

The Nationalization Of The Labor Force in Saudi Arabia:Logistical Consideration and Practical Strategies

By:

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Introduction:

Review Of Literature:

1. Main Objectives for the use of Saudi Workforce.

- a. Contribute in the comprehensive national development through the production of goods and services.
- b. Contribute to the decent life style of workers in the private sector through the bonafide employment.
- c. Balance between augmenting the high productivity rates and protecting the Saudi Social values and beliefs vis a vis the public interest.
- d. Effectively develop & utilize the society's resource.
- e. Support the state's efforts in maintaining and supporting the political, social and economic security, through an orchestrated and balanced saudization / replacement policies of the foreign workforce.

2. The Main Problems of the Foreign Workforce: Economic. Social. Psychological & Security Drawbacks.

- a. Economic Drawbacks.
 1. Competition with the national Saudi Labor force in the market for jobs, wages, benefits etc. leading to national unemployment. (both regular & under employed).
 2. Large foreign exchange/transfer of funds overseas \$3.73 billion in 1993 only (not including indirect fund transfers).

\$8.81 billion in 1995 (first half) (Min. of Interior) This is a severe hard currency drain and a national economy saving & investment depreciation.

3. Severe abuse of fund subsidies.
4. Severe abuse & overload of all major infrastructure (health, transportation, communication, education, electricity & water).
5. Heavy demand on goods & services that leads to inflation in prices (CPI).

B. Social Drawbacks.

1. Contradicting social, cultural and religion values that lead to social tension and stress.
2. Dissatisfaction, mistrust & lower job satisfaction in the work place.
3. Social disintegration in the social fabric.
4. Increased reliance on foreign works to raise kids in an unhealthy, indecent atmosphere i.e. less quality time for the families & children - baby sitting & housemaid pass time.
5. Introductions of new trends in work i.e. selling the white slavery services.
6. Moral & criminal offenses prevalence in the society - drugs, alcohol, theft, bribery etc.

c. Psychological Drawbacks.

These drawbacks stem mainly from the temporary job relationships, language and cultural barriers of both nationals & their expatriates.

1. The temporary nature of the expatriate labor force is mainly monetary in nature (material based) & controlled by a contract subject to extension if it was felt

satisfactory to both parties. This is on the other hand opposed by an employer who has to make a return on his investment in the business. This risk situation & mistrust by both parties lead to the conclusion that as for the employee - employer relationship, three modes of action will finally prevail on the part of expatriates:

1. Spontaneous job performance (not planned or professional).
2. Expected monetary gain in exchange for all creativity.
3. Homesickness feelings leading to difficulties in adaptation .

The language barriers always give this feeling of alienation to both parties leading to business miscommunication, the deterioration of the national language and the inappropriate job description / or performance.

d. Security Drawbacks.

Strategically there are 4 main security concerns:

1. Abruptly shutdown production through sudden out migration of foreign workers in crisis times.
2. Anti system support group in the host country undermining the security of the state.
3. Justify internal & external blackmail/or threat via minority controlled businesses.
4. Internal psychological invasion to the native labor force potential for work, undermining their ability to perform.

3. Stereotype Saudi Workforce Myths

There are 5 main stereotype characterizations of the Saudi worker that seem to provide justification for his exclusion from recruitment/or employment in the private sector.

These are:

1. He (the Saudi worker) is not committed/disciplined to perform his work duties & does not tolerate intervention to supervise his actions.
2. He is moody, unstable in his work performance & transfers from one job to another fairly quickly.
3. Very ambitious, beyond the capacity of the establishment. He always dreams of holding the highest position of the company without going through the normal steps of promotion.
4. He lacks rational ambitions to develop his own capabilities & methods of performance to enable him to reach his objectives & goals within the capabilities of the company/establishment.
5. He is economically expensive compared to the expatriate who gives a lot & gets a little.

Obviously, these character judgments are grossly over exaggerated & stretched at sometimes. These statements need to be studied & researched through rigorous studies before a final judgement is passed, especially the major false statement regarding the cost of the Saudi worker compared to that of the expatriate, because statistics show that expatriates on average cost more than the Saudis in the same skill level..

4. Previous Research on Saudization Process

Previous studies have concluded that Saudi workforce has a declined employment share in the private sector for the following reasons:

1. Low percentage of Saudi graduates with both scientific and / or technical training background to fit the job requirements.
2. Low level of technical & vocational / training for jobs in private sector for many Saudis.
3. Long working hours & shift / work system, short weekend, vacation time & strict time keeping.
4. The influence of the Saudi family on its members to favor government jobs over the private sector, because it is viewed

as a public service; and not a private service as in private establishments.

5. Low participation of employees in their establishments decision making or policy formulation, leading to alienation feelings.
6. Inclination of the majority of the private sector employees to move to government sector because it offers, job security, reasonable working hours, one shift work load, long weekend, higher chances of scholarships abroad and more lenient appraisal systems.

There were other findings as well as about the private sector employment of Saudis. Some outlined the profit oriented strategy of the private sector & its impact on the decision to hire Saudis. (It is more profitable to hire an expatriate than a Saudi worker in the private sector). This argument is supported by eight logical concerns most of which are myths:

1. Lower wage of the expatriate vs. Saudi worker
2. Expatriate job training & skills could be ordered as required without training vs. Saudis.
3. Flexibility of the expatriate workforce in working hours & location vs. Saudis
4. Relative instability of the Saudi workers vs. the expatriate ones.
5. Relative ease of acquiring the required type & number of workers from the expatriate workforce.
6. Relative ease of terminating work contracts of foreign workers if they perform badly vs. Saudi workers who require a long process of appeals & court actions in the labor office.
7. Saudi workers cost more to hire than the expatriates (especially retirement & fringe benefits).
8. Low adaptability of Saudi workers to job environment in the private sector vs. the expatriate workforce.

There are so many research and studies about the different aspects of the Saudi labor force that shed some light on various aspects of its labor market behavior.

5. Logistical Considerations:

A quick review of the literature, interviews with key public & private sector figures, revealed that the following are available logistical options. The general practice in the labor market, is a combination of some of these options. We shall list them now leaving the comments and the discussion later in the report:

1. Continue the process of foreign workers recruitment, as needed in the private sector.
2. Releasing foreign workforce in private sector & using the Saudi labor force as a substitute.
3. Gradually reducing the size of the expatriate work force in the private sector by setting a limit to its size that is not to be exceeded.
4. Gradually reducing the percentage of expatriate force while increasing that of Saudi work force by the same percentage rate.
5. Gradually increase the Saudi work force while freezing the foreign work force size.
6. Reducing the foreign work force size by imposing fees for the recruitment that proportionally increase as the size of the work force to be recruited increases per establishment in the private sector.
7. Limit the foreign work force size in the private sector as a percentage of the total Saudi population.
8. Limiting expatriate work force to a special percentage of each private sector establishment.
9. Continue the current recruitment practice of foreign work force, while subsidizing private sector establishments that fill a specific percentage of their labor force needs by Saudis.

10. Continue the current recruitment process, while campaigning through mass media for more Saudi workforce involvement in the private sector by both employees & Saudi workers.
11. Same as 10 but with launching of more training program for Saudi workers.
12. Same as 1, but impose a minimum percentage rate for Saudi work force provided that the state will pay the difference between the average Saudi worker wage rate and that of the foreign worker.
13. Combine, both the foreign work force maximum limit policy & the imposing of fees that progressively increase with the increase in foreign workers per establishment in the private sector. At the same time continue to train more Saudi workers (Quantitatively & Qualitatively) while advertising the importance of the private sector work.
14. Combine, foreign work force upper limit policy & the minimum Saudi work force level policy, provided that the state will pay the difference in wage between the Saudi & foreign workers in the establishment of economic activity, for every Saudi above the minimum limit, while collecting fees that progressively increase as the foreign workforce increases. At the same time, expand the training of Saudi workers (both in quality & quantity) while promoting, through mass media, the importance of Saudi work force participation in the private sector.

6. Rephrasing the Quest for an Answer:

By now we should be able to see that the problem is too complex to get a single answer. But even more importantly what is the question to be answered.

We believe that the labor market current practice is very fluid and can be very difficult to control, yet it seems unlikely that the status quo will prevail much longer. The following 3 questions would tell us what is lacking in the market mechanism and should simplify our quest for, an answer ?

1. Is it true that national manpower is not sought and employed as should be in the private sector?
2. If #1 is true, what is the myth and what is the fact behind the causes of this phenomenon?
3. What are the possible policy options suitable to deal with these problems as in # 1 if in fact it was found to be true?

7. New Evidence from the Labor Market:

A recent labor market survey, that was conducted across all sectors of employment in the private sector, had shown that the following 17 factors contributed significantly to the low rate of Saudi work force participation in the private sector.

These factors are:

1. Poor command of the English language among Saudi worker vs. foreign workers.
2. Exaggerated job qualifications required by the establishments for hiring.(diploma, practical experience, foreign language, etc.)
3. Foreign Managers & Consultants discrimination against Saudi worker in favor of their own nationals in the private sector employment policies.
4. Foreign workers competition with Saudi workers over the private sector jobs.
5. Long working hours, shift work hours, shorter week end & annual vacation time vs. public sector jobs.
6. The attractiveness of the public sector jobs (packages), for Saudis (scholarships, job security. etc). vs. private sector jobs.

7. Higher minimum wage and other economic costs that are acceptable to the Saudi worker vs. the foreign worker, due to the higher quality of life & cost of living among Saudis.
8. Lower wages & benefits that Saudi executive workers can find in the private sector.
9. The use of benefit/cost analysis policy as an utmost priority decision making tool for employing Saudi vs. the cheaper foreign alternative.
10. Inflexibility of the Saudi worker to accept employment anywhere in the Kingdom vs. the foreign worker.
11. Relatively fast & easy access to foreign workers both in type & quantity suitable for the establishment vs. the Saudi workers.
12. Relatively easy & fast process of terminating the foreign worker employment contract vs. the Saudi worker.
13. Inflexibility of relocation within the Kingdom of Saudi worker vs. foreign worker.
14. Lack of regulation forcing the private sector to fill a set percentage of their work force by Saudis.
15. Not linking the government subsidies to the private sector establishments with their employment of Saudi Workers.
16. The need for a more comprehensive training, as a part of an ongoing process of career development for Saudi workers in the private sector establishments.
17. The need for a national comprehensive awareness campaign, with an application and enforcement mechanism, aimed at emphasizing the importance of the private sector and its jobs, as well as the importance of Saudi worker and the benefit resulting from his employment with private sector.

Essentially, these 17 factors are believed to be the leading factors, for the problem of low participation rates for the Saudi work force in the private sector.

8. Approaches to the Solution:

A comprehensive & conclusive solution to this complex problem, does not to be possible, at least in the short term. However, strategically speaking the possible options, are based on the simple fact of the political will of the decision makers, and their strategic considerations. The World Bank have suggested several approaches to the nationalization of the local labor force, and these are:

- | | |
|---------------------------|----------------------|
| 1. Across the Board | 2. Key sectors |
| 3. Administrative Control | 4. Selected emphasis |

These refer to the Standard Industrial Classification (SIC) distribution of the workforce, i.e. economic activity by occupation matrix (see attachment).

The first approach would be the most logical & rational one to follow, however it is the most expensive & time consuming approach of them all. It requires nationalizing all sectors by economic activity overall occupations. Theoretically it is possible, but in practice, it is almost never attainable, especially for capital intensive development strategies, such as those of Saudi Arabia.

The second approach aims at nationalizing key and important economic activity sectors, such as petroleum production, construction, finance and public administration and defense. These are essential sectors to the national security & interest of the country.

Third approach is administration control, where all the economic activity sectors are supplied with Saudi managers, officials, professionals, technicians and sub. professionals.

Fourth, is a general emphasis forum for the government current policy to apply its natural policies every year. For example, the first year the emphasis would be all administrative control but in some economic

activities next five years would be on lower level of skills but different economic activities and so on.

Obviously these approaches have problems; First the system is dynamic, i.e. in migration, out migration, death, retirement and occupational shift are all variables, so how could these variables be controlled? Second how to keep those in, and not leave to other more attractive jobs that may require less & provide more for the worker? Third, how could the system be controlled if it were open, and not possible to monitor? Fourth, the approaches, seem mechanical and arithmetic in numbers, rather than quality and quantity of the worker, his efficiency, effectiveness & work satisfaction. The list goes on and on, at the end we come to the gloomy conclusion, that maybe there is no way out of it? Of course, there is but it is not that simple. It took so many years for this problem to develop and mature, and logically it will require even more time to go back to normal states of balance between supply and demand for jobs filled by Saudis.

We are suggesting a complex, but comprehensive set of approaches to the solutions. This set includes the following seven approaches to the solutions and any solution must include a part from all seven:

1. Comprehensiveness & balance in the solution approach
2. The education, training & re qualification approach
3. The employment approach
4. The adjustment & adaptation to the work environment approach
5. The wages and other economic costs approach
6. The awareness approach
7. The effective application mechanism approach

We will not detail, what we mean by each approach at this stage, however, we will comment on each, leaving the detailed outline of policy that explains & maintains each approach for a separate study. It is important to note that each approach, is merely an entrance to a large

set of policies & regulations that leads to the achievement of one aspect of the total Saudization of the labor force.

On Monday, 20/8/1417AH, 30/12/96, the Saudi Manpower Council, passed resolution no. 1/M43/1417, which outlined the "Human Resources Development Strategy in Saudi Arabia". That document contains many options for action and a few policy measures that aim at full utilization of the Saudi Labor Force. This document provides a good forum for our policy options & approaches to the solution treatment.

9. Summary of Thoughts on the Approaches:

These given approaches to the solution focus on vital aspects. The focus is deliberately multidisciplinary, and these include:

1. The first approach aims at a balanced & comprehensive treatment of the problem, so that other problems may not be created because of the proposed solutions.
2. The second approach, deals with improving the competitiveness and professional standards of the Saudi workers to out perform the foreign worker, by suggesting ways to improve the English language, education, technical & professional training to all, but with link to what is needed in the market, because technology transfer is an ongoing process.
3. The third approach, deals with, commitment to hire, train & retain the Saudi worker, and providing Policy measures to ensure that this approach succeed. The task is huge, because it begins with attitude change on the part of the Saudi worker & employer, revising employment qualifications requirements, to career development for the Saudi worker. It ends with incentives to keep him in the establishment.
4. The fifth approach, deals with behavioral changes on both sides worker & employer as well as the government mass media campaigns. The employer is also expected to adjust the compensation system to reflect the fact that higher level of education of the Saudi workers was paid for by the government, and they have to pay their share. The Saudi

worker, is also expected to be flexible and realistic in responding to job offers & demands from the private sector.

5. The fifth approach is aimed at, rectifying the current inappropriate practice of the private sector, by which they evaluate the wages and benefits packages. Their standards are inappropriate, and are based on the absolute foreign worker alternative options. Some policy measure are suggested to deal with this multiple problem.
6. The sixth approach deals with the public awareness & mass media communication at all levels. People should be aware of the problem so that it can be solved. The information technology revolution that we are experiencing provides very good opportunities for action & policy options.
7. The seventh approaches, which is the capstone of all, deals with the legislative aspect of all the above. No policy can work if it is not enforced and this is supported by the Manpower Council resolution mentioned earlier, and many other Council of Minister resolutions.

10 What Next ?

This is a brief report, about a very complex and serious national crisis. No single solution can be found, but rather, different approaches working together are more likely to be the solution.

Full scope coverage of each approach, outlining recommended policy options, along with anticipated difficulties and observations are possible and will be available, upon request. However, this kind of delicate policy development and enactment requires careful examination of all options as well as,, total commitment in terms of time and effort. That is something we have to discuss in a specific format and arrangements, satisfactory to both parties concerned, the researcher and the client. I hope that you find this material, helpful, useful and appealing.

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Figure 1
THE SECTOR/OCCUPATION MATRIX (SOM) AND
ALTERNATIVE POLICY OPTIONS - I “ADMINISTRATIVE CONTROL”

| Economic activity sectors | Occupational groups | | | | | | | | | | |
|----------------------------------|----------------------------|----------------------|--|-------------------------|----------------------|------------------------|-------------------|------------------------|-----------------------------|----------------|-----------------|
| | Managers, officials | Professionals | Technicians and sub-professionals | Clerical workers | Sales workers | Service workers | Operatives | Skilled workers | Semi-Skilled workers | Farmers | Bedouins |
| <u>Private sectors :</u> | | | | | | | | | | | |
| 1. Agriculture, etc. | | | | | | | | | | | |
| 2. Petroleum production | | | | | | | | | | | |
| 3. Other mining and quarrying | | | | | | | | | | | |
| 4. Manufacturing (petroleum) | | | | | | | | | | | |
| 5. Manufacturing (Other) | | | | | | | | | | | |
| 6. Utilities | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---------------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
| 7. Construction | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 8. Trade and commerce | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 9. Transport and communications | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 10. Finance, etc. | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 11. Community Services | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 12. Nomads | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | |
| <u>Government sectors :</u> | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| 13. Public administration and defense | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 14. Education | ■ | ■ | ■ | | | | | | | | ■ | ■ |
| 15. Health | ■ | ■ | ■ | | | | | | | | ■ | ■ |

Priority cells



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Figure 2
THE SECTOR/OCCUPATION MATRIX (SOM) AND
ALTERNATIVE POLICY OPTIONS-II “KEY SECTORS”

| Economic activity sectors | Occupational groups | | | | | | | | | | |
|---------------------------------------|---------------------|---------------|-----------------------------------|------------------|---------------|-----------------|------------|-----------------|----------------------|---------|----------|
| | Managers, officials | Professionals | Technicians and sub-professionals | Clerical workers | Sales workers | Service workers | Operatives | Skilled workers | Semi-Skilled workers | Farmers | Bedouins |
| <u>Private sectors :</u> | | | | | | | | | | | |
| 1. Agriculture, etc. | | | | | | | | | | | |
| 2. Petroleum production | | | | | | | | | | | |
| 3. Other mining and quarrying | | | | | | | | | | | |
| 4. Manufacturing (petroleum) | | | | | | | | | | | |
| 5. Manufacturing (Other) | | | | | | | | | | | |
| 6. Utilities | | | | | | | | | | | |
| 7. Construction | | | | | | | | | | | |
| 8. Trade and commerce | | | | | | | | | | | |
| 9. Transport and communications | | | | | | | | | | | |
| 10. Finance, etc. | | | | | | | | | | | |
| 11. Community Services | | | | | | | | | | | |
| 12. Nomads | | | | | | | | | | | |
| <u>Government sectors :</u> | | | | | | | | | | | |
| 13. Public administration and defense | | | | | | | | | | | |
| 14. Education | | | | | | | | | | | |
| 15. Health | | | | | | | | | | | |

Priority cells



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Figure 3
THE SECTOR/OCCUPATION MATRIX (SOM) AND
ALTERNATIVE POLICY OPTIONS III “ACROSS THE BOARD”

| Economic activity sectors | Occupational groups | | | | | | | | | | |
|---------------------------------------|---------------------|---------------|-----------------------------------|------------------|---------------|-----------------|------------|-----------------|----------------------|---------|----------|
| | Managers officials | Professionals | Technicians and sub-professionals | Clerical workers | Sales workers | Service workers | Operatives | Skilled workers | Semi-Skilled workers | Farmers | Bedouins |
| <u>Private sectors :</u> | | | | | | | | | | | |
| 1. Agriculture, etc. | | | | | | | | | | | |
| 2. Petroleum production | | | | | | | | | | | |
| 3. Other mining and quarrying | | | | | | | | | | | |
| 4. Manufacturing (petroleum) | | | | | | | | | | | |
| 5. Manufacturing (Other) | | | | | | | | | | | |
| 6. Utilities | | | | | | | | | | | |
| 7. Construction | | | | | | | | | | | |
| 8. Trade and commerce | | | | | | | | | | | |
| 9. Transport and communications | | | | | | | | | | | |
| 10. Finance, etc. | | | | | | | | | | | |
| 11. Community Services | | | | | | | | | | | |
| 12. Nomads | | | | | | | | | | | |
| <u>Government sectors :</u> | | | | | | | | | | | |
| 13. Public administration and defense | | | | | | | | | | | |
| 14. Education | | | | | | | | | | | |
| 15. Health | | | | | | | | | | | |

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Figure 4
THE SECTOR/OCCUPATION MATRIX (SOM) AND
ALTERNATIYE POLICY OPTIONS -IV “SELECTED EMPHASIS”

| Economic activity sectors | Occupational groups | | | | | | | | | | |
|---------------------------------------|---------------------|---------------|-----------------------------------|------------------|---------------|-----------------|------------|-----------------|----------------------|---------|----------|
| | Managers, officials | Professionals | Technicians and sub-professionals | Clerical workers | Sales workers | Service workers | Operatives | Skilled workers | Semi-Skilled workers | Farmers | Bedouins |
| <u>Private sectors :</u> | | | | | | | | | | | |
| 1. Agriculture, etc. | | | | | | | | | | | |
| 2. Petroleum production | | | | | | | | | | | |
| 3. Other mining and quarrying | | | | | | | | | | | |
| 4. Manufacturing (petroleum) | | | | | | | | | | | |
| 5. Manufacturing (Other) | | | | | | | | | | | |
| 6. Utilities | | | | | | | | | | | |
| 7. Construction | | | | | | | | | | | |
| 8. Trade and commerce | | | | | | | | | | | |
| 9. Transport and communications | | | | | | | | | | | |
| 10. Finance, etc. | | | | | | | | | | | |
| 11. Community Services | | | | | | | | | | | |
| 12. Nomads | | | | | | | | | | | |
| <u>Government sectors :</u> | | | | | | | | | | | |
| 13. Public administration and defense | | | | | | | | | | | |
| 14. Education | | | | | | | | | | | |
| 15. Health | | | | | | | | | | | |

Priority cells



Non-priority cells



Void cells

