization Success	
	t-value	*Coefficient*
Sectors:		
High-technology sector	-1.797	-.184†
Low-technology sector	-2.828	-.263**
Motor sector	-2.055	-.176**
Financial services sector	-.817	-.084
Other services sector	-2.846	-.294**
Other sectors	-2.892	-.280**
R^2		.102 (.066)
F for R^2		2.842*

Notes: N = 157.Oil and Gas sector is the omitted benchmark sector variable
Standardised regression coefficients are shown.
† *p*< .10, *p< .05, **p< .01, ***p< .001