Workforce Localisation Policies in Multi-National Enterprises: The Determinants of Successful Implementation in the Kingdom of Saudi Arabia

A thesis submitted for the degree of Doctor of Philosophy

By

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Abstract

Workforce Localisation policies in Saudi Arabia (commonly known as 'Saudisation') have passed their nineteenth year, aiming at replacing foreign employees in the private sector with local employees. The government's rationale behind the localisation of the workforce includes both the high rate of unemployment amongst Saudi nationals and the massive presence of expatriates in the labour market. The government acted firmly in this issue as organisations are threatened by closure and severe financial penalties if they do not comply with the policy requirements. Although these policies apply to all private firms, the regulations have been even tougher on Multi-National Enterprises (MNEs) as one of the main objectives of Saudi's foreign investment policy is to create employment opportunities for locals. However, many MNEs have been found to be lagging behind in implementing the policies. Despite the importance of these policies and their implications on MNEs' performance, research in this area remains very limited. The literature available has focused on issues of rationales and barriers of WL polices. One of the main gaps in literature is the lack of multi-dimensional models that identify the factors associated with the success of such policies. In an attempt to overcome the mentioned limitations, this research identifies the determinants of localisation success through the employment of multi-dimensional model.

From the model proposed, the research evaluates the impacts of Institutional determinants, HR determinants, and firm characteristics on localisation success. The study draws its conclusion from the analysis of quantitative data collected from Human Resource Directors representing 157 MNEs. Hypothetical relationships are examined using multiple regression analysis. With regard to the first group of localisation determinants, the results support the institutional determinants of cause and control whilst supporting only the consistency proposition in the content determinants. With regard to HR determinants, the roles of HR director, recruitment, and training were found to be powerful determinants of localisation success. Finally, the results have shown that determinants related to MNEs' characteristics—namely MNE size and MNE age—have no significant impact on localisation success. We also found that MNEs operating in the petrochemical industry are more likely to succeed in their localisation polices than other industries namely high and low technology industries.

The overall findings have raised a number of areas of interest. First, the drivers of these policies were specifically social perception in the form of legitimacy and extrinsic economic pressure. Secondly, it was also duly observed that legislative and regulatory influence was found to be a strongly positive determining factor. From a theoretical perspective, it is concluded that greater diffusion of policies which acknowledge the potential variations in skill sets and labour availability and capability would, in fact, result in a more transparent approach. In the long term increased trust between organisations and policy-makers could have the effect of accelerating the localisation process because MNE's work collaboratively with policy-makers and are prepared to invest resource in improving the level of localisation as a form of strategic and competitive advantage.

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List of Abbreviations

ARAMCO	Saudi Arabian Oil Company
CDSI	Central Department of Statistics and Information (Saudi Arabia)
CEO	Chief Executive Officer
GCC	Gulf Cooperation Countries
GDP	Gross Domestic Product
GOTEVT	General Organisation for Technical Education & Vocational Training
HPWS	High Performance Work Systems
HRDF	Human Development Resources Fund (Saudi Arabia)
HRM	Human Resource Management
IT	Information Technology
PBUH	Peace Be Upon Him (Prophet Mohammad)
MCAR	Missing Completely at Random
MVA	Missing Value Analysis
R&D	Research and Development
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabia Monetary Agency
SHRM	Strategic Human Resource Management
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
SR	Saudi Riyals

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Author's Declaration

I, Abdullah Alanezi, declare that the ideas, research work, analyses, findings and conclusions reported in my PhD thesis are entirely my own efforts, except where otherwise acknowledged. I also certify that this thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Publications associated with this Thesis

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CHAPTER 1: PURPOSE OF THE STUDY

1.1   Introduction

This thesis aims at empirically identifying the success determinants of workforce localisation implementation in Multi-National Enterprises (MNEs) based in the country of Saudi Arabia. This chapter presents the research background, explains the research problems, identifies the research aims, determines the significance of this research, and provides a detailed description of the research context.

1.2   Research Background

The concept of workforce localisation (WL) refers to the development of local employee skills and the delegation of decisions to local employees, with the final objective to replace foreign workers with local employees (Wong & Law, 1999). WL policies have been a top priority for many developing countries. In the country of Saudi Arabia, the government has acted firmly and spared no efforts in forcing private organisations to implement WL. In fact, organisations are threatened by closure and severe financial penalties if they do not go ahead with WL. The government's rationale behind the localisation of workforce includes both the high rate of unemployment amongst Saudi nationals and the massive presence of expatriates in the labour market. First, in 2010 there were 2 million unemployed Saudis, with the unemployment rate estimated to be around 12% (Ministry of Labour Report, 2010). Secondly, the percentage of foreign workers constitutes more than 58 % of the total workforce and 89% of the workforce in the private sector (Central Department of Statistics & Information, 2011). With the high number of foreign workers employed and the high number of unemployed Saudis, in the context of private firms, there are only two Saudis for every eight expatriates. The main target of these policies is to boost the percentage of local workforce to reach 75% of total workforce by 2020 (Ministry of Labour Report, 2010).

The prepositions of WL have strengthened following the Arab spring development. Threatened by political instability, the government issued 10 royal decrees to accelerate WL implementation in the private sector (Alriyadh newspaper, 2011). In fact, the Saudi

minister of labour has mentioned continuously that firms must choose from implementing WL or the exit from Saudi market (Ramady, 2010).

Although WL policies apply to all private firms, the regulations have been even tougher on Multi-National Enterprises (MNEs). One of the main objectives for Saudi's foreign investment policy is to create employment opportunities for locals (Saudi Arabian General Investment Authority, 2010). Saudi Arabian General Investment Authority (SAGIA) and the Ministry of Labour closely monitor WL process and apply severe penalties if MNEs fail to comply with WL regulations.

For MNEs, the process of replacing expatriates with local workers has been a very important issue. The rationale behind the localisation of workforce includes both the high rate of failed foreign assignments and the costs associated with such (Collings *et al*., 2007; Law *et al*., 2004; Black, 1988; Oddou, 1991). The rate for international assignments failure is estimated to range between 20% and 25% of all expatriate assignments (Law *et al*., 2009; Law *et at*, 2004; Solomon, 1994). Importantly, the cost of every individual failed assignment is estimated to be one million US dollars when taking into account all associated costs as every international assignment costs more than five times of expatriate's home salary (Collings *et al*., 2007; Selmer, 2001; Shaffer & Harrison, 1998; Shaffer *et al*., 1999). Other studies highlight other advantages in addition to cost savings: first, local employees understand their local culture better than expatriates, and they can also build business relationships with local customers owing to knowing how to deal with them (Al-Waqfi & Forstenlechner, 2010; Cascio, 2006; Oddou & Mendenhall, 2000; Wall, 1990); secondly, the presence of an expatriate manager has had negative impacts on the morale of local employees (Cascio, 2006; Law *et al*, 2004; Oddou & Mendenhall, 2000; Hailey, 1996), whereby local employees view foreign managers as being distant owing to cultural and language barriers, with their presence also potentially undermining local employees' commitment to the firm as managerial positions are given to expatriates; and thirdly, it is considered that localisation may improve the relations with the host country government as most governments view the

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employment of nationals as commitment from the foreign company to the host country (Forstenlechner & Mellahi, 2010; Lasserre & Ching, 1997).

There are, however, MNEs that decide not to implement localisation policies. The unavailability of skilful local workers and expatriates' knowledge of the parent company culture are two main reasons behind their decision to retain expatriate workers (Collings, 2007; Law *et al*, 2004; Kobrin, 1988). MNEs may opt to preserve the central and operational control of their subsidiaries for strategic reasons through the appointment of expatriates—especially in managerial positions (Harzing, 2001; Child & Yan, 1999; Wong & Law, 1999). However, most MNEs have no choice but to implement WL policies—especially in contexts where localisation is regarded as a requirement of the host country's institutional environment. MNEs operating in foreign markets must adopt to the host country' environment through compliance with the norms and demands of the host government and society (Forstenlechner & Mellahi, 2010; Kostova & Roth, 2002; Kostova & Zaheer, 1999; Rosenzweig & Nohria, 1994). This will enable MNEs to overcome the liability of foreignness by gaining external legitimacy from the host environment (Forstenlechner & Mellahi, 2010; Chan & Makino, 2007; Zaheer, 1995; Hymer, 1976). External legitimacy promotes the MNE's status in the host country, enables access to important resources, and enhances its ability to compete (Baum & Oliver, 1991).

1.3   Research Problem

Despite the importance of WL success and their implications on MNEs' performance in the host country, along with their inevitability in the host environment, research in this area remains very limited (Randree, 2012; Sadi & Henderson, 2010). Available literature (See Chapter 3) focuses on issues of rationales and barriers of WL polices. One of the main gaps in the literature is the lack of empirical investigation regarding the relationships between WL and the underlying principles of WL process. In particular, WL research lacks multi-dimensional models that identify the factors associated with the success of such policies (Forstenlechner & Mellahi, 2010; Law *et al*., 2009). On the other hand, many MNEs have been found to be lacking in terms of implementing WL in

the country of Saudi Arabia—even though WL policies are prioritised by the Saudi Government (Ministry of Labour Report, 2011). Therefore, this research raises the following question:

Research Question

RQ) What are the factors impacting the success of workforce localisation policies in MNEs operating within Saudi Arabia?

This research question raises further questions in the form of three various groups of factor. In order to answer these questions, this thesis attempts to examine empirically the relationship between these factors and the WL policies in Saudi Arabia.

First, this thesis argues that the process of WL is essentially a pressure derived from the institutional environment of host country. Hence, several institutional factors impact WL success within MNEs. WL success depends on why localisation policies are required (cause), who requires them (constituents), what these policies are (content), how or by what means they are required (control) and where (context) they are required (Oliver, 1991).

Secondly, organisational responses to WL pressures in terms of Human Resources Management (HRM) are very important to WL success. In most cases, MNEs have a strategic choice to go along with job localisation. Hence, the strategic role of the HR department becomes a significant HR determinant for the success of the localisation efforts (Law *et al*., 2009; Bjorkman *et al*., 2007). In this case—and in order for the localisation to succeed—the role of HR director and HRM practices (recruitment and training) are very important. Thus, the role and nationality of HR director, recruitment, and training practices must be examined in order to understand clearly their impact on WL success.

Thirdly, we take into account the influences of MNE characteristics (size, age, and industry) on the success of localisation policies. It has been argued in the literature that

MNEs' characteristics, such as MNEs' age, size and the type of industry, might impact localisation success. The older the MNE, the more experience it has in terms of implementing localisation, thus making it more capable of responding accordingly to government pressure. It has also been argued that the larger the MNE, the more pressure it receives from the government to increase the number of local staff. In regard to type of industry, the petrochemical industry in Saudi Arabia is the most important sector in the country's economy; hence, companies operating in the petrochemical sector, unlike other industries, are put under huge pressure to implement localisation policies.

1.4   Research Aim and Objectives

This study aims to contribute to our overall understanding of the process of workforce localisation in MNEs through the identification of the main success determinants of workforce localisation policies in the country of Saudi Arabia, and to design a multi-dimensional framework for the empirical examination of the relationship between various factors and localisation success. In order to achieve this aim in a scientific manner, the current research will fulfil the following objectives:

1. To conduct a detailed review of relevant literature in order to better understand Workforce Localisation (WL) process.
2. To propose an appropriate multi-dimensional framework based on the first objective that will help implement WL successfully. This framework will compromise factors and will be transformed into testable hypotheses that predict WL success.
3. To evaluate the impacts of institutional factors (cause, constituents, content, control, and context) on WL success.
4. To examine the relationships between HR practices (recruitment, training, role and nationality of HR director) and WL success.
5. To investigate the effects of MNEs' characteristics (age, size, and type of industry) on WL success.
6. To select an appropriate methodology and accordingly develop a valid and reliable research tool for the evaluation of the framework proposed.

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7. To conduct primary research to gather data from the study sample.

8. To analyse gathered data through the use of an appropriate research technique.

9. To obtain validated results from the primary research in an attempt to draw conclusions and make recommendations relevant to WL success.

1.5   Statement of Significance

The present study is an attempt to establish coherent theoretical foundations of the workforce localisation process through the incorporation of the institutional perspective with HR elements and MNE characteristics. It offers a holistic approach to carefully examine and understand this process from multi-dimensional perspective. It contributes to this area of research by identifying the success factors of localisation policies and thus providing important theoretical and empirical implications for both policy-makers in the government and MNEs. It is noteworthy to mention that this research is the first study to examine empirically the institutional foundations of workforce localisation policies and thus to contribute to the growing body of literature in this topic. In this regard, it is significantly important to mention that several recommendations for future research have been made in an attempt to examine the Institutional Theory in environments that lack well-established institutional arrangements—especially in developing countries, such as Saudi Arabia (Ali, 2010; Scott, 2004; Lawrence & Phillips, 2004).

The significance of the current study also pertains to being the first comprehensive study in terms of localisation policies to be carried out in MNEs operating within Saudi Arabia. This study is also the first study to employ the organisation as a unit of analysis in the localisation literature. Most studies in the context of localisation in general have used individual HR managers, line managers or employees as a unit of analysis. With this in mind, thus far, no single study employs organisations as a unit of analysis. This is very important if we are keen to establish theoretical foundations of the relationship between success factors and workforce localisation. Finally, this is the first study examining the role of the HR director on localisation success.

1.6   Research Context and Rationale

This study will be conducted in Multi-National Enterprises (MNEs) operating in Saudi Arabia. Workforce localisation has been a very important issue for both MNEs and Saudi Arabia (see Section 1.2). This context provides a very unique opportunity for research as the Saudi government is forcing sceptical MNEs to implement WL policies. Nevertheless, the success of WL policies in MNEs is crucial for the continuation of their operations in Saudi Arabia. Having considered MNEs operating within the Saudi context and having to adapt to the government's localisation policies, the rationale for further investigation comes from a number of considerations. In the first instance, it is believed that the policies of the Saudi government go further than those of other localisation programmes seen in other countries and thus is justifying additional research. To accommodate the fast growth of local population and local unemployment, the creation of sufficient employment opportunities for Saudis in a labour market with massive presence of expatriates is urgently crucial issue for the Saudi government (Randree, 2010; Ramady, 2010).

On the other hand, it would appear that there has been considerable protest on the behalf of MNEs to the WL policies. Many MNEs have been found compliance with WL policy somewhat difficult to manage. Typically, levels of local employment amongst the private and MNE sector have been typically between around 8% with a requirement in accordance with the various forms of WL legislation to increase the proportion of local employees to at least 30% (Fakkeeh, 2009). In such a case, MNEs tend to focus upon the additional costs of continuing to employ expatriate employees, whilst the downside of having to employ increased levels of local labour include either the lack of skills necessary to provide optimal performance or the lack of the work ethic of expatriate employees (Robertson *et al*., 2001). As such, this also justifies further research in the specific context of Saudi Arabia so as to identify success factors of WL because localisation policies are crucial for the survival of MNEs in the Saudi market and political stability of Saudi government. Finally, the following sections (Section 1.7 and Section 1.8) present detailed profiles of Saudi Arabia and MNEs operating within the country.

1.7. Saudi Arabia: A Country's Profile

1.7.1 Geo-Political Background

The Kingdom of Saudi Arabia is located in south-west Asia, and occupies a key position with access to both the Persian Gulf from the east and the Red Sea from the west, which are key routes from a geo-political perspective. The country's position to neighbouring countries includes Jordan and Iraq from the north; Kuwait, Bahrain, Qatar and the UAE from the east; Oman and Yemen from the south; and Egypt from the west.

Figure 1.1: Map of Saudi Arabia

Saudi Arabia is well-known for being the birthplace of Islam—the second largest religion followed—and the site for its holy cities of Makkah and Madinah. The story of Saudi Arabia is historic, although the nation state as recognised today is somewhat new, dating back to just 1932 and King Abdul-Aziz Ibn Saud's unification of the Arabian Peninsula (AlRasheed, 2002). Prior to the unification of the country under the Kingdom of Saudi Arabia, the peoples of the region had been subjected to the authority of the Ottoman Empire. Ottoman rule collapsed in the area due to the events of the Great War of 1914–1917; however, unlike many other areas that came under the influence of one of the Old World empires at the end of the conflict, the peoples of what would become Saudi Arabia did not become a formal colony of the British Empire. Rather, King

Abdul-Aziz, the founding father of the kingdom, decided to establish an independent kingdom based on the unification of Arabian Peninsula under the call for the comeback to pure Islam, as stated by the Holy Quran and the teachings and practices of the Prophet Muhammad. The call was answered by the people, especially tribes, which were striving for the re-instalment of Islam as the message to be embraced and delivered to the rest of the world. Since this time, the historical development of Saudi Arabia from its new state in 1932 to its current position as a modern power—both in the region and on the global political stage—has been mainly due to the importance of Saudi Arabia as a main Islamic country and the discovery of oil in 1938.

The country has remained a hereditary monarchy, with the title passing on a hereditary basis between the sons of King Abdul-Aziz. In the modern kingdom of Saudi Arabia, the ruling monarch serves as both Head of State and Prime Minster (World Factbook, 2012). Although there is no formal representation of the people in government through political parties, there are appointed parliament municipal elections and a number of pressure groups in existence with large commercial interests (ibid).

The Saudi basic system of state is based on Shari'ah law (Islamic law), in which it is established that the guidance of the Holy Quran and Sunnah (teachings and practices) of Prophet Muhammad (Peace Upon Him) essentially form the basis of the country's constitution. Although such a system of religious law (Shari'ah in this case) may seem unfamiliar to many foreign-owned MNEs, the content of such a legal system may be comparable to many Western based legal system, which confirm the legitimacy of the ruling power, provide a recognition of private property, place emphasis on the requirement of the state to protect the rights of citizens, and to provide for those who are in material need (Ansary, 2008).The basic system provides an institutional framework for judicial, legislative and executive branches of government. However, unlike in many Western or democratic legal systems, there is no effective division of powers between the three branches of government (ibid).

The country is currently ruled by King Abdullah—a popular figure who has introduced moderate reforms into the country's political system since his ascension to the thrown in 2005. Reforms in the political arena have included a re-shuffle of the cabinet with concessions to those holding moderate views on judicial positions. In addition, 2009 saw the appointment of the first female to the Saudi Arabian cabinet in the country's political history. Whilst many countries have suffered political turmoil in the recent 'Arab Spring', Saudi Arabia has seen much lower levels of discontent in the period (BBC News, 2011), partly due to a number of political economic reforms, including increased pay rises for government works, increased investment in cheaper housing, and reforms to benefits for the unemployed (World Factbook, 2012).

1.7.2 Population and Economy

In 2012, Saudi Arabia had a population of 29.19 million, as estimated by the Central Department of Information and Statistics (CDIS). The Saudi population (estimated at 19.83 million) represents 68% of the entire population whilst the non-Saudi population makes up the remaining 32%, totalling 9.35 million. The Saudi population is distributed equally in terms of gender as males and females Saudis constitute 33% and 34%, respectively, of the total population. When adding the non-Saudi population, the portion of male population has increased to 55.2% whilst the total female population equals 44.8%. The Saudi population is characterised as young and fast-growing, with a median age of 27 years and growth rate of 2.9. In regard to age groups, 67.1% of Saudi population falls into the working-age group (15–64 years) whilst the population aged 0–14 represents 30.1%, and the elderly population constitutes only 2.8%. The life-expectancy age average is 74 years, reflecting the improvements on the national health system and life conditions of Saudis from 54 years in 1970 (AlQurashi, 2009). Demographic data of Saudi Arabia is presented in Table (1.1).

Analysis of Saudi's Arabia population reveals two main demographic trends: first, the growth rate of Saudi population is one of the highest rates as the population has grown four-fold from 7.3 million in 1975 to 29.19 million in 2012 (SAMA, 2011). Sustained economic growth during the period and the cultural belief of large families has

contributed to Saudi population growth. Secondly, the population poses demographic imbalances as youth constitutes a large share of the population and the non-Saudi population is considerably large (Ramady, 2010). Moreover, 30.1% of the total population is aged between 0 and 14 years, whilst 67.1% is aged between 15 and 64 years. The non-Saudi population represents 32% of the total population and is dominantly employed by the private sector as they constitute 89% of the total number of workers in the private sector (SAMA, 2011). Both demographic trends pose serious security challenges to the Saudi government in terms of creating employment opportunities for its youth.

Table 1.1: Total Population of Saudi Arabia (2012)

Population, Nationality Sex, and Age Group	Year 2012	Percentage of Total
Saudi Nationals		
Male	9,962,397	34.2
Female	9,876,051	33.8
Total	19,838,448	68.0
Non-Saudis		
Male	6,581,439	22.5
Female	2,776,008	9.5
Total	9,357,447	32.0
Total Population: 29,195,895 Life Expectancy: 74 Age Dependency Ratio: 49 Median Age: 27		
Male	16,543,836	55.2
Female	12,652,059	44.8
Aged 0-14	8,787,964	30.1
Aged 15-64	19,590,445	67.1
Aged 65+	817,485	2.8

Source: Central Department of Statistics and Information, 2012.

In regard to its economy, Saudi Arabia is the world's largest producer of oil and petroleum products, accounting for 13% of the world's production and 35% of the Organisation of the Petroleum Exporting Countries (OPEC)'s production. Whilst such a high level of production gives Saudi Arabia considerable economic and political power on the global stage, there is also a concern that with the country drawing up to 73% of its revenues from the oil industry, the country is somewhat over dependent on the sector in the long-run (Country Studies, 2012). Despite the heavy reliance on the oil sector,

other significant industrial sectors in Saudi Arabia include Hajj (Pilgrimage to The Holy Places in Makkah and Madinah), telecommunications, power generation and support services for the oil and gas industry (World Factbook, 2012). From an industrial makeup perspective, the country's industrial structure includes 71.9% services, 21.4% industry and 6.7% agriculture calculated as a percentage of employment (ibid).

Overall the key economic indicators shown in Table 1.2 present a positive view of economic development within Saudi Arabia. GDP has grown vastly over the period 2000–2012 from $188,446 billion to $675,200 billion—a rise of 259%. This reflects the massive increase of oil prices during this period, along with the subsequent economic growth and development associated with it. Furthermore, the GDP per capita's growth indicates that the population itself has benefited from the economic growth with a rise in income from $9,400 per capita at the start of the period to $27,500 per capita at the end of 2012. Whilst the figures show a general rise in the levels of GDP over the period of 2000–2012, it is nevertheless notable that growth levels have been uneven over the period, with the worst levels of performance being seen in 2002 and 2009 with GDP growth of just 0.1% and 0.2% respectively. This compares to the much higher levels seen between 2003 and 2005 when growth ranged from between 7.7% and 5.6%. It is, however, noteworthy to recognise that, over the entire period, Saudi Arabia has managed to avoid the large contractions seen in many other economies around the world associated with the global financial crisis (BBC News, 2012).

In an attempt to accelerate economic development, national expenditure on building infrastructure, schools, and hospitals has increased over the period and constitutes a large share of the GDP ranging from 72%−81%. Whilst the exports of goods and services equals 58.8% of GDP, mainly petroleum and petroleum products, constitutes larger percentage of GDP than the imports. Foreign Direct Investment (FDI) net inflow into Saudi Arabia has increased steadily reaching its peak in 2010 with a value of $21,560b and slightly declining to $17,605b in 2012. The introduction of foreign investment policy by the Saudi government in 2005 has succeeded to stimulate FDI to the country that previously reached low levels in 2000. For inflation rate, On the whole

it would seem that there has been a shift in the long term average experienced until around 2005 in which inflation hovered around 0.7%. After suffering from a sudden uplift between 2006 and 2008 in which inflation reached a record average of 9.9%, it would appear that a long-term average has again been reached since 2009, with inflation remaining relatively stable at around 5%. In terms of the unemployment rate, the figure has increased throughout the period—especially amongst Saudi nationals. This rate is more than the rates of the United Kingdom, European Union and the United States (World Factbook, 2012.). This is mainly due to the fact that, owing to the demographic structure, more young Saudis are looking for employment in a foreign-dominant labour market (Roudi, 2010), as will be discussed in detail in Chapter 3.

Table 1.2 presents the key economic indicators of Saudi Arabia the period (2000–2012).

Table 1.2: Key Economic Indicators of Saudi Arabia (2000–2012)

Indicator	2000	2005	2010	2011	2012
GDP (current US$B)	188,442	315,580	450,792	576,824	675,200
GDP growth (annual %)	4.9	5.6	4.6	6.8	6.0
GDP per capita (current US$)	9,400	13,126	16,423	20,540	25,700
GDP per capita growth (annual %)	2.4	1.9	2.2	4.3	6.29
Gross national expenditure (% of GDP)	81.2	66.9	80.6	69.0	72.1
Imports of goods and services (% of GDP)	24.9	27.8	38.6	30.6	38.9
Exports of goods and services (% of GDP)	43.7	60.9	58.1	61.6	58.8
FDI inflows (% of GDP)	-	3.8	6.4	2.8	2.1
Inflation, consumer prices (annual %)	1.1	0.7	5.3	5.0	4.6
Total Unemployment Rate	4.6	6.1	5.5	5.8	5.4
Saudi's Unemployment Rate	8.1	11.5	11.2	12.4	12.0

Source: Central Department of Statistics and Information, The World Bank, 2012.

1.7.3 Labour Market

The labour market in Saudi Arabia is characterised by a high presence of foreign workers' higher levels of unemployment amongst nationals, and low female participation. As presented in Table 1.3, the current labour force of Saudi Arabia numbers 10.390 million yet, of these, almost 57% of the workforce is of a non-Saudi

origin. The total number of Saudi workers is 4.397 million, of whom 86% are male whilst the number of non-Saudis is 5.992 million, of whom is 86% are male. In this case, one can see that Saudi Arabia suffers from a relatively low female participation rate in the labour market. However, what is perhaps more concerning is that the trend seems not to have been addressed over the course of the past ten years, with female participation in the local labour force increasing by just 1%. When considering why the local labour market suffers from such problems, sources (Fakeeh, 2009; Al-Asmari, 2008) agree that the route cause is often linked to conservative cultural values in the region. In the private sector, Saudi workers represent only 11% whilst non-Saudis represent 89% of total employed in the private sector. On contrast, Saudi workers represent 92% in the public sector whilst non-Saudis constitute ony 8% (SAMA, 2012).

Table 1.3: Saudi Arabia's Workforce by Nationality and Sector (2007–2012)

Year	Saudis Workers			Foreign Workers			Total			
	Male	Female	Total	Male	Female	Total	Total	%Foreign		
								Total	Private	Public
2007	3,096,972	503,879	3,600,851	3,598,598	554,002	4,143,600	7,744,451	53.5	91.1	14.2
2008	3,274,356	482,313	3,756,669	3,677, 482	583,149	4,260,631	8,017,300	53.2	90.1	13.5
2009	3,332,628	505,340	3,837,968	3,736,810	573,214	4,310,024	8,147,992	52.9	89.1	10.7
2010	3,411,801	543,406	3,955,207	4,258,619	621,045	4,879,664	8,834,872	55.3	87.4	9.7
2011	3,538,669	604,402	4,143,071	5,094,771	697,692	5,792,463	9,935,534	58.4	89.1	8.3
2012	3,750,781	646,590	4,397,371	5,310,039	682,914	5,992,953	10,390,324	57.7	87.5	8.2

Source: Central Department of Statistics and Information and SAMA (2012).

The analysis of the labour force, by industry, reveals that 71.9% of the workforce are employed in the services sector, 21.4% in industrial sectors, and just 6.7% in agriculture (World Factbook, 2012). One may see that the breakdown of the Saudi labour force represents that of a modern post-industrial economy, and that it is the high proportion of expatriate labour, which makes the countries labour market unusual. However, such a rise in the rate of expatriate labour in the country has been a long-term issue for Saudi Arabia as opposed to one seen in more recent times (Al-Asmari, 2008). The labour force has changed dramatically over a prolonged period of several decades, with expatriate

workers composing just 25% of the workforce in 1975—a figure known to have grown to over 55% by the year 2000. Many, such as Fakeeh (2009), have put this down to the mass expansion of the oil industry which brought with it a sudden influx of foreign workers for which local workers could often not provide the skill sets required.

The prominent presence of expatriates in the labour market has contributed to the unemployment problem amongst Saudis as. Despite the relatively high levels of economic growth in Saudi Arabia, high levels of unemployment have been seen amongst the general population. However, unemployment has a disproportionate effect upon the Saudi local population when compared with the general labour pool within the country (World Factbook, 2012). The figures below reported (12.1%) a higher rate of unemployment amongst Saudis in comparison to the total population rate (5.5%) in 2012. Unemployment rates amongst Saudi females are higher than those of male Saudis. Female unemployment stood at 35.5% whilst the rate of Saudi males stood at 6.1% in 2012. In this case, one can see that Saudi Arabia not only suffers from a relatively low female participation in the labour market but also higher levels of female unemployment.

The long-term average for unemployment amongst Saudis is around 10.08%, with a peak of 12.4% in 2011 and a low of 8.1% in 2000 (CDIS, 2012; Trading Economics, 2012, b). Despite such reports from official sources, other sources in the popular media and business press consider that these sources present a glossed-over view of just how bad unemployment is amongst Saudi nationals. For instance, whilst reports on unemployment hover at around the 10% mark, the reality is that unemployment amongst Saudi nationals is more likely to be in the region of 20% (Hardy, 2006). The figures below show the officially reported officially in regard to the unemployment of the total labour market within Saudi Arabia, as can be seen from Table 1.4 (Total and Saudi Unemployment Rates by Gender 2000–2012).

Table 1.4: Total and Saudi Unemployment Rates by Gender (2000–2012)

YEAR	Saudi Unemployment			Total Unemployment		
	Male	Female	Total	Male	Female	Total
2000	6.5	17.6	8.1	3.8	9.3	4.6
2005	8.7	25.4	11.5	4.6	14.1	6.1
2007	8.0	26.6	11.2	4.2	15.3	5.8
2008	6.8	26.9	10.0	3.6	14.5	5.2
2009	6.9	28.4	10.5	3.5	15.9	5.4
2010	7.1	30.6	11.2	3.4	17.4	5.5
2011	7.4	33.4	12.4	3.3	19.2	5.8
2012	6.1	35.7	12.1	2.7	21.3	5.5

Source: Central Department of Statistics and Information and SAMA (2012).

1.8   MNEs in Saudi Arabia

Multinational Enterprises (MNEs) are defined as 'an enterprise organised around a parent firm established in one state that operates through branches and subsidiaries in other states' (August, 2004: 203). The international operations of MNEs are considered an influential force on the integration of global economy (Dicken, 2003). The scale of their operations has gained them substantial influence over the economies of countries around the world as they control many important sectors, such as petroleum, electronics, and automotive industries (Edwards & Rees, 2006). This section presents a profile of MNEs operating in the country of Saudi Arabia.

1.8.1   Foreign Direct Investment in Saudi Arabia

Due to the changes in its economic policies and the importance of Saudi Arabia as an emerging market, Foreign Direct Investment (FDI) has increased tremendously in the country for the last decade. The United Nations Conference on Trade and Development (UNCTAD) identified Saudi Arabia as the largest FDI recipient in the entire regions of West Asia, Middle East, and North Africa in 2012.

Figure 1.2 reports FDI inflows and stocks within Saudi Arabia during the period 2005–2012. The FDI within the kingdom was estimated at around $12 billion in 2005. This figure registered a strong 44% increase to $17 billion in 2006. FDI inflows continued to rise until they reached their peak in 2008, reporting tremendous increase to $36.5 billion. Subsequently, low decreases were reported in 2009 and 2010, estimated at $32 billion and $28 billion, respectively. FDI inflows in the kingdom for 2011 and 2012 dropped by 40% to estimated $16.3 billion and $18.8 billion (UNCTAD, 2013). This has echoed the decline in global FDI, which has accounted for macroeconomic fragility at the global level and political uncertainty for investors at the regional level (ibid). For the FDI stocks, the figures have continued to increase throughout the period of 2005–2012—regardless of the decline in FDI inflows. This is mainly due to the attractiveness of the Saudi stock market to investors and the few restrictions imposed upon it.

FDI in Saudi Arabia forms an important part of the economy, as calculated by a percentage of GDP. In 2009, FDI inflows in Saudi Arabia registered a historical increase constituting 9.3% of the country's GDP. For the years following, the figure declined to reported 2.8 % in 2011. Possible explanations for such a fall-off in net inflows may not necessarily be an indication of poor economic or macro level factors in Saudi Arabia itself so much as a reflection of the global economic environment, which has seen a tail-off in general terms (Pouldsen & Hufbauer, 2011). However, at around 2.8% of GDP in 2011, it is clear that FDI now accounts for an important part of the economic development of the country and thus must be safeguarded by economic and governmental policy-makers in the future.

Figure 1.2: FDI Inflow and Stock for Saudi Arabia 2005–2012 (Billion Dollars)
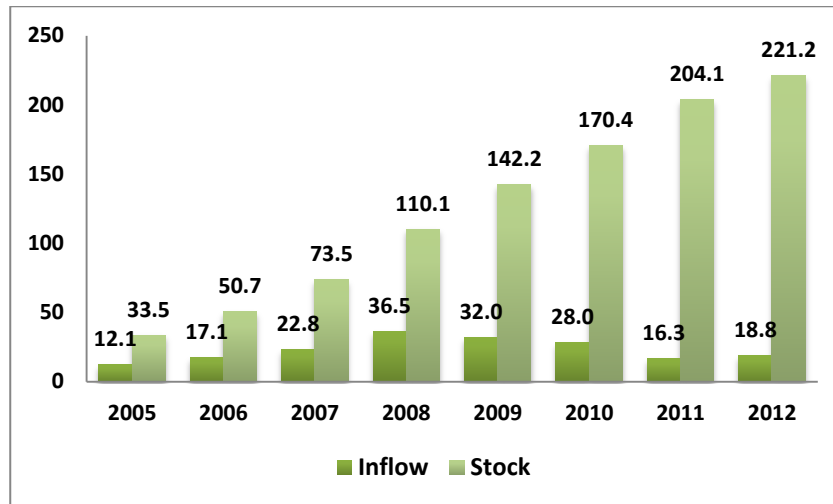
Source: Saudi Arabian General Investment Authority and UNCATD.

1.8.2   History of MNEs in Saudi Arabia

The History of MNEs in the kingdom can be traced back to 1930s. At that time, MNEs operating in the oil industry established a strong presence in the entire Middle East region when most of the region was occupied by European countries. In 1932, Saudi Arabia, as an independent country, signed an agreement with Standard Oil of California, an American MNE, to explore oil in the country (Mellahi *et al*., 2011). It should be noted that the initial motive for MNEs to enter the Saudi market was to exploit natural resources; however, the Saudi government, in efforts to reinsure its control over important national resources, nationalised the oil industry and restricted the operations of MNEs in 1970. This caused MNEs to look for alternative modes for entering the Saudi market, such as local partners, joint ventures, and franchising (Stevens, 2008; Mellahi, 2007). The continuous economic growth in Saudi Arabia has attracted market-seeking MNEs to establish their operations in the country. In addition, the Saudi government decided to encourage MNEs presence in efforts for joining the World Trade Organisation, creating employment opportunities, and enhancing economic and technological development.

In 1991, immediately following the first Gulf war, the kingdom initiated rapid economic development programmes and integrated the Saudi economy within the world market.

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The Saudi government decided that opening the economy for MNEs would result in creating economic opportunities for the Saudi population (Ali, 2010). In an attempt to encourage foreign investment, the government established the Saudi Arabian General Investment Authority (SAGIA) in April 2000. Following SAGIA's establishment, a new Foreign Direct Investment (FDI) law was introduced, which relaxed the restrictions on foreign enterprises, allowing the full foreign ownership of companies, and providing similar incentives for both international and local firms. In the meantime, Saudi Arabia opened the national market to international businesses, and obtained the membership in the WTO in 2005. Since this time, the kingdom embarked on freeing economic policies and actively encouraging foreign direct investment.

1.8.3   MNEs by Number, Industry, and Country of Origin

The most recent figures by SAGIA, released in 2010, indicate that the number of MNEs in Saudi Arabia has increased remarkably during the last decade; this is due to the business opportunities the Saudi market can offer to foreign companies and the on-going reforms of economic policies to liberalise the Saudi economy. Before 2000, the number of MNEs was no more than 100 with 700 green field establishments. In 2000, 120 MNEs establishments owned by foreign investors were present. The number for the following years continued to increase resulting in 1000 MNEs establishments and 4,870 green fields for the year of 2008. The number of MNEs has declined slightly in 2009 and 2010 to 808 establishments but the total number of green field operations increased to 6,478 projects in 2010. Figure 1.3 presents the number of MNEs and green field establishments in Saudi Arabia from 2000–2010.

Figure 1.3: The number of MNEs Establishments in Saudi Arabia 1999–2010
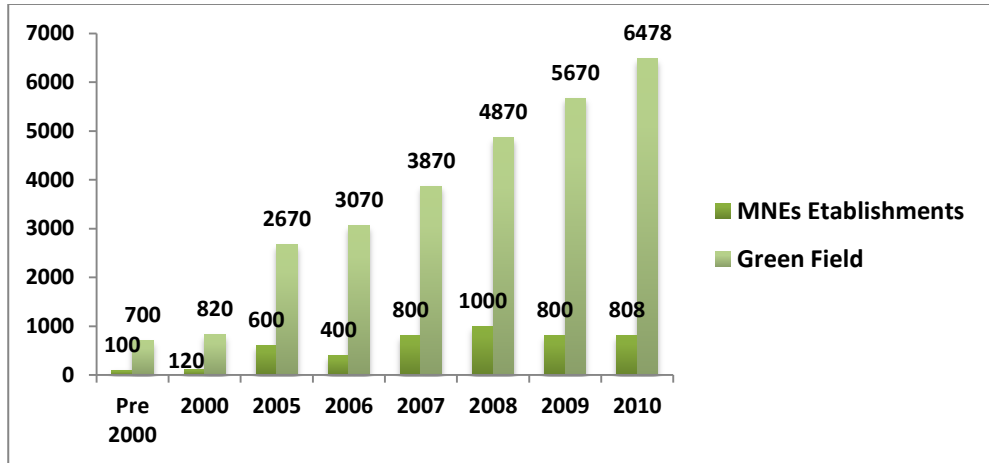
Figure 1.4 illustrates the distribution of MNEs by industry in 2010, as identified by the most recent and available report of SAGIA. MNEs in the Kingdom in 2010 distributed over a wide range of industries, the most important of which are: Refined petroleum products (12%), Chemicals & petro-chemical products (14%), Mining, oil and gas explorations (8%), Electricity & water (3%) Real estate and infrastructure (13%), Building contracts (12%), Transportation, Telecommunications and Information Technology (5%), Financial & Insurance (10% Trade (4%), and Other industries (19%).

Figure 1.4: MNEs by Industry in Saudi Arabia 2010
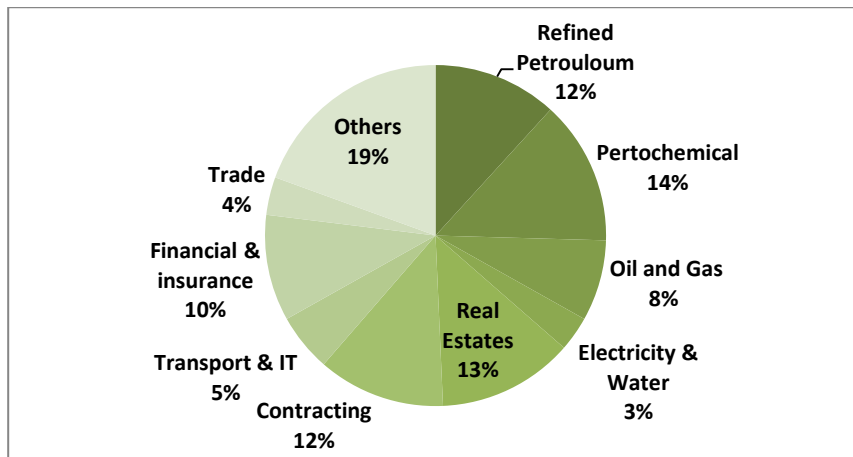
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In regard to the country of origin, American MNEs represents the largest number, constituting 14% of the total number of MNEs based on the same report by SAGIA in 2010. Next came French and Kuwaiti MNEs, representing 13% and 8%, respectively, followed by German MNEs with 7.6%, Chinese MNEs with 6.8%, and British MNEs with 6%. It should be noted from the distribution of MNEs that the makeup includes MNEs from both developed and developing countries. Figure 1.5 presents the distribution of MNEs by the country of origin.

**Figure 1.5: MNEs by Country of Origin in Saudi Arabia 2010**
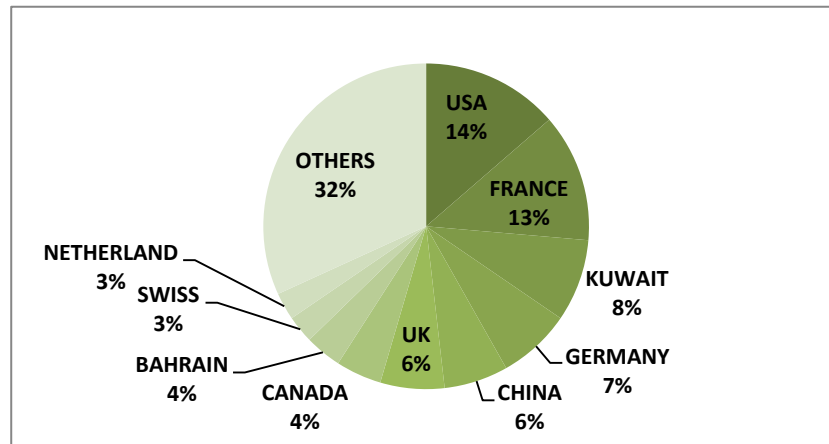
Source: Saudi Arabian General Investment Authority (2010)

1.8.4 Impacts of Investment by MNEs on the Saudi Economy

MNEs are argued to be influential in generating economic growth, positive institutional change, and employment opportunities in developing countries (Hu, 2004; Palmisano, 2006; Ramamurti, 2001). As can be seen from Table 1.5, the figures in Saudi Arabia are in line with this argument as last released by SAGIA in 2010. The percentage of FDI by MNEs of total investments continued to increase through the reported period (2005–2009), reaching 49% in 2009. Total Sales by MNEs grew by twofold rising from $57 billion in 2005 to $105 billion in 2009. Exports value also continued to increase from $21 billion in 2005 reaching its peak in 2008 with total value of $39 but declined to $29 billion in 2009. However, the percentage of exports by MNEs represents a major share

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of total non-oil exports constituting 58% in 2009. The reason for comparing non-oil exports with MNEs' exports is because the Saudi FDI policy encourages investing in non-oil sectors to lessen the huge dependence of the country on oil revenues. The added value by MNESs to Saudi economy also has increased from $11.5 billion in 2005 to $26.9 billion in 2009.

Up to 2009, the impact of investments by MNEs on the employment of Saudi national has not reached the desired potential; however, the number of Saudi workers continued to increase, although the number reflects only the new projects established by MNEs. This number grew from 61 Saudi workers in 2005 to 101 Saudi workers in 2009. For the new projects established by MNEs in 2009, Saudi workers represent 27% of the total workforce. This figure is higher than the figure of Saudi workers in the private sector who only constituted only 9.9% of total labour in the private sector. Table 1.5 presents the impacts of investments by MNEs on the Saudi economy from 2005–2009.

Sources indicate that MNEs operating in Saudi Arabia form an important part of the economy (Mababaya, 2002). Not only do MNEs provide a key source of income in the form of taxation to the Saudi government. In addition, MNEs also see that key skills and technologies are transferred into the Saudi economy associated not only with manufacturing operations but also supporting industries and the services sector (ibid).

However, for many MNEs operating in Saudi Arabia, especially from Western backgrounds, adaptation to the local environment may be seen as somewhat difficult. In this way, MNEs must adapt to what is commonly a radically different cultural background affecting a whole range of issues include the availability and quality of locally available labour, labour skills and the legal system of the country based upon an Islamic religious form of law. Table 1.5 presents the impacts of investment by MNEs on the Saudi economy for the period of (2005–2009).

Table 1.5: Impacts of Investment by MNEs on Saudi Economy (2005-2009)

Indicator	2005	2006	2007	2008	2009
Total Investment (US$B)	24	125	173	235	300
FDI Stock(US$B)	34	51	73	112	147
FDI Inflow (US$B)	12	17	23	38	36
% of FDI to Total Investment	45%	40%	42%	48%	49%
Total FDI Sales (US$B)	57	68	84	92	105
Exports Value (US$B)	21	30	36	39	29
% FDI Exports to Total Non Oil Exports	58%	73%	69%	66%	58%
FDI Added Value (US$B)	11.5	13.9	20	23.2	26.9
Number of Total Labour in New FDI Projects	225	254	299	335	335
Number of Saudi Labour in New FDI Projects	61	70	84	97	101
% of Saudi Labour in FDI to Total Labour	27.1%	27.6%	28%	29%	27%
% of Saudi labour to Total Private Labour	11.6%	12.5%	12.9%	13.3%	9.9%

Source: Saudi Arabian General Authority for Investment Annual Report (2010).

1.8.5 MNEs and Workforce Localisation Policies

Initially, the reactions on the behalf of MNEs to localisation policies has been somewhat hostile, and provoked an initial policy of 'evasion' on the behalf of MNEs and the private sector in general. In this case, many MNEs sought to initially deal with localisation policies not by actively complying with the rules but rather by seeking an authorised exemption from quota requirements, which may be granted under various sections of the relevant legislation associated with Saudisation (Fakeeh, 2009).

Later, attitudes experienced a shift on the behalf of MNEs and the private sector with recruitment policies aimed at the younger end of the spectrum helping firms implement localisation in a more cost-effective way. In this way, employers sought to target Saudi Arabia's unemployed youth considering that the possibility of paying lower wages to younger workers offsets the additional costs of the increased need for training and development to a greater or lesser degree (ibid). Many MNEs have found compliance with Saudisation policy somewhat difficult to manage. In this vein, Fakkeeh (2009)

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indicates that, typically, levels of local employment amongst the private and MNE sectors typically have around 8% with a requirement in accordance with the various forms of Saudisation legislation to increase the proportion of local employees to at least 30%. As such, many private-sector organisations and MNEs within Saudi Arabia have presented themselves as victims rather beneficiaries of the Saudisation policy. In this case, MNEs tend to focus upon the additional costs of continuing to employ expatriate employees and the down side of having to employee increased levels of local labour who either lack the skills necessary to provide optimal performance or otherwise lack the work ethic of expatriate employees (Robertson *et al*., 2001).

1.9   Summary

Workforce Localisation (WL) refers to the process of replacing expatriate employees with local employees. The process has been a very important issue for both Multi-National Enterprises (MNEs) and many countries with a massive presence of expatriates in the labour market and higher rates of unemployment amongst nationals, such as is the case in Saudi Arabia. Although the Saudi government has prioritised WL policies, MNEs are still lagging behind in achieving localisation targets. However, the success of WL policies is very important for the continuation of their operations in the country because WL is a legal requirement. This introductory chapter elucidates the need to establish a theoretical understanding of the success determinants of WL process. The research problem identified as the lack of multi-dimensional model, which explains WL success. It aims at identifying the success factors of WL policies through a multi-dimensional model. A combination of institutional and HRM factors, along with MNEs' characteristics, is proposed to capture the whole picture of WL success. The research significance pertains to three areas of contribution: first, it attempts to establish coherent foundations of the WL process through multi-dimensional perspective that employs organisations as a unit of analysis; secondly, it is the first study to examine WL polices from institutional perspective; and thirdly, it is the first comprehensive study in terms of localisation to be conducted in MNEs operating within Saudi Arabia. Importantly, this is the first study to examine the role of HR director on localisation success. The research context provides a unique opportunity for investigation as the Saudi government is forcing sceptical MNEs to implement WL policies. To accommodate the fast growth of local population and local unemployment, the creation of sufficient employment opportunities for Saudis in a labour market with a massive presence of expatriates is urgently crucial issue for the Saudi government. On the other hand, MNEs tend to focus on the downside of having to employ increased levels of local labour that may lack the skills necessary to provide optimal performance. Detailed profiles of Saudi Arabia and MNEs within the country have been presented in this chapter. The subsequent chapter reviews literature on workforce localisation.

CHAPTER 2: LITERATURE REVIEW

2.1   Introduction

The aim of this chapter is aimed at reviewing the literature on workforce localisation (WL). The chapter commences with WL literature in general whilst discussing the definitions, rationales, mechanics and success factors of the WL process. Then, the chapter reviews the literature on workforce localisation policies in Saudi Arabia (Saudisation). The Saudisation section is divided into two sections: (1) A background of the Saudisation policies; and (2) a literature review of Saudisation. Finally, synthesis is provided in an attempt to summarise the WL literature, identifying its main gaps.

2.2   Definition of Workforce Localisation

Workforce Localisation (WL) has been defined by different scholars in the literature. One of the most widely used definitions was first advocated by Potter (1989) and then adopted by Wong & Law (1999), who perceive the concept of the localisation of workforce as the recruitment and development of local employee skills and the delegation of job-related decisions to local employees, with the final objective to replace foreign workers with local employees. Essentially, the localisation process is substantially effective when jobs held originally by expatriates are filled by local employees who are capable of performing associated job responsibilities (Potter, 1989). For the purpose of the current research, the abovementioned definition of Wong Law (1999) has been adopted as the basis for our study. Such a definition has also been supported by several scholars when investigating workforce localisation in the country context of Saudi Arabia (see, for example, Alzaid, 2001; Fathi, 2002; Alharan, 2004).

Notably, a number of researchers have conceptualised WL in Saudi Arabia (Saudisation) in relation to the replacement of expatriates. For example, Fathi (2002) defines the concept of Saudisation as the processes of installing Saudi workers in place of expatriates through increasing the rate of Saudi workforce participation in the private sector. However, it is nevertheless argued by Alzaid (2001) that Saudisation could also

be achieved by recruiting Saudis without the need to replace foreigners. This placed the focus on increasing the number of Saudi workers in favour of expatriates without adopting a clear systematic plan to develop the local workforce. On the other hand, Alharan (2004) advocates that Saudisation must be seen as a continuous development of the local workers, along with the strategic replacement of foreign workers with those skilled locals. Given that those researchers have done their work in the same context, they further strengthened what has been argued by Wong & Law (1999) that localisation should not be perceived only as a replacement process of foreign workers, but also it is a development process of local employees.

This definition—which emphasises the development of local employees along with the replacement of foreign works—is considered appropriate in the Saudi context. This is mainly owing to the Saudi government's role in localisation process, adopting a systematically strategic role in encouraging organisations to adopt localisation and sharing the responsibilities of recruiting, developing the skills of Saudi workers to replace expatriates. Driven by the increasing unemployment and massive presence of expatriate labour, the Saudi government requires all private organisations to create job opportunities for nationals. It has initiated large-scale localisation policies that include incentives, sanctions, financial support, training programmes, scholarships, and monitoring of the localisation process; therefore, this definition captures the full picture of localisation process in Saudi Arabia.

2.3   Relevant Literature on Workforce Localisation

Whilst the localisation of human resources is considered a significant issue for many countries and Multi-National Enterprises (MNEs), there are limited numbers of empirical studies reported in the literature (Law *et al*., 2009). From the limited research available, two main areas of focus have emerged: the first area investigates the rationales behind WL and enquires into whether it is beneficial to both countries and organisations (e.g., Forstenlechner, 2010; AlDosarry, 2007; Selmer, 2004a). The second area identifies the factors affecting the outcomes of the localisation process (e.g., Law *et*

al., 2009; Bhanugopan & Fish 2007; Mellahi, 2007; Fryxell *et al*., 2004). The following sections review critically the previous studies on workforce localisation based on these two themes. Finally, a separate section reviews the policy and the studies on workforce localisation in Saudi Arabia (Saudisation).

2.4   Rationales behind Workforce Localisation

The rationales behind the localisation of workforce can be classified into governmental and organisational rationales. The governmental rationales include combat local unemployment and lessen the socio-economic effects of over-dependence on foreign workers in the labour market. On the other hand, organisational rationales pertain to costs-saving, solving the problems associated with expatriate workers, and better relations with local customers and host government.

2.4.1   Rationales from Government Perspective

In countries facing high unemployment rates amongst nationals, governments play a central part in encouraging, planning, implementing and monitoring workforce localisation policies. These policies were largely adopted by the countries of Gulf Cooperation Council (GCC), which include Saudi Arabia, the UEA, Oman, Qatar, Kuwait and Bahrain. The main reason for launching such polices is concerned with combating local unemployment within these countries. The logic is based upon the notation that there is currently a great number of expatriate workers within these countries whilst locals suffer from unemployment (Randree, 2012; Ramady, 2010; Fakeeh, 2009). As such, WL policy is based upon the rationale that the redistribution of these jobs over a period of time, from expatriate workers to locals, firstly will have an immediate and positive effect upon the unemployment figures, and more importantly, will have a positive effect on future employment opportunities in the labour market as most of local population below working-age (ibid).

This is exactly the case in Saudi Arabia as high levels of unemployment have been seen amongst the general population; however, unemployment has a disproportionate effect upon the Saudi local population than it does on the general labour pool within the

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country (see Section 1.7.3).The prominent presence of expatriates in the labour market has limited the number of employment opportunities made available for Saudis (Ministry of Labour, 2011).

In implementing WL policies, the government also attempts to lessen the economic effects of over dependence on foreign workers in the labour market as 60% of workforce in most GCC countries is foreign (Randree, 2012). One of the main issues associated with such dependence is overseas remittance by foreign workers because most GCC countries employ tax-free policies on income and compensation packages. For example, the remittance made by foreign workers in Saudi Arabia $28 billion constituted 19.8% of private sector's GDP in 2011 (SAMA Report, 2012). Significant remittances therefore have a negative impact on the country's GDP growth and income as this money flees the country untaxed (ibid).

Several studies have highlighted the social and national security problems associated with the massive presence of foreign workers in Saudi Arabia. It has been claimed that social influences of foreign workers on Saudi society are feared to affect the social fabric of the society as a great number of foreign workers are responsible for bringing up children (Ministry of Interior report, 2006; Aljuwair, 2003). Furthermore, new work-related habits and values uncommon to the Saudi culture have emerged in organisations employing foreign workers (Alsultan, 2002; Alsufayyan, 1990). Furthermore, a set of national security concerns have also been expressed as a result of the reliance on foreign workers: for example, if foreign workers decide to leave the country during a time of crisis, this will ultimately lead to production shutdown amongst those organisations that depend on such foreign workers (Ministry of Interior report, 2004) Finally, there are negative impacts associated with development of local human resources owing to the fact that foreign workers are inexpensive to import and are well-equipped, which then poses the question as to why organisations would bother to invest in developing local workers.

2.4.2   Rationales from MNEs' Perspective

The MNEs' rationale behind the localisation of workforce pertains to cost-savings, solving the problems associated with expatriate workers, and better relations with local customers and host government (Forstenlechner, 2010; Law *et al*., 2009; Mellahi, 2007; Oddou, 1991). First, the costs associated with failed international assignments of expatriates constitute a huge burden on MNEs as the rate of international assignment failure is estimated to range from between 20% and 25% of all expatriate assignments (Collings *et al*., 2007; Law & Wong, 2004). Importantly, the cost of every individual failed assignment is estimated to be one million US dollars when taking into account all associated costs (Law & Wong, 2004; Shaffer & Harrison, 1998; Shaffer *et al*., 1999).

A particular strain of research focuses on the problems of expatriate employees as a basis for launching localisation policies. Ben-Bakr, Al-Shammari, Jefri & Prasad (1994), for example, report that expatriate turnover has become a major concern for companies in Saudi Arabia. Owing to the shortage of local staff, private firms have been forced to employ incompetent expatriates from different countries who were then dismissed early. The resulting turnover has subsequently caused private firms enormous direct and indirect costs (Bhuian & AbdulMuhmin, 1995; Yavas, Luqmani, & Quraeshi, 2005). With this in mind, it seems that expatriates who fail to perform effectively have concerns regarding their salaries, rewards, job security and overall adjustment to Saudi culture (Bhuian & AlJabri, 2006).

Some studies highlight other rationales in addition to cost-savings: first, local employees understand their local culture better than expatriates, and can also build business relationships with local customers owing to knowing how to deal with them (Law & Wong, 2004; Wall, 1990); secondly, the presence of an expatriate manager has had negative impacts on the morale of local employees (Hailey, 1996), whereby local employees see foreign managers as being distant owing to cultural and language barriers, with their presence also potentially undermining local employees' commitment to the firm as managerial positions are given to expatriates; and thirdly, it is considered that localisation may improve the relations with the host country government, as most

governments view the employment of nationals as commitment from the foreign company to the host country (Lasserre & Ching, 1997).

It must be noted that, in other contexts where localisation policies are required by the host government as a legal mandate, MNEs have to implement localisation—regardless of the associated costs associated. Host governments force the issue of localisation on MNEs in response to economic and demographic pressures. For example, Algarayani & Abdullah (1989) identified the increasing demand for local workers in the Saudi labour market as a rationale for launching localisation initiative. As a result, the prediction has been made that the demand for local labour should increase by 8% annually during the period ranging 1985–1995. Furthermore, in consideration of the shortage of vocational and technical expertise within the local workforce, they also highlighted the need for well-trained workers, where the demand for labour would be generated mainly from these two areas. Furthermore, it was also echoed via government statistics at this time that there was concern regarding the amount of foreign labour in the private sector, which totalled 81% of private employment in 1989 (Riyadh Chamber of Commerce and Industries, 1989). Mellahi (2006) also claimed that, in 2002, the private sector employed 87% of Saudi Arabia's labour force, which is dominated mainly by foreign workers, whilst the public sector, which is dominant by Saudis, employed only 13% of the total workforce. Looney (2004) further states that, owing to the huge increase in Saudi population, there is the expectation that 94.6% of all new employment opportunities would be generated in the private sector according to the seventh national development plan.

2.5   The Mechanics of Workforce Localisation

A number of studies on localisation have focused on identifying the factors affecting the process of workforce localisation (Law *et al*., 2009; Bhanugopan & Fish, 2007; Al-Qudsi, 2006; Whiteoak *et al*., 2006; O'Donnell, 2000; Wong & Law, 1999; Al-Lamki, 1998; Harry, 1996; Birdseye & Hill, 1995; Black & Mendenhall, 1992; Feldman & Thomas, 1992; Dowling & Schuler, 1990; Harvey, 1989). The factors list is organised

into three categories: organisational factors, characteristics of local workforce, and factors related to the host government's role.

In relation to organisational factors, earlier studies identify organisational commitment toward employing local workers as being the major factor influencing the success of any localisation programme. Moreover, an elaborate study on identifying successful localisation factors have been conducted by Kaosa-ard (1991), who suggests that the list of those factors should include the human resource base of the host country, the age of a MNE and its corporate strategy, the development gap between the home and host countries, and the type of industry concerned. On the other hand, Selmer (2004b) argued that certain localisation-based HR practices, such as recruitment, selection, training, and the retention of potentially promising local employees, are crucial elements in successful localisation. In a broader study, Law *et al*. (2004) confirmed that organisational well-defined localisation targets, organisational commitment to localisation, careful planning and certain HRM practices have a positive impact on the outcome of localisation policies. In the context of MNEs, Law *et al*. (2009) found that the high degree of autonomy awarded to the subsidiary and the strategic role of local HR function is positively related to localisation success. Moreover, top management commitment to localisation by the subsidiary had a positive impact on the success of localisation process. Also, the findings support the importance of certain HRM practices, such as job-assignment, appraisal, compensation, repatriation of expatriates, promotion, training, and retention of local managers.

Secondly, there is agreement amongst scholars that the negative characteristics of local workers negatively affect the outcome of localisation policies (Al-Waqfi *et al*., 2010). Therefore, it is believed by firms that their investment in economies where labour markets lack local talent necessitates the employment of talented expatriates to ensure good return on their investment (Al-Waqfi *et al*., 2010; Forstenlechner, 2010;Mellahi, 2007).

The factors affecting localisation related to the characteristics of local workforce include their low skill levels, low performance compared with expatriates, negative behavioural attitudes toward working under demanding work systems, and preference to work for the government due to job security and better compensation and benefits (AlModaf, 2003; Mahdi, 2000; Al-Lamki, 1998). In a more detailed study, Bhanugopan & Fish (2007) identify the obstacles facing successful localisation as related to the qualities of local workforce, such as local staff performance and a lack of training and development. In countries facing economic instability, firms must ensure the most competent labour to do the job is employed. There is not enough money to invest in developing local employees. Traditionally, organisations facing such similar problems will prefer to retain foreign workers who are cheaper and more qualified to do the job. Also, culture is another significant factor preventing organisations from implementing localisation programmes. Cultural values influence individuals in their daily lives—especially in their work-related matters. For example, in African and Middle Eastern countries, the extended family system has pressured local employees to settle family issues first, which has subsequently affected their career plans and paths (Mellahi, 2007; Bhanugopan & Fish, 2007). Furthermore, cultural differences have also caused conflicts between local and foreign workers within the same organisation. Also, the lack of on-the-job training and field experience provided to local employees is considered a significant factor in the slow pace of localisation programmes; as a result, the ability of local employees to perform their jobs is undermined compared with foreign workers. Essentially, this is why most private firms prefer to employ expatriates over local workers.

Finally, governments play a crucial role in terms of the process of localisation policies. In countries facing high unemployment rates amongst nationals, it seems that governments play a central part in encouraging, planning, implementing and monitoring job localisation policies. Mellahi (2007) reports that such an approach might exclude or minimise the participation of private organisations in terms of the decision-making process—particularly in terms of localisation implementation; importantly, this makes localisation plans unrealistic and thus decreases the commitment of firms toward

localisation policies. Furthermore, widespread corruption in governments implementing localisation programmes might hinder the overall effectiveness of adoption: for example, connections with powerful government officials in some Asian and African countries has enabled some private firms to fail to comply with localisation regulations, whilst other firms are sanctioned for not complying (Whiteoak *et al*., 2006). It should be noted, as claimed by Hoskisson *et al*. (2002), that this can happen owing to the continued evolving of legal structures in emerging economies and developing countries; therefore, enforcing localisation through laws and regulations is not adequate in influencing private firms to adopt localisation. The arbitrariness of law enforcement alone with a lack of government transparency may cause firms to cope with localisation through the application of illegal practices. For example, Al-Qudsi (2006) points out that localisation laws force some employers to utilise the fake employment of nationals, or otherwise to adopt methods of employment only on paper, just to avoid government penalties.

2.6   Workforce Localisation in Saudi Arabia (Saudisation)

This section presents workforce localisation policies in Saudi Arabia as implemented by the Saudi government. Saudisation, as to localise (Saudise) jobs, refers to a long-term historical programme designed to address local unemployment levels in Saudi Arabia by effectively encouraging the re-distribution of existing employment from expatriate workers to Saudi nationals (Fakeeh, 2009). Despite being a policy implemented over a number of decades, the policy may still be seen as a short-term one as it addresses the symptoms (short-term) of unemployment rather than addressing the long term causes as with other remedies, such as educational reform or industrial development.

2.6.1   Historical and legal Background

This section will now provide a historical and legal background to the context of the Saudisation programme. Whilst Saudisation policies are based upon a logical three-stage process, legislation itself and the legal framework have not been singular and

straightforward in nature. As such, in order to compile with Saudisation legislation, companies operating in the country must look to a number of sources of law. In order to chart the historical development of the Saudisation programme, a number of key legislative elements have been incorporated in Table 2.1: Saudisation laws. Each of the key pieces of legislation may be seen as having various objectives as part of the Saudisation policy with the following requirements:

1. Resolution 50: This piece of legislation requires all Saudi and foreign firms that employee 20 or more people to increase the proportion of local employees by 5% annually.

2. Circular of the ministry of labour: This code requires that every firm employing 20 or more people should employ a minimum of 30% local workers. This represents a tightening up of the legislation on resolution 50, which did not specify an actual minimum composition of Saudi to expatriate workers.

3. Resolution 4/3767: This resolution may be seen as a concession to firms employing expatriate workers and caps the required proportion of Saudi to expatriate workers at 30%. In effect, this neutralises the effects of resolution 50 once the 30% target has been achieved.

4. Royal Order A/79: The Royal order establishes a legal basis for in=depth consultations between the Minister of Labour and Commerce and Industry at large in relation to the programme of Saudisation. The Royal order provides a detailed requirement for issues of reporting on key issues such as the percentage of Saudi nationals being recruited and secondly the plans and procedures in place to create jobs for Saudi nationals.

According to Fakeeh (2009), the rationale behind the development of the Saudisation policy is simple. In this vein, Fakeeh (2009) indicates that the logic is based upon the notation that there are currently five million jobs in Saudi Arabia that are occupied by expatriate workers. As such, the programme of Saudisation is based upon the rational that the redistribution of these jobs over a period of time, from expatriate workers to Saudi nationals, will have an immediate and positive effect upon the headline unemployment figures (see Section 1.7.1). Perhaps more importantly, such a programme

is believed to have a positive effect on those who are not yet in the labour market, thus giving those in education or below working age an automatic route into employment. In further assessing the rationale behind Saudisation, Fakeeh (2009) looks to other successful programmes in the region, which have been seen in Oman and the UAE, which have been carried out in a comparable arena (Forstenlechner, 2008).

Table 2.1: Saudisation Laws

Date	Legislation	Description
Sep-94	Resolution 50 of Council of Ministers	All firms to increase the percentage of Saudi employees by 5% annually.
Aug-02	Circular issued by the Minister of labour	Every firm employing 20 or more should employ a minimum of 30% local workers
Oct-04	Article 26 - Saudi Labour Law	Caps the required proportion of Saudi to expatriate workers at 30%.
Mar-06	Resolution 4/3767 of the Ministry of labour	Incentives and penalties of compliance and non-compliances
Mar-11	Royal Order A/79	establishes a legal basis for in depth consultations between the minister of labour and commerce and industry at large

Source: Al-Jadaan (2011).

2.6.2 The Implementation of Saudisation

In achieving the objectives of Saudisation or increased levels of local participation in the labour market, it may be seen that Saudi authorities, over a period of time, have made use of three key methods (Fakeeh, 2009) when attempting to reduce the number of expatriate employees and increase the numbers of local employees.

Quotas: One of the major methods the Saudi Arabian authorities have made use of in order to increase local workforce participation is through the use of quotas (Al-Dosary & Rahman, 2007). Such quotas are used as a direct intervention method, specifying the percentage of foreign expatriate workers that may be employed within a given industry, business on a project or in the context of a 'restricted occupation'. As such, the quota system may be seen as the most direct of all of the methods used by the government to implement Saudisation.

Cost: The second method of implementing Saudisation may be seen as the provision of an economic incentive for firms to employ local employees rather than expatriates. In

this case, Saudi authorities have generally sought to make the cost of employing expatriate workers more expensive. Such methods have not been restricted to direct financial costs but also relate to increasing the costs associated with administrative burdens, such as additional Visa requirements and other immigration based burdens (Ramady, 2010).

Closure: Finally a number of occupations have been effectively 'closed' to expatriate workers, with such firms no longer able to recruit foreign workers from a list of prescribed occupations, which must now go to Saudi nationals (Madhi & Barrientos, 2003). As such, over time, this should see a redress of the balance of foreign to local employees in these closed occupations as those leaving the labour market in such occupations must be replaced by local workers.

2.6.3 Government Institutions Responsible for Saudisation

In administering the policy of Saudisation, Fakeeh (2009) indicates that there are five chief government intuitions involved in the process as well as number of other institutions with lesser responsibilities. The five chief institutions are listed below:

Council of Ministers: The Council of Ministers is the highest authority associated with the policy of Saudisation and is responsible for the presentation of decrees and the drawing up of national policy on the issue (Fakeeh, 2009).

Ministry of Internal Affairs/Workforce Council: These two bodies work in collaboration, and may be seen as the key driving force behind the implementation of Saudisation in the country's labour market. To date, these two entities in collaboration have issued over half of the legislation in relation to the Saudisation policy over the past 13 years (Fakeeh, 2009).

Ministry of Labour: This institution may be seen as one of the 'operational' institutions associated with the policy of Saudisation. In this case, the ministry has been responsible

for monitoring and ensuring compliance with the various Saudisation legislation since 2006 (Fakeeh, 2009).

The Labour Office: This institution supports a number of activities run alongside the Saudisation legislation, designed to support the programme. Chief amongst these activities is the issue of licences for the setting up of authorised careers centres which are designed to support local employees in finding work (Fakkeeh, 2009).

2.7   Literature on Saudisation

A large number of studies have been carried out on the concept of Saudisation. In a chronological order, Table 3.1 summarises these studies in terms of methodology, sample and findings. In the next sections, these studies are discussed based on the following themes: rationales of Saudisation, How Saudisation is implemented, local workforce, and the preferences of expatriates.

2.7.1   The Rationales of Saudisation

Algarayani & Abdullah (1989) conducted one of the earliest studies in this area with the objective to identify the increasing demand for local workers in the Saudi labour market as a rationale for launching localisation initiative. As a result, they made the prediction that the demand for local labour should increase by 8% annually during the period ranging 1985–1995. Furthermore, they stated in consideration of the shortage of vocational and technical expertise within the local workforce, as well as the need for well-trained workers, that the demand for labour would be generated mainly from these two areas. Furthermore, it was also echoed via government statistics at this time that there was concern regarding the amount of foreign labour in the private sector, which totalled 81% of private employment in 1989 (Riyadh Chamber of Commerce and Industries, 1989). Mellahi (2006) also claimed that, in 2002, the private sector employed 87% of Saudi Arabia's labour force, which is mainly dominated by foreign workers, whilst the public sector, which is dominated by Saudis, employed only 13% of the total workforce. Looney (2004) further states the expectation that 94.6% of all new

employment opportunities will be generated in the private sector according to the seventh national development plan.

The SAMA Report (2009) details that the total labour force reached 8.45 million whilst the Saudi labour force stood at only 4.17 million. Moreover, it warned that more than half of the total employed population was non-Saudi as the number of employed Saudis reached 3.76 million employees. Additionally, 92% of the jobs in the public sector were held by Saudis. In contrast, however, only 13% of all private jobs were held by Saudi employees. For the moment, this has proved the validity of the government's decision to target the private sector to localise employment. However, the majority of these jobs in the private sector held by non-Saudis and are considered menial or minor jobs, and therefore demand low qualifications. With this in mind, it is noteworthy to highlight that more than 50% of these employees can only read and write. On the other hand, however, 63% of unemployed Saudis acquire intermediate or secondary education degrees. In regard to unemployment, the study also concludes that unemployment rate has fallen from 11% in 2007 to 9.8 % in 2008 owing to the successful Saudisation efforts in the private sector, which subsequently have increased the employment of Saudis to 13.3% in 2008 from 13.1% of total employment in the private sector in 2007. Furthermore, the study acknowledges that the average decline in salaries in the private sector has not affected the increase in Saudi employment in private firms.

Moreover, there is also a particular strain of research which focuses on problems of expatriates employees as a basis for launching localisation policies. Ben-Bakr, Al-Shammari, Jefri & Prasad (1994), for example, report that expatriate turnover has become a major concern for companies in Saudi Arabia. Owing to the shortage of local staff, private firms have been forced to employ expatriates from different countries; however, a significant percentage of expatriates do not do their job properly, and therefore are dismissed early. The resulting turnover has subsequently caused private firms enormous direct and indirect costs (Bhuian & AbdulMuhmin, 1995; Yavas, Luqmani, & Quraeshi, 1990). With this noted, it seems that expatriates who fail to

perform effectively have concerns regarding their salaries, rewards, job security, and overall adjustment to Saudi culture (Bhuian & AlJabri, 1996).

Furthermore, several studies have sought to address the problems associated with the massive presence of foreign workers in Saudi Arabia. First, the Ministry of Interior report (1995) claims that the huge number of expatriates led to an increase in the unemployment rate amongst nationals, and the increase of foreign exchange and the transfer of funds overseas. Another problem is the social influences of foreign workers on Saudi society, whereby such influences are feared to affect the social fabric of the society as a great number of foreign workers are responsible for bringing up children (Aljuwair, 1986). Furthermore, new work-related habits and values uncommon to the Saudi culture have emerged in organisations employing foreign workers (Alsultan, 1983; Alsufayyan, 1990). Furthermore, a set of national security concerns have also been expressed from the reliance on foreign workers: for example, if foreign workers decide to leave the country during a time of crisis, this will ultimately lead to production shutdown in most organisations which depend on such foreign workers (Ministry of Interior report, 1995) Finally, there are negative impacts associated with developing local human resources owing to the fact that foreign workers are inexpensive to import and are well-equipped, which then poses the question as to why organisations bother to invest in developing local workers.

Moreover, Bhuian & Al-Shammari (1996) have studied job commitment and job satisfaction of expatriates in Saudi Arabia, and claim that low levels of commitment and satisfaction amongst expatriates are evident. Furthermore, they also suggest that such individuals have come to the country expecting higher salaries and benefits, and so they tend to remain for a short time; therefore, it is noted that such individuals will not hesitate to leave the country if better jobs are found and secured. Moreover, the wide practice of wage discrimination between nationals and foreigners may be a key main reason behind the low level of commitment and satisfaction witnessed in this arena. Therefore, it may be stated that this study is very important owing to the fact that it

sends a clear message for both the government and the private sector in terms of adopting localisation programmes.

2.7.2   The Implementation of Saudisation

Alharan (2004) suggests a conceptual model for implementing the Saudisation process. This model is based on three elements: reinforcement, education and training, and public awareness. In consideration to the first element, the government attempts to motivate the private sector to hire Saudis though both financial and non-financial rewards and, if required, through the utilisation of penalties. The main objective of this element is to improve the image of Saudi workers within the private sector. Moreover, there is also the added objective to reform the existing educational system into a system based on the learning skills required by the private sector. Finally, an extensive media campaign should be implemented so as to increase social responsibility upon society, and thus to change the negative attitudes of Saudi youths towards employment.

Al-Dosary (2004) has analysed the available options for the Saudi government to nationalise its workforce and to thereby diminish the huge number of foreign workers in the private sector. The first approach involves localising across all professions and sectors. The study claims that this approach is not possible owing to its large scale and the current unavailability of qualified Saudi staff to replace foreign workers. However, there is the second option which targets the localisation of key sectors in the Saudi economy, such as petroleum, banking, and defence industries. Thirdly, there is the plan to ensure all administration and management positions are filled and controlled by Saudis across all sectors and industries. Fourth, the final approach is a flexible policy which entitles the government to implement the Saudisation process based on what the different conditions require at that particular time.

2.7.3   The Characteristics of Saudi Workforce

Several studies considered the reasons behind the low percentage of Saudi workers in the private sector. First, the majority of Saudi graduates are not specialised in science professions, and are therefore not equipped with technical skills (Riyadh Chamber of

Commerce and Industry, 1981). Another reason for this may be owing to the greater levels of demanding conditions in terms of private sector jobs. When compared with government jobs, working hours are longer and holidays are less in the private sector jobs. Furthermore, the preference by Saudis in terms of working for the government—owing to added job security and less demanding work system—is another factor. In addition, another reason is that private companies prefer to hire expatriates over locals; this is owing to expatriates being perceived as being more hard working, easier to hire and fire, and cheaper to employ (Alqattan 1987; Altuwaijri 1992). In the same vein, it is also stated by Abbasi (1989) that the problems associated with Saudisation are related to the ability of the private sector to import foreign workers easily through government procedures, whilst the work of Barran (1989) is amongst a number of researches which warn of the labour market realities facing Saudi graduates. As has been stated by Bannan, 'the private sector is calling for specialized people to work within their field, oblivious to those Saudi nationals who possess suitable qualifications. They point out, however, as justification that the Saudi national doesn't like to hold a minor job; he wants an office job, or a managerial post' (Barran, 1989, No. 61).

Moreover, it is believed that a number of different factors play a contributory role in the selection of which Saudi employment sector is sought. Fatahi (1992) conducted a comprehensive field study to explore the process of Saudisation by surveying a sample of Saudi job-seekers and employers of the biggest hundred companies apparent within the Saudi economy. Subsequently, this research deduced that the factors affecting Saudis' decisions to work in private companies depend on high compensation and financial benefits, promotions and advancement, and job location.

Importantly, Alogla (1991) explores the arena of social barriers that may prevent Saudis from accepting private-sector occupations. In this instance, the work of Alogla (1991) deeply traces the roots of Saudi culture, which may have impacted the negative attitudes of students towards employment within the private sector. As a result, the study singles out two different types of social classes: firstly, tribal and secondly, non-tribal. Importantly, the former class comprises descendants from tribes with tremendous

political power in the history-making of the region and, as a consequence, they believe in status and pride, and therefore mainly work in professions considered to preserve their own social privileges. On the other hand, however, the non-tribal class is reported to be descendants from unknown origins and therefore has no tribe-affiliation. Essentially, therefore, this latter class is considered to be a class with social stigma and inferior status. Accordingly, non-tribal individuals are therefore associated mainly with manual jobs, which is why tribe's descendants avoid such jobs.

Without question, Saudi culture plays a vital role in shaping the attitudes of Saudi youths toward jobs. Most Saudis, for example, hold negative views regarding manual and menial jobs; these jobs are judged to be low-status and shameful. Therefore, most Saudis have been found to prefer working in white-collar jobs with a low income over working in blue-collar jobs with higher salaries (Alromi, 2001). Moreover, 80% of Saudis reject the idea of working in manual jobs where 64% stress the importance of social image as a crucial determinant in one's decision about their future job (Madhi & Barrientos, 2003). Essentially, many different reasons contribute to the cultural disregard of certain occupations: first, Saudi culture is based on tribal values, where status and pride play a crucial role in every individual's decision, meaning that any shameful act by a tribe's member will distort the tribe's reputation; secondly, employment is one of the key elements in evaluating the behaviour and personality of tribe's members, which has generated a list of shameful occupations that only low-status or non-tribal individuals become involved in. Essentially, manual jobs come first in this list owing to the harassments and humiliations associated with them and, since most of the Saudi population has come from tribes, tribal values have prevailed—even amongst non-tribal families.

Furthermore, there is the consideration of the wealth generated from oil, which has contributed to the problem in two ways: first, the government was financially capable of recruiting foreigners to perform the needed manual jobs, and most of these foreigners were disadvantaged, poor and illiterate, which has subsequently reinforced the negative cultural views surrounding such jobs; and secondly, the wealth generated from oil has

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enabled families to preserve those cultural attitudes by providing financial support to their family members—even until a late age—and so there has not been the need for such individuals to work in low-status jobs.

Importantly, it is highlighted by Yavas (1998) that the shortage of qualified staff is a main factor undermining the transfer of the latest managerial knowledge to Saudi organisations. Subsequently, another study by the same researcher was also conducted in order to determine the skills required in private companies located in the Eastern region of the Kingdom. As a result, it is stated that the most important skills for such companies include communication skills in English, followed by policy formulation and communication skills in Arabic. Moreover, the study results point out that the most important challenge facing Saudi universities offering management degrees is the required skills improvement of their graduates in personnel management. This study suggests that personnel management skills are very crucial for companies in the service industry, which has a large number of expatriates (Yavas, 1999). In addition, the study highlights the importance of equipping students with contextual knowledge, stating there is a need for the ability to translate, integrate, operationalise, and adopt functional knowledge to meet work conditions. Furthermore, Mahdi (2000) explores the requirements of Saudi labour market to identify the factors related to the attitudes of Saudi workers influencing the implementation of Saudisation policy. The study concludes that Saudi workers who are influenced by cultural values hold negative attitudes towards manual work. Therefore, the study argues that negative attitudes produce a low number of graduates with technical and vocational degrees, and thereby results in a huge number of humanities and arts graduates which are not needed in the labour markets.

In a positive light, on the other hand, Alogla (1990) states that most Saudi students would consider technical, vocational and even manual jobs if they were the only jobs available; this statement stands in contrast to most studies by illustrating that Saudis are willing to work in socially rejected professions. Furthermore, AlModaf (2003) considers the attitudes of Saudi undergraduates towards the change of employment systems in

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privatised government organisations, with the research results showing that the majority of respondents have positive attitudes towards the privatised employment systems in terms of recruitment, promotion, and wages practices. However, the respondents hold negative attitudes towards change on working hours, workload, employment termination, level of job security. Finally, the majority of the sample preferred working under Saudi management team. From a standpoint, it is considered that the work of AlGaith & AlMashooq (1996) provides one of the most important studies that has subsequently strengthened Saudisation prepositions. It is claimed by the researchers that Saudi job-seekers are willing to work—even in low-status jobs—and will not demand unreasonable salaries and rewards. Moreover, it was also established via this study that Saudis prefer to work for private firms rather than the government. More importantly, the study compares Saudi workers with expatriates, and concludes that, based on ability, the Saudi worker can do a job just as well as a foreign worker. Furthermore, it is also emphasised that foreign workers are not better than Saudis when compared in terms of commitment, discipline, and willingness to relocate; conversely, foreign workers have been established as being more superior than Saudis in terms of English language and work-related experience.

2.7.4   The Preference for Expatriates

Importantly, although local workers are very stable and easier to communicate with, employers state that they prefer foreign workers; this is owing to the fact that foreign workers are believed to be very productive, skilful, inexpensive to import, are willing to relocate, and are very job-committed owing to the aforementioned reasons. However, it has been emphasised that employers have warned that forcing immediate Saudisation policy would increase their production costs and hinder their ability of private firms to compete with international companies.

Furthermore, data shows that the average wage of foreign workers is equal to 33% of Saudis' average wage. In the private sector, this average seems to fluctuate based on the industry. For example, the average wage of foreign workers equals 47% of Saudis' average wage in the Sales industry whilst in the Agriculture industry it decreased to

28%, relative to Saudis' wage (Ministry of Planning, 2011). Earlier studies also show that foreign workers are easier to control owing to law not permitted foreign workers to change their jobs without the permission of their sponsors (Atiyyah, 1996; Lumsden, 1993). Accordingly, it can be seen that there are both positive and negative aspects to consider.

Prominently, Ramadi (2005) identifies several factors which explain why the private sector opts to employ expatriates over locals. Notably, the list of factors includes local employees are costly to hire, negative cultural attitudes towards manual and low-status jobs, expatriates being more committed than Saudis, expatriates being easier to fire, expatriates being more skilful and better in English, and expatriates being willing to change their job location.

2.7.5 The Impact of Saudisation on Organisations

AlSharani (2005) investigates the linkage between job performance and the Saudisation process. The study claims that Saudisation has failed to recognise and acknowledge the cultural diversity within the Saudi society, which therefore limits the desirable positive outcomes of Saudisation on Saudi workers' job performance. Furthermore, it is also argued by Al-Dosary (2005) that Saudisation undermines the competiveness of local firms, and thereby resulted in a decline of foreign direct investment in the country. Furthermore, the study also criticises the dependence upon quote systems as a tool for achieving Saudisation targets; rather, the study recommends the implementation of Saudisation based on market forces and incentives. In addition, the study highlights the need for more coordination and communication between the government and the private sector so as to ensure the development of an executable Saudisation plan. On the other hand, in a negative context, according to the work of al-Saneed (1994), many private firms have been found to be failing to follow Saudisation laws. For example, fewer companies advertise their job openings which are considered to be suitable for Saudis, as required by Saudisation regulations, and instead decide to employ inexpensive

foreign workers immediately without searching properly for Saudi candidates within the labour market.

2.7.6 Government Role on Saudisation

It is stated by Al-Dosary & Garba (1997) that there are a number of negative aspects associated with the government role in this field, with the researchers criticising the existing structure of the national education and training systems for a lack of coordination and communications between the responsible organisations in terms of planning and achieving the objectives of national manpower plans of which Saudisation is a part. Moreover, it is further highlighted by Wadeea (2000) that Saudisation must not be based on the replacement of local workers with expatriates, but should rather a adopt a strategic approach which takes into account the labour market demands with the ultimate objective to be human capital development. Furthermore, the study also examines the different labour laws, and has established that these laws are discriminatory against foreign workers in terms of pension, mobility, and pay. This, the study claims, will critically hinder the effective functioning of the Saudi labour market. Moreover, the study criticises the Saudisation policy for its pluralistic approach which is centred in favour of Saudi nationals.

Furthermore, Mellahi (2000) has studied the effectiveness of government vocational education and training programmes in achieving the country's human resources development plan represented by Saudisation. The study attempts to draw a comprehensive conclusion concerning the outcome of such policy through an extensive sample of students, vocational college managers, and employers of vocational graduates. The data reveals that half of the graduates of such programmes with degrees to work in manual jobs seek administrative positions, or otherwise start their own businesses rather working as manual workers. According to the study, the reasons explaining the graduates' unwillingness include manual jobs being regarded socially as low-status jobs, and also that the wages for manual jobs are very low compared with administrative jobs. Importantly, although the aim of such programmes is to provide vocational graduates, the data nevertheless reveals that 80% of the students graduated with degrees leading to

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non-vocational jobs during the period of 1992–1997. Finally, the study claims the need for vocational skills in the labour market is overestimated, owing to the fact that most graduates are not able to find a job. Moreover, the data also shows that only 14% of students graduated with high grades during the period 1994–1997, and also cites a lack of motivation amongst students as a reason for their low grades in their studies. Importantly, most students seemed to consider these programmes as their last resort, as they were unable to find a job or enrol in the university owing to their low grades achieved through secondary education.

Furthermore, there is the consideration that labour laws seem to have a negative influence on the management of Saudi employees. For example, such laws have made it difficult to dismiss a Saudi worker; therefore, some Saudi workers feeling overprotected lacked motivation and seriousness in their workplaces (Alsheikh, 2000). Moreover, the turnover of Saudi workers in the private sector is known to be very high, which may be due to the various job openings for Saudis (Alzalabani, 2003).

Diwan & Girgis (2002) warn that the significant expansion of the government employment of Saudi nationals has contributed to the distortions of the labour market in Saudi Arabia. Moreover, they estimate that 27% of the Saudi labour force is employed within the government. The study argues that Saudisation is connected to hindering global competiveness—both locally and abroad—and has also decreased labour productivity in the private and the public sectors; therefore, the study recommends the adoption of market-based strategy, which aims to close the gap between the wages of Saudis and expatriates through levying taxes on expatriates and/or subsiding Saudis wages.

Alromi (2003) criticised the government for not taking into consideration the theoretical foundations behind localisation. The study addresses the application of human capital theory in the Saudi context where, according to the study, although Saudis expect a good return from their investment in terms of education and training, they have nevertheless stated that their investment has not guaranteed employment for Saudis without the acquisition of certain skills demanded by the labour market. Alshammary (2009)

maintains that the findings of Alromi's (2003) study do not only pose a serious challenge for HCT propositions, but are also a strong manifest to the unique conditions of the Saudi labour market, such as through the imbalance between supply and demand for skills in the labour market. The study then progressed to state that the government is to blame for its expatriates open-door policy, and that the private sector is not responsible for its preference of employing expatriates because they are cheaper to hire and easily controlled in terms of HR-related issues, such as salaries and layoffs (Alshammary, 2009).

Moreover, the Saudi government is blamed widely owing to its failure to reform the education system. For example, Alshammary (2003) criticises secondary education for the lack of analytical, technical and creative skills, as well as rich English language materials in its curriculums. Moreover, the study reports that the main focus of subjects in secondary schools is on religious and literature studies. Furthermore, the study also condemns the negative role of the government in terms of educational and training institutions in terms of forming the skills of Saudi youths in a manner consistent with the labour market demands. The study stresses that most of these organisations have suffered from an inherited dysfunction of government bureaucracy in delivering their HRD services to the private sector: for example, the planning and implementation of HRD programmes are dispensed between different government entities, which lack communication and coordination. More importantly, the lack of private-sector involvement in the development of national HRD programmes is also an important factor. Essentially, therefore, according to the study, an unwillingness of the private sector to employ graduates of technical education and vocational training programmes has been witnessed as a result. Furthermore, Alsarhani (2010) advocates that the perspectives of private organisations have been neglected in the formulation and implementation of the policy of Saudisation. According to the same study, there are contradictions between the views of policy-makers and the views of those in the private organisations: for example, policy-makers conceive the policy as a national HRD strategy whilst private managers consider this as a mere replacement approach of

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foreign workers with Saudi workers. According to the study, these contradictory perceptions will undermine the potential of Saudisation and limit its achievements.

Notably, one of the most fundamental problems associated with Saudisation in this arena is a lack of government transparency concerning the real figure of unemployment amongst Saudis. For example, Bosbait & Rodney (2005) indicate that were very different rates of unemployment in 2002 obtained from different sources: one is from the Ministry of Labour (8%, male only), another from The Manpower Council (8.9% male and female), whilst Saudi American Bank's rate was 11.9%. Finally a figure from a Saudi independent economist estimates male unemployment to be 30%.

2.7.7   The HR Perspective

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. On the other hand, Alyafi (2003) identifies the challenges associated with HR in terms of SMEs regarding the meeting of Saudisation targets. The researcher reports that there exists a conflict when implementing HR practices between family and business values, as most of these companies are family-owned. For example, HR managers face the dilemma of whether or not they should recruit the owner's relative or the best candidate for the role. Moreover, there is also consideration as to whether or not development opportunities should be based on individual needs or company's needs.

Mellahi (2007) examined the effects of labour laws related to Saudisation on HRM practices from the perspectives of HR managers in Saudi private firms. One reason for the new regulations was owing to the required adoption of Saudisation, whilst another reason concerns conform with international labour laws so as to fulfil the requirements

to Saudi Arabia's WTO accession. Importantly, the respondents claim that the HRM model is changing through hard government intervention, and so they didn't take part in the law-making process. Notably, the study identifies three key characteristics of the emerging HR model in Saudi Arabia: first, as more Saudis join the private sector, companies are permitting Saudi workers to participate in the decision-making process where an autocratic style is to be employed with foreign workers; secondly, the study claims that there two sets of HR practices—one for Saudis and the other for foreign workers—and that, whilst Saudi workers have their pension paid regularly and are provided with training, development opportunities and promotions, foreign workers will not be offered any of these perks; and finally, it seems the workplace environments in the Saudi private sector are becoming more and more diverse owing to the number of Saudi workers increasing. In this regard, the study expresses concerns over workgroup tensions due to the unequal treatment between Saudi and non-Saudi workers, and the lack of socialisation between the two groups.

Fadhel (2007) examined various HR-related problems within private firms which may fundamentally hinder the implementation of Saudisation policy. He surveyed 52 Saudi Small and Medium Enterprises (SMEs), and accordingly found that more than 46% of the companies did not have a Human Resource Management department within their organisational structure. Within the remaining 64%, only 40.4% had HRD functions. Furthermore, it is also reported that various HRD functions within such organisations, i.e. training and development activities, were carried out by other departments, such as the sales or finance department. This indicates that the majority of SMEs do not have any systematic HRD structure, which is crucial when seeking to develop local talent. Moreover, the study examines carefully the training activities of such companies and accordingly states that most of the training programmes lack in terms of strategic objectives, and are usually implemented based on issues they faced in their work places. Notably, the majority of the programmes were on-the-job training courses. More importantly, the study reports that half of these companies failed to provide any training and development opportunities to their employees. Finally, the study concludes by stating that the companies' lack of HRD activities was owing to two reasons: first, the

associated high costs of HRD programmes; and secondly, the lack of HRD capabilities within such companies to develop and implement and offer HRD activities to their employees (Fadhel, 2007).

Furthermore, 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 that 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 (2009) 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). The study states that the increasing use of tokenism practices, whereby national workers were used by private firms to show their commitment to localisation, actually highlighted a lack of any real strategy or practice to develop national human resources. Importantly, the majority of these firms were found to develop expensive short-term programmes as opposed to adopting strategic HRD approaches. In consideration to the recruitment of nationals, the study has also established that the major difficulty was in identifying a pool of suitable candidates; this has made organisations lower their hiring standards and requirements in order to recruit more nationals. Accordingly, in an attempt to overcome the problems with this practice, the study recommends the development of strong ties with educational institutions and the heavy use of internships and summer jobs; and secondly, on-the-job-training to acquire the right skills for a certain job has proven to be a key factor in the retention of national workers. More importantly, dedicated training programmes is an effective localisation practice, which includes formal education, on-the-job-training, intensive coaching, and close supervision. However, such programmes must be designed in a

local context and delivered preferably by a national trainer or expatriate with a very good local knowledge. Thirdly, the study results show a strong commitment by firms in relation to the career management of national employees, which will result in the retention of such workers. Moreover, the results also suggest that highly paid individuals seem to remain in their jobs. And finally, it seems that managing local employees can be problematic when considering disciplinary issues. Accordingly, this particular study suggests transferring the tasks of punishing national workers to senior national managers.

2.7.8   The MNE Perspective

Fewer studies examine actively Saudisation in different industries, and urge for the need of Saudisation to be designed based on every single industry's conditions and environment. Alhamad (2001) examines Saudisation in the construction industry, and suggests the adoption of gradual Saudisation plans that fit the current conditions of the construction industry. Essentially, the study argues that the immediate replacement of foreign engineers and managers will be at the expense of quality, and will thereby induce extra costs for private construction firms.

In addition, Looney (2004) reports that, although there is a massive expectation from SMEs to contribute to Saudisation, most of these companies thus far have managed little progress. He claimed that, whilst 30% of employees expected to be Saudis by 2003, SMEs, on average, manage to increase the portion of their Saudi employees by only 2%. Sadi & Henderson (2005) conducted a study with the objective to identify the impediments confronting managers in the hospitality and tourism when responding to Saudisation. The results show there is an agreement amongst tourism managers whereby Saudisation is a very important measure to help the country to encounter its national problems; however, the majority have criticised the policy for its administrative inflexibility. Moreover, there is also a widespread agreement that the tourism industry will suffer from a decline in quality standards should Saudisation be implemented without careful planning. Importantly, the findings suggest that both small and medium businesses will benefit the most as a result of Saudisation. In addition, the study also

emphasises the importance of upgrading the skills of local workers and reforming educational institutions to equip Saudi with the required capabilities within the tourism industry. Finally, the study concludes that Saudisation alone is not adequate when striving to solve employment issues confronting the country—especially within the tourism industry. Besides, measures of reforming the educational and training institutions, as well as organisational culture and work ethics, are urgently needed.

Aljaber (2007) examined the attitudes of those working in the commerce industry towards Saudisation, and subsequently found that there exists a positive attitude towards the policy, and that commerce workers believe it is very important to recruit Saudi youth. The respondents express major concerns regarding local workers' commitment and attendance, with resulting showing that the main problems associated with expatriates relate to national security and increasing the unemployment rate amongst nationals when hiring expatriates.

Furthermore, Maghrabi (2007) reports that, although Saudi banks have been able to retain a huge number of Saudi workers, the full Saudisation of HR has not been possible. With this mind, the study argues that the gap in skills between Saudis and expatriates is one reason for why banks are not able to adopt full Saudisation. Another reason is known to be the additional costs associated with hiring Saudis, which results in a lower income net and will therefore undermine the banks' performance.

Finally, Sadi & Henderson (2010) have investigated the drivers and barriers associated with Saudisation in the service industry, and accordingly advise of the development of local employees' skills and warn of the consequences of the ultimate removal of foreign workers. In addition, the authors criticise Saudisation for the use of forceful legal means in terms of encouraging the adaptation of the policy.

2.7.9 The Success of the Saudisation Process

Sadi & Al-Buraey (2009) suggest a framework for the successful implementation of Saudisation. The model comprises four elements influencing the success of the policy: first, issues with Saudisation need to be well studied and developed, which includes Saudisation objectives and plans, private-sector involvement, effective government systems and legislations; secondly, the continuous improvement of the capabilities and the attitudes of Saudi employees should be ensured and maintained; thirdly, the policy should be evaluated on a regular basis so as to respond to the emerging problems; and lastly, drivers centred on the adoption of Saudisation should be created, such as government grants and subsidies to companies employing Saudis. Furthermore, it was also determined through the study that positive perceptions by executive managers are related to the success of Saudisation in the service sector. Interestingly, they claim that the positive characteristics of Saudi employees have no influence over the success of Saudisation; this indicates that the total replacement of expatriates—even with skilled Saudis—is not a proper justification for the Saudisation policy. Moreover, despite the high skill-level of Saudis provided by Saudisation schemes, there is nevertheless a lack of motivation in their jobs. Another finding of the study is the effective procedures by chamber of commerce and private firms' social responsibility as drivers behind Saudisation positively influencing the outcome of Saudisation.

It has been reported that, in 2008, Saudisation achieved some degree of success in the private sector as the number of Saudis employed in private organisations increased by 13.3% from 13% in 2007 (ALRiyadh Newspaper, 2009). According to the same study, this has caused the unemployment rate to fall from 9.8% in 2008 to 5% in 2007. This achievement has been accounted as being owing to the remarkable efforts by the involved government bodies through the provision of updated information on the labour market, the encouragement of the private sector to employ Saudis, and the minimisation of expatriate employment.

Notably, Alshammary (2009) accounts the success of Saudisation in the banking industry and some quasi-government organisations to three reasons: first, the strong

commitment of the management teams in these organisations to Saudisation as a national objective; secondly, the heavy investment in HRD programmes outsourced from well-recognised training institutes; and thirdly, the implementation of leading HR practices, such as linking promotion to career-path training, linking salary to performance, and a well-defined retirement plan. Moreover, the study highlights the positive role of SAMA in relation to the success of Saudisation in the banking industry. SAMA has also established a Saudisation unit concerned with supervising and supporting the Saudisation process through training programmes, and helping banks to develop realistic plans for the implementation of Saudisation. Importantly, it is noted that Saudi banks exerted tremendous efforts on attracting young Saudis, training them based on the skills needed, and developing a progressive career plan for them to stay committed to banks. Alshammary (2009) also states that low salaries, the negative role of government agencies in HRD programmes, and the negative attitudes of Saudis towards certain jobs are all factors hindering Saudisation in the private sector. It is noteworthy to mention that there is disagreement amongst private managers and government officials concerning who is responsible for the failure of Saudisation: the private sector blames the government for not involving them in the development of Saudisation and then forcing it upon them, whilst, in contrast, government officials claim that Saudisation is not improving because the private sector is only interested in profit-maximisation without attention being paid to national interests. The study also examines the most important factors in achieving successful Saudisation which are, according the study, top management commitment to Saudisation through employing effective HR practices, which aim to attract Saudis, and heavy investment in HRD programmes. Prominently, the study states that Saudisation through government grants for training and recruiting has also influenced private organisations to increase their investment on training programmes. Moreover, it seems that larger organisations invest more in training activities, whilst small and medium organisations spend less owing to limited human and financial resources. Additionally, the high turnover of Saudi employees and the availability of skilled expatriates have prevented organisations from spending on training Saudis. In addition, the lack of well-recognised and industry-led training institutions in the country also persuades private organisations to cut their

spending to training programmes offered to Saudi employees. In addition, it should be highlighted that the study investigated the role of government organisations on Saudisation failure—namely vocational and training institutions—in fulfilling the skills of required by the private sector. The study findings suggest that these government organisations are ineffective in developing capable human resources as required by private organisations. Most GOTEVT graduates, according to the study, are not properly equipped with the skills required by the private sector, thereby resulting in extra costs paid by private firms in retraining graduates to fit their job descriptions. In addition, the study points out government bureaucracy as being one of the main factors for the failure of these organisations in responding accordingly to the labour market demands. Given this bureaucracy, it seems that government organisations are not able to respond to the changing demands of business environment, as well as the lack of labour laws for the protection of private employers' rights regarding employment relations. Ultimately, this has caused the turnover of Saudis employees to be high as the laws to make them commit to their employers are absent.

2.8   Synthesis

After conducting an extensive review of the relevant literature of workforce localisation and Saudisation, a number of gaps have been identified. First, there are no coherent theoretical foundations of workforce localisation process. It seems that most of the studies have been concerned with the practicality of the policy without developing a theoretical understanding of the localisation process. Furthermore, existing literature lacks models that investigate the process from different perspectives taking into account all the factors that affect localisation.

Secondly, there is no conclusive study that investigates the roles and influences of HR practices on the implementation of workforce localisation policy. Rather, most researchers have used their common sense and rational thinking to determine that such HR roles and influences exist. Thirdly, there is no single study that verifies the different roles of the HR Director on the successful implementation of workforce localisation.

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Notably, all of the previous studies neglect to examine the role of the HR Director in relation to such a policy.

Fourth, there is no extensive study that examines the workforce localisation in the entire Multi-National Enterprises (MNEs) field in Saudi Arabia. However, several studies mention that this industry is very promising for researchers interested in the localisation policy (Alshammary, 2009; Harry, 2007; Aldossary, 2004). The reasons behind this are two: first, one of the key objectives of Saudi foreign investment policy is to support localisation initiatives and create employment opportunities for Saudis; and secondly, it seems that this sector has mixed success and failure scenarios in regard to localisation. Therefore, this research attempts to identify the success factors of localisation policies to assist the government and MNEs in their localisation efforts.

Fifth, most studies in the context of Saudisation 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 carried out 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 success factors and workforce localisation. Finally, the existing literature neglects to examine the variations in the success on workforce localisation policies in terms of firm size, firm age, and industry. No single study examines whether or not firm characteristics impact localisation success more; this is very imperative if we are to draw a clear conclusion concerning the realities of localisation success.

Table 2.2 summarises the studies on Saudisation outlining the methodology employed, unit of analysis, and the major findings of each study.

Table 2.2: Saudisation Studies

Study	Methodology	Unit of Analysis	Main Findings
Knauerhase (1976)	Limited qualitative data.	Interviews with managers and a few job-seeking citizens.	Negative attitudes of Saudis and social pressures prevent Saudis from working in certain jobs.
Algarayani & Abdullah (1989)	Secondary Data	The data derived from government figures and a survey of managers in private and public companies	Demand for local workers as rationale for launching localisation. and warned from the shortage of vocational and technical expertise in the local workforce
Riyadh Chamber of Commerce and Industry (1981)	Secondary Data	The data collected from 73 private firms based in Riyadh city across industries.	Lack of skills and expertise as Reasons behind the low percentage of Saudi workers in the private sector
Alogla (1991)	Quantitative/ qualitative data.	The data collected from 154 job-seeking citizens.	Deeply examined the roots of Saudi culture that have impacted the negative attitudes of students toward employment in the private sector.
Fatahi (1992)	field study with quantitative data	Job seekers and employers.	factors affecting Saudis' decision to work in private companies depends on; high compensation and financial benefits, promotions and advancement, job location
Council of Chambers of Commerce and Industries (1992)	Qualitative approach	Interviews with academics and employers	Firms prefer to hire individuals with work-experience, good command of English language, and who expect reasonable salary.
Al-Saneed (1994)	Qualitative data.	Interviews with HR managers in private firms.	Many private firms have been found not following the Saudisation laws.
Ben-Bakr, Al-Shammari, Jefri, & Prasad (1994)	Quantitative data.	Surveys collected from Managers in private firms based on Jeddah City.	Expatriates turnover has become a major concern for companies in Saudi Arabia
Ministry of Interior report (1995)	Secondary data.	Data collected from government report and survey of government officials.	the huge number of expatriates has led to the increase of unemployment rate amongst nationals and the increase of foreign exchange and transfer of funds overseas.
AlGaith & AlMashooq (1996)	Quantitative data.	Managers, Saudi employees, and job-seeking Saudis in Riyadh City.	Saudi job-seekers are willing to work even in low-status jobs and will not demand unreasonable salaries and rewards. the Saudi worker can do the job properly as the foreign worker.
Bhuian & Al-Shammari (1996)	Quantitative data.	Expatriates and managers in private firms based on the Eastern province.	low levels of commitment and satisfaction amongst expatriates are evident.

Al-Dosary & Garba (1997)	Theoretical approach based on secondary data.	Secondary data derived from government reports.	lack of coordination and communications between the responsible organisations in planning and achieving the objectives of national manpower plans.
Yavas (1998)	Qualitative data.	Managers in the private companies located in the Eastern region.	The most needed skills for those companies are; communication skills in English, followed by policy formulation and communication skills in Arabic.
Wadeea (2000)	Theoretical approach based on secondary data.	Government reports and previous studies.	Saudisation should a adopt a strategic approach that takes into account the labour market demands.
Mahdi (2000)	Theoretical approach based on secondary data.	Government reports and previous studies.	Explored the labor market in Saudi Arabia to identify the factors influencing the implementation of Saudisation policy
Mellahi (2000)	Qualitative data.	Interviews collected from students, vocational college managers, and employers of vocational graduates.	Ineffectiveness of vocational education and training programmes in achieving the country's human resources development plans.
Alsheikh (2000)	Secondary data.	HR Managers in private firms.	Labor laws seemed to have a negative influence on the management of Saudi employees; laws made it so hard to dismiss a Saudi worker.
Alzalabani (2003)	Secondary data.	Private organisations based on Riyadh city.	The turnover of Saudi workers in the private is very high due to the various job openings for Saudis.
Mellahi and Wood (2001)	Theoretical approach based on secondary data.	Government reports and previous studies.	The labor market structure and the localisation policy are key factors on the kinds of HR practices that companies choose to employ.
Alhamad (2001)	Qualitative data.	Managers in the construction industry.	The immediate replacement of foreign engineers and managers will be in the expense of quality and extra costs for private construction firms.
Al-Sheikh (2001)	Quantitative/ secondary data	Managers in private firms and government reports	62% of all working women is employed in the government while the remaining 38% work in the private sector. 88% of female workers in the government work in the education sector.
Madhi et al (2003)	Quantitative data.	Job-seeking and Saudi employees.	80% of Saudis has rejected the idea of working in manual jobs where 64% stressed the importance of social image as a crucial determinant in one's decision about future job.
AlBiashi & Bin Talib (2002)	Qualitative / secondary data	Managers in private firms and government reports.	80% of expatriates work in small businesses that employ less than 10 workers.
Alhumaid et al. (2002)	Qualitative / secondary data.	Private organisations based on Riyadh city.	Women participation in the labor force very low estimated to 10-13% of the total labor force.

Alromi (2003)	Theoretical approach based on secondary data.	Government reports and previous studies.	Addressed the application of human capital theory in the Saudi context. According to the study, Although Saudis expected good return from their investment in education and training, they found that their investment didn't guarantee employment.
Alshammrary (2003)	Theoretical approach based on secondary data.	Government reports and previous studies..	The study condemned the negative role of government educational and training institutions in forming the skills of Saudi youths in a manner consistent with the labor market demands
Alyafi (2003)	Qualitative approach.	HR managers in SMEs in Riyadh city.	there exists a conflict when implementing HR practices between family and business values because most of these companies are family-owned
AlModaf (2003)	Qualitative data.	Saudi undergraduates students	Respondents have positive attitudes towards the private employment systems in terms of recruitment, promotion, wages. However, the respondents hold negative attitudes toward the changes on; working hours, workload, employment termination, level of job security.
Looney (2004)	Theoretical based on secondary data and government reports.	secondary data and government reports	SMEs on average managed to increase the portion of its Saudi employees only by 2%
Alharan (2004)	Theoretical based on secondary data and government reports	secondary data and government reports	a model for implementing the Saudisation process based on three elements; reinforcement, education & training, and public awareness.
Bosbait & Rodney (2005)	Qualitative data	Jobseekers	the links between unemployment and respondents social, educational, training background
Ramadi (2005)	Qualitative data	Employers	local employees are costly to hire; their negative attitudes towards manual jobs; expatriates are more committed; easier to get rid of ; more skilful and better in English language.
Sadi& Henderson (2005)	Quantitative data	Managers in the tourism industry	the tourism industry will suffer in quality standards if Saudisation implemented without careful planning. Saudisation alone is not adequate to solve the employment issues confronting the country
Mellahi (2007)	Qualitative data	Interviews with HR managers	HRM model is changing through hard government intervention and here two sets of HR practices; one for Saudis and one for expatriates.
Fadhel (2007)	Quantitative data	surveyed 52 Saudi Enterprises (SMEs)	46 % of the companies didn't have Human Resource Management departments and only 40.4% had HRD functions
Alshammary (2009)	Qualitative data	Interviews with employers, , training	the heavy investment in HRD programmes and the implementation of leading HR

		providers, and government officials responsible for Saudisation	practices such as linking promotion to career path training, linking salary to performance, and well-defined retirement plan have caused the Saudisation success in some organisations.
Achoui (2009)	Case Study	two companies who achieved high percentage of Saudi staff	the disappointing achievement of Saudisation in the private sector so far is mainly due to the preference of foreign workers and negative role of private sector on the national HRD strategy.
Forstenlechner (2009)	Qualitative data	Interviews with HR managers	HR implications for localisation : strong ties with educational institutions, dedicated training programmes, career management, high pay, transfer of disciplinary decisions to national managers.

2.9   Summary

In this chapter, the literature in workforce localisation and Saudisation policies have been received, outlining its definition, rationales, mechanics and success factors. The definition emphasising the development of local employees along with the replacement of foreign works is appropriate in the Saudi context. The rationales behind the localisation of workforce can be classified into governmental and organisational rationales. The governmental rationales include combat local unemployment and lessen the socio-economic effects of over-dependence on foreign workers in the labour market; on the other hand, organisational rationales pertain to costs-saving, solving the problems associated with expatriate workers, better relations with local customers and host government. A number of studies on localisation have focused on identifying the factors affecting the process of workforce localisation. The factors list is organised into three categories: organisational factors, characteristics of local workforce, and factors related to the host government's role. In relation to organisational factors, earlier studies identify organisational commitment toward employing local workers as being the major factor influencing the success of WL process. Moreover, certain WL-based HR practices, such as the recruitment and training of local employees, are crucial elements in successful localisation. Secondly, the negative characteristics of local workers negatively impact the outcome of WL policies. Thirdly, governments play a crucial role in terms of the process of localisation policies. In countries facing high unemployment rates amongst nationals, it seems that governments play a central part in encouraging, planning, implementing, and monitoring WL policies. After conducting an extensive review of the relevant literature of WL and Saudisation, the following gaps have been identified: first, there are no coherent theoretical foundations of WL process; secondly, there is no conclusive study which investigates the roles and influences of HR practices on the implementation of workforce localisation policy; thirdly, there is no single study verifying the roles of the HR Director on the successful implementation of workforce localisation, nor is there an extensive study examining workforce localisation in the entire Multi-National Enterprises field in Saudi Arabia; and finally, previous studies have not taken into account the influences of firm characteristics on the success of workforce localisation.

CHAPTER 3: THEORETICAL FRAMEWORK

3.1   Introduction

The chapter establishes the basis for the following chapters in that is provides the theoretical framework and proposed hypotheses for the current study. In order to do this, detailed reviews of the Institutional Theory, along with historical and current perspectives on the theory, are presented. Subsequently, the chapter describes the relevance of Institutional Theory to MNEs and workforce localisation policies in Saudi Arabia. The chapter also identifies the institutional, HR, MNEs determinants of localisation success and explain the generated hypotheses accordingly.

3.2   Institutional Theory—Concept and Context

The Institutional Theory focuses on the external forces shaping the behaviours of companies provides an ideal framework for a comprehensive analysis of the forces influencing the workforce localisation policy in the MNEs and its success. It is the starting point in the further analysis.

Institutional Theory is concerned with social structure in regard to its more in-depth and resistant elements, with attention directed towards the approaches by which structures, such as norms, routines, rules and schemas, are implemented as authoritative guidelines for social behaviours (Scott, 2004). Despite the topic centring on order and stability in the context of social life, Institutional researchers must not only consider agreement and compliance with social structures but also disagreement and change (ibid).

 The Institutional Theory is based on the recognition that institutions either enable or impose limitations on the scope of humans and companies (human agents) 'by creating legal, moral and cultural boundaries' (Delbridge & Edwards, 2007, p. 192). It focuses on the development of culturally and legally acceptable guidelines for social behaviour through the establishment of rules, norms, routines and structures. It seeks to understand how such guidelines are established, evolved and adapted; and how they are marginalised, replaced,

and declined. Although there is no debate on the definition of what constitutes and institution, defined as 'multifaceted, durable social structures, made up of symbolic elements, social activities and material resources' (Scott, 2001 p. 49), the literature provides an array of different interpretations surrounding the origin, context and scope of the Institutional Theory (Delbridge & Edwards, 2007). These views, according to Scott (1987, pp. 493–501) can be divided into four different categories, as discussed below.

The first—or the earliest—institutional view embraced by researchers and practitioners identifies the institutional pressures as a process of instilling value in the organisational structures creating adaptive mediums that go beyond the technical elements shaped both by the characteristics of participants and by external influences from the environment (ibid). The second view on institutionalisation focuses on the creation of reality described in the work of Berger (1981). Berger's, and later Luckmann's, arguments associate the concept of social order with the concept of shared social reality in which organisations operate. The third view of the Institutional Theory views institutionalisation as a system in relation to a distinctive set of elements important for the existence and justification of organisational structures (ibid). The most important characteristic of this view is the shift of focus from the generalised features of belief systems towards various 'institutionalised' sources.

The new focus encouraged analysts to study other types of process shaping institutional conformity, such as the coercive, mimetic and normative isomorphisms developed by DiMaggio & Powel (1983). In coercive isomorphism, government authorities compel firms to meet various requirements, whereas in mimetic isomorphism, organisations employ successful policies in their environment owing to uncertain conditions of the environment. In normative isomorphism, professional institutions or organisations encourage the adoption of certain practices. This altered focus paved the way for greater attention placed on the nature of belief systems on actors beyond the environmental elements and for the development of the conception of multiple institutional environments (Scott, 1987). The fourth view supports the idea of diversity of belief

systems and their linkage with the traditional view of social institutions as symbolic and behavioural systems. It emphasises instilling value and stressing the theme of persistence and stability of social institutions as 'the major mechanisms for social continuity' (ibid).

As argued by Scott (1987, 2004) and later by the comprehensive review of Delbridge & Edwards (2007), as a general benefit from all of the four Institutional Theory views described in the preceding paragraphs, the view of the organisation as a simple production system has changed, whilst Institutional theorists have focused on the importance of the symbolic aspects of organisations and their environments and the fact that all organisations exist in a social context that defines and delimits social reality. Moreover, the literature review of all four views on the institutionalisation theory is rich with description on how the Institutional Theory restricts the choices of companies. The passive outlook of researchers is mainly focused on the way value and social meaning is installed in organisations (Berger & Luckmann, 1967; Selznick 1957), and the types and varieties of such institutional processes (DiMaggio & Powell, 1983). This makes the theory rather passive in an environment where the interests shape the behaviour of the actors and where the actors can recognise its interest, contrary to DiMaggio, who argues that norms and assumptions can make 'actors unlikely to recognise or to act upon' them (1988, pp. 4-5). In the process, Scott (2001) moved the debate further and provided an analysis on the impact of the interests and actors on the organisational structure and systems. As a result, a consistent institutional framework of forces that shape organisational behaviours was developed. This framework is composed of three institutional determinants, named as regulative, normative and cognitive forces. The regulative forces represent the organisations' rules, regulatory constraints (forced by regulatory bodies) and penalties for violations. The normative forces identify the values and social behavioural norms that define the way in which things should be done within the organisation, whilst the cognitive forces represent the actors' social-cognitive perspective, their formulation about what they are and their logical frame of action in different circumstances.

As the work of DiMaggio & Powell (1983) and Scott (1987, 2001) has been more focused on identifying the pressures on companies, the research in the management has begun to seek ways in which the companies can react to these pressures and protect their interests. As a result, Oliver (1991) further developed the Institutional Theory by defining the strategic responses of companies to these institutional pressures (Clemens *et al.* 2005). What Oliver (1991) begun grew into a substantial body of literature (Greeve, 1998; McNamara *et al.*, 2003; Oliver, 1997) in the Institutional Theory, focused on predicting the strategic choices of companies when pressured with the institutional forces (Goldstein, 1994).

3.2.1   Historical Perspective on Institutional Theory

Institutional Theory is seen to have its roots in the formative years of social sciences, with the views and creative insights of a number of well-known scholars—such as Marx & Weber, Cooley & Mead, and Veblen & Commons (Scott, 2004). A great deal of this work, which is known to have been conducted at the end of the 19th Century and during the initial years of the 20th Century, was lost in and amongst economics' neoclassical theory, political science's behaviouralism and positivism's sociology, although the concept is witnessed a significant degree of revival and rebirth during modern times (ibid).

Scholars such as Hughes (1958) have concentrated on the institutional structures implemented to support work activities with reference to the professional associations and unions. The research concentrated on the contextual impact that organisations exert on work groups. Hughes concentrated on the tensions that crop-up amongst employees due to professionalism, hierarchical supervision, and bureaucratic rules. The study may help MNE's achieve a stable situation, especially in case of competing visions.

On the other hand, Stanford researchers studied the systems used in organisational authority. This study concentrated on the different uses of power and the conflicts resulting from preferred and operating authority in various organisations. The study

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confirmed that work arrangements are products of the political, social, and cultural processes as opposed to the natural economic situations (Dornbusch & Scott, 1975).

In the 1970s, Meyer studied the impact of institutional forces in shaping the organisational systems. The research was based on the existing shifts, and contingency theories. The experiments examined the impact of applying complex technologies in both the classrooms and school structures (Cohen *et al.*, 1979).

In 1983, various researchers, including Meyer and Scott, realised that most organisations use consistent structures aimed at achieving certain goals. This system resembled the rationalised systems. They form the cultural systems used to attain the purposes of the organisations. Most organisations use diverse guidelines to determine the most effective social behavior in the context of the organisation. The modern world has evolved to form systems capable of assimilating rationality; these encourage production in the organisations. Formal organisation comes in play mostly as a result of norms of rationality (Meyer & Rowan, 1977).

Most models that lead to the rise of organisations are results of rationalised myths. The systems utilise rules determined by the efficacy of the members. These rules are shared widely as they are promulgated by individuals and groups with the right to provide judgments to organisational matter (Scott *et al.*, 1983).

The models' template determines various elements of the organisation applicable to MNEs, including policies, positions, procedures and programmes. The institutional models aim at providing power to the audience and stake holders from the external environment. The division of organisational activities and system rules, realised through the model, facilitate togetherness in social legitimacy, within the organisations.

White *et al.* (1976) uphold the perspective of Powel & Dimaggio in relation to the efficiency in the organisation. The authors hold that the structure and connectedness of an organisation makes MNEs similar—without the need to make them efficient equally.

The use of a palpable network in an organisation assists in the transmission of normative and coercive pressures. Such institutional agents include professional bodies and the state. Other professional bodies include mimetic influences resulting from related and similar organisations.

According to Scott & Meyer (1983), cultural and network systems lead to socially constructed arenas. These arenas comprise diverse and interdependent organisations, which conduct specialised functions. These fields provide institutions with forces that have the strongest effect, which facilitates the examination of the organisation. The arguments devised in the period were always supported by data.

The historical view of Institutional Theory has focused on three main themes. The themes include factors that impact on the diffusion of different forms of institution (Tolbert *et al*., 1983), the destructive effects of conflicts, or institutions operating from within an organisation, although as separate entities (Scott *et al*., 1987); and the process involved in development of the rules and logics responsible for unpinning the field of the organisation (Dimaggio, 1983). Scott (1987) suggests that Institutional Theory ultimately has reached an adolescent stage with a promising growth.

Other developments on the Institutional Theory include views held by Tilly (1984). The views are encompassed in framework, in which related but different concepts and ideas are incorporated to form a broader theoretical system. This results from the fact that organisations have varied elements of cultural, cognitive, regular elements, and normative components. These components integrate with organisational activities and resources to ensure stability and meaningful social life to the members of the organisation (Scott *et al*., 2001).

It is interesting to note that, although scholars hold different views in relation to the level of analysis on these elements, the entire group acknowledges that the link between social behaviour and resources plays a major role in establishing rule systems and cultural practices in any organisation. Relational and material features present in the

social structures are made, empowered and constrained by virtual elements. These virtual elements are capable of producing and reproducing these features.

Pillars Framework holds that institutions comprise diverse elements. These elements differ in a number of important ways. These variances speculate different bases, forming the orders and compliance, different mechanisms and logistics, alternative underlying principles used in the establishment of legitimate claims, and varying empirical indicators. Despite the different needs of organisations, some elements are dominant across all organisations. This is evident on the privileges given to certain elements over others across different theories. This explains the reason behind the regulative elements stressed by most economists and rational choice theorists (North *et al*., 1990). Most early sociologists favoured normative elements (Parson *et al*., 1990), whilst recent sociologists in organisational matters and cultural anthropologists focus on cultural-cognitive elements (Scott, 2001).The Institutional Theory depends variedly on the three elements that form environmental analysis. The analysis concentrates on the cultural-cognitive. However, the normative and regulative approaches have been favoured in other areas. Most works concentrates on the effects of regulative agents, including governmental organisations, courts, and legislative decisions on the structures and activities conducted within the organisations.

3.2.2   Recent Development in Institutional Theory

In regard to Institutional Theory, there are three key developments that have been witnessed (Scott, 2004). Firstly, there has been much more attention placed on the various and diverse aspects of the environment to comprise political and relational interdependencies with cultural and symbolic features considered subsequently. Second, the levels of analysis have increased from the individual or the group in an organisation to the organisation as a whole, and then to the organisational set—which can be described as a system of actors connected by services and commodities exchange—and lastly to the organisational field, which held that both cultural and networks systems induced the introduction of a socially constructed arena within which varied, co-dependent businesses conducted particular and focused operations (ibid). Within such

fields, it is seen that institutional forces have their most powerful and in-depth impacts, are which can therefore be most easily analysed.

Thirdly, the application of theory is not necessarily restricted to the organisational level, with global, national and transnational levels experiencing important developments, with Institutional Theory held as being well-positioned to aid researchers in explaining and portraying such changes (ibid).

Multi-National Enterprises are now recognised as being more likely to function in a number of different environments at one time. Importantly, with the need to expand across international borders, MNEs are continuously facing foreign culture practices and actors. Recently, Institutional Theory has been employed with the aim of analysing the dynamics of the nation-state. Accordingly, there has been a great deal of emphasis placed on processes and structures at global and/or transnational levels, with increasing inter-governmental commissions and treaties, international professional bodies, and international non-governmental organisations recognised as completion for influence and attention across the board (Scott, 2004; Boli & Thomas, 1999; Djelic & Quack, 2003). It is described that institution-building is occurring quickly on a global scale owing to the fact that centralised authority and power are seen to be inadequate at such levels; thus, cultural-cognitive and normative modes of influence are believed to be the best approaches (Scott, 2004).

During recent times, institutional scholars have adapted to the agentic and commonly creative methods adopted by businesses to teach and highlight their institutional environments—an approach commonly referred to as institutional entrepreneurship (Scott, 2004; Dacin, Goodstein & Scott, 2002). Institutional Theory is seen to portray businesses as change agents owing to their attempts to resist institutional pressure, alter institutional logics, and transform organisational fields (ibid).

One prominent stream of institutional literature is coined as historical institutionalism. It attempts to historically highlight the importance of the political structure and

institutional settings on the nature of institutional processes.   Just to what constitutes an institution is a controversial issue in the institutional literature. Historical institutionalism defines institutions as both formal organizations and informal rules that target social order. Broadly, institutional researchers are interested   in all groups of government, political, social institutions that impact how institutional and political actors behave on the society. This definition includes the type of electoral system, relations between branches of government, and the role of economic entities such as trade unions. In this sense, historical institutionalism asserts the role of institutions play on shaping the behavior of political actors through structuring the political power granted to them (Thelen & Steinmo, 1992).

A more comprehensive perspective of institutional research has examined institutions from the angle of political economy. This literature specifically focuses on the differences between advanced capitalist models through the roles of institutional arrangements that define distinct forms of capitalism known as varieties of capitalism framework (Thelen, 2012). The framework was based on the findings of previous research evaluating historically the differences in the institutional features of different capitalist nations (Thelen, 2012; Streeck 1992, Streeck & Yamamura 2001).This framework proposed by Hall & Soskice (2001) identifies the different types of institutional environments in western countries, and distinguishes between Coordinated Market Economies (CMEs) that are established in most European countries and Liberal Market Economies (LMEs) such as UK and USA (Thelen, 2012). It proposes that the current market forces s such as globalization will not result on one best form of capitalism but will reinforce the idea of various types of capitalism (ibid). This framework perceives the different institutional arrangements of LMEs and CMEs as historically resilient features. Advocates of this perspective recognize the occurring changes on institutional arrangements but they lean to claim that these changes do not weaken the principles that distinguish CMEs from LMEs (ibid).

On the other hand, opponents to this perspective supports the idea that coordinated economies are under huge pressures to liberalize their markets (Thelen, 2012; Streeck 2009). They claim that the current economic and political developments have led to

changes on the institutional arrangements that have differentiated the coordinated markets in the past (ibid).

This debate has been further advanced by Thelen (2012) who proposes a new framework that captures a different perspective beyond the common differences between CMEs and LMEs. Her framework is based on institutional flexibility and change that is related to the political context of which economic institutions operate (ibid). She argues that institutions survive because of their active and dynamic adaptation to the social, economic, and political, contexts in which they are rooted. She claims institutions which have supported the more coordinated forms of capitalism in the past may decline where they continue to depend on inappropriate political conditions of the past, and survive well when they adopt to the political conditions of the present (ibid).

Institutional literature tends to place a huge emphasis on institutional stability and continuity even in changing economic and political circumstances. To fill this gap, Streeck and Thelen (2005) examine the process of institutional change in advanced political economies. The drive behind the process of institutional change was identified as stronger beliefs on the advantages of economic liberalisation in these countries. In this perspective, the common concept of institutions as rigid entities is substituted with more adoptive form that are being continuously created and recreated by socio-economic pressures, conflicting political powers, and divergent interests (ibid). Furthermore, they found that institutional change occurs in gradual and continual manners through five modes of change; displacement (rising salience), layering (New elements attached), drifting (neglect of maintenance), conversion (redeployment of old institutions), and exhaustion (gradual breakdown).

For the current research, it is significantly important to mention that several recommendations for future research have been made to examine the Institutional Theory in environments that lack well-established institutional arrangements—

especially in developing countries, such as Saudi Arabia (Ali, 2010; Scott, 2004; Lawrence & Phillips, 2004).

3.2.3   MNEs and Institutional Theory

A growing amount of international management researchers are adopting Institutional Theory in regard to the study of MNEs owing to the fact that it delivers an in-depth theoretical basis for analysing a number of fundamental issues facing MNEs. Thus, the Institutional Theory is used as a theoretical lens in the study of adaptation and diffusion of organisational practices and forms. The basis for the argument is that most institutions operate under social influence and pressure to adopt their practices that are appropriate for their environments.

The applications of Institutional Theory in the literature of present international management comprises (Kostova *et al*., 2008) : firstly the conceptualisation of national environments in regard to cognitive, normative and regulatory pillars,; secondly approaches of national systems' large-scale transformation through institutional transition; thirdly, the explanation of relative national organisational systems founded on institutional embeddedness; fourth, the explanation of comparisons and resemblances on the diffusion of practices across businesses stemming from isomorphic pressures; fifth, researching the restrictions on the distribution and institutionalisation of business practices from one border to the next and from one MNE unit to another; and sixth, describing the link between MNEs and their host environment, with considerations towards aspects such as liability of foreignness and legitimacy (ibid).

Overall, the majority of international management researchers have taken a more restricted perspective of Institutional Theory, drawing only from the domain of neoinstitutionalism, which maintains that the survival of businesses is established by the degree of alignment recognised with the institutional environment; thus, companies need to adhere to external institutional pressures (ibid). In contrast to the attention directed towards 'statics, outcomes, cognition, and the dominance and continuity of the

environment' as seen in the case of neo-institutional perspectives, 'old' institutionalism directs attention to 'dynamics, change, social construction, and values', and further highlights a more agency-dominated and subjective standpoint (ibid). From a theoretical standpoint, it is held that better insight into such conditions may be achieved if ideas from 'old institutionalism' were blended with the neoinstitutional views implemented currently. In opposition to the deterministic neoinstitutional perspective, a fundamental agency role is adopted by MNEs, which is seen not only in their changing degree of compliance with institutional pressures but also in the fact that they need to be involved in their institutional environments to some degree (ibid).

Since workforce localisation is regarded as a HRM issue, we limit the discussion to the application of the Institutional Theory on HRM research. Globalisation in large corporations has led to increased attention and awareness of the value of employees from varied affiliations. Employers are constantly looking for ways of managing these employees effectively. In the previous years, researchers have been arguing that the human resource practices aimed at acquiring, developing, and motivation of the human resources helps produce valuable, non-substitutable, rare, and difficult to imitate human assets. This will lead to the competitive advantage of the firm (Huselid, 1997).

Different empirical studies carried out in MNEs confirm that extensive use of high-performance Human Resource Management practices leads to quality organisational results, including financial performance and market share. The theoretical views and empirical studies that confirm the positive relationship between high performances of HRM practice in relation to organisational performance, have led to increased brainstorming amongst various individuals from a global perspective. These people combine their different strategies of HRM practices, which are conceived as sources of high performance (Puffer & Shekshnia, 1994).

Thus, Institutional Theory is used as a theoretical lens in the study of adaptation and the diffusion of organisational HRM practices and forms. The basis for the argument is that most institutions operate under social influence and pressure to adopt the HRM practices

that are appropriate for their situations. The positive effects of high performance are highly valued and stressed within the business community. This is evident in legitimising forces, such as management scholars, certification programmes, and consulting firms. A good example is McKinsey—an international consulting firm that encourages companies the adoption of appropriate Human Resource Management practices in order to attract best talents. Most countries, including the United States, UK, and Australia, advocate certification programmes amongst Human Resource professionals. This is evidenced by the endless sessions held on the value of HRM practices to the achievement of high performance. This shows that the advancement of Institutional Theory is enhanced through business schools, consulting companies, organisations of human resource professionals, and the fluidity of information. This, in turn, has resulted in the high performance experienced by most organisations.

However, most MNEs experience tension when it comes to aligning policies needed in providing conformity to local environments, and standards of best practices across the localities of MNEs. Research confirms that there is no considerable difference in HRM practices cutting across the subsidiaries of MNEs. The research also confirms the influence of local subsidiaries of the MNEs. This information helps the society understand why some MNEs' subsidiaries achieve high performance in HRM practices in comparison to others (Dacing *et al*., 2002).

Researchers, including Hannon *et al*. (1995), use the Institutional Theory process to analyse situations in most host countries. Researchers analyse situations using regulatory, normative, and cognitive institutional processes, basing their studies on the influence of these processes on HRM practices applied in foreign owned subsidiaries.

However, the research fails to establish the extent of high-performance HRM practices present in foreign subsidiaries across the countries. Firstly, most researchers base their arguments on the perceptual measures of similarities in practices between MNEs and local plants, and the parent MNE Company. The results are contrary to actual subsidiary practices. Secondly, the MNEs base their research on one country limiting the results of

host country factors on the practices of the firms. It remains evident that little research has been conducted to determine the effect the host country has on HRM practices (Scott, 2001).

On more recent development, Whitley in Morgan et al (2010) demonstrates how changes on institutions and business environment result on changes in the wider competition models. More importantly, they argue that the increasing volume of internationalization among MNEs in the post-war era not only has increased the multiplicity of institutional environments they face but also can undermine the impacts of local institutions. Therefore, MNEs vary in the extent to which they allow their foreign operations to adapt to local environment and adjust their operation and services. They also argue that not all firms are able to develop distinctive capabilities the international because of; weakness of international institutions governing employment opportunism, and the widespread belief in local competences development, and the variation of institutional frameworks at the international level. Furthermore, the impact of local institutions responsible for skill formation and labour markets can undermine the development of international competencies.

3.2.4 Institutional Theory and Localisation in MNEs in Saudi Arabia

The Institutional Theory, as defined by Scott (2001), describes the forces that pressure the companies and shape their internal and external behaviour, while the framework of Oliver (1991, 1997) provides the logic behind their choices. These frames are of particular importance as they can explain the success or failureof the job localisation process in general and the Saudisation in particular. In the case of Saudi Arabia, the Multinational Enterprises are of particular importance for the success of the localisation. According to August (2004, p. 203), a Multinational Enterprise (MNE) is 'an enterprise organised around a parent firm established in one state that operates through branches and subsidiaries in other states.' There are more than 250 MNEs present in Saudi Arabia at the moment, although their number is likely to increase in the future having in mind the growth of the national economy. The success of the job localisation amongst MNEs is of particular importance for the success of the Saudisation Workforce localisation in

Saudi Arabia as MNEs do not only impact the process through the direct employment, but they as well influence the labour market through the movement of employees from one MNE to another company and their investment on upgrading the skills of local staff.

Applied to the process of Saudisation amongst MNEs, institutional forces translate into the following assumptions: MNEs subsidiaries in Saudi Arabia engage in staff localisation in order to conform to HRM regulations for employing local labour, MNEs subsidiaries adjust their HRM strategies according to the values, norms and practices that prevail in the Saudi Arabia, whilst the cognitive forces include the actual beliefs of MNEs subsidiaries executives concerning the benefits or threats of staff localisation for the business. These cognitive beliefs may lead to MNEs, engaging in or avoiding localisation. The debate around the last issue is related to the advantages and disadvantages of localisation. The literature, however, provides more support for the advantages of job localisation for company's performance (Law *et al.*, 2009; Hailey 1996; Kobrin, 1988; Scullion, 1991). As a result, however, further analysis is based on this assumption. The application of Oliver's framework (1991, 1997) is focused on the identification of the key determinants (antecedents) of strategic choices of companies which result into the localisation success (Law *et al.*, 2009, p. 1360).

Based on the preceding analysis, the further argument is developed by identifying the institutional determinants that impact the job localisation in Saudi Arabia as defined with the framework of Oliver (1991, 1997), followed by an identification of the HR determinants as are: the role of HR function and management (Björkman *et al.*, 2007) and the impact of HRM practices and policies (recruitment and training) of local employees (Selmer, 2004; Law *et al.*, 2004; Björkman *et al.*, 2007).

3.3   Institutional Determinants of Localisation Success

The institutional determinants of job localisation in Saudi Arabia are approached through the key conceptual note of Oliver (1991) and her theoretical framework for studying the relationship between the institutional pressures and company's strategic

responses to these pressures. The theoretical model of Oliver has been tested through a number of studies in the past, such as those of Goodstein (1994), Ingram & Simons (1995), Etherington & Richardson (1994), Milken *et al*. (1998) and Clemens *et al*. (2005), and there is a rather strong empirical support in the literature for the model.

In her framework, Oliver (1991, pp. 152–159) identified five categories of strategic response to institutional pressures: acquiesce, compromise, avoid, defy and manipulate. Oliver (1991, p. 152) argues that these responses can be defined on a continuum from passive (compliance with institutional pressures) to active strategies (resistance to institutional pressures), with acquiescence as the most passive strategy because companies which use it agree to institutional pressures. The other four responses are classified as active strategies.

Aside from an identification of the strategic responses, Oliver (1991) developed scenarios that drive these decisions of compliance or resistance, defined by a set of five questions, as presented in Table 3.1 Organisational responses to institutional pressures will depend on why such pressures are being emphasised, who is exerting them, what these pressures are, how or by what means they are applied, and where they take place (Oliver, 1991). Consequently, such determinants represent the following factors of strategic responses: cause, constituents, content, control, and context.

Table 3.1: Institutional Determinants of Responses to Institutional Pressures

Institutional Factor	Questions Addressed	Predictive Dimensions
Cause	Why is the organisation being pressured to conform to institutional rules or expectations?	Legitimacy and social fitness. Efficiency and economic fitness.
Constituents	Who is exerting institutional pressures on the organisation?	Multiplicity of institutional constituent. Dependence on institutional constituents.
Content	To what norms or requirements is the organisation being pressured to conform?	Consistency with organisational goals. Discretionary constraints imposed on the organisation.

| Control | How or by what means are the institutional pressures being exerted? | Legal coercion or enforcement. Voluntary diffusion of norms. |
| Context | What is the environmental context within institutional pressures are being exerted? | Environmental uncertainty. Environmental interconnectedness. |

Source: Oliver (1991, p.160)

3.3.1 Cause

Oliver (1991, pp. 161–162) identified the factor of cause as the reason for 'the institutional pressures behind the rationale, or the intended objectives which refer to the external pressures for conformity'. These factors come under two categories: social and economic pressures. In the case where the company assesses the social and/or economic pressures that provide a fit with its interests, the likely response then is acquiescence, i.e. the company will not resist the pressures. However, when the situation is the opposite and the company sees the pressures opposite to its interests, it results in organisational scepticism for the legitimacy of the institutional pressures.

Further, the research of Goodstein (1994) includes MNEs in the debate as his findings emphasised that MNEs were less likely to provide resistance to institutional pressures when the compliance results into a better social positioning of the organisation. The subsequent research of Ingram & Simons (1995), centred on the impact of the institutional factors on the work–family solutions in companies, provided the same results: MNEs were seen to be less likely to provide resistance. MNEs are large enterprises that depend on their social position on the markets they serve or the countries in which they operate. In the case of Saudi Arabia, MNEs must conform to the legal provisions as set with the Saudisation (Mellahi *et al*., 2011). At the same time, they as well perceive the need for complying with the expectations of the Saudi society who demands for more Saudis to be employed by the private sector and MNEs in particular (Achoui, 2009; Mellahi *et al*., 2011). Therefore, in the case of job localisation, the research model for the cause of legitimacy identifies the following hypothesis:

H_1: *MNEs that perceive localisation pressures as legitimate are more likely to achieve localisation success.*

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In the case of Saudi Arabia, government subsidies provided for hiring local employees in combination with the investments in education to fight the alleged skill shortages of Saudi nationals provide cost incentives to companies which comply (Achoui, 2009; Mellahi, 2007). In contrast, it has been reported that Saudi workers are less qualified than expatriates, which will result in indirect costs, such as extra investment on training and recruitment on organisations that employ a high percentage of Saudi workers (Alshammary, 2009). Accordingly, the following hypothesis has been set:

H_2: The higher the perceived economic gains an MNE has from localisation, the greater the likelihood of localisation success.

3.2.2 Context

The context considers the conditions where institutional pressures are exercised on organisations (Oliver, 1991, p.170). The factor is associated with the uncertainty and the interconnectivity in the business environment (competitors, customers, suppliers, regulatory, socio-culture) surrounding MNEs. The level of interconnectivity between the organisation and its business environment within its industry or profession is again significant institutional influencer affecting the choice of the strategic responses (Goodstein, 1994). For both of the context elements, organisations are more prone to agree with the institutional environment when the level of interconnection is higher. Forstenlechner & Mellahi (2010) carried out a study on the localisation in United Arab Emirates, which emphasises that peer pressure exerts a significant influence on the adoption of localisation, as MNEs tend to benchmark themselves against each other. One may assume that the same will apply in the case of Saudi Arabia:

H_3: The higher the degree of interconnectedness between MNEs, the higher the likelihood of localisation success.

In the process, the framework of Oliver (1991) emphasises that, the higher the uncertainty the organisation faces in the external environment, the more likely the company will be to choose more aggressive strategic responses. The argument has been proven empirically by Goodstein (1994). In the case of Saudi Arabia, the level of environmental uncertainty MNEs face with the regulation coming from Saudisation related to the securing of the required human capital is high (Achoui, 2009; Mellahi & Wood, 2004; Ramadi, 2005). Saudi nationals are not attracted to the jobs in the private sector to begin with, whilst MNEs find the Saudi labour more expensive and less qualified and disciplined compared with expatriates (Aldosary & Rahman, 2005). Therefore, the government's efforts in raising the required levels of skills through education and its job freeze in the private sector together decrease the environmental uncertainty. As a result, the following hypothesis is set:

H_4: *The lower the degree of uncertainty within the MNE's environment, the higher the likelihood of localisation success.*

3.3.3 Constituents

Building on the basis of the Institutional Theory, as described in the works of Zucker (1987) and Scott (1987, 2001), Oliver (1991, pp. 162–164) recognised the impact of the pressures coming from the need to comply with the interests of different constituents. Many times, the variety of these interests causes conflicts because the satisfaction of the interests of one constituent results in a company's defiance of another. Therefore, according to Oliver (1991) and based on the interest of the company to begin with, if the company is experiencing a higher degree of external dependence from the pressuring constituents, the company then is more likely to comply with their pressures. If, in the process, the company is experiencing a multiplicity of constituents, there then is a greater likelihood for the company to resist the institutional pressures.

Given the case of Saudi Arabia, different government organisations control the Saudisation process within MNEs and represent the constituents of the Saudisation policy. Such organisations include Ministry of Labour, Ministry of Trade, Saudi Arabian General Investment Authority (SAGIA), and Human Resources Development Fund (HRDF). The Ministries of Labour and Trade are responsible for enforcing Saudisation laws upon labour and companies whilst SAGIA serves as MNEs' regulatory institution, and HRDF is responsible for upgrading the skills of Saudi job seekers (Ramadi, 2007; Achoui, 2009; Aldosary & Rahman, 2005). Considering the degree of multiplicity between such organisations, there exist different expectations and interests about Saudisation requirements imposed on MNEs. Hence, localisation success depends on the way in which MNEs perceive the degree of multiplicity—whether high or low. According to Oliver (1991), higher degrees of multiplicity are associated with resistance to institutional requirements. This leads to the following hypothesis:

H5: The higher the degree of constituents' multiplicity, as perceived by MNEs, the lower the likelihood of localisation success.

At the same time, most MNEs operating in Saudi Arabia operate on concessions or other types of government licences (Mellahi *et al*., 2011). Such licenses can be revoked if the regulation concerning the job localisation is not followed (Mellahi, 2007). Moreover, the Saudi government requires companies who win any government contract to adhere to Saudisation requirements (Ramadi, 2007; Achoui, 2009; Al-Dosary & Rahman, 2005). As the pressure is high, the following assumption on its impact on the job localisation can be made:

H6: The higher the degree of resource dependence on the government by MNEs, the greater the likelihood of localisation success.

3.3.4 Content

Building on the research of Powell (1988) on the impact of the conflict of the external interests with the interest of the company, Oliver (1991, pp. 164–167) included the factor of Content. In particular, Content describes the alternative strategic responses of companies in times when the institutional pressures cause either consistency with the organisational culture or a loss of the decision-making direction. The first alternative implies that when the goals of the company are in line with the interest of the society, there is a likely possibility to induce companies to comply with the pressures. In this situation, Oliver (1991) argues that companies will be less motivated to choose active strategies to fight off the pressures. It results in the following assumption:

H7: The higher the degree of consistency of localisation requirements within MNEs' goals of growth and efficiency, the greater the likelihood of localisation success.

The same policies are associated with a number of constrains on organisational decisions to hire foreign labour. For example, ministerial decree in 1995, which 'declared that private firms with over 20 employees should reduce the number of non-

Saudis by 5 percent annually, implement penalties for non-compliance including denial of access to certain types of government support, enforce a freeze on applications to hire new workers from abroad and on their renewal of existing permits' (Ministry of Planning, 1995; Said & Al-Buraey, 2009, p. 70). Such constrains could result in a loss of organisational freedom and discretion (Pfeffer & Salancik, 1978). Organisational discretion is a very important tool for controlling organisational processes and outputs (Oliver, 1991) Therefore, MNEs tend to resist institutional pressures that constrain their organisational decisions. In view of that, we project the following assumption:

H$_8$: The lower the number of constraints imposed by localisation on MNEs' decisions, the greater the likelihood of localisation success.

3.3.5   Control

Institutional control describes the means by which pressures are imposed on organisations. These pressures can be legal coercion and voluntarily diffusion (Oliver, 1991, pp. 168–170). This proposition was later supported by the findings of Bansal & Roth (2000) and Tenbrunsel *et al*. (2000), with such works indicating that higher levels of control pressure are related to less active approaches accepted by organisations. The findings of Bansel & Roth (2000) support the impact of the legislation, whilst Tenbrunsel *et al*. (2000) distinguish between means-oriented and ends-oriented regulatory pressures, emphasising means-oriented pressures as related to companies' less active strategic responses. The findings imply that, when there is strict government legislation as is the case with the Saudisation, the strength of the coercive control then prohibits the companies in choosing more active strategic responses. It results in the following hypothesis:

H$_9$: The higher the legal coercion to implement localisation, the greater the likelihood of localisation success.

Further, the broader the diffusion of the localisation rules amongst the industries in which MNEs operate, the greater the social pressure for compliance. According to Oliver (1991), the extent to which institutional requirements are voluntarily and broadly diffused amongst organisations in the same industry is a predictor of compliance with institutional pressures. Moreover, the broad diffusion of institutional rules will result on the adoption of these rules by most organisations especially new entrants because of their social validity.

In the case of Saudisation, AlShammary (2009) reports that most banks and financial institutions are voluntarily and widely implementing Saudisation policies, and that this has encouraged even more banks to implement the policy in the financial industry. Applied in the case of the research on Saudisation, it results in the following hypothesis:

H_{10}: *The broader the diffusion of localisation rules and practices within MNEs, the greater the likelihood of localisation success.*

3.4   HR Determinants of Localisation Success

Although there is no exhaustive list of 'high-performance' HRM practices in the Institutional Theory, the majority of research on HRM in MNEs places a strong emphasis on the benefits for companies coming from the degree of localisation compared with the standardisation of HRM practices (Bjorkman *et al*., 2007, p. 433). The question is strategic in essence; it is a part of the Strategic HRM decisions (McMalan & Wright, 1992, pp. 313–315). Within the further analysis, the identification of the HRM determinants that impact the localisation process of companies, as identified by the normative and cognitive forces of Scott (2001), is drawn from the findings from the empirical research of Law *et al*. (2009) and Bjorkman *et al*. (2007) on the localisation of HRM processes in the emerging economies.

In most cases, MNEs have a strategic choice to go with job localisation. In this case, according to Law *et al*. (2009, p. 1361), and Bjorkman *et al*. (2007), the strategic role of

the HR department becomes a significant HR determinant for the success of the localisation efforts. As described by Scott (2001), it is a cognitive force defining the way in which MNEs' management perceives the impact. In this case—and in order for the localisation to succeed—according to Law *et al*. (2009, p. 1361), the HR department of the MNEs' subsidiary must be provided with a higher decision-making authority in all HR activities, such as recruitment, selection, training, performance management and compensation. In line with these findings, the strengthened decision-making role of the HR manager is likely to have a positive impact on the job localisation in Saudi Arabia.

H_{11}: The role of HR director has a positive impact on localisation success.

In the process, according to Law *et al*. (2009:1361), there is no better indicator of the HR decentralisation than the localisation of the HR manager function first. In the case of Saudi Arabia, the findings of Law *et al*. (2009:1361) imply that hiring Saudi nationals at the highest HR positions will positively influence the localisation process. In line with these findings, the researcher sets the second hypothesis under HR determinants:

HT_{12}: MNEs with Saudi national HR directors are more likely to achieve localisation success.

Building on the research findings of Law *et al*. (2004), the empirical model developed by Law *et al*. in 2009 (p. 1362) argues that, even when the factors as top management support for the localisation and HR strategic role are present, there still is much to do within the MNEs in order to further the localisation process. The active measures cover actual localisation-related HRM practices (Boon, 2009). A key practice is the recruitment of a workforce with good potential and their further training and development (Boon, 2009). This would be difficult to achieve without effort from the side of the MNEs to reach Saudis, especially the Saudi youth, and trigger a response (Achoui, 2009; Forstenlechner, 2010). Several studies have highlighted the importance of recruitment practice on workforce localisation (Forstenlechner, 2009; Al-Nowaiser, 2001; Ba Ishen, 2002). First, Forstenlechner (2009) claimed that establishing links with

educational and training institutions is a very efficient practice for the identification of a suitable pool of local job candidates. Moreover, Al-Nowaiser (2001) suggests that companies who invest more in their recruitment efforts in terms of job advertising were more likely to recruit qualified job candidates. Moreover, Ba Ishen (2002) reported that organisations who were keen to work closely with HRDF were able to increase their number of local staff. Therefore, one may assume the following:

H_{13}: Recruitment practice has a positive impact on localisation success.

Further, the formal education in Saudi Arabia is rather immature compared with other countries, and the economy is facing serious problems in terms of the insufficient supply of skilled labour. Although the government has placed great efforts in human resources development and education indicators demonstrate great improvement, the skills gap is forecasted to remain in the future. The main reason can be seen in the skills development policy, which is centred on knowledge acquisition as opposed to actual practice, gender discrepancy in education and surplus of university degrees in humanities (Madhi & Barrientos 2003, pp. 72–73; Al-Dosary & Rahman, 2005). MNEs' efforts in increasing the skills of the recruited local workforce, especially in work-related skills (those required to perform the job) and job-securing skills (skills in languages, IT and communication) may increase the success of the job localisation. A successful example comes from the case of the Saudi Armaco, where 75% of the workforce is made of up Saudi nationals (Achoui, 2009). Several studies have identified the characteristics of efficient training programmes in Saudisation. First, it has been reported that programmes that aim at instilling work-related skills into local staff, taking into account their training needs, are efficient practice in the localisation process (Al-Saiegh, 2004). Moreover, local workers who were more exposed to on-the-job training opportunities were more likely to develop their skills along with their job performance (Al-Sultan, 2003). Finally, the Saudi government has established many training programmes to upgrade the skills of Saudi workers as part of the Saudisation policy. It has been claimed that these programmes have helped companies enhance the performance of their local staff (HRD Fund Annual Report, 2006). Also, Al-Gaith

(2008) suggests that companies that take advantage of these programmes are more likely to retain a higher number of Saudi workers. Hence, we assume the following hypothesis:

H_{14}: Widespread Training practices has a positive impact on localisation success.

3.5   MNEs' Determinants of Localisation Success

For the purpose of the research—and in line with the empirical models designed by Bjorkman *et al*. (2007) and Law *et al*. (2009, p. 1361)—the researcher includes variables that can provide more information on the research findings. These variables, as identified by Law *et al*. (2009, p. 1361) and Bjorkman *et al*. (2007), are:

- MNE size
- MNE age
- MNE industry.

The literature review of Bjorkman *et al*. (2007) on the research conducted in the United States, Korea and Taiwan, China, and a range of European countries has revealed that, at least to some degree, MNEs' home country affects HR localisation. However, because the effect of the country of origin is not as strong compared to the influence of the host country (subsidiary) (Gunnigle *et al*., 2002), the research model in the case concerned does not consider the impact of this variable.

Following the researches of Bjorkman *et al*. (2007) and Law *et al* (2009, p. 1361), the impact of the subsidiary size is included in the model as there are significant differences amongst localisation pressures and responses in large MNEs compared to smaller MNEs. Moreover, Goodstein (1994) explains that larger organisations were more vulnerable to institutional pressures because institutions and the general public pay more attention to large organisations. Given their huge size and impact in the economy, large organisations usually are put under severe pressure to conform to institutional norms (Ingram & Simons, 1995). For the Saudisation policy, the plan is first to target large organisations through tough legislation, training, and financial support to increase the

number of local workers in the private sector (Ramady, 2005). As has been explained by the Saudi Minister of Labour, large organisations are being prioritised due to their huge capability of employing Saudi workers. In addition, Al-Humaid (2002) argues that the Saudisation success within large organisations is very vital for the success of the policy in general. He explains that Saudisation requires huge investment on human resources development and only large organisations can afford such investment. Consequently, Al-Rashdan (2008) found that large industrial firms are exposed to more Saudisation pressures because they are more likely to be dependent on government contracts.

In the process, the assumption is that larger MNEs will receive more pressure to localise jobs with that increase the likelihood of localisation success:

H_{15}: The larger the MNE, the greater the likelihood of localisation success.

In the same manner, Bjorkman *et al*. (2007) and Law *et al* (2009, p. 1361) argue that the age of the subsidiary is a measure for the experience of the MNE in the host economy gained through its interaction with the host institutions. After several years of operation, subsidiaries are able to better understand their institutional environments and respond in a manner that is consistent with institutional pressures. Older MNEs will have extensive local experience and great deal of knowledge on how to adopt to the local environment (Taggart & Hood, 1999; Young & Tavares, 2004). Also, older subsidiaries have a long history of social legitimacy, which is mostly derived from their consistent compliance with institutional norms. On the other hand, Law *et al*. (2004) argue that MNEs with a long duration in the host country are more likely to achieve localisation success because, simply, they have more time to implement localisation policies. In the case of Saudisation, it has been reported that long-established firms in the country have responded positively to localisation pressures from the Saudi government compared to subsidiaries with shorter periods of operation (Al-Rashdan, 2008). The study explains such finding is caused by the fact that older firms understand very well the problems associated with reliance on foreign workers in terms of their long term commitment with the organisation. These organisations learned through experience that their foreign

workforce is willing to stay on work for limited time and then head back to their countries. As a result, older firms found to be willing to increase their number of local workers. Accordingly, older subsidiaries are expected to be more successful on their localisation efforts than subsidiaries that have had a shorter presence in Saudi Arabia. Therefore, the following relation is proposed:

H_{16}: The older the MNE (its presence in Saudi Arabia), the greater the likelihood of localisation success.

Regarding the variable of the industry characteristics, it is extremely important to make an industry distinction in Saudi Arabia, because of the large impact petroleum industry (US Department of State, 2011). The petroleum is the country's strategic product generating the highest portion of the country's exports—a $238 billion share of exports is dedicated to petroleum and petroleum products (US Department of State, 2011) and a key factor of the kingdom's GDP. The high dependency of the state economy on the oil exports although not a threat at present might prove to be a burden for the future. Therefore, most of Saudi Arabia's efforts for the past decades are focused on supporting the development of oil related industries, for example the petrochemical industry (MEP, 2009). The approach intends to allow the substitution of crude oil with value-added oil-based products. It main aim is to build a comparative advantage for Saudi Arabia in this sector due to its vast supply of oil–The Long-Term Strategy for the Saudi Economy (MEP, 2009). To make this possible, there is a need for more Saudi labour in this industry.

H_{17}: MNEs that operate in the petrochemical industry are more likely to achieve localisation success.

3.6 Research Framework

The comprehensive review presented in the preceding sections identifies the empirical research model to be used in the further research. The dependent variable (localisation success) and the independent variables are presented in Figure 3.1.

Figure 3.1: Research Framework
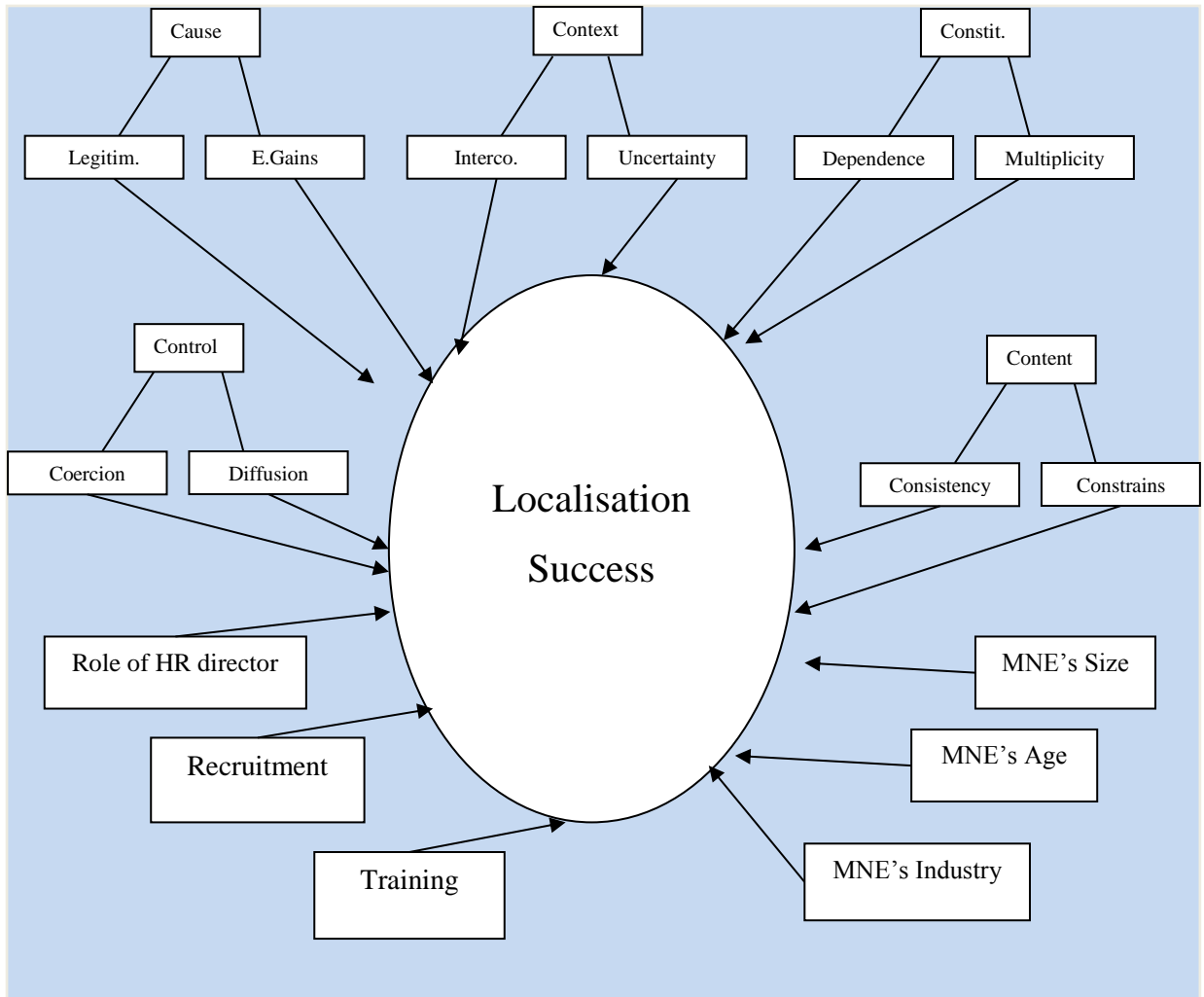
3.7   Summary

This chapter has presented the theoretical framework of the current study incorporating institutional determinants of localisation policies, namely Oliver's typology (1994); cause, context, constituents, content, and control with HR factors (recruitment, training, nationality and role of HR director) and MNEs' characteristics (size, age, and industry) to evaluate their impacts on the success of workforce localisation. As a result, 17 hypotheses were generated, representing the various relationships between the above factors and localisation success. The Institutional Theory focuses on the external forces that shape the behaviour of companies provides an ideal framework for a comprehensive analysis of the institutional forces influencing the workforce localisation policy in the MNEs and its success. The Institutional Theory is based on the recognition that institutions either enable or impose limitations on the scope of humans and companies (human agents) 'by creating legal, moral and cultural boundaries' (Delbridge & Edwards, 2007, p. 192). It focuses on the development of culturally and legally acceptable guidelines for social behaviour through the establishment of rules, norms, routines, and structures. A growing amount of researchers are adopting Institutional Theory in regard to the study of MNEs, owing to the fact that it delivers an in-depth theoretical basis for analysing a number of fundamental issues facing MNEs. Thus, the Institutional Theory is used as a theoretical lens in the study of adaptation and the diffusion of organisational practices and forms. The basis for the argument is that most institutions operate under social influence and pressure to adopt their practices that are appropriate for their environments. For the current research, several recommendations for future research have been made in an effort to examine the Institutional Theory in environments that lack well-established institutional arrangements especially in developing countries such as Saudi Arabia. Applied to the process of Saudisation (WL in Saudi Arabia) amongst MNEs, institutional forces translate into the following assumptions: MNEs' subsidiaries in Saudi Arabia engage in staff localisation in order to conform to HRM regulations for employing local labour; MNEs' subsidiaries adjust their HRM strategies according to the values, norms and practices that prevail in the Saudi Arabia; cognitive forces include the actual beliefs of MNEs' subsidiaries' executives concerning the benefits or costs of staff localisation for the business, with such cognitive beliefs potentially leading to MNEs engaging in or avoiding localisation.

CHAPTER 4: RESEARCH METHODOLOGY

4.1   Introduction

This chapter elucidates the research methodology and the research design employed to test the theoretical framework discussed in the previous chapter. The chapter also describes the methods utilised for data collection, the population and sampling methods, and the issues related to the research instrument, survey development, pilot study, and the survey implementation stage. The measurement of the research variables, the statistical techniques utilised, and the ethical considerations of this research are discussed.

4.2   Empirical Research Objectives

Scientific research is a planned and systematic attempt centred on examining a research problem with the final aim of offering insights on how this problem can be resolved (Sekaran, 2003). In other words, scientific research is a serious endeavour concerned with investigating problems through a series of logical steps and well-planned and implemented activities. The main objective of such activities is to gather valid information about the research problem in order to resolve it. More specifically, business and management research is described as the methodical and objective process of acquiring the indispensable knowledge in order to assist the decision-making system regarding various organisational issues (Zikmund, 2003). In this section we examine the research paradigms employed in business research and the rationale for our research methodology.

In the current study, three empirical research objectives were formulated from the conceptualisation and hypotheses development presented in Chapter 1. The first objective is to identify the institutional factors that enable Multi-National Enterprises (MNEs) to succeed in workforce localisation programmes. The second objective is to investigate the effects of Human Resource practices on localisation success. Finally, the third objective is to evaluate the impact of MNE size, age and industry on the success of workforce localisation. In acknowledging each of these empirical research

objectives, the ultimate aim of the study is concerned with determining the factors associated with the success of workforce localisation success.

4.3   Epistemological and Ontological Considerations

Ontological and epistemological philosophies have been categorised into four schools of thoughts: positivism, post-positivism, critical theory and constructivism (Guba, 2000). The four schools of thoughts and their philosophical perspectives are outlined and discussed as follows:

- Positivism: a philosophical position that applies natural science techniques to social research (Bryman & Bell, 2007). Positivist scholars believe that researcher and observed phenomena are independent subjects, and must not intervene with each other (Guba & Lincoln, 1994). Additionally, positivism maintains that knowledge must be based on real facts, observations, and experiment.

- Post-positivism: a philosophical school that believes in social research; a researcher cannot be comprehensively positive about knowledge obtained (Creswell, 2003). Whilst positivist researchers maintain that the researcher and the observed objects are independent, post-positivists believe that theories, background and values of researcher influence the researched phenomena (Reichardt & Rallis, 1994). In other words, they share with positivists the view that knowledge is independent but they acknowledge the shortcomings of the researcher.

- Critical theory: This school believe in the principle of subjectivism in which social reality is influenced by social actors' perceptions and knowledge (Bryman & Bell, 2007). In this way, subjectivism views reality as a social entity constructed by individuals who attempt to perceive it through their social experiences and the involvement with its activities. (ibid, 2003, p. 22).

- Constructivism: This school believes that social reality is the product of the continual conceptualisation of social actors (ibid). Constructivism share the subjective view with critical theory but with one main exception: realities are constructed through social relations that are often shared by many individuals together.

Positivism and post-positivism perspectives are considered the contrasting perspectives to constructive and critical theories (Denzin & Lincoln, 2000). They are associated with the deductive approach and implement empirical and quantitative methodologies (Creswell, 2003). Both schools adopt deterministic-reductionist methods in which objects are divided into variables to test their relationships and impacts. Methods in positivist and post-positivist approaches are employed to generate hypotheses that are evaluated statistically through experimentation (ibid). In contrast, critical theory and constructivism advocates the principles of subjectivism (Mertens, 1998). Both perspectives are associated naturalistic inductive approaches in which researchers seek to understand the social realities through subjective interpretation of their understanding and knowledge of observed phenomena (Creswell, 2003). This school always employ qualitative methods in which subjects are not divided variables, but are investigated thoroughly in order to establish deep understanding (Crotty, 1998).

4.4   Research Design

Research design is the process of generating research problems, describing the location chosen for data collection, identifying ethical considerations, choosing methods for data collection and analysis, and identifying the role of the researcher during the data-collection stage (Creswell, 2003). Moreover, research design is defined as the: 'science (and art) of planning procedures for conducting studies so as to get the most valid findings' (Vogt, 1993, p. 196). On the other hand, Yin (1984, p. 13) postulates that methodological design has to be appropriate to '(1) the research problem (2) the extent of control the researcher has over actual behavioural events and (3) the time-focus of the phenomena observed, i.e. contemporary or historical'. In actual fact, choosing the right research design will help researcher have a detailed plan that guides the entire research process.

There are two different structures for research design: the inductive and the deductive. The inductive approach involves the introduction of a theory based on the empirical results obtained and the generation of theoretical relationships (Neuman, 2006). The induction approach focuses on the human interpretation of social interaction with objects, knowledge of research context, employment of qualitative

methods, and the researcher active involvement with the research process (Saunders *et al*., 2003).

In contrast, the deductive approach involves testing pre-existed theories through the analysis of empirical data, identifying causal relationships between objects, quantitative methods, researcher's minimum interference with the research process (Saunders *et al*., 2003). Through the application of the deductive approach, the researcher generates hypotheses based on previous studies and theories to test them empirically. The purpose of empirical test is to validate or reject existing literature. The hypotheses are generated through critical and reasonable evaluation of theory. Then, researcher gathers data associated with the hypotheses. Next, propositions are validated by the analysis of findings from the collected data.

3.4.1. Selection of Positivist/Deducted Research Approach

In order to lead the study in one direction, a positivist/deductive approach is adopted due to nature of the problem examined. According to Hirschheim & Klein (1992), the positivist approach seeks to establish an explanation using a deductive method through hypothesising causal relationship, and the use of quantitatively objective methods. Positivism endeavours to identify the elements that impact on research objects in a way similar to scientific and experimental research which are based on real observations and objectivity.

The criteria for adopting a positivist approach can be established by examining the aim of the study undertaken (Chua, 1986). The primary aim of this research is centred on identifying objectively the predictors of workforce localisation success within MNEs that are constituted through the impact of institutional factors, Human Resources elements, and MNE's characteristics. Therefore, the positivist method suits this study. As Orlikowski & Baroudi (1991, p. 9) postulate, in a positivist approach, 'the role of [the] researcher is to discover the objective physical and social reality by crafting precise measures that will detect and gauge those dimensions of reality that interests the researcher'. Furthermore, the aim of this research advocates objectivism as there is no researcher's interference with the examined phenomena; therefore employing a positivist approach is justifiable because other approaches are

based on subjectivity constituting interactions between the researcher and the research objects (Guba & Lincoln, 1994).

Positivism involves mainly a deductive approach to generate hypotheses from previous studies. As mentioned, the aim of this research is concerned with identifying the most crucial factors for localisation success. In this study, the main key factors of workforce localisation and their relevant hypotheses can be deduced from previous studies (See Chapter 2). Therefore, the deductive approach is appropriate to assess the validity of our research hypotheses. Gill and Johnson (2002, p. 34) state: 'Deductive research approach entails the development of a conceptual and theoretical structure prior to testing through empirical observation.' In a deductive approach, the theory and deduced hypotheses lead the process of gathering data to verify theoretical propositions.

4.4.2   Selection of Quantitative Research strategy

There are three types of research strategy, namely quantitative, qualitative and triangulated methods. Quantitative research strategy employs a positivist, objective, and deductive methodology (Creswell, 2003). The quantitative research strategy can be described as a deductive process that conforms to scientific principles and utilises statistical analysis to examine the relationships between research variables (Bryman & Bell, 2007). In contrast, the qualitative method attempts to generate theories by establishing a deep understanding of the research situation (Klein & Myers, 1999). Triangulated research, on the other hand, employs both quantitative and qualitative research methods.

Employing a quantitative research strategy is appropriate to this study first as it is one of the most constructive techniques in social research. It enables researchers to establish reliable and valid results about previous theories and findings through the construction of valid and reliable measures (Patton, 1990). Secondly, the literature on workforce localisation lacks quantitative data (Ramady, 2005; Law *et al*., 2009; Randree, 2012). Most studies in the relevant literature draw conclusions from secondary data or qualitative data. In this research, we aim to fill in this methodological gap of previous studies. This does not imply that qualitative techniques are inappropriate for the current study; however, a qualitative method is

only suitable when research aims at examining research problem from a subjective perspective through the illustration and the understanding of phenomena in a particular situation. Also, it is considered appropriate when previous studies and theories lack understanding of relationships between factors causing the researched object (Gilbert, 2001). Nevertheless, this study attempts to view the research problem from an objective perspective without researchers' inference in the study process.

Furthermore, this research generated hypotheses using relevant literature reflecting comprehensible relationships between research variables that cannot be tested using qualitative research. The confirmation of previous findings scientifically can only be achieved through a quantitative method (Creswell, 2003).

4.5 Methods of Data Collection

In order to fulfil the purpose of the current research, two main data collection methods are utilised, namely primary and secondary data. This section aims to demonstrate the structure of primary and secondary data and the sources which have these data obtained from.

4.5.1 Primary Data

Primary data are raw data gathered in mind of achieving the objectives of the research. Primary data can be obtained through various methods, such as interviews, observations and questionnaires. For the present study, an extensive survey questionnaire is developed to gather the primary data as we identify the factors contributing to the success of workforce localisation process. A questionnaire can be defined as a research tool that contains reformulated written set of questions to which the target respondents place their most likely answers in closely defined choices (Sekeran, 2003). This method is considered an effectual and useful data collection method, especially when the measures constructed are accurate. Such a method of data collection can usually be distributed personally, by mail, or online.

This research's primary data are associated with three different groups of localisation success factor: the first group of factors is related to institutional elements. It includes the cause, the context, the constituents, the content, the control of localisation policies; the second group is related to HR issues and encompasses the role and nationality of HR director, HR practices (recruitment and training); finally, the last group contains factors relating to MNE size, age and industry. This research primary data have been obtained through self-administered survey which has been completed by HR directors in the targeted MNEs.

4.5.2   Secondary Data

Secondary data are very important for most organisational studies and refer to data already obtained by other researchers in related subjects. For research purposes, secondary data can be gathered from previous documentary data that refer to data gathered by similar studies which have also utilized primary data for their own research objective (Saunders *et al*., 2003). Secondary data can be obtained through various sources, such as books, periodical publications, government studies, companies' annual report, and media and commercial sources (Zikmund, 2003). One of the main advantages of secondary data considered is the high quality of data obtained through such a low-cost method and in a short period of time. On the other hand, secondary data have some shortcomings, such as complexity of previously gathered data, and the absence of targeted factors (Bryman & Bell, 2003). In the present research, we have used most of the books, articles, government reports and studies that are most related to the current study in order to identify the research problem, develop a theoretical framework, and generate the research hypotheses

4.6   Population and Sample

Population refers to the entire group of individuals that the researcher seeks to study, whilst the sample is a representative subset of the population (Sekeran, 2003). Sampling is concerned with choosing a sufficient number of respondents from the population so that a study of that sample and understanding its characteristics would enable researchers to extend research findings to the entire research population. The sample drawn from the population must be representative of its population to enable generalisation of research results. Krejcie & Morgan (1970) developed a table that

constitutes what can be considered as appropriate sample size. This table helps researchers to clearly identify the required number of sample size for any research population.

The target population of this study is all Multi-National Enterprises (MNEs) operating in Saudi Arabia. MNEs in Saudi Arabia are considered very important to the growth of the Saudi economy. In 2005, the Saudi government initiated a policy to encourage foreign investment in the country. The main objective of such a policy is to accelerate economic development and create employment opportunities for Saudi nationals. A count of all the MNEs operating in Saudi Arabia revealed a population of 214 MNEs (Saudi Arabian General Investment Authority (SAGIA), 2010). It must be noted that the researcher approached SAGIA with the assumption that the number of MNEs is 808 as reported in their annual report of 2009. However, the researcher was told that this number (808 MNEs) reflected all licensed MNEs, including those that have not yet started their operations in the country. The actual number of MNEs communicated by SAGIA was only 214 MNEs.

The unit of analysis in the current study is the organisation, and the targeted respondents are HR directors in MNEs following most of the work that has been conducted in area of research. It was decided to approach all MNEs in the population for the purpose of data collection. All the 214 MNEs were contacted in person, of which 157 agreed to participate in the survey. This makes a high and very acceptable response rate of 73%. This could be explained due to the approach of the data collection as it was conducted in person. In fact, one of the most advantages of collecting the data in person is getting a high response rate and also motivates the respondents to participate in the study (Sekeran, 2003). Another advantage of gathering the data in person is that the researcher can explain any issues that the respondents might encounter on any questions. Furthermore, researchers can have the chance to introduce the subject of the research and encourage the respondents to participate in the research and provide forthright answers.

4.7   The Process of Questionnaire Development

As stated earlier, a survey method is used in this research. A questionnaire was developed in order to gather the primary data of this study concerning the factors of three different groups of localisation success factor. The first group of factors is related to institutional elements, which includes the cause, context, constituents, content and control of localisation policies. The second group is related to HR issues, and includes the role and nationality of HR director and HR practices (recruitment and training). The last group contains factors related to MNE size, age and industry. As stated earlier, the research questionnaires were distributed in person to HR directors in the targeted MNEs, which achieved a very high response rate.

4.7.1 Design of the Questionnaire

Based on the extensive literature on questionnaire design issues (e.g., Dillman, 1978; Moser & Kalton, 1979; Bickman & Rog, 1998; Bryman & Bell, 2003), we follow such research guidance and suggestions in order to design the questionnaire of the present research. It has been claimed in the literature that, in order to design a good quality survey, numerous issues must be addressed, such as the wording of the questions, type and form of the questions, clear instructions, and the general appearance of the questionnaire. With regard to the wording issues, it has been ensured that the content of the questions posed and the sophistication of the language used are appropriate. Furthermore, since our study takes a place in a non-Western country, the wording was adjusted in an attempt to ensuring understanding within the cultural context; thus, the questions and the language employed were appropriate to connect respondents perception and attitudes. Closed-questions were also utilised as they assist respondents in choosing easier and quicker answers from the choices available. Closed questions, in fact, can assist researchers in the coding process prior to the analysis. In addition, double-barrelled questions and leading questions were avoided, and all questions and answers were articulated in a short and simple sentences to ensure understanding.

One more important issue is the order of the questions as this impacts respondents' answers and encourages them to give better answers. The 'funnel approach', proposed by Festinger & Katz (1996), was adapted. Accordingly, general questions were positioned at the start, moving onto more specific ones, and easy questions

were provided first, moving onto more difficult ones. This method encourages participants to complete the entire questionnaire without leaving questions unanswered. Finally, the questionnaire contains clear instructions for respondents with very proper and simple appearance of the questionnaire, and a cover letter describing the purpose of the research and ensuring the confidentiality of data gathered.

4.7.2   Pilot Study of the Questionnaire

Prior to the start of the data collection process, it is always useful to conduct a pilot study prior to administering a self-completion questionnaire. A pilot study ensures that the questions operate well and that the entire research measurement functions well (Bryman & Bell, 2003). In addition, one of the most important advantages of pilot testing the questionnaire is to ensure that the questions are understood by the respondents and the questions are clear enough. It is also claimed that pilot testing the questionnaire is carried out in order to ensure: the validity of the questions; understanding of the questions; close-ended questions items are applied to all categories of respondent; questions are answered in a correct way; and the questionnaire does not lead to any bias.

With the population of MNEs in the country of Saudi Arabia numbering 214, it was decided that a pilot study would be carried out on 10% of the population targeted. The early draft of the research instrument was given to the HR directors working in MNEs. The researcher also met the HR directors in MNEs when collecting the surveys and discussed the overall structure of the survey. Prior to each meeting, the researcher emailed a copy of the questionnaire to be read before the meeting. In the meeting, the research project was introduced. The following comments and suggestions were received during discussion:

1. Most were concerned about the length of survey, advising it should be made shorter in order to increase participation.
2. The order of the sections was highlighted as requiring change, by putting Section E (Alternatives to Localisation) as the last section.

3. The word Saudisation was suggested instead of localisation across the survey because it is the word they are familiar with.

4. It was advised that the company name question be removed so as to assure confidentiality and anonymity for companies involved.

5. Some the HR directors advised that a question regarding the hiring of unqualified local workers be removed because no one would be willing to share this kind of information.

6. Some of the HR directors suggested the elimination of various questions regarding alternatives to localisation. Their justification for this is related the to latest Royal Decrees enforcing localisation, which makes no way for avoiding localisation.

7. It was also advised that the word 'practices' be replaced with 'programmes' because the concept is training programmes not training practices.

As a result of pilot testing the questionnaire, all of the above comments and suggestions were taken into consideration when producing the final draft of the survey. All the aforementioned issues assisted us in the development of a better version of the research questionnaire, and also helped us to ensure that the survey was more appropriate to the Saudi work environment and culture.

4.7.3   An Overview of the Questionnaire

The questionnaire implemented after the pilot study comprises five main sections. This section offers a brief summary of the questions contained in each section. A copy of the questionnaire is included (see Appendix A) for any further detail.

Section A is concerned with the basic information related to MNEs. It gathered information such as age, size, origin, industry, percentage of Saudi workers, and employee turnover rate.

Section B is dedicated to questions relating to MNEs' business environment. It gathered information about two dimensions: first, it attempts to measure the degree of interconnectedness of MNEs with each other; and secondly, attempts to assess the degree of uncertainty of the Saudi business environment.

Section C is aimed at gathering information about the attitudes and knowledge of HR directors about localisation policies. Section D requests information relating to the implementation of localisation policies, the HR Director's perceptions about the government's role in localisation, and how the government communicates and monitors the process.

In Section E, information about HR directors' nationality and role on localisation policy was requested. Moreover, information related to the level of localisation success (our dependent variable) was also requested. Section F was dedicated to assessing the impact of recruitment and training practices on localisation success.

The last section (G) was dictated to the local workforce in an attempt to compare their qualities against the qualities of foreign workforce. Moreover, it requested specific information to identify the strengths and weaknesses within the local workforce in terms of their work abilities.

4.8   Measures of the Research Variables

The main variables in the present study are localisation success as the dependent variable, and factors of localisation success as the independent variable, namely institutional factors, such as cause, constituents, context, control, content of localisation policies; HR factors include the role and nationality of HR director, recruitment and training practices, MNE size, age, and industry. This research also considers the nationality of HR directors as a control variable when testing the impact of HR director on localisation success.

4.8.1   Outcome Variable

Localisation success: The concept of localisation is considered by scholars and professionals in the field from a variety of different disciplines in different ways. The concept of the localisation of workforce refers to the development of local employee skills and the delegation of management decisions to local employees, with the final objective to replace foreign managers with local employees (Law & Wong, 2004). The localisation process is fundamentally effective when jobs held originally by expatriates are filled by local employees who are capable of performing associated job responsibilities (Potter, 1989). For the purpose and the context of the current research, the measures of localisation success were drawn from the work of (Potter, 1989; Alnemer, 1993; Law & Wong, 2004; Alzaid, 2001; Fathi, 2002; Alharan, 2004; Law *et al*., 2009). These researchers have demonstrated huge interest in their work concerning the issues localisation success.

4.8.2   Independent Variables

Applied to the process of localisation amongst MNEs in Saudi Arabia, Scott (2001) forces translate into the following assumptions: MNEs subsidiaries in Saudi Arabia engage in staff localisation in order to conform to HRM regulations for employing local labour, MNEs subsidiaries adjust their HRM strategies according to the values, norms and practices that prevail in the Saudi Arabia, whilst cognitive forces include the actual beliefs of MNEs' subsidiaries' executives concerning the benefits or threats of staff localisation for the business. Such cognitive beliefs may lead to MNEs engaging in or avoiding localisation. The debate surrounding the last issue is related to the advantages and disadvantages of localisation. The literature, however,

provides more support for the advantages of job localisation for company's performance (Hailey, 1996; Kobrin, 1988; Scullion, 1991). As a result, further analysis is based on this assumption. The application of Oliver's framework (1991, 1997) is focused on the identification of the key determinants (antecedents) of strategic choices of companies which result into the localisation success (Law *et al.*, 2009, p. 1360).

Based on the preceding analysis, further argument is developed by identifying the institutional determinants that impact the job localisation in Saudi Arabia as defined with the framework of Oliver (1991, 1997), followed by an identification of the HR determinants as follows: the role of HR function and management (Björkman *et al.*, 2007) and the impact of the HRM practices and policies (recruitment and training) of local employees (Selmer, 2004; Law *et al.*, 2004; Björkman *et al.*, 2007). Aside from an identification of the strategic responses, Oliver (1991) developed scenarios that drive these decisions, defined by a set of five questions. Organisational responses to institutional pressures will depend on why these pressures are being emphasised, who is exerting them, what such pressures are, how or by what means they are applied, and where they take place (Oliver, 1991). Consequently, such determinants represent the following factors of strategic responses: cause, constituents, content, control and context. Measures were developed in mind of these localisation determinants, based on some pioneering work in the literature (e.g., Oliver, 1991, 1997; Goodstein, 1994; Ingram & Simons, 1995; Etherington & Richardson, 1994; Milken *et al.*, 1998; Clemens *et al.*, 2005). In addition, following some suggestions in literature, the researcher includes two other groups of determinants of localisation success. The first group is related to HR issues (the role and nationality of HR director, recruitment and training) and their measures in the current research are based on the work of McMalan & Wright (1992), Al-Nowaiser (2001), Bjorkman *et al.* (2007), Law *et al.* (2009), Achoui (2009) and Forstenlechner (2010). The second group is related to the characteristics of MNEs. MNE size was measured by the number of employees, and MNE age was measured by the number of years since the MNE has been established. Finally, the industry in which the MNE operates and it was divided into 17 industries as explained in the analysis chapter. Table 4.1 presents the measures of research variable along with their sources and corresponding items in the questionnaire.

Table 4.1: Measures of Research Variables

Variable	Definition	Source	Measuring Items
Legitimacy	Generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate.	Suchman (1995: 544) and Forstenlechner & Mellahi *et al.* (2010)	a. In our company, we regard Saudisation as a legal mandate which we must follow. b. We implement Saudisation to avoid government sanctions resulting from non-compliance c. Saudisation policy is widely accepted and appreciated by our top management d. Our managers believe that Saudisation objectives are achievable
Economic Gains	Benefits obtained from localisation in terms of enhanced firm performance, better understanding of local market, better relations with local customers, and government subsidies related to localisation.	Law *et al.* (2009)	a. The performance of local employees has not negatively affected our firm performance. b .Hiring local employees will not result on extra costs for our company. c. The performance of local employees is high comparing to expatriates. d. our local employees understand the local market very well. e. our local employees are able to make good relations with local customers. f. we have benefited from the financial subsidies of Saudisation.
Interconnectedness	The density of inter-organisational relations amongst occupants of an organisational field and their importance to firm performance	Oliver (1991) and Yadong, & Peng (1999)	Importance :To what extent do you think the following sectors have had an impact on your firm's performance: competitors, customers, suppliers, regulatory, socio-culture
uncertainty	The degree to which future states of the business environment cannot be anticipated and accurately predicted	Oliver (1991) and Yadong, & Peng (1999)	Predictability: To what extent do you think the following sectors have been unpredictable: competitors, customers, suppliers, regulatory, socio-culture
Constituent multiplicity	the degree of multiple, conflicting, constituent expectations regarding localisation exerted on an organisation	Oliver (1991)	a. we find the localisation demands of one government institution contradict with the demands of another institution. b. There is a lack of coordination between government bodies on the issue of Saudisation process. c. There is lack of communication amongst government bodies responsible for Saudisation.
dependence on Government	The degree of an organisation's	Oliver (1991)	a. the government is our largest

	dependence on government for its resources.		client. b. the business we deliver to the government is very important to our company.
Localisation consistency	the consistency or compatibility of localisation requirements with organisational goals of efficiency and growth	Law *et al* (2009)	a. In our company, we believe that we must hire the most appropriate job candidate regardless of his/her nationality. b. Local employees are able to adopt to the company's culture. c. Saudisation is not hindering our ability to grow as a business. d. local employees are able to achieve their performance targets. e. Saudisation will not negatively affect our company efficiency.
Decision constraints	The loss of organisational freedom in decisions related to HRM choices and issues.	Mellahi (2007)	a. When we hire new workers, we always give priority to local workers. b. We feel constrained by localisation requirements when deciding to hire new workers. c. In some instances, we have hired some unqualified local workers just to comply with localisation.
Legal Coercion	Legal or government mandates which are imposed by means of legal authorities.	Oliver (1991) and Mellahi (2007)	a. We are legally obligated to implement Saudisation. b. We are legally obligated to keep the government informed about our localisation progress . c. We are legally obligated to report our Saudisation problems.
Broad Diffusion	The extent to which an localisation expectation or practice has already diffused or spread voluntarily through an organisational field.	Oliver (1991)	a. We believe that Saudisation is widely appreciated by other companies in our industry. b. We believe that Saudisation is widely implemented in our industry. c. We believe that other companies in our industry are endorsing the implementation of Saudisation. d. We implement Saudisation because we believe it has benefited other companies in our industry.
Role of HR director	HR directors have the power and the authority within their organisations and work as strategic partner to support them in addressing localisation issues.	Truss *et al*. (2002) and Law (2009)	a. The head of our HR department participates in the strategy formulation and development of our company. b. Saudisation is important responsibility for the HR director. c. The HR director has been given support by top

			management to implement Saudisation.
			d. The HR director is successful in implementing localisation in our company.
			e. The HR director has helped us increase the number of local employees.
Recruitment	The Practice of deciding what the company needs in a local job candidate and initiating procedures to hire the most appropriate local candidate for the job.	Edwards & Rees (2006)	a. Our recruitment practices of Saudi workers are different from recruitment practices of foreign workers.
			b. When recruiting a Saudi candidate, we mainly rely on a recruitment agency.
			c. We have established links with educational and training providers to recommend potential Saudi candidates.
			d. We have recruited Saudi candidates through Human Resources Development Fund (HRDF).
			e. The costs of hiring Saudis are lower when compared to non-Saudis.
			f. We were able to identify a pool of suitable Saudi candidates
Training	The process of developing the skills, abilities, knowledge of local employee in order to perform their job responsibilities efficiently.	Law *et al*. (2009)	a. We mostly choose or design training programmes based on company needs and training needs of local staff .
			b. On the job training have helped us improve the performance of our local employees.
			c. Our training programmes have improved the performance of local staff.
			d. Government training programmes have helped us improve the performance of our local employees.
Localisation Success	the extent to which jobs originally held by foreign employees are filled by local employees who are competent to perform the job responsibilities	Potter (1989) and Law *et al*, (2004)	a. Saudisation is an important business objective for our company.
			b. The Saudisation policy in our company is successful.
			c. The Saudisation policy is hindering our firm's competitive advantage.
			d. Our company has a sufficient number of capable local workers.
			e. Our number of Saudi workers increased due to the implementation of Saudisation.

4.9   Data Analysis Strategy

Owing to the main purpose of the present study—and based on the previous research that has been carried out in workforce localisation—some statistical techniques are employed in order to examine the hypotheses stated in the previous chapter. This employed SPSS (Statistical Package for the Social Sciences) for the purpose of data analysis. The sufficiency and usefulness of analysing the data using SPSS has been acknowledged by many researchers (e.g., Tabachnick & Fidell, 2007; Field, 2009). The following describes briefly the statistical tools employed in this study and the rationale behind using these them

4.9.1   Preliminary Data Analysis

Following data collection but prior to data analysis, the researcher examined the accuracy and appropriateness of the data gathered. Data examination or screening is a very important step where the researcher tests the accuracy of data entry, appraises the magnitude of missing data, identifies outliers, and investigates the core assumptions of multivariate analysis. The aim of data examination activities is to present the actual data candidly and to handle systematically the problems inherited with the collected data. In order to achieve this, the following tests were employed: skewness-kurtosis, bivariate correlation matrix at 0.01 significant level (2-tailed), a scatterplots matrix, box and whisker, normal probability plot and de-trended normal probability plots. We also provided an account of the descriptive findings of the data. It describes the study variables' means, standard deviations and variances in order to understand the structure of the data.

4.9.2   Multiple Regression Analysis

Multiple regression analyses are a set of statistical methods that enable researchers to evaluate the relationship between one dependent variable and multiple independent variables (Tabachnick & Fidell, 2007). Multiple regression analysis is an extension of bivariate regression which assesses the relationship between a single independent variable and a single dependent variable. The main objective of multiple regression procedures is to predict the value of a single dependent variable through the measured values of several independent variables. In order to examine the stated

research hypotheses, we conducted multiple regression analysis. We also employed the hierarchical or sequential regression analysis to control for impacts of the control variable.

4.10   Summary of the Applied Research Process

In the preceding chapters, the conceptual framework was presented clearly in order to test our research hypotheses, and described in detail the research methodology and design in this chapter. Figure 4.1 presents a summary of the research process applied in this research.

Figure 4.1: The research process
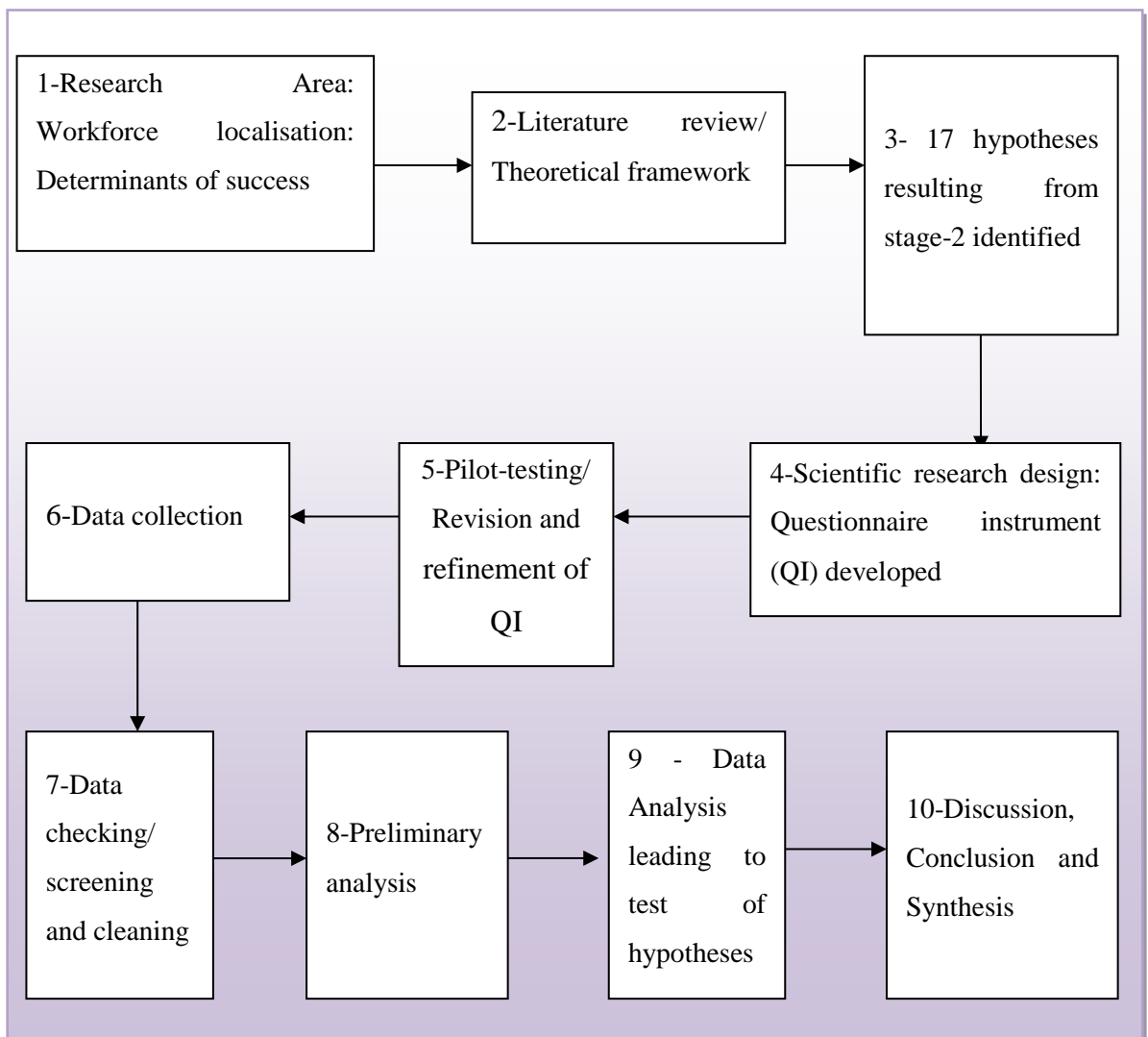
Source: Adapted from Mohamed *et al*. (2012).

4.11 Ethical Considerations

In line with the scientific research principles, it is vital to take into account the ethical issues surrounding the current study. The ethical aspects are regarded as essential aspects in the scientific research process. The purpose of the ethical considerations is to ensure complete confidentiality and anonymity for participants, and this would result on the increase of participation in any study. Since we adapted the questionnaire method, this study conforms to Brunel Business School Ethical Code. In the current study, we have ensured that all the research participants are fully informed about the main purpose of this study. Moreover, we have ensured the issues of anonymity and confidentiality of the data given by the respondents.

4.12 Summary

This chapter elucidated the methodology and research design employed to evaluate the theoretical framework discussed in Chapter 4. It also explains the major tools used for data collection and sampling procedures. Moreover, this chapter explains the issues related to the main research measurement tool such as survey development process and design, pilot study and survey implementation process, and it explains the measurement of research variables. Descriptive analysis and multiple regression analysis are the statistical techniques used in this study. This chapter identifies the ethical considerations relating to this study. In the current study, three empirical research objectives were formulated from the hypotheses development presented in Chapter 1. The first objective is to identify the institutional factors of WL success and secondly to investigate the effects of Human Resource elements and thirdly to evaluate the impact of MNE size, age and industry on WL success. In this study, the main key factors of workforce localisation and their relevant hypotheses can be deduced from previous studies; therefore, the deductive approach is appropriate in terms of assessing the validity of the research hypotheses. Employing a quantitative research strategy is appropriate to this study as most studies in the relevant literature draw conclusions from secondary data or qualitative data. In this research, we aim to fill in this methodological gap of previous studies. The target population of this study is all Multi-National Enterprises (MNEs) operating in Saudi Arabia. A count of all the MNEs operating in Saudi Arabia revealed a population of 214 MNEs of which 157 agreed to participate in the survey. This makes a high and very acceptable response rate of 73%.The unit of analysis in the current study is the organisation, and the targeted respondents are HR directors in MNEs following most of the work that has been conducted in area of research. A pilot study carried out on 10% of the targeted population was conducted, and as a result, all comments and suggestions were taken into consideration when producing the final draft of the survey.

CHAPTER 5: DATA ANALYSIS

5.1   Introduction

In the interests of the assessment and testing of the research model proposed, this chapter deals with the group of issues that need to be resolved after the data collection process. We first screened and cleaned up the data with essential statistical techniques and their outputs, such as missing data treatment, outlier examination, normality, homoscedasticity and linearity. We next test the reliability and the validity of the research survey instrument. This is followed by the final section, which is devoted to the hypothesis-testing process using multiple regression analysis.

5.2   Data Examination

After data collection and prior to data analysis, the researcher must examine the accuracy and appropriateness of the gathered data. Data examination or screening is a very important step where the researcher tests the accuracy of data entry, appraises the magnitude of missing data, identifies outliers, and investigates the core assumptions of multivariate analysis (Tabachnick & Fidell, 2007). The aim of data examination activities is to present the actual data candidly and handle systematically the inherited problems with the collected data (Hair *et al*., 2010).

5.2.1   Accuracy of Data File

In the present study, an SPSS file was created, which contained all variables that had been tested with the appropriate attributes. First, a serial number was added as a variable to identify each case. In addition, each variable was named based on its corresponding number in the survey questionnaire. Moreover, each variable was labelled with the complete item question in the survey. The total number of variables created was 63. Next, the data gathered, totalling 157, cases were entered cautiously in the SPSS file. To ensure the accuracy of the data file, we proofread the numerous original data against the data SPSS file. It has been argued that it is highly recommended to use proofreading in a small data file, which is the case in the current study (n=157 total cases gathered) (Tabachnick & Fidell, 2007).

5.2.2 Missing Data and Treatment

Missing data are defined as valid values of one or more variables that are not obtained from the research sample and, hence, are not available for data analysis (Hair *et al*., 2010). Missing data occur when respondents fail to answer one question or more in the survey. In fact, it is very uncommon to gather complete sets of data in manually administered surveys (Zikumnd, 2003); therefore, the researcher's challenge is to address the problems associated with incomplete data sets.

The pattern of missing values is more important than the number of missing values (Tabachnick & Fidell, 2007). Randomly missing data across variables often cause no or few statistical problems whilst non-randomly missing values can reduce the sample size and undermine the generalisability of the research findings. Based on their missing pattern, data can be classified as missing completely at random (MCAR), missing at random (MAR), also known as ignorable, and missing not at random (MNAR) or non-ignorable (Tabachnick & Fidell, 2007; Hair *et al*., 2010).

In the current study, the researcher investigated the patterns and frequency of missing data within each item level by deploying the missing value analysis (MVA) function in SPSS. MVA revealed that only two items have at least 5% of missing values (items 4 and 6 in Section A). The Separate Variance t-test shows no systematic relationship between the absence of these two items, and any other items. Moreover, the result of the expectation maximisation method (EM) indicated that Little's MCAR test was insignificant at each item level (i.e. Chi-Square = 854.660, DF = 897, Sig. = .841). The insignificant result of Little's MCAR test indicates that the pattern of missing values in this study is missing completely at random (Tabachnick & Fidell, 2007).

The amount of missing data in the current study ranged from 1.3% to 7%. According to Hair *et al*. (2010), Tabachnick & Fidell (2007) and Cohen & Cohen (1983), this extent is tolerable and can be either ignored or treated by any imputation method considering the random pattern of missing values in this study (less than 10% missing values is affordable). Owing to the small data set in this study (n= 157), the researcher decided not to ignore missing values but rather to deploy one of the imputation methods as outlined by Hair *et al.* (2010). Of several methods available

such as hot or cold deck imputation, case substitution, mean substitution and regression imputation, the researcher implemented the mean substitution method. The rationale behind this decision is twofold: first, this method is considered to be the most widely employed method if MCAR is present (Cordeiro *et al*., 2010); and secondly, Hair *et al.* (2010) claim that the calculated mean is the best replacement for any missing value because it replaces the missing values of a variable with the mean value of that variable and provides all cases with complete values based only on valid responses.

5.2.3   Outliers Detection

An outlier is defined as a case with an extreme score on one variable, known as a univariate outlier, or cases with extreme values on more than one variable, also known as multivariate outliers (Tabachnick & Fidell, 2007; Hair *et al*., 2010). Tabachnick & Fidell (2007) have specified four different reasons for the presence of outliers; their list includes inaccurate data entry, missing values being read as real data, sampling errors, and non-normal distribution of a variable with extreme values. Having outliers within the sample not only risks distorting the statistical analysis but may also undermine the generalisability of the research findings (Tabachnick & Fidell, 2007). However, Hair *et al*. (2010) argued that outliers cannot be categorised as either problematic or beneficial but rather must be examined to determine their impact by looking at the type of information they provide. In the present study, the researcher checked for outliers amongst variables using box and whisker diagrams and normal probability plots. The analysis revealed 13 cases of mild outliers concentrated on the variables of MNE age, MNE size and recruitment. More importantly, there were 8 cases of extreme outliers concentrating only on the variables of MNE age and MNE size (Figure 5.1).

Figure 5.1: MNE Age and MNE Size Outliers
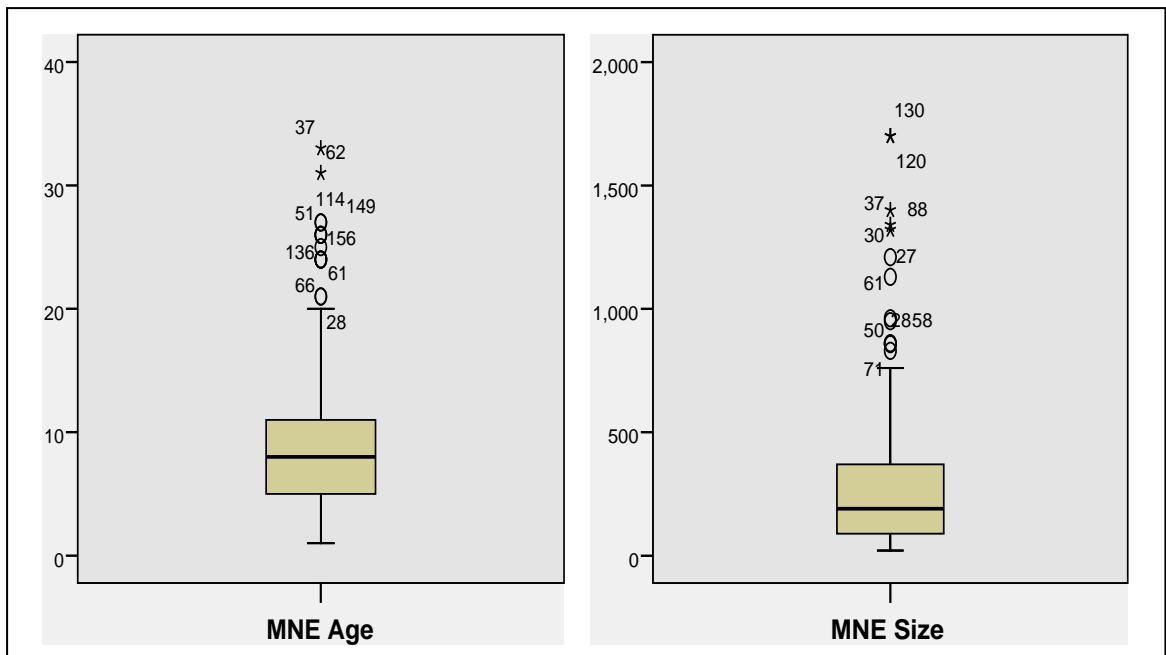
Source: Author's analysis of data.

In order to reduce the influence of detected outliers, the researcher checked the accuracy of the data file first and then examined cases of outliers based on the information they provided. The examination revealed that the data were accurate and the respondents were part of the population. Moreover, the extreme values they provided, on MNE age and size, are indicative characteristics of the population and are due to the varying nature of these two variables. A few cases of outliers are affordable and these could be retained unless there is proof they are truly wild (Hair *et al*., 2010; Tabachnick & Fidell, 2007). Hence, the researcher decided to retain these observations for further analysis.

5.2.4   Normality

Normality is considered a principal assumption in any multivariate technique and a benchmark for statistical procedures (ibid). Whether a distribution is normal or not is evaluated based on the pattern of data distribution compared to the shape of a normal distribution. Normality is regarded as vital because substantially large variations from normal distribution can lead to false statistical results (Hair *et al*., 2010). To investigate normality, data may be examined at univariate level (a single variable)

and at multivariate level (a combination of two or more variables). If the combination of two or more variables is found to be normal, the single variables will also be normal at the univariate level. However, the opposite is not true as univariate normality does not necessarily ensure multivariate normality (Hair *et al.*, 2010, p. 80).

In this study, the researcher inspected normality using the Jarque-Bera (skewness-kurtosis) test and P-P graphical plots. Skewness-kurtosis is a two-dimensional test that compares the mean of data with a normal distribution. Skewness represents the symmetry of a distribution (whether the distribution is shifted to the right or the left) and kurtosis portrays the peakedness or the flatness of a distribution. Positively skewed distribution shows values concentrating on the left whereas negatively skewed distribution demonstrates values shifted to the right; on the other hand, positive kurtosis values indicate that the distribution is peaked whereas negative values indicate that the distribution is flat (Tabachnick & Fidell, 2007; Hair *et al*., 2010).

In a perfectly normal distribution, the values of both skewness and kurtosis must be zero. However, values within the range of ±2.58 at the 0.01 significance level are considered acceptable by many scholars (ibid). In this study, the values of skewness and kurtosis are within the acceptable ranges except for the variable of MNE size as presented in Table 5.1. The values presented have both positive and negative skewness and kurtosis values. According to Pallant (2007, p. 56), negative or positive skewness and kurtosis are affordable if their values fall within the normal range. However, it is apparent that the values of MNE size diverge substantially from normality. Therefore, data transformation of MNE size is necessary. In the case of substantial diversion from normality, computing the logarithms of non-normal variables is considered appropriate to obtain normality (Tabachnick & Fidell, 2007). In this study, the researcher computed the logarithms of MNE size, resulting in skewness and kurtosis values that fall within the normal range (Log MNE Size) as presented in Table 6.1.

To ascertain normality, the researcher also examined the P-P plots for each variable. The plots portrayed normal distribution for all variables except for MNE size, which has been transformed; the resulting post-transformation plot was also normal.

Table 5.1: Mean, standard deviation, variance, and normality of variables

Variables	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Std. Error			Statistic	Std. Error	Statistic	Std. Error
MNE Age (MA)	9.89	.519	6.50	42.26	1.380	.194	1.552	.385
MNE Size (MS)	308.02	25.97	325.51	105962	2.113	.194	4.899	.385
LOGMNE Size (LMS)	2.28	.034	.432	.187	−.015	.194	−.533	.385
Legitimacy (OC)	9.15	.242	3.04	9.25	−.125	.194	−.683	.385
Economic Gains (EG)	5.89	.170	2.13	4.55	−.153	.194	−.616	.385
Interconnectedness (IC)	17.99	.335	4.20	17.64	−.580	.194	−.409	.385
Uncertainty (UC)	16.37	.355	4.44	19.79	−.165	.194	−.515	.385
Constituents Multiplicity (CM)	11.91	.240	3.01	9.08	.038	.194	.038	.385
Dependence on Government (DG)	3.69	.0584	.732	.537	.331	.194	−.752	.385
Consistency (CC)	5.48	.092	1.15	1.34	−.350	.194	.842	.385
Constrains (DC)	9.68	.202	2.53	6.41	−.182	.194	−.065	.385
Legal Coercion(LC)	7.25	.140	1.76	3.11	−.508	.194	−.322	.385
Broad Diffusion (BD)	13.89	.298	3.73	13.94	−.134	.194	−.946	.385
Role of HR Director (RH)	14.07	.281	3.53	12.48	−.336	.194	−.634	.385
Recruitment Practices (RP)	15.17	.257	3.22	10.42	.046	.194	.305	.385
Training Practices (TP)	13.9682	.24771	3.10380	9.634	−.036	.194	−.623	.385
Localisation Success (LS)	15.58	.36840	4.61	21.30	.126	.194	−.918	.385

Source: Author's analysis of data

5.2.5 Homoscedasticity

Hair *et al.* (2010, p. 83) define homoscedasticity as an assumption of normality where dependent variable(s) exhibit an equivalent variance across the range of independent variable(s). Meanwhile, Tabachnick & Fidell (2007, p. 85) define homoscedasticity as the dispersion in values for one variable approximately similar to a score's dispersion of the other variables. The failure of homoscedasticity, known as heteroscedasticity, affects the standard errors and makes hypothesis-testing either too rigid or too insensitive (Hair *et al*., 2006, p. 84). Heteroscedasticity is caused either by non-normality or errors in the levels of measurement (Tabachnick & Fidell, 2007). The assumption of normality is related with the assumption of homoscedasticity (Tabachnick & Fidell, 2007). As a matter of fact, when the assumption of normality is satisfied amongst variables, the relationships between the different variables are homoscedastic.

In the present study, the relationships between all variables are assumed to be homoscedastic because the assumption of their normality has been satisfied, as illustrated in Table 6.1. However, Levene's test was employed; the results revealed few cases of heteroscedasticity. According to Field (2009), Levene's test is overly sensitive and can yield significant results in samples exceeding 50 respondents, which is the case in this study (n=157). Moreover, it should be noted that Levene's test was employed on ungrouped data, which can also produce significant results. According to Tabachnick & Fidell (2007), heteroscedasticity is not fatal to the analysis of ungrouped data although it might complicate the analysis process. Therefore, the assumption of homoscedasticity is partially met in this study and this can be justified by the sample size, the ungrouped data set, and satisfaction of the normality assumption.

5.2.6 Linearity

Linearity is a very important assumption for all multivariate techniques because multivariate correlations reflect only linear relationships between variables; non-linear associations will be ignored in the correlation value (Hair *et al*., 2006, p. 85). Problems associated with the absence of linearity are multicollinearity and singularity: multicollinearity occurs when two or more of the independent variables

are highly correlated, which makes it impossible to determine separately the impact of each single variable on the outcome variable (Tabachnick & Fidell, 2007); singularity, on the other hand, is caused by redundant variables (one of the independent variables is a combination of the other variables). The presence of either multicollinearity or singularity undermines the strength of the examined relationships (Hair *et al.*, 2010).

To examine the linearity of the relationships between independent variables, this study computed the bivariate correlation matrix at the 0.01 significance level (2-tailed). In order to achieve linearity between independent variables, Pearson's correlation values must be less than 0.90 (Tabachnick & Fidell, 2007). The results of the correlation matrix presented in Table 6.2 revealed that none of the bivariate correlations for independent variables was greater than 0.7, indicating that multicollinearity between independent variables is unlikely.

Table 5.2: Correlations Matrix of Research Constructs

Construct	MA	LMS	MI	HRDN	OL	EG	IC	UC	CM	GD	CC	DC	LC	BD	RH	RP	TP	CP
MA	1																	
LMS	.405**	1																
MI	.368**	-.292**	1															
HRDN	.065	-.119	.102	1														
OL	-.045	.066	-.161*	-.286**	1													
EG	.056	.064	-.146	-.097	.048	1												
IC	.054	.171*	-.270**	-.076	.196*	.071	1											
UC	-.089	-.073	-.011	-.018	.233**	.051	.413**	1										
CM	.097	-.055	.020	.086	-.158**	-.270*	-.057	-.083	1									
GD	.175*	.375**	-.078	-.042	.022	.013	.013	.108	-.080	1								
CC	-.106	-.006	-.020	-.200*	.386**	.281**	.184*	.175*	-.241**	.010	1							
DC	.036	.092	-.078	-.161*	.070	-.094	.036	.066	.184*	.082	.179*	1						
LC	-.050	-.095	-.024	-.025	.303**	-.392**	.106	.121	-.011	.021	.055	.037	1					
BD	.031	.195*	-.085	-.381**	.443**	.036	.079	.162*	-.001	.161*	.218**	.127	.274**	1				
RH	-.061	.047	.002	-.280**	.660**	.002	.192*	.261**	-.122	.017	.312**	.143	.378**	.503**	1			
RP	.000	.018	-.194*	-.201*	.400**	.103	.141	.141	-.094	-.050	.286**	.008	.243**	.281**	.348**	1		
TP	.012	-.050	-.179*	-.179*	.461**	.056	.174*	.305**	-.152	.050	.211**	.034	.096	.292**	.407**	.249**	1	

**Correlation is significant at the 0.01 level (2-tailed).*Correlation is significant at the 0.05 level (2-tailed).

Source: Author's analysis of data

5.3 Reliability and Validity of the Research Constructs

Reliability reflects the consistency of the measurement tool, meaning that the measures should give the same results over time and across various items (Sekeran, 2003). The inter-item consistency of the present measurement instrument was measured by conducting Cronbach's alpha coefficient (Cronbach, 1951). This test is considered the most frequently employed test to examine the reliability of research instruments (Tabachnick & Fidell, 2007). Scholars have suggested different values of Cronbach's alpha coefficient to establish a reliable measure. For instance, Nunnally (1978) argued that a value of 0.50 or greater is adequate to confirm that the measure is reliable while others have indicated a minimum value of 0.70 (e.g., Sekeran, 2003). As shown in Table 5.3, the results of the reliability test show that all scales satisfy the reliability criterion, with Cronbach's alpha coefficients ranging from 0.62 to 0.86.

Table 5.3: The Reliability of the Research Constructs

Constructs	Cronbach's alpha coefficient
OL	.704
EG	.729
IC	.786
UC	.811
CM	.692
GD	.719
CC	.623
DC	.646
LC	.674
BD	.836
RH	.862
RP	.685
TP	.693
LS	.755

Source: Author's analysis of data

In terms of validity, on the other hand, tells researchers whether the constructs truly measure the concepts that they have set out to measure through the research instrument (Sekeran, 2003). The validity of the measurement scale ascertains that the results revealed through measures are a real description of the concept examined (Bryman & Bell, 2007; Hair *et al*., 2010). Within business research, there are two

common methods of validity test usually applied to reflect the goodness of the instrument: content validity and construct validity. Construct validity is a quantitative assessment which can be mostly conducted by some advanced statistical techniques such as confirmatory factor analysis. Content validity, in contrast, also known as face validity, is a qualitative evaluation of the relationship between items/questions and the matching constructs through review by experts, specialists and pre-tests of the research instrument (Hair *et al.*, 2010). In the current study, in order to ensure the face validity, the researcher first constructed measures from previous studies on workforce localisation. Next, numerous iterations with the researcher's supervisor were conducted to improve the validity of items used. Afterwards, the researcher requested faculty staff specialising in Human Resources Management at Brunel University to assess the validity and appropriateness of the measurement items. Their comments resulted in more changes that helped produce a more valid draft. Subsequently, the new draft was reviewed by the academic staff again. Their final comments stated that the new draft established content validity because the items were logical and corresponded to the measures widely accepted in the localisation literature.

This study employed Confirmatory Factor Analysis (CFA) to assess the convergent validity of research constructs. CFA evaluates construct validity through the calculation of three types of indicators which are factor loadings, Average Variance Extracted (AVE), and reliability of the construct. First, the number of factor loading determines the level of convergent validity as acceptable levels of factor loadings should be equal or higher than 0.5 (Hair *et al.*, 2010). Factor loadings signify that these loaded factors converge on a common point. The table in Appendix (b) present the results of factor loadings of all research construct which illustrates that all construct scored significant rates of factor loadings ranging from 0.55 to 0.88.

Secondly, AVE indicates the amount of variance explained by research construct in relation to the variance due to measurement error (Fornell and Larker, 1981). The construct establishes convergent validity if it is at least .50 or higher (ibid). Having calculated AVE for research construct, the values ranged from .64 to .84. Acceptable values of AVE should be equal or higher than the threshold value of 0.50; as a result, our AVE values indicate adequate convergence of the research constructs. Finally,

reliability tests for the research constructs have already been tested as shown in section 5.3. The results show that all scales satisfy the reliability criterion ranging from .62 to .86. Having tested the three main indicators of CFA, the results provide sufficient confirmation of the convergent validity (see Appendix b).

5.4   Hypothesises Testing: Multiple Regression Analysis

Multiple regression analyses are a set of statistical methods that enable researchers to evaluate the relationship between one dependent variable and multiple independent variables (Tabachnick & Fidell, 2007). Multiple regression analysis is an extension of bivariate regression, which assesses the relationship between a single independent variable and a single dependent variable. The main objective of multiple regression procedures is to predict the value of a single dependent variable through the measured values of several independent variables (Hair *et al*., 2010). The equation of multiple regressions is as follows:

Equation 5.1: $y = a + b_1x_1 + b_2x_2 + \dots + b_k x_k$

Where *y* represents the predicated value of the dependent variable, *a* represents *y* intercept (the value of *y* when all the x values are zero), the *x* represents the different independent variables, and the *b* represents the coefficients assigned to each independent variable (Tabachnick & Fidell, 2007). The function of regression is to obtain the regression coefficients (*b* values) for all independent variables that bring the *y* values predicated by the equation as close as possible to the *y* values measured through the study. In order to achieve this, regression coefficients minimize the sum of squared deviations between predicated and measured *y* values and optimise the correlations between them.

There are three major techniques for multiple regression analysis: standard, sequential and statistical regressions. These techniques differ based on the way in which independent variables are inserted into the regression equation. In the standard technique, all independent variables are entered into the equation at the same time, whereas independent variables are inserted in a hierarchical order when employing sequential regression strategy. Researchers often choose to do so having regard for

theoretical or previous empirical considerations. In statistical regression, researchers arrange the entry of independent variables based on statistical criteria generated from the research sample. The rationale for this is the significant impact of this statistical criterion on the importance of some independent variables.

In the current study, the researcher employed a multiple regression technique to test the research hypotheses. This method is appropriate for analysing the research data because we are attempting to evaluate the relationship between several independent variables (MNE size, MNE age, industry, legitimacy, economic gains, interconnected context, uncertain context, constituent multiplicity, government dependence, consistency, constraints, legal coercion, broad diffusion, HR director nationality, and role of HR director, recruitment, and training) and a single dependent variable (localisation success).

5.4.1 Hypotheses-Testing Strategy

To answer the main research question, we have divided our research hypotheses into three main groups. Each group has a set of related hypotheses that might have an impact on the success of the localisation polices. We named the first group institutional determinants, the second group HR determinants, and the last group MNEs' characteristics' determinants.

The first group is related to the typology of Oliver. As outlined in the literature, this typology has received a great deal of attention in the area of Institutional Theory. Oliver (1994) identified five determinants that could impact MNE decisions when responding to institutional pressure such as localisation policies. These determinants are the cause, context, constituents, content and control of localisation policies. Accordingly, we formulated our first set of hypotheses to test the relationship between these institutional determinants and localisation success in the context of the country of Saudi Arabia.

The second group is associated with HR issues. It has been argued in the localisation literature that some HR practices, such as recruitment and training, could play an important role in localisation success. Additionally, we proposed that the role of HR

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director might have a major influence on the adoption of localisation policies. Further, we consider the nationality of the HR director (being Saudi vs. non-Saudi) as a control variable due to its possible association with HR determinants, in particular, the role of HR director. As a result, we aim to test the effects of these HR determinants in our second set of hypotheses.

The third group is related to the characteristics of MNEs. We set out these hypotheses to examine the role that MNEs' age, size, or the type of industry could play in the success of localisation policies.

5.4.2   The Assumptions of Multivariate Analysis

Before employing multiple regression analysis, researchers must ascertain that the research data are appropriate for the multiple regression techniques. This can be accomplished through data screening where the researcher tests the accuracy of data entry, appraises the magnitude of missing data, identifies outliers, and investigates the core assumptions of multivariate analysis (Brayman & Cramer, 2005; Tabachnick & Fidell, 2007; Field, 2009; Hair *et al*., 2010). Failure to perform the former tasks will result in inappropriate statistical procedures which in turn will lead to false statistical inferences (Fox, 1991).

As presented earlier in this chapter, the researcher checked the accuracy of the data file and treated missing data accordingly. The outliers test was then performed for all the research variables using box and whisker, normality probability plots and de-trended normal probability plots. The analysis indicated no extreme cases that could be classified as extreme outliers except a very few cases of MNE size and MNE age which are considered acceptable in such a case. Moreover, the results of the normality test revealed that all the research variables' skewness and kurtosis values lie between the acceptable limit of ranges, except MNE size. Due to the extreme skewness of the data and the severe deviation from normality, the logarithms of MNE size were computed. As a result, the results indicate that the data are normally distributed. Further, the relationships between the research variables were homoscedastic since all the research variables have met the assumption of normality. In addition, bivariate scatterplots were conducted between variables, and the results

indicated homoscedastic relationships. Finally, a correlation matrix was conducted to determine the linearity of the research variables. The results of Pearson's correlation revealed that the independent variables are not highly correlated with each other.

5.5   Test of the Institutional Determinants

5.5.1   The Cause

Our first and second hypotheses examined the first determinant of the localisation success. The first determinant is related to the cause of localisation demands. It refers to the underlying principles or objectives behind the call to comply with these pressures. MNEs' active or passive response to institutional demands will depend on the cause of these demands as perceived by them. As stated in the literature review, there are two drivers behind the adoption of localisation pressure: legitimacy and economic efficiency. MNEs which perceive these demands as legitimate and economically efficient are more likely to employ less active strategies. Accordingly, the first and second hypotheses are stated as follows:

H_1: MNEs that perceive localisation pressures as legitimate are more likely to achieve localisation success.

H_2: The higher the perceived economic gains an MNE has from localisation, the greater the likelihood of localisation success.

In order to test the relationship between the cause, as one of the determinants, and localisation success policy, we conducted multiple regression analysis. As stated in the previous hypotheses, the cause can be reflected by two main drivers. These are legitimacy and economic efficiency.

The results of the multiple regression analysis are shown in Table 6.4. 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 highly significant ($R^2 = .469$, $F = 68.01$, $p < .001$), which indicates that both causes (legitimacy and economic gains) account for 46% of the variation in localisation

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success. The *F*-ratio is 68.01. This ratio is a way of comparing systematic variance with unsystematic variance. In other words, it is the ratio of the explained variation to the unexplained variation (Field, 2009). *F*-ratio for this model is highly significant, which indicates that the model substantially improved our ability to predict the outcome variable. In addition, the adjusted R^2 is .462, which indicates that the model is appropriate in terms of generalising and perfectly reflecting values similar to, or close to, the value of R^2. As can be noticed, there is almost no difference between R^2 and the adjusted R^2. The reduction indicates that, were the model to be drawn from the population rather than the sample, it would account for approximately .07% less variance in the localisation success. However, the value of R^2 has been criticised by some scholars for not being informative about how well the regression model would anticipate an entirely different set of data (Field, 2009). As a result, some researchers employ Stein's formula to cross-validate the model. The value of R^2 in Stein's formula can provide researchers with more reliable results on how well the model can cross-validate a completely different set of data. Stein's formula can stated as follows:

$$\text{Equation 5.2:} \quad \text{Adjusted } R^2 = 1 - \left[\left(\frac{n-1}{n-k-1} \right) \left(\frac{n-2}{n-k-2} \right) \left(\frac{n+1}{n} \right) \right] (1 - R^2)$$

where *n* represents the sample size and *k* is the number of independent variables in the model. The value of the adjusted R^2 resulting from the above formula is .451, which is very similar to the value of the observed of R^2 (.469). As a result, this value indicates that the cross-validity of this model is very good.

We also tested the independent errors assumption of the model, also known as the lack of autocorrelation. The Durbin-Watson test was employed to evaluate this assumption. This test identifies serial correlations between errors and finds out whether the residuals are correlated. The value of Durbin-Watson ranges between 0 and 4. The value of 2 indicates that the residuals are uncorrelated. As a rule of thumb, values less than 1 and higher than 3 are undoubtedly cause for concern, while values closer to 2 indicate acceptable and better results (Field, 2009). For our model, the value of Durbin-Watson test is 2.05, which is very close to 2, indicating that the assumption of independent errors is met for this model.

The results shown in Table 5.4 provide support for the first and second hypotheses. With regard to the first hypothesis, legitimacy is strongly and significantly related to localisation success ($b = .138$, $p < 001$). Such a result indicates that MNEs, which seek legitimacy though the implementation of localisation policy, achieve more successful results. The results of the second hypothesis, on the other hand, revealed that economic gains are related positively to localisation success ($b = .664$, $p < .05$). This indicates that the higher the economic gains received from the implementation of localisation policies, the greater the degree of localisation success. The overall results of the first and second hypotheses provide support for both causes explained earlier. However, the results indicated that the legitimacy is a stronger determinant of the localisation success.

Table 5.4: Regression analysis for localisation success with the cause determinants

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	4.134		.000***
The Cause:			
Legitimacy	11.299	.138	.000***
Economic Gains	2.345	.664	.020*
R^2	.469		
Adjusted R^2	.462		
F for R^2	68.013***		
Stein's Value	.451		
Durbin-Watson	2.05		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.5.2 The Context

Our third and fourth hypotheses examined the second determinant of the localisation success. The second determinant of localisation success is related to the MNE's context in which localisation pressures are being emphasised. When MNEs operate

in more interconnected environments and with a lower degree of uncertainty, localisation success is more likely. In view of this, the third and fourth hypotheses are formulated as follows:

H_3: The higher the degree of interconnectedness between MNEs, the higher the likelihood of localisation success.

H_4: The lower the degree of uncertainty within the MNE environment, the higher the likelihood of localisation success.

We conducted multiple regression analysis to test the relationship between the context, as one of the determinants, and localisation success. As stated in the previous hypotheses, two characteristics of the context are relevant to localisation success. These are interconnectedness and uncertainty.

As shown in Table 5.5, the value of R^2 and F ratio in this model tell us that this determinant of localisation success is not as good at predicating the outcome variable as the model resulting in the previous hypotheses ($R^2 = .080$, *F* = 6.695, *p* < .005). The value of R^2 is 8% indicating that neither context characteristics (interconnectedness and uncertainty) account for a remarkable amount of the variation in localisation success. However, the value of R^2 resulting from Stein's formula is .050, thus indicating that the cross-validity of this model is good enough. The Durbin-Watson test was also employed to evaluate the assumption of independent errors of this model. The value of the Durbin-Watson test is 2.07, which is very close to 2, indicating that the assumption of independent errors is almost met for this model.

The results as shown in Table 5.5 do not provide any support for our hypotheses related to the context as one of the determinants of localisation success. With regard to the third hypothesis, interconnectedness is not significantly related to localisation success (*b* = .109, *p* > .10). These results indicate that there is no relationship between the degree of interconnectedness and localisation success. In other words, MNEs that operate in an interconnected context or environment will not necessarily achieve localisation success. Moreover, the results of the fourth hypothesis

unexpectedly revealed that the degree of uncertainty is positively related to localisation success ($b = .220$, $p < .05$). Such a surprising result contradicts our initial proposition as deduced from the literature, having ascertained that most of the previous work has concluded that the success of localisation policy is highly dependent on a lower degree of uncertainty. These results will be discussed in detail in the next chapter.

Table 5.5: Regression analysis for localisation success with the context determinants

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	5.574		.000***
The Context:			
Interconnectedness	1.284	.109	.201
Uncertainty	2.591	.220	.010*
R^2	.080		
Adjusted R^2	.068		
F for R^2	6.695**		
Stein's Value	.050		
Durbin-Watson	2.07		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.5.3 The Constituents

The fifth and sixth hypotheses tested the third determinant of localisation success. Constituents represent the third determinant of localisation success, which refers to the governmental institutions responsible for the localisation policy, which formulate, implement and monitor the localisation norms. The various constituents normally have different expectations and this is why MNEs often confront multiple conflicting requirements. Hence, organisational responses will be determined based on the nature of constituents who exert the institutional pressure on organisations. If there are multiple and conflicting pressures from different governmental institutions, it is unlikely that MNEs will succeed in their localisation efforts. In contrast, if an MNE is dependent on government resources, localisation success is more likely.

Therefore, there are two factors associated with the nature of constituents. These are government multiplicity and organisational dependence on government resources. As a result, the following hypotheses were formulated:

H_5: The higher the degree of constituents' multiplicity, as perceived by MNEs, the lower the likelihood of localisation success.

H_6: The higher the degree of resource dependence on the government by MNEs, the greater the likelihood of localisation success.

As stated in the previous hypotheses, the constituents can be reflected by two main factors. These are multiplicity and dependence. The results of the multiple regression analysis are shown in Table 5.6. The initial results of this analysis do not give support to the stated hypotheses in predicting the outcome variable. The value of R^2 for this model is not significant ($R^2 = .015$, $F = 1.162$, $p > .10$), which indicates that neither factors of constituents' determinants (multiplicity and dependence) account for any satisfactory level of the variation in localisation success. As shown by the results in Table 5.6, there is a difference of 1.3% between R^2 and the adjusted R^2. The diminution of this value indicates that, were the model to be taken from the population rather than the sample, it would account for approximately 1.3% less variance in the localisation success. As stated earlier, the value of R^2 has been criticized by researchers for not being informative about how well the regression model would predict an entirely different set of data. For this reason, we next computed the R^2 using Stein's formula. The value of R^2 resulting from Stein's formula is 0.17, which is very close to the value of the observed of R^2 resulting from the regression model (.015). As a result, this value indicates that the cross-validity of this model is very good (Field, 2009).

The independent errors assumption was also tested for this model. As stated earlier, this test identifies serial correlations between errors and finds out whether the residuals are correlated. The value of the Durbin-Watson test is 2.01, which is very close to 2, indicating that the assumption of independent errors is met for this model.

The results shown in Table 5.6 do not support either hypotheses associated with the constituents as determinants of localisation success. With regard to the first factor, government multiplicity was found to be negatively associated with localisation success as we proposed in the stated hypothesis, but it was not strong enough to demonstrate a significant relationship between the two variables ($b = -.118$, $p > .10$). The results suggest that higher degrees of government multiplicity do not negatively impact the outcomes of the localisation process within MNEs in the studied population. The results of the second factor relating to constituents, on the other hand, failed to support the positive relationship between the dependence on government resources and the localisation success ($b = .344$, $p > .10$). These results do not support the notion that reliance on government resources would enable MNEs to succeed in their localisation efforts.

Table 5.6: Regression analysis for localisation success with constituents' determinants

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	9.456		.000***
The Constituents :			
Government Multiplicity	-1.468	-.118	.144
Dependence on Government	.344	.028	.731
R^2	.015		
Adjusted R^2	.002		
F for R^2	1.162		
Stein's Value	.017		
Durbin-Watson	2.10		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.5.4   The Content

These two hypotheses examined the fourth determinant of the localisation success. This determinant is related to the content of localisation demands. Content is related to the nature of the localisation policy itself. Organisational responses to localisation

pressures are determined by the content of these pressures. Two factors are related to the localisation content: the first is the consistency of localisation demands with the organisational culture of MNEs, in which case localisation success is more likely in MNEs when localisation demands are consistent with their organisational culture; the second factor is related to the constraints imposed on organisational decisions when responding to localisation pressures. In this case, localisation success is more likely when localisation demands do not constrain the decisional discretion of MNEs. Consequently, the seventh and eighth hypotheses are stated as follows:

H_7: The higher the degree of consistency of localisation requirements within MNEs' goals of efficiency and growth, the greater the likelihood of localisation success.

H_8: The lower the number of constraints imposed by localisation on MNEs' decisions, the greater the likelihood of localisation success.

The results of the multiple regression analysis are shown in Table 5.7. The value of R^2 for this model is significant ($R^2 = .165$, $F = 15.270$, $p < .001$), which indicates that both factors (consistency and constraints) account for almost 17% of the variation in localisation success. F-ratio (15.270), which is highly significant, assesses how well our regression model can predict an outcome compared to the error within this model. In addition, the adjusted R^2 is 0.155, thus indicating that the model is appropriate for generalising and ideally reflecting values similar to, or close to, the value of R^2. The reduction indicates that, were the model to be drawn from the population, it would account for approximately 1% less variance in the localisation success. In addition, the value of the adjusted R^2 resulting from Stein's formula is 0.140, which is not significantly different from the value of the observed R^2 (165). These results confirm that the cross-validity of this model is acceptable. With regard to the independent errors assumption of the model, the Durbin-Watson test value is 2.05, indicating that the assumption of independent errors is almost met for this model.

The results shown in Table 5.7 provide strong support for the seventh hypothesis as consistency is positively and significantly related to localisation success (b = .411, p < 001). Such a result indicates that the higher the degree of consistency of

localisation requirements with MNE culture, the greater the likelihood of localisation success. The results of the eighth hypothesis showed no significant effect of the constraints on localisation success ($b = -.117$, $p > .10$). In other words, the results suggest that a high number of constraints imposed by localisation on organisational decisions do not necessarily have negative consequences for the implementation of localisation policies. As can be noticed from the outcomes of the last two hypotheses, the content of the localisation policy is demonstrated to be a strong determinant of localisation success only in the case of high consistency of localisation requirements with organisational culture.

Table 5.7: Regression analysis for localisation success with the content determinants

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	4.134		.000***
The Content:			
Consistency	5.495	.411	.000***
Constraints	-1.559	-.117	.121
R^2	.165		
Adjusted R^2	.155		
F for R^2	15.270***		
Stein's Value	.140		
Durbin-Watson	2.21		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.5.5 The Control

The hypotheses stated here examined the last determinant proposed in Oliver's typology. This determinant is related to the type of control employed to effect the implementation of localisation policy. Control refers to the mechanisms used to enforce the adoption of localisation norms. There are two mechanisms for imposing localisation upon MNEs. First, the government enforces the adoption of localisation through legal coercion whereby the government imposes legal sanctions on

organisations for non-compliance with localisation requirements. In this case, localisation success is more likely when there is a higher degree of legal coercion to implement localisation as perceived by MNEs. Secondly, broad diffusion of localisation norms and rules amongst MNEs will lead to successful implementations of the localisation policy. Consequently, the ninth and tenth hypotheses are stated as follows:

H_9: The higher the legal coercion to implement localisation, the greater the likelihood of localisation success.

H_{10}: The broader the diffusion of localisation rules and practices within MNEs, the greater the likelihood of localisation success.

The results of the multiple regression analysis are shown in Table 5.8. The value of R^2 for this model is significant (R^2 = .310, F = 34.649, p < .001). The determination coefficient value indicates that the control mechanisms (legal coercion and broad diffusion) account for 31% of the variation in localisation success. Further, F-ratio (34.649) is highly significant, which suggests that the model considerably improved our ability to predict the localisation success. The adjusted R^2 is .301, meaning that this model would account for approximately 1% less variance were it to be taken from a population rather than a sample. Using Stein's formula, the adjusted R^2 is .290, which is very close to the normal adjusted R^2. These results, overall, provide strong support for the cross-validity of this model. Regarding the independent errors assumption of the model, the value resulting from the Durbin-Watson test is 1.94, indicating that the assumption of independent errors is almost met for this model.

Table 5.8 shows the results of the multiple regression analysis of the control mechanisms hypotheses. The results provide support for both mechanisms in their relation to the localisation success. Legal coercion is positively and significantly related to localisation success (b = .141, p < .05). This outcome signifies that the higher the legal coercion imposed on MNEs to implement localisation policies, the greater the likelihood of localisation success. The results of the tenth hypothesis demonstrated strong and significant impact on localisation success (*b* = .502, *p* < .001). The results of the tenth hypothesis suggest that the broader the diffusion of

localisation rules within MNEs in the targeted companies, the greater the likelihood of localisation success. As can be noticed from the outcomes of the last two hypotheses, both control mechanisms prove their strong presence as determinants of localisation success.

Table 5.8: Regression analysis for localisation success with the control determinants

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	2.771		.006**
Control:			
Legal Coercion	2.025	.141	.045*
Broad Diffusion	7.212	.502	.000***
R^2	.310		
Adjusted R^2	.301		
F for R^2	34.649***		
Stein's Value	.290		
Durbin-Watson	1.94		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.6   Test of the HR Determinants

5.6.1   The Role of HR Director and HR Practices

After testing the determinants of localisation success based on Oliver's typology, other possible determinants of localisation success believed to impact the outcomes of the localisation policy were examined. The other determinants were chosen based on the previous findings of the localisation literature. In this section, the importance of three HR determinants related to localisation process were evaluated. First, we examined the impact of the HR director's role on localisation success. It is also our belief that the nationality of the HR director will have an impact on the relationship between HR determinants and localisation success; therefore, in order to obtain more accurate results, we used the nationality of HR director (being Saudi national vs. non-Saudi national) as a control variable in testing the hypotheses related to the HR determinants. Secondly, several studies signified the importance of certain HR

practices in impacting positively on the localisation outcomes. Practices of recruitment and training are judged to be crucial for localisation success in organisations implementing localisation policies. First, recruitment practices based on links with educational training and providers and investing substantially in identifying suitable job candidates are very important to localisation success. Secondly, widespread and intensive training practices of local employees which are designed to balance the needs of local workers and their job responsibilities are very effective in localisation success. Based on the reasoning outlined above, we hypothesised the following:

H_{11}: The role of HR director has a positive impact on localisation success.

H_{12}: MNEs with Saudi national HR directors are more likely to achieve localisation success.

H_{13}: Recruitment practice has a positive impact on localisation success.

H_{14}: Widespread Training practices has a positive impact on localisation.

In order to test the relationship between the mentioned HR determinants and localisation success, we conducted sequential (hierarchical) regression analysis through multiple steps. This analysis helps researchers to test the impact of the independent variables on the outcome variable while controlling the effects of other variables. In our case, the use of hierarchical regression assists us in examining the impact of HR determinants on localisation success while controlling the effects of HR director nationality (Saudi national vs. non-Saudi). In other words, we can examine the level of the explained variance of HR determinants after adding them to the control variable. In the first step, the control variable, nationality of HR director, was entered into the regression equation. In the second step, we entered all the HR determinants (recruitment, training, and role of HR director) in order to test their impacts on localisation success.

The results of the hierarchical multiple regressions are shown in Table 5.9. The values of R^2 and *F*-ratio for HR determinants are highly significant ($R^2 = .605$, *F* =

58.308, $p < .001$). The value of R^2 indicates that the change of 60% in the variation in localisation success can be explained by the HR determinants. These results suggest that the model is good enough to predict the outcome variable. In addition, the adjusted R^2 is .595, which indicates that the model is ideal in generalising and perfectly reflecting values similar to, or close to, the value of R^2. The reduction reflects that, were the model to be drawn from the population rather than the sample, it would account for 1% less variance in the localisation success. Moreover, the value of the adjusted R^2 resulting from Stein's formula is 0.582, which is very similar to the value of the observed of R^2 (.605). As a result, this value indicates that the cross-validity of this model is very appropriate. Having tested the independent errors assumption, the Durbin-Watson test revealed a value of 1.99 which is very close to 2, indicating that the assumption of independent errors is satisfied.

With regard to HR director nationality, this variable is coded as a dummy variable with zero assigned to a Saudi national and one assigned to a non-Saudi national. Given that we used dummy coding for this hypothesis, the interpretation of results would, to some extent, be different from the previous regression interoperations. The beta values in the previous analyses indicated that the change in the dependent variable was due to a unit change in the independent variable. In this case, in contrast, a unit change in the independent variable is the change from zero to one. In other words, the values demonstrate the shift in the change in localisation success. This results from the dummy variables changing from zero (Saudi national) to one (non-Saudi national). Therefore, the beta values and t-statistics in Table 5.9 tell us the relative difference between each category; in other words, if the t-statistic is significant, it indicates that the category coded one is significantly different from the category coded as zero. The results in Table 5.9 show that the *t*-test is significant, and the beta value is negative (b = −.2.64, *t* = −3.404, p < .01). Based on these results, we could conclude that the changes in localisation success are attributable to MNEs changing from having Saudi HR directors to non-Saudi HR directors. In other words, it is evident that MNEs with Saudi HR directors have greater success with their localisation efforts than MNEs with non-Saudi HR directors.

Having controlled for the nationality of HR director, significant changes in R^2 over what the control variable significantly explained ($R^2 = .563$, $F = 68.806$, $p < 001$) provided preliminary support for HR determinants in their positive relationships with localisation success. The results shown in Table 5.9 provide support for all HR determinants hypotheses. First, there is a strong and positive impact of the role of HR director on localisation success ($b = .601$, $p < 001$). The results, in other words, indicate that the HR director plays a crucial role in achieving localisation success regardless of his or her nationality. As a result, MNEs that empower and support their HR directors to implement localisation are more likely to succeed in their localisation efforts. With regard to recruitment, it is strongly and significantly related to localisation success ($b = .214$, $p < 001$). Such a result indicates that MNEs who employ intensive recruitment practices aimed at attracting local job candidates will succeed in their localisation efforts and increase the size of their local workforce. As for training, on the other hand, the results have revealed that it is positively and significantly related to localisation success ($b = .118$, $p < .05$). This suggests that MNEs which design their training programmes based on the needs of local workers and balance them with the needs of job responsibilities are successful in their localisation process. Lastly, these results provide support for the HR determinants explained previously. The results suggest that the role of HR director recruitment and training are powerful determinants of the localisation success.

Table 5.9: Regression analysis for localisation success with HR determinants

Variable	Step one			Step two		
	Localisation Success			Localisation Success		
	t-value	*β*	*Sig.*	*T-value*	*β*	*Sig.*
Constant	36.787		.000***	-1.559		.121
Control:						
Nationality of HR Director	-3.404	-2.64	.001**	-.949	-.050	.344
HR Determinants:						
Recruitment				3.879	.214	.000***
Training				2.096	.118	.038*
Role of HR Director				10.190	.601	.000***
R^2	.070			.605		
Adjusted R^2	.064			.595		
F for R^2	11.595**			58.308***		
Δ R^2	.070			.536		
F for ΔR^2	11.595**			68.806***		
Stein's Value	.582					
Durbin-Watson	1.99					

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

5.7 Test of MNEs' Characteristics as Determinants

5.7.1 MNE Size and MNE Age

Three hypotheses related more keenly to the characteristics of MNEs have been proposed, each of which stems from the belief that such variables might have an impact on the success of implementing localisation policies in MNEs. Additionally, it has been argued in the literature that MNEs' characteristics, such as MNEs' age and size, as well as the type of industry in which they operate, might lead to localisation success. For instance, the older the MNE is, the more experience it has in implementing localisation, and that makes it more capable of responding to government pressure accordingly. It has also been argued that, the larger the MNE, the more pressure it receives from the government to increase the number of local staff. Moreover, it is well-known that the petrochemical sector in Saudi Arabia is the

most important sector in the country's economy. Hence, companies operating in the petrochemical sector, unlike other industries, are put under huge pressure to implement localisation policies. We therefore hypothesise the following:

H_{15}: The bigger the MNE, the greater the likelihood of localisation success.

H_{16}: The older the MNE (its presence in Saudi Arabia), the greater the likelihood of localisation success.

H_{17}: MNEs that operate in the petrochemical industry are more likely to achieve localisation success.

We first tested the impact of MNE age and MNE size on localisation success. The results of the multiple regression analysis are shown in Table 5.10. The initial results of this analysis do not support MNE age and size in predicting the outcome variable. The value of R^2 for this model is not significant ($R^2 = .002$, $F = .165$, $p > .10$). Such results indicate that neither MNE age nor MNE size can account for any satisfactory level of the variation in the localisation success. As shown by the results in Table 5.10, there is a difference of 1.3% between R^2 and the adjusted R^2. As explained previously, the shrinkage of this value indicates that, were the model to be taken from the population rather than the sample, it would account for approximately 1.3% less variance in the localisation success. Further, the value of R^2 using Stein's formula is $-.027$, which is close to the value of the observed value of R^2 resulting from the regression model. This indicates that the cross-validity of this model is acceptable (Field, 2009). Additionally, the value of the Durbin-Watson test is 2.01, indicating that the assumption of independent errors is met for this model.

The results shown in Table 5.10 do not support either of the hypotheses associated with MNE age and MNE size as possible determinants of localisation success. With regard to the MNE age, the results have also revealed no significant association with localisation success ($b = -.029$, $p > .10$). As for the other hypothesis related to MNE size, similarly, no significant relationship was established with the outcome variable. Taken as a whole, these results indicate that the age and the size of MNEs do not play an important role in localisation success.

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Variable	Localisation Success		
	t-value	*B*	Sig.
Constant	7.250		.000***
MNE Age	-.328	-.029	.743
MNE size	.564	.050	.574
R^2	.002		
Adjusted R^2	-.011		
F for R^2	.165		
Stein's Value	-.027		
Durbin-Watson	2.07		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.7.2   Type of Industry

The industry hypothesis states that MNEs operating in the petrochemical industry are more likely to achieve localisation success unlike other industries, such as high technology, low technology, and motor industries. The classification is based on Research & Development intensity and the type of products offered by these firms (Hatzichronoglou, 1997). Six categories were introduced: high-technology industry, which includes aircraft and spacecraft, pharmaceuticals, media equipment, medical equipment, and electrical; low-technology, which includes food, beverages, paper products, printing and publishing; the motor industry, which includes automobile vehicles and parts; financial services, which includes banking, insurance, business services, and real estates; other services, which includes trade, retail distribution, hotel, and catering; and other industries not listed in the previous categories, such as agriculture.

To test this argument, we first employed the dummy coding process because the independent variable (the type of industry) in this hypothesis is a categorical predicator. Dummy coding is a method of representing different groups within a variable using only zeros and ones (Field, 2009). In order to create dummy variables for the industry variable, we used the TRANSFORM function in SPSS as outlined by Field (2009). First, we chose the petrochemical industry as a baseline group

because we are interested in comparing the petrochemical industry with other industries in regard to localisation success. Having chosen the petrochemical industry as a baseline group, we assigned that group values of zero for all dummy variables of the petrochemical industry. Subsequently, we created 6 dummy variables representing all other industries, assigning the value of 1 to the industry we were comparing with the petrochemical industry.

The results of the multiple regressions for these variables are shown in Table 5.11. The values of R^2 and F-ratio for this model are significant ($R^2 = .102$, $F = 2.84$, $p < .05$). The results indicated that the industrial sector in which MNEs operate explained a significant amount of the variation in localisation success (10.2%). Since we used dummy coding for this hypothesis, the interpretation of results will be slightly different from the previous interoperations. In the previous regression models, the beta values indicated that the change in the dependent variable is due to a unit change in the independent variable. In this case, in contrast, a unit change in the independent variable is the change from zero to one. In other words, the values demonstrate the shift in the change in localisation success. This results from the dummy variables changing from zero (petrochemical) to one (e.g., High-technology industry). Having included all 6 dummy variables at the same time, our baseline category (petrochemical) is always zero. This, in fact, shows the difference in the change in localisation success scores if an MNE does not operate in the petrochemical sector, compared to another MNE operating in another industry. Therefore, the beta values and t-statistics in Table 5.11 tell us the relative difference between each group and the group as a baseline category. In other words, if the t-statistic is significant, it indicates that the group-coded one is significantly different from the baseline category (petrochemical industry).

For our first dummy variable—which is the high-technology industry—the t-test is partially significant, and the beta value is negative ($b = -.184$, $t = -1.797$, $p < .10$). Based on these results, we could say that localisation success declines as an MNE changes from operating in the petrochemical industry to operating in high-technology industry. As for the low-technology industry, the beta value is also negative, and the results significantly indicate that MNEs are successful in their

localisation policy if they operate in the petrochemical industry rather than the low-technology industry (b = $-$.263, t = -2.828, p < .05). Moving on to the motor industry, the results also significantly show that the localisation success would diminish were MNEs to move from operating in the petrochemical industry to the motor industry (b = $-$.176, t = -2.055, p < .05). As for the other services industry (other than financial services), the t-test is significant, and the beta value is also negative (b = $-$.297, t = -2.846, p < .05). We can conclude that the degree of localisation success declines as an MNE changes from operating in the petrochemical industry to operating in other services industry. The results also show that moving from the petrochemical industry to other industries such as agriculture would significantly reduce MNEs' localisation success (b = $-$.280, t = -2.892, p < .05). Based on such results, we could state that the changes in localisation success decline as an MNE changes from operating in the petrochemical sector to operating in other industries, such as the agriculture and food industries. Regarding the financial services industry, the results show no significant difference in terms of localisation success between petrochemical MNEs and those who operate in the financial services industry (b = $-$.143, t = -1.538, p > .10). Contrary to the other results, such a result indicates that the degree of localisation success is the same if an MNE changes from operating in the petrochemical industry to operating in financial services industry.

Table 5.11: Regression analysis for localisation success with type of industry

Variable	Localisation Success		
	t-value	*β*	Sig.
Constant	20.086		.000***
Industries:			
Petro vs. High-tech	-1.797	-.184	.074 †
Petro vs. Low-tech	-2.828	-.263	.005**
Petro vs. Motor	-2.055	-.176	.042**
Petro vs. Financial services	-.817	-.084	.415
Petro vs. Other services	-2.846	-.297	.005**
Petro vs. Other industries	-2.892	-.280	.005**
R^2	.102		
Adjusted R^2	.066		
F for R^2	2.842		
Stein's Value	-.033		
Durbin-Watson	1.94		

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.8   Additional Tests on Localisation Determinants

Following the logical reasoning outlined in the literature, we have presented localisation determinants in three different groups. Accordingly, we have tested each group of determinants separately in the previous sections. Results indicated that some determinants in each group have significant impacts on localisation success, whilst others made no unique contributions in their relationships with the outcome variable.

In the present study, we conducted additional test to evaluate the impact of all determinants combined together by employing hierarchical multiple regression. In the first step, the control variables were first entered, specifically MNE size and MNE age, with all institutional and HR factors consequently added in the second step so as to evaluate their impacts on localisation success .The results of this test are shown in Table 5.12.

The value of R^2 is significant ($R^2 = .051$, $F = 32.15$, $p < .05$). Additionally, the adjusted R^2 value is .83, and the difference between R^2 and the adjusted R^2 is .03. As previously discussed, the resulted shrinkage indicates that if the model has been taken from the population rather than the sample, this would account for approximately 3% less variance in localisation success. Having calculated Stein's formula, the adjusted R^2 value is .81, which is close to the value of the adjusted R^2 resulted from our regression model. As a consequence, this value signifies that the cross-validity of this model is good. Furthermore, the Durbin-Watson test indicates no significant residuals correlation.

Having controlled MNE size and MNE age, the results indicate that institutional and HR factors explain a significant incremental level of variance in R^2 beyond what the controls explain in localisation success ($\Delta R^2 = .62$, F for ΔR^2 32.15, $p < .05$). Evaluating the individual contribution of each factor, legitimacy significantly and positively impact localisation success ($b = .31$, $p < .01$). Additionally, legal coercion has significant and positive impact on localisation success ($b = .30$, $p < .01$) as well as role of HR director ($b = .55$, $p < .01$), recruitment ($b = .42$, $p < .05$), and training ($b = .57$, $p < .01$). With regard to the remaining of institutional and HR factors, the results indicated that they have no significant impacts on localisation success. The results signifies that only legitimacy, legal coercion, role of HR director, recruitment, and training positively impact localisation when all institutional and HR determinants tested together.

Table 5.12: Hierarchical Regression Analysis for localisation success

Variables	Step 1 Localisation Success		Step 2 Localisation Success	
	B	Sig.	*B*	Sig.
Controls:				
Log. Firms Size	-.087	.429	.176	.721
Log. Firm Age	-.076	.586	-.015	.845
Institutional Determinants				
Legitimacy			.316	. 003**
Economic gains			.124	.698
Interconnectedness			.156	.763
Uncertainty			.144	.826
constituent multiplicity			.187	.736
Dependence on government			.134	.841
Localisation Consistency			.141	.668
Localisation Constrains			.206	.756
Legal Coercion			.303	.004**
Broad Diffusion			.142	.739
HR Determinants				
Role of HR Director			.556	.004**
Recruitment			.421	.042*
Training			.577	.002**
R^2	.051 (.013)		.354 (.256)	
ΔR^2	.081		.62	
F for ΔR^2	1.213		32.15*	
Durbin-Watson	1.87			

Source: Author's analysis of data.
Notes: N = 157.
Standardised regression coefficients are shown.
Adjusted R^2 is in parentheses
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

In this section, another regression test was conducted in order to explore the amount of variance in localisation success that each group of determinants could explain independently. Table 5.13 shows the analysis of variance for all localisation determinants groups. We entered the institutional determinants in the first step,

followed by the HR determinants in the second step, and finally the determinants related to MNEs' characteristics in the third step. The results in Table 5.12 show that institutional determinants are strongly related to localisation success ($R^2 = .587$, $F = 20.761$, $p < .001$). Importantly, the results of the analysis of variance also show that HR determinants are able to explain a significant incremental level of variance in localisation success above the percentage that the institutional determinants have explained ($\Delta R^2 = .115$, F for $\Delta R^2 = 13.751$, $p < .001$). In other words, HR determinants are able to significantly explain 11.5% of the variance in localisation success beyond what the institutional determinants could explain. In addition, the analysis also revealed that the determinants related to MNEs' characteristics are only able to explain a partially significant incremental amount of localisation success beyond what the institutional and HR determinants have explained ($\Delta R^2 = .046$, F for $\Delta R^2 = 1.561$, $p < .10$). In other words, MNEs' characteristics are only able to explain approximately 5% of the variance in localisation success after the contributions of the first and second groups of determinants. The results overall indicate that all groups of determinants are significantly related to localisation success. However, when looking at the individual determinants in each group, the results will differ based on the significance of each single determinant in each group in its relationship with localisation success. These results are interesting, especially when we explain them at the individual level, and they add an interesting contribution to the theoretical and practical sides in the context of Saudi Arabia. The results are discussed in detail in the next chapter.

Table 5.13: Analysis of Variance for all Determinants of Localisation Success.

	Localisation Success owing to:		
	Institutional Determinants	HR Determinants	MNEs Characteristics
R^2	.587	.702	.749
Adjusted R^2	.559	.673	.691
ΔR^2	.587	.115	.046
F for ΔR^2	20.761	13.751	1.561
Significant for ΔF	.000***	.000***	.094†

Source: Author's analysis of data.
Notes: N = 157.
† $p < .10$, *$p < .05$, **$p < .01$, ***$p < .001$

5.9   Summary

This chapter fist preformed the data preparation process. We screened and cleaned up the data from the effects of missing data and outliers, and tested the main assumptions underlying multivariate techniques such as normality, homoscedasticity and linearity. The amount of missing data was very small. Little's MCAR test revealed that patterns of missing data were completely at random. The analysis of outliers indicated few extreme cases in MNE size and MNE age. These cases were retained due to the varying nature of these variables. Results also revealed that the data are distributed normally except for MNE size, which has been transformed by taking the logarithms of MNE size. Data screening also revealed homoscedastic relationships between variables. The linearity of the research variables were also tested, with the results indicating that the independent variables are not highly correlated. Following, our hypotheses were tested with the use of multiple regression analysis. This method is appropriate for analysing the research data because we are attempting to evaluate the relationship between several independent variables and a single dependent variable (localisation success). We have divided our research hypotheses into three main groups: the first group is related to five institutional determinants that could impact MNE decisions when responding to institutional pressure such as localisation policies, with these determinants the cause, context, constituents, content and control of localisation policies; the second group is associated with HR issues and the compromises of the role and nationality of HR director, recruitment, and training practices, with the nationality of the HR director (being Saudi vs. non-Saudi) considered a control variable; the third group is related to MNE characteristics (age, size, and type of industry) where, with regard to the first group of localisation determinants, the results completely support the cause and control determinants whilst supporting only the consistency proposition in the content determinants, whereas in regard to HR determinants, recruitment, training, the role and nationality of HR director were found to be powerful determinants of localisation success; finally, the results have shown that determinants related to MNEs' characteristics, namely MNE size and MNE age, have no significant impact on localisation success, with MNEs that operate in the petrochemical sector also found to be more likely to succeed in their localisation polices than other industries.

CHAPTER 6: DISCUSSION AND CONCLUSIONS

6.1   Introduction

The previous chapter presented a rigorous analysis of the findings of the main study. The aim of the previous chapter was to identify empirically the potential predictors of localisation success in Multi National Enterprises (MNEs) operating in Saudi Arabia. In so doing, multiple regression models were statistically evaluated. In alignment with the findings of the previous chapter, this chapter aims to discuss the possible justifications for the significance or insignificance of the relationships proposed in the conceptual model. Table 6.1 presents the outcomes of our hypotheses testing process.

Table 6.1: The Outcomes of Hypotheses Testing Process

Hypothesis	Outcome
Legitimacy	Supported
Economic gains	Supported
Interconnectedness	Not Supported
Uncertainty	Not supported
constituent multiplicity	Not Supported
Dependence on government	Not Supported
Localisation Consistency	Supported
Localisation Constrains	Not Supported
Legal Coercion	Supported
Broad Diffusion	Supported
Role Of HR Director	Supported
Nationality of HR Director	Supported
Recruitment Practice	Supported
Training Practice	Supported
MNE Size	Not Supported
MNE Age	Not Supported
Type of Industry (petrochemical)	Supported for all other industries except for the financial industry

6.2   Institutional Determinants

The first group of hypotheses is related to institutional factors. As outlined in the literature, Oliver (1994) identified five determinants that might impact MNEs' decisions when responding to institutional pressures, such as localisation policies. These determinants are: (a) the cause (b) the context (c) the constituents (d) the content, and (e) the control of localisation policies. It should be noted that each determinant has two hypotheses; accordingly, we formulated ten hypotheses. In this section, we discuss the results of these hypotheses to evaluate the relationship between these institutional determinants and localisation success. The empirical investigation of the first group of determinants of localisation success identifies the relevance of cause, content and control as determinants of the localisation. The impacts of constituents and context have not been found relevant.

6.2.1   The 1st and 2nd Hypotheses: The Cause

Our first and second hypotheses examined the first determinant of the localisation success. The first determinant is related to the cause of institutional pressures to implement the localisation policy in Saudi Arabia. The cause of institutional demands refers to the underlying principles, or intended objectives that underlie external pressures for compliance. The institutional causes for localisation pressures fall into two categories: social legitimacy and economic efficiency (Pache & Santos, 2010; Clemensa & Douglas, 2004; Etherington & Richardson, 1994; Goodstein, 1994; Ingram & Simons, 1995; Oliver, 1991). The first cause for adopting localisation policies by MNEs is due to their belief that implementing localisation policies will enhance their social legitimacy and fitness within the Saudi society. Localisation policy is regarded as a vital solution to the unemployment problem amongst Saudi youths. Hence, implementing localisation will ensure that MNEs are socially responsible and acceptable. The second reason for implementing localisation policies is the economic pressure. MNEs are under severe pressure to be efficient economically and to be held accountable for their shareholders in a highly competitive market. Therefore, MNEs must attain economic gains from hiring Saudi workers; this, in turn, will enhance their competitive advantage. In this regard, we articulated the first and second hypotheses as follows:

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H₁: MNEs that perceive localisation pressures as legitimate are more likely to achieve localisation success.

H₂: The higher the perceived economic gains an MNE has from localisation, the greater the likelihood of localisation success.

The empirical testing indicates that the two categories of causes, legitimacy and economic pressures are relevant, significant and positively related to the process of Saudisation. The resulting linear model defining the impact of cause accounts for 47% of the variation in localisation success. MNEs consciously and strategically choose to comply with institutional pressures in anticipation of specific self-serving benefits that may range from social legitimacy to economic benefits (Pache & Santos, 2010; DiMaggio, 1988; Oliver 1991). The results are consistent with various studies in this regard (Sadi & Al-Ghazali, 2010; Clemensa & Douglas, 2005; Etherington & Richardson, 1994; Goodstein, 1994; Ingram & Simons, 1995; Oliver, 1991).

With regard to the first hypothesis, the significance of the factor legitimacy at 99 % indicates that MNEs in Saudi Arabia—which perceive the external pressures for localisation will enhance their social legitimacy—are more likely to comply with the Saudisation, resulting in the increase of local employees (Pache & Santos, 2010; Ramady, 2010; AlShammari, 2009; Oliver, 1991).

The positive impact of legitimacy is a result of the growing experience and knowledge of MNEs in the international HRM area, where blindly following the practices of the company parent may conflict with local social and cultural norms, and subsequently result into a negative image of the subsidiary (Greenwood & Diaz, 2010; Zaheer, 1995; Newman and& Nollen, 1996). In this regard, Achoui (2009) and Mellahi *et al*. (2011) argue that MNEs subsidiaries in Saudi Arabia have a very good grasp of the expectations of the Saudi society which wants to see the private sector employing more Saudis in the future, and which wants to protect Saudis as a labour force. Additionally, Maghrabi's (2006) research on the attitude and beliefs of the Saudi's students captures these expectations, indicating that there is a popular belief amongst Saudi youth on the social role of MNEs for the general welfare of the

society. The relevance of the first hypothesis supports the previous findings of Al-Buraey & Sadi (2009), where the management who perceived the positive aspects of Saudisation (i.e. saw it as a legitimate request) had a significant impact on the success of the policy in the service sector.

However, in order for these expectations to be seen as legitimate by MNEs, it is important that the external pressures from the government and the society reflect the reality based on the labour market conditions especially actual supply of skills and knowledge, and the economic, social, cultural and political context of Saudi Arabia (Alzu'be, 2012; Bhanugopan & Fish 2007, Alharan 2004). In this regard, according to the Political Risk Services Report (2011), although the 2005 Labour Law requires 75% of employees of private companies to become Saudi Nationals, very few companies have been able to meet these demands in the past couple of years. As the requirements were not realistic, the Ministry of Labour has relaxed these requirements in certain industries. In this regard, redefining Saudisation by involving MNEs in the decision-making process might be a good development (Alzu'be, 2012; Mellahi, 2007; Alharan, 2004).

Further, the relevance of the economic gains as a strong factor of localisation success implies that if MNEs recognise higher economic benefits associated with the process of localisation, they will not resist the pressures and comply with the policies. This result leads us to the debate on the advantages (Greenwood & Diaz, 2010; Black, 1988; Oddou, 1991; Shaffer & Harrison 1998; Lasserre & Ching, 1997) and disadvantages (Pache & Santos, 2010; Gamble, 2000; Melvin, 2001; Wong & Law 1999) associated with the workforce localisation and their actual reflection into the Saudi context. If the analysis stays within the frame of the current employment law and without arguing the skills gap level between the Saudis and the expatriates, then the MNEs in Saudi Arabia face a labour law whose provisions ask for higher salaries for the Saudi employees, shorter working time compared to the foreign labour, more vacation days and other privileges, which increase the cost of their operations. The gains on the other hand are in line with the findings of several studies (Sadi & Henderson, 2010; Fakeeh, 2009; Wall, 1990) come from the advantages of local workforce associated with better business relationships with local customers, better management of local employees, and better relations with government officials due

to the impact of social networks (Baleela, 2011; Ramady, 2010; Lasserre and Ching, 1997). The analysis indicates that, in the case of Saudi Arabia, costs might outweigh the benefits (Alzu'be, 2012; Al-Shammari, 2009; O'Donnell, 2000; Dowling & Schuler, 1990). The labour markets have been assessed with a lack of talent, skills, motivation and required performance to ensure the performance of companies, necessitating the employment of expatriates. Although there have been studies that have shown the opposite (Al-Buraey & Sadi, 2009), the majority of the studies and the statistical data support the higher costs associated with the employment of the Saudi labour. However, there have been an increasing number of MNEs in Saudi Arabia that recognising the value of the local labour force for its revenues and market growth are heavily investing in training and recruitment of nationals (Ramady, 2010; HRDF Report, 2010).

The analysis indicates that legitimacy has a stronger significance compared to the factor of economic gains. Although the difference is rather insignificant it implies that MNEs in Saudi Arabia find the legitimacy of the external pressures as more relevant than the economic gains.

6.2.2 The 3rd and 4th Hypotheses: The Context

The context refers to the business conditions within which localisation policies are being exerted on MNEs. One key element in context is the degree of interconnectedness in the business environment (Okhmatovskiy and& David, 2012; Karlsson and& Honig, 2009; Oliver, 1991). MNEs are more likely to comply with the institutional environment when the environment is more interconnected. Goodstein (1994), Clemens & Douglas (2005) and Jamali (2010) contend that business environments are more interconnected when MNEs engage in professional associations with competitors, suppliers, customers, and regulators. Professional relationships are very important institutional tool for diffusing localisation norms and practices (Clemens & Douglas, 2005; Oliver, 1991). Hence, we have theorised that the higher the degree of interconnectedness, the greater the likelihood of localisation success. Another key element in the business environment is the degree of uncertainty. Because MNEs generally prefer to operate in a stable and predictable environment (Okhmatovskiy & David, 2012; Karlsson & Honig, 2009; Jamali, 2010;

Oliver, 1991), MNEs may resist localisation pressures when environmental uncertainty is high. Hence, we developed the following hypotheses:

H_3: *The higher the degree of interconnectedness between MNEs, the higher the likelihood of localisation success.*

H_4: *The lower the degree of uncertainty within the MNE environment, the higher the likelihood of localisation success.*

The empirical test on the impact of context, an institutional determinant associated with the uncertainty and interconnectivity of MNE with its environment (Oliver 1991, p.170), emphasise that the same is not a relevant factor for the success of localisation. The factor accounts for only 8% cent of the variance in the model and cannot provide predictability. However, the results on the significance of the two context dimensions—uncertainty and interconnectivity—on the localisation success provide interesting findings.

The impact of the interconnectedness is not significantly related to localisation success as the probability is less than 90%. These findings are a surprise having in mind the impact of normative isomorphism defined early in the development of the Institutional Theory by DiMaggio & Powell (1983), the study of Goodstein (1994) who empirically proved the argument, and the study of Forstenlechner & Mellahi (2011), whose findings emphasise that peer pressure impacts the adoption of localisation in the Arab culture. In Saudi Arabia, there is no relationship recognised between the degree of interconnectedness and localisation success. In other words, MNEs, which operate in an interconnected context will not necessarily mimic the localisation present in their business environment. One justification for this can be that localisation policies are still ambiguous and ill-defined amongst organisations. In actual fact, localisation policies do not provide mechanisms and guidelines in how to replace foreign workers with Saudi nationals and how to address localisation issues (Harry, 2007; Mellahi, 2009). Another explanation could be the absence of professional associations or organisations between competitors, suppliers, customers and regulators. In Saudi Arabia, trade unions are banned by law (Ministry of Trade report, 2010). Therefore, a lack of communication between firms has strongly

undermined their degree of interconnectedness. Another justification of why Saudi Arabia is different can be found in the large foreign force in the country (50% the active population) whereas Saudis have less motivation, skills and knowledge compared with the foreigners working for the private sector (Sohail, 2012; Fakeeh, 2009; Fatahi, 1992; Council of Chambers of Commerce and Industries, 1992; Mahdi, 2000). Although the conclusion is questionable having in mind the study of AlGaith & AlMashooq (1996) and AlBuraey & Sadi (2009) on the service sector, who argue that Saudis do not have a shortage of skill and/or motivation, the analysis on the educational preferences of Saudis reveal that the technical fields are not the preferred choice for many Saudis, leaving several strong industries out of potential Saudi labour (Mellahi, 2007). In this context, the economic gains of the cause are a more significant determinant for the localisation, than the mimicking of the activities of the related MNEs. A complementary explanation can be found in the fact that MNEs in Saudi Arabia undertake activities related to Saudisation, which are seen to be in line with the law and present only the narrow view on Saudisation. They have a mere replacement approach of foreign workers with Saudi workers (Alsarhani, 2010).

The results from the testing of the impact of the uncertainty reveal that the degree of uncertainty is positively related to the localisation success at 95% probability. The result is a surprise, bearing in mind the many empirical tests in the past proven the negative impact of uncertainty (Okhmatovskiy and& David, 2012; Karlsson & Honig, 2009; Jamali, 2010; Clemens & Douglas, 2005; Etherington & Richardson, 1994; Goodstein, 1994) on the localisation success. The findings, however, are not unexplainable, reflect the duality of the definition of uncertainty in the unique context of Saudi Arabia, and are one of the main contributors to the Institutional Theory from the findings of this research.

The uncertainty associated with the low transparency of the Saudi government system may have well contributed to the increase of Saudisation as MNEs operating in the country face strong government dependency and may be pressed to increase the Saudisation in exchange for certain privileges (Sadi & Henderson, 2010; Achoui, 2009; Mellahi, 2007). Moreover, localisation policies have attracted the public's and the government's attention. Hence, MNEs are put under a huge pressure to comply with localisation policies while operating in unpredictable environment, this is

consistent with the findings of Jamali (2010) and Oliver (1991), both of whom claim that organisation may choose to comply with institutional pressures to protect themselves from the turbulence of highly uncertain environment.

Aside from the uncertainty associated with the labour market, most of the studies on the impact of uncertainty on the localisation process consider the uncertainty of the subsidiary in terms of the local labour market. Translated to a Saudi context, it defines the shortage of skills amongst local workers (Fielden, 2012; Al-Dosary, 2005; Yavas, 1998), the local employee performance and the socio-economic circumstances as obstacles to localisation policies (Fakeeh, 2009; Bhanugopan & Fish, 2007). The cultural context and the preferences of employees to work for the government and avoid manual work should add to the uncertainty (Baleela, 2011; Al-Shammari, 2009; Mahdi, 2000). However, in a labour market where foreign employees make more than half of the active population, whilst the private sector employs 90% foreign labour, one should not see uncertainty related only to the risks associated with the Saudi labour. Several studies (Suhail, 2012; Sadi & AlBuraey, 2009; Ben-Bakr *et al*., 1994) provide additional insights into the issue, raising serious concerns about the expatriate turnover in MNEs' subsidiaries in Saudi Arabia. Such studies argue that the turnover is attributable to the low level of job commitment and satisfaction of expatriates, related to the expectancy gap (lower salaries and benefits than expected) and the wide practice of wage discrimination between nationals and foreigners. The turnover though is not the highest risk. Should the foreign workers decide to leave the country during a time of crisis, it will ultimately lead to production shutdown in most of the companies that depend on them (Ministry of Interior report, 2012).

In consideration to the above, it is of no surprise that the level of uncertainty is related positively to the success of the Saudisation. The impact is supported by the findings from the recent studies and statistical reports which indicate that Saudi job-seekers are willing to work even in low-status jobs, will not demand unreasonable salaries and rewards, and are equally skilled as foreign workers (Suhail, 2012; AlShammary, 2009; Al-Dosary, 2005; AlGaith & AlMashooq, 1996). The latter balances the uncertainty related to the Saudi labour.

6.2.3 The 5th and 6th Hypotheses: The Constituents

The impact of the institutional factor of constituents defines the influence of the multiplicity of government constituents on the Saudisation of MNEs and the impact of the level of dependence on government for resources. The assumption on the impact was derived from the variety of interests amongst Saudi institutions which many times can cause conflicts, because the satisfaction of the interests of one constituent, results in companies defying another (Alzubi, 2012; Baleela, 2011, Al-Dosary, 2005; Oliver, 1991). At the same time most of MNEs operating in Saudi Arabia, operate on concessions, or other types of government licences and resources (Ministry of Interior report, 2012; Mellahi *et al.*, 2011). Such licenses can be revoked if the regulation concerning the job localisation is not followed through (Ramady, 2010; Achoui, 2009; Mellahi, 2007). As such, we developed the following hypotheses:

H_5: The higher the degree of constituent multiplicity, as perceived by MNEs, the lower the likelihood of localisation success.

H_6: The higher the degree of dependence on government by MNEs, the greater the likelihood of localisation success.

The empirical testing of the impact of the factors of the constituent determinant provides no support for the assumptions expressed with these hypotheses. The linear model accounts only for 1.5% of the variance, whilst the further analysis indicates that none of the independent variables (government multiplicity and the degree of dependence) has a significant impact on the localisation success. In both hypotheses, our results contradict the original proposition of Oliver (1991) and the findings of Okhmatovskiy and& David (2012), Karlsson and& Honig (2009), Jamali (2010), Goodstein (1994), Ingram & Simons (1995), Etherington & Richardson (1994) and Clemens & Douglas (2005). This is perhaps owing to the different nature of constituents and their roles in the context of Saudi Arabia compared with the Western context of previous studies. In Western countries, organisations generally receive pressures from different institutions including government, interest groups, professions, labour unions, human rights agencies, investors, and the general public (Okhmatovskiy & David, 2012; Karlsson & Honig, 2009; Jamali, 2010; Oliver,

1991). In the case of Saudi Arabia, the pressure comes only from the government and the general public (Chaudhry, 2012; Ramady, 2010; Mellahi, 2007). Moreover, the form of Saudi government is characterised by a lack of institutional procedures, weak management and a tendency towards corruption (Chaudhry, 2012; Mangana, 2012; Bremmer, 2004; Ali, 1995). This has lessened the impact of constituents on adopting the localisation policies within MNEs. The critical analysis of literature emphasises that, although the initial analysis identified a multiplicity of government constituents, most do not have an actual power to make a pressure on MNEs in relation to the Saudisation. In simple words, the actual lack of coordination and communication amongst the responsible authorities for the development of the Saudi human capital (AlShammary, 2009; Al-Dosary, 2005 Al-Dosary & Garba, 1997), or the questionable effectiveness of the programmes (Baleela, 2011; Fakeeh, 2009; Mellahi, 2000) create no external pressure on the MNEs. The pressure comes from the constituents which enforce the provisions of the labour laws. In simple words, the government views Saudisation as a national HRD strategy; however, the private sector feels only the pressure for a mere replacement approach of foreign workers with Saudi workers (Alzu'be, 2012; Alsarhani, 2010). Therefore, MNEs in Saudi Arabia experiences the multiplicity of the government stakeholders, which, in turn, does not affect the outcome of their localisation efforts.

Further, for the MNEs operating in Saudi Arabia and in the Middle East in general, the pressures from a government multiplicity exist as an inherent risk in every area of their activities, not only Saudisation (Melvin, 2007; Forstenlechner, 2009). The inherent risks associated with the law enforcement and the lacks of transparency of institutions are present in every area of the society. It provides an opportunity to some MNEs to access unlimited resources, receive contracts and concessions under favourable terms and conditions and receive other privileges under questionable arrangements. According to Mellahi (2007), such privileges are legally related to the compliance with the Saudisation; however, the issue is whether they are enforced i.e. whether MNEs are deprived from privileges as a result of their incompliance with the Saudisation (Pache & Santos, 2010; Boddewyn, 1998; Boddewyn & Brewer, 1994; Frynas *et al.*, 2006). The insignificance of this hypothesis may lead to this conclusion; however, it is important to investigate the actual impact of the factor

further and in combination with the factors of the content and control institutional determinants.

6.2.4   The 7th and 8th Hypotheses: The Content

The content as an institutional determinant describes the alternative strategic responses of companies in times of institutional pressures. Related to the content of the localisation policy itself, it is determined by the consistency of localisation demands with the organisational goals of MNEs in terms of efficiency and growth, and the constraints imposed upon organisational decisions when responding to localisation pressures. The hypotheses proposed are as follows:

H_7: *The higher the degree of consistency of localisation requirements within MNEs' goals of growth and efficiency, the greater the likelihood of localisation success.*

H_8: *The lower the number of constrains imposed by localisation on MNEs' decisions, the greater the likelihood of localisation success.*

The results from the empirical testing of the model indicate that the impact of the both factors (consistency and constraints) account for almost 17% of the variation in the localisation success. The further analysis on the significance of each of the factors indicates that the level of consistency associated with MNEs goals is positively related to localisation success at 99%, whilst the impact of the low localisation constraints on MNE's decision is less than 90%, making the factor irrelevant for the Saudisation success.

The findings are in line with the growing literature on the importance of balance between globalisation and localisation in MNEs' structure and culture (Kang & Shen, 2012; Dowling *et al*., 2008; Schuerkens, 2003). According to the findings of Bjorkman & Budhwar (2007), the adaption of MNEs' activities to the local context is crucial to its success in the international arena. Therefore, MNEs whose culture supports high levels of growth and efficiency of the subsidiaries and which create a higher degree of consistency with the localisation pressures, will successfully affect Saudisation. The findings of Rosenzweig & Nohria (1994)—and the more recent

Law *et al*. (2009) and Bjorkman *et al*. (2007)—identify the localised HR practice in the areas governed by to the host government regulations, as an important factor of success. Conversely, practices for participation in decision-making and executive bonuses usually resemble the practices of the parent company. Having in mind the objectives of Saudisation and the Saudi labour laws, which define the compensation and the working time of Saudi employees, it is of no surprise that a higher compliance of MNE's goals with the requirements for localisation, translates into a more successful Saudisation process.

A similar explanation can be developed for the insignificance of the number of constraints imposed by localisation on MNEs' decisions. In simple words, most of the localisation pressures in Saudi Arabia are related to specific HR activities (salary, working time, quotas, etc.), where the low transparency of Saudi institutions, the impact of unequal treatment of companies, and the relationship based economy diminishes the impact of the constraints (Pache & Santos, 2010; Mellahi, 2007; Al-Qudsi, 2006; Harry, 2007, p. 143). As a result, the Saudisation programme is perceived only as quota-driven policy (Mellahi, 2007; Godwin 2006), whilst many employers conceal the nonconformity creating employment only on paper (Baleela, 2011; Al-Dosary, 2005; Al-Qudsi, 2006). Hoskisson *et al*. (2002) add to the confusing impact of the many changes in the legal structures on MNEs' activities, whilst Budhwar & Mellahi (2007) add that the tribal culture of relations-based economies mean that rules are rarely systematically enforced and/or implemented equitably. Therefore, it is of no surprise that the low, or high, constraints on MNEs' decisions coming from the content of the localisation policy have no significant impact.

6.2.5 The 9th and 10th Hypotheses: The Control

Control refers to the mechanisms used to enforce the adoption of localisation norms. There are two mechanisms for imposing localisation upon MNEs. First, the government enforces the adoption of localisation through legal coercion. Secondly, broad diffusion of localisation norms and rules amongst MNEs will lead to successful implementations of the localisation policy. Consequently, the ninth and tenth hypotheses are as follows:

H₉: The higher the legal coercion to implement localisation, the greater the likelihood of localisation success.

H₁₀: The broader the diffusion of localisation rules and practices within MNEs, the greater the likelihood of localisation success.

The empirical findings on the impact of Control as a last institutional determinant from Oliver's typology indicate that the determinant is highly significant and accounts for 31% of the variation in the localisation success. The impact of the first factor—which investigates the government coercion on the adoption of localisation—is positive and significant at 95% level. The impact of the second factor of control, the diffusion of localisation rules within the MNEs, as well positively impacts the localisation process and is more significant than the first factor i.e. at 99% level.

In regard to both mechanisms, the results confirmed their importance in forcing MNEs to implement localisation policies. Our findings are consistent with previous studies, such as those by Cui & Jiang (2012), Greenwood & Diaz (2010) Goodstein (1994), Ingram & Simons (1995), Etherington & Richardson (1994) and Clemens & Douglas (2005). The Saudi government enforces the adoption of localisation through legal coercion whereby government agencies imposes legal sanctions on organisations for non-compliance with localisation requirements. In this case, localisation success is more likely when there is a higher degree of legal coercion to implement localisation as perceived by MNEs. The analysis on the significance of the legal coercion on the success of the localisation in Saudi Arabia implies that a strict regulation with a comprehensive framework and guidelines which penetrate and guide all managerial hierarchies of MNEs will ensure the success of the Saudisation in the future. In actual fact, it implies the development of the Saudisation programme in collaboration with MNEs (Suhail, 2012; Fakeeh, 2009; Mellahi, 2007).

Our results also have shown that broad diffusion of localisation norms and rules amongst MNEs lead to successful implementation of the localisation policy. This is

in line with what Delmas *et al*. (2010), Purdy & Gray (2009), Knoke (1982) and Tolbert & Zucker (1983), all of whom established that the adoption of institutional policies was a function of the widespread implementation of these policies by other organisations. Such adaption is a part of the mimetic perspective of the institutional process (Liu *et al*., 2010; Klehe, 2004; DiMaggio & Powell, 1983). According to Oliver (1991), when institutional policies and practices are diffused broadly amongst existed organisations, new organisations will implement these policies because their social validity is rarely questionable.

In essence, the actual relevance of the control determinant comes from the synergy of both factors. The result is however questionable in Saudi Arabia's context. In other words, the research so far indicates that it is questionable whether only a tough legal coercion can successfully impact localisation. The actual situation in Saudi Arabia, as described by Harry (2007) and AlShammary (2009), implies that the private sector's response to the pushed regulation on localisation is to 'undertake small-scale programmes'. Most of these programmes are quota-driven (Mellahi, 2007; Godwin, 2006; Al-Dosary, 2005), which many employers find to be a burden, resorting to concealing its nonconformity (Oliver, 1991) and creating employment only on paper (Baleela, 2011; Al-Dosary, 2005; Al-Qudsi, 2006). Therefore, it is of no surprise that a broader diffusion of the policies within MNEs has more impact on localisation than legal coercion. In such case, MNEs approach the Saudisation with a programme of implementation which will reduce the avoidance strategy and increase their compliance (Oliver, 1991). The findings are in line with the findings of Fryxell *et al*. (2004, p. 279) and Sadi & Al Buraey (2009) on the success of localisation of MNEs, where a model of planning, retention, selection and even trust-building has been identified as required across all relevant management hierarchies and institutional entities.

6.3   HR Determinants

The second group of hypotheses is related with HR issues. It has been argued in the localisation literature that some HR practices such as recruitment and training could play an important role in localisation success. Additionally, we proposed that the role of the HR director might have a major influence on the adoption of localisation

policies. Further, we consider the nationality of the HR director (being Saudi vs. non-Saudi) as a control variable due to its possible association with HR determinants; in particular, the role of HR director.

As indicated in the preceding sections the majority of research on the performance of MNEs emphasises the benefits for companies coming from the degree of localisation of their operations, HRM included (Schuerkens, 2003). There is even a growing literature that emphasises that the localised activities of MNEs are crucial to their success in the international arena (Bjorkman & Budhwar, 2007). In an attempt to provide a better explanation on the HR determinants which were found relevant with the empirical test further analysis focuses on the areas on HR which are part of the strategic HRM approach of companies.

The empirical testing on the impact of HR determinants on the success of localisation in Saudi Arabia was tested by examining the influence of variables defined in the following hypotheses:

H_{11}: *The role of HR director has a positive impact on localisation success.*

HT_{12}: *MNEs with Saudi national HR directors are more likely to achieve localisation success.*

H_{13}: *Recruitment practice has a positive impact on localisation success.*

H_{14}: *Widespread Training practices has a positive impact on localisation success.*

In the process, the test envisioned a control variable in the nationality of the HR manager, by assigning a dummy variable with a value of zero for a Saudi National and value of one for an expatriate. The relevance of the tested model which accounts for the control variable is 60% of the variance. All HR determinants have a strong and significant impact on the localisation process in Saudi Arabia. The control variable of the Saudi HR director enables high relevance. The findings are in line with the study of Law *et al*. (2009) on the success of the localisation in China, and the comparative research of Bjorkman *et al*. (2007) on the impact of HR practices on

localisation in three countries (US, Russia and Finland). Both studies, namely Law *et al.* (2009) and Bjorkman *et al.* (2007), argue that the recruitment and training as typical localisation related HR activities are very significant for the success of the localisation; however, these activities have a much higher impact when the top management supports the localisation process by placing a higher value on the position of the HR director in the hierarchy of the MNE's subsidiary.

For the role of HR director, the results show that HR director play important role on the implementation and success of localisation policies. When the HR director is empowered to play a strategically important role in the organisation to implement localisation, this implies that the MNE is willing to support the HR in localisation efforts. A straight outcome is localisation success. This is why appointing a local as HR director is very important to the localisation process in general (Law *et al.*, 2009; Cheng, 2003). It is assumed that local HR directors are more motivated to carry on localisation initiatives. Our findings come in line with this argument.

We also found relevance for the recruitment and practices with localisation success. Our results indicate that MNEs that employ localisation specific recruitment practices are more likely to succeed in localisation. These practices comprise links with educational institutions to target suitable job candidates, the ability to identify local job candidates, and hiring local through the recommendations of government that endorse localisation. In regard to the training practices, MNEs that offer wide range of training programmes for local employees are more likely to succeed in their localisation efforts. These programmes include on the job training, government training programmes designed to upgrade the skills of locals, and designing specific training programmes to balance the training needs of local with their job responsibilities.

6.3.1   The 11th and 12th Hypotheses: Role and Nationality of HR Director

The impact of the role and the nationality HR director on the localisation success has not before been investigated in literature, and the findings are one of the most important findings of this study which contribute to the further development of the theory on job localisation. Therefore, most of the analysis in this section is based on

relevant studies and aims at providing a critical insight in combination with the researcher's opinion.

The role of the HR director in the hierarchy of the company, and his decision-making power, has a positive and significant impact on the localisation success—placed at a 99% probability level. The result indicates that MNEs that empower and support their HR directors (regardless of nationality) to implement localisation are more likely to succeed in their localisation efforts.

In most of the cases, MNEs have a strategic choice to go with the job localisation – i.e. the balance between the localisation and standardisation as discussed in the preceding sections. The test results are in line with the previous findings of the literature—especially the empirical results of Law *et al.* (2009, p. 1361), Law (2004) and Cheng (2003)—on the impact of HR Manager's role amongst MNEs in China and the empirical results of Bjorkman *et al.* (2007) for Russia, US and Finland. The strategic role of HR director becomes a significant HR determinant for the success of the localisation efforts. In a wider context, the empirical results are in line with the previous findings about the positive impact of well-developed HRD strategies on the localisation success, as found by Fadhel (2007) in his study on SMEs in Saudi Arabia. Further, Fadhel (2007) found that the reason why SMEs fail in their localisation efforts are attributed to the lack of HR development strategies—especially in training and development, which retain local employees. The second reason was the fact that they had no specific HR director or function within the structure of the company. In the context of larger organisations, MNEs, a strong HR function compensates for these limitations in the SMEs sector should result in successful localisation.

In addition, the empirical findings provide a larger context on the situation in Saudi Arabia when they are combined with the in-depth research from the multiple case study of Achoui (2009). The findings from the research by Achoui (2009) on the HR function in two MNEs' subsidiaries in Saudi Arabia, which are known to have achieved a high percentage of Saudi staff, argue that one of the main reasons for the success of their localisation process is attributed to the effective HR strategy carried out by competent HR directors. The findings imply that the role of the human

resource department is changing as companies are looking to improve efficiency and effectiveness through enhancing its business operations.

A major concern arising from the literature on the importance of HR role and strategy in the organisational hierarchy comes from the fact that even when there is a top management support, there remains much to do within the MNEs to further the localisation process (Law *et al*., 2009, Boon, 2009). According to Boon (2009), it implies parallel existence of a workforce with good potential (recruitment activities) and their further training and development. Such HR activities have already proven to be significant and relevant in the Saudi context.

In regard to the nationality of the HR director, the existence of a Saudi HR director positively affects the localisation success. In line with this explanation, our study believes that the strong impact of the Saudi HR director on the localisation process can be explained by several different reasons.

The first reason is related to the organisational commitment to the localisation policy. In an attempt to ensure localisation commitment, MNEs must first localise all their HR positions—specifically the HR director's position (Cheng, 2003; Law *et al*., 2009). This is derived from the fact that local HR managers are more dedicated to localisation and are more knowledgeable about the local labour market. The second reason is associated with the rather idealised view on the role of expatriate managers, and HR expatriates in particular, on the localisation process (Budhwar, 2012; Farndale *et al*., 2010; Wang *et al*., 2009; Wong & Law, 1999). Although there are several studies highlighting the importance of the foreign HR director for the localisation process (Budhwar, 2012; Farndale *et al*., 2010; Wang *et al*., 2009; Harry, 1996; Wong & Law, 1999), most of the studies found in the literature (Varma *et al*., 2012; Li & Scullion,2010; Vance *et al*., 2009; Harvey, 1989; Black & Mendenhall, 1992; Feldman & Thomas, 1992; Birdseye & Hill, 1995) are in line with the findings of the empirical test found in this study: HR expatriates negatively affect the localisation process. Researchers, many times in the past, have expressed their concerns regarding the localisation process led by the HR expatriate (Varma *et al*., 2012; Li & Scullion, 2010; Vance *et al*., 2009; Keeley, 1999; Rogers, 1999; Wong & Law, 1999). In other words, coming from the rational thinking theory, the

localisation threatens the career future of the expatriate, creating hesitation, which negatively affects the localisation process in terms of developing, mentoring, coaching and providing development opportunities to local employees (Varma *et al.*, 2012; Li & Scullion,2010; Vance *et al.*, 2009; Keeley, 1999; Rogers, 1999; Wong & Law, 1999). Adding to the list, the difficulties associated with the finding of a new job, and the diminishing opportunities, mean many expatriates are unwilling to provide a place for the host nationals. In such a situation, many will stay in the position, resisting to develop the Saudi national (Randeree, 2012; Mellahi, 2007; Hocking *et al.*, 2007; Sadi & Henderson, 2005; DeNisi, 2005; Rogers, 1999)—in some cases leaving the assignment earlier than the contracted period due to other job openings (Swailes *et al.*, 2012; Sadi & Henderson, 2005; Furst, 1999). There are cases, however, when a lack of training and development skills of the expatriate may limit the development of the host nationals (Hertog, 2012; Naithani, 2010; Achoui, 2009; Sadi & Henderson, 2005; Lynton, 1999; Melvin & Sylvester, 1997).

The third reason is associated with the cultural sensitivity known to help the Saudi HR director in better addressing the needs of the host employees (Bjorkman & Budhwar, 2007). The fourth reason is related to the growing preference of Saudi nationals to work under Saudi managed teams in the private sector (AlModaf, 2003). Finally, as Harry (2007) argues, managing the local employees can be problematic when disciplinary issues are considered. If senior national managers discipline the national workers, the action will not result in a higher turnover. This is of particular importance having in mind the statistics on the labour turnover of Saudis in the private sector, which is high due to the many opportunities open for Saudis in different companies, and their low job motivation to seek and retain employment in the private sector (Alzalabani, 2003).

Although the testing of this hypothesis strongly implies that a Saudi HR director is likely to impact localisation success, there are limitations of its impact in the Saudi Arabian context. The limitations come from the powers granted to the HR director and how are they going to be used. Will they be used for the benefits of the companies, or for the personal interests of the Wasta (social networks in the Arab world to exchange benefits and favours) to which the director belongs? In this regard, Alyafi (2003) in line with his findings on the impact of family values in the

HRM of SMEs in Saudi Arabia, expresses concerns about the dilemma HR directors face in recruiting and developing employees: whether to choose the best candidate for the job, or the one which comes with a blessing from the family net. However, as long as it is a Saudi national, it looks the choice has little impact on the localisation process, unless the strategy surrounding the Saudisation is changed.

6.3.2 The 13th and 14th Hypotheses: Recruitment and Training

The empirical test on the impact of recruitment and training is strongly significant and positively related to localisation success. The significance of the recruitment on the success of the localisation process is very high and positive. The result indicates that subsidiaries of MNEs in Saudi Arabia, which employ intensive recruitment practices aimed at attracting local job candidates, will most likely succeed in their localisation efforts and increase the size of their local workforce. In certain way, the finding supports the study of Randeree, 2012, Achoui (2009), Mellahi, 2007 and AlModaf (2003) who argue that the majority of the Saudi's undergraduate and vocational students have positive attitudes towards the privatised employment systems in terms of recruitment, promotion, and wage practices. It as well supports the findings of an earlier study of AlGaith & AlMashooq (1996), who further argue that Saudi job-seekers are willing to work even in low-status jobs, and will not demand unreasonable salaries and rewards.

In this regard, the impact of the Saudi HR manager is questionable. The impact will depend on the strategic direction which the company and the manager will develop in line with the HR policies and procedures of the parent (Alzubi, 2012; Khan, 2010; Fakeeh, 2009; Mellahi, 2007). MNEs' global HR recruitment strategies are the starting point, their adaptation to the Saudi context is the end result which has a significant impact on the Saudisation process. In this regard, the global MNE's policies for provision of equality of opportunity are particularly challenging for the Arab culture. First, from the aspect of the class and tribal system, and secondly because of the strong gender segregation of the society which impacts the employment of women. Many MNEs find it challenging to design recruitment strategies for the Arab societies which are in line with their host nation laws and culture (Mellahi *et al*., 2011; Ali 2009). Therefore, according to Harry (2007), the

major difficulty facing is the identification of a pool of suitable candidates. Harry (2007) recommends the creation of strong ties with the educational institutions and heavy use of internships and summer jobs, all activities which could be much easier to do and end up being more successful if the HR manger is a Saudi national. In the process the impact of the social networks and the personal position of the HR director in the society, may create a better employer brand for the company and ease the recruitment process. As a result, the appointment of a Saudi national may be positive in this matter. Further, one may assume, although with a great dose of uncertainty, that a Saudi HR manager will have a lower tolerance to the current quota approach towards localisation which the MNEs have, and be more transparent in publicly announcing the job openings—something which, as Harry (2007) notes, many MNEs neglect to do in the search for the cheaper foreign labour.

In regard to the other hypothesis, we found that training practices have a significant and strong impact on the success of the localisation process placed at 95%. The result indicates that MNEs in Saudi Arabia, which design their training programmes based on the needs of local workers and balance them with the needs of the job are successful in their localisation process. The finding is of no surprise as most of the recent literature on the obstacles facing successful localisation around the world, identifies the lack of training and development provided by MNEs as a major limitation on the localisation process (Suhail, 2012; HRDF report, 2010; Bhanugopan & Fish, 2007). Placed in the Saudi Arabian context, it does not imply that MNEs should undertake the societal burden for removing the relative skills shortage at the Saudi labour market; rather, it implies that the MNE should continue in developing the local employees in line with the constant challenges of the global economy. Most of the subsidiaries of MNEs in Saudi Arabia traditionally prefer to recruit and retain foreign workers; however, having in mind the higher average salary of Saudi employee, the job security and the privileged employment relationship, it would be difficult to argue that MNEs in Saudi Arabia go for the foreign employees due to the skills gap only. Again, the researcher would like to point to the findings of AlShammary (2009), AlGaith & AlMashooq (1996) and AlModaf (2003), all of whom emphasise that there is no skills gap amongst foreign and Saudi employees. The difference is in the structure of the labour market where there is low flexibility in the supply and demand of labour. The reasons are

associated with the characteristics and the preferences of Saudi human capital. The findings indicate that the population of Saudi Arabia is relatively educated (secondary education), with the majority of graduates in the social sciences and economics arenas, whilst few Saudis go in the vocational and technical schools (Alogla, 1990; AlModaf, 2003; Mallahi *et al*., 2011). As a result of the cultural influences, 80% of Saudis reject the idea of working in manual jobs whilst 64% stress the importance of social image as a crucial determinant in one's decision about their future job (Madhi & Barrientos, 2003). The structure makes a problem for the industries where manual work is required. Further, the inclusion of women in the workforce is very low—directed mainly towards the public sector, although many women hold university degrees.

The university graduates in management degrees do not adequately develop the skills of young Saudis in management (Yavas, 1999). According to Yavas (1999), these skills, in combination with contextual thinking skills (ability to translate, integrate, operationalise and adopt functional knowledge), are crucial for the companies in the service industries which employ the highest number of expatriates in the white collar jobs. The white collar jobs are positions which the Saudi culture regards as adequate and honourable for employment (Alromi, 2001) reflecting the tribal values of honour and duty as identified and discussed by Alogla (1991).

This structure and preferences of the Saudi labour create concerns for the private sector, and as already discussed in the preceding sections cause higher turnover of Saudi nationals. In this regard, the empirical test on the significance of training for retaining national employees is in line with the findings of Harry (2007), Law *et al*. (2009) and Bjorkman (2007), with all of these studies claiming that on-the-job-training practices have proven a key factor in the high performance of national workers. In the same manner, the study of Harry (2007) indicates that dedicated training programmes is an effective localisation practice, which includes formal education, on-the-job-training, intensive coaching and close supervision. To be successful, these programmes must account for the local context and be delivered preferably by a Saudi national trainer.

6.4   MNEs' Characteristics as Determinants

We tested three hypotheses relating to the characteristics of MNEs. These characteristics stem from the belief that such variables might have an impact on the success of implementing localisation policies in MNEs. More specifically, it has been argued in the literature that MNEs' age and size, and the type of industry in which they operate, might lead to localisation success.

H_{15}: *The bigger the size of MNE, the greater the likelihood of localisation success.*

H_{16}: *The older the MNE (its presence in Saudi Arabia), the greater the likelihood of localisation success.*

H_{17}: *MNEs that operate in the petrochemical industry are more likely to achieve localisation success.*

6.4.1   The 15th and 6th Hypotheses: MNE Size and MNE Age

The empirical test indicates that MNE size and MNE age do not have significant and relevant impact on the localisation success. The impact of both variables generates a linear model that is not relevant as it accounts for only 0.2% of the variance. Further, the test indicates that independently each of the variables is neither significant nor relevant for the localisation process in Saudi Arabia. The results from the test are surprising, because previous research on the impact of age and size made by Law *et al*. (2009) and Bjorkman *et al*. (2007) indicates that the impact of size is a relevant localisation determinant. In a similar way, age impacts localisation in the research of Law *et al*. (2009) as, the longer the subsidiaries of MNEs are present in the country, the more localised they become. The impact of time, however, is not proven to have internal reliability in the case of the research of Law *et al*. (2009). Bearing in mind the detailed research in the concerned case of Saudi Arabia, the statistical significance of the research findings grants more external reliability of the findings compared to the results of Law *et al*. (2009).

The fact that the age and the size of MNEs have no impact on the localisation success can be discussed from several angles. First, the findings may imply that the

global HR strategies and global HR policies and procedures of the MNEs present in Saudi Arabia have a stronger impact on the subsidiary's HR then the context of Saudi Arabia. Regardless of the size or the presence of the MNEs in the country, they do not significantly affect the localisation process. Bearing in mind the high significance of the consistency of the localisation content with the global MNEs' HR policies, the conclusion is logical. The explanation provided, however, is in contradiction with the previous empirical findings of Bjorkman *et al*. (2007) and Law *et al*. (2009), where the impact of the size and the age of the MNEs positively affected the job localisation. Another more logical explanation can be drawn from the rather limited view of the MNEs towards Saudisation—merely as a replacement mechanism—which limits the success of the policy in terms of the actual employment and retention of Saudis. The explanation strengthened with the finding that the determinant of constituents (government multiplicity and the MNE's dependence from the government) and the determinant of context interdependence are insignificant, provides a more structured explanation as to why MNEs' size and the age have no effect on the Saudisation success; in simple words, the structure of the Saudi labour market where there is a high demand for labour, which cannot be covered with Saudis, in combination with the lack of transparency of the Saudi system, where rules are not equitably implemented to all, thus making the experience with the context and the constituents irrelevant for the operations of the MNES. Therefore, the age of the MNEs as a proxy of its experience and the size of MNEs are irrelevant for the Saudisation success. The impact of the inflexible Saudi labour market is the strongest on the MNE's size, where the subsidiaries due to strong pressures for efficiency need more skilful labour than the available on the national markets (Mellahi *et al*., 2011).

6.4.2   The 17th Hypothesis: Type of Industry

The empirical test indicates that the type of industry—namely the petrochemical industry—has produced confirming results on localisation success when compared with other industries in Saudi Arabia. On the one hand, the findings indicate that MNEs operating in the petrochemical sector are more likely to succeed in their localisation polices than MNEs that operate in certain industries, namely high-technology, low-technology, motor, non-financial services industries, and other

industries, such as agriculture. On the other hand, the results show that petrochemical and financial MNEs have the same chance of succeeding in localisation policies. Our justifications for our findings are related to the importance of certain industries to the Saudi economy. It is extremely important to make an industry distinction in Saudi Arabia, because of the large impact of the Saudi petroleum industry (US Department of State, 2011). The petroleum is the country's strategic product generating the highest portion of the country's exports—a $238 billion share of exports is dedicated to petroleum and petroleum products (US Department of State 2011) and a key factor of the Kingdom's GDP. Therefore, the Saudi government has prioritized the localisation policy in this industry for security and national interests. Moreover, the financial industry has been identified as a potential of growth industry (Ministry of Economy and planning, 2010). Hence, the localisation pressures were directed at these industries in recent years. It is noteworthy to mention the preference of Saudi job seekers to work in certain industries is an important factor. Several studies have highlighted that Saudi workers dislike working in low-status jobs, such as those in food, motor, paper products, real estate, hotel, manufacturing, and agriculture industries (Achoui, 2009: AlModaf, 2003; Yavas, 2003). Therefore, such industries have received less pressure from the Saudi government.

However, the findings have a larger meaning when seen in combination with the institutional determinant of control. In simple words, if the legal coercion is a strong determinant of localisation success, then the petrochemical industry should lead the way in the localisation. The assumption comes from the large participation of the government in this industry through the provision of concessions and licences (Alshammary, 2009; Mellahi, 2007). However, as the impact of government dependence is negligent in terms of Saudisation success, the same implies that the legal requirements in the petrochemical industry which shape the dependence of the MNE from the government do not differentiate the industry from the others regarding the success from the Saudisation. It implies that the content of the policy in terms of the petrochemical industry does not have adequate control mechanisms to ensure its implementation.

With regard to the last regression test carried out in the analysis, the empirical tests for each of the determinants (Institutional, HR, and MNE characteristics) presented in the previous discussions provide an understanding for the significance and relevance on each of the determinants on the localisation success in Saudi Arabia. It is important to understand the relative impact each of the determinants has on the localisation success in an extended model. The findings indicate that institutional determinants are related strongly with localisation success, accounting for 58% of the model's variance. HR determinants are able to explain a significant incremental level of variance in localisation success of 11.5 %, while MNEs' characteristics are only able to explain a partially significant incremental amount of localisation of 5%. The findings provide a deeper understanding of the process of Saudisation and which elements account for its success. The strong impact of the institutional determinants is in line with the previous findings on Law *et al*. (2009), Law (2004) and Bjorkman (2007) on the localisation success in other developing countries, and the findings of Goodstein (1994), Ingram & Simons (1995), Etherington & Richardson (1994), Milken *et al*. (1998) and Clemens *et al*. (2005) on the impact of the determinants on the strategies of the companies. Therefore, in this regard, the findings provide little surprise, apart from the findings on the individual impact of each of the factors which were discussed in the preceding sections. The relatively negligent impact of the HR determinants supplements the model, arguing that, in order for Saudisation to be more successful, HR strategies and activities must support its introduction amongst the Saudisation of MNEs. Again, these findings are in line with the previous empirical researches of Law *et al*. (2009), Law (2004) and Bjorkman (2007) on the localisation success in other developing countries. It is good to mention that an increase in MNE participation in the design and implementation of the Saudisation policy might increase this influence in the future.

The insignificance of MNEs' attributes (namely age and size) is the largest surprise in the model, with most previous researches in the other countries, as mentioned above, indicating that MNEs' characteristics have an impact on the localisation success. The insignificance of these variables in the model can be explained with the rather unique context of the Saudi society and economy, mainly the inflexible labour market, the impact of the lack of transparency in the system, and the lack of coordination amongst the participants in implementation of the Saudisation policy.

6.5 Research Conclusions

6.5.1 Theoretical Implications

The preceding chapter set out the detailed findings of the research data under the three main areas of research, the institutional, HR, and MNE determinants of successful localisation. The overall findings have raised a number of areas of interest. From a theoretical point of view, our findings provide the institutional theory with important insights. First, institutional factors are found to be less influential in the context of Saudi Arabia in contrast with the findings of previous studies. This is mainly due the distinctive features of the socio-economic context of Saudi Arabia as the roles of institutions differ by the nature of their political economy contexts (Thelen, 2012; Streeck 2009). Secondly, the findings imply that existing institutional frameworks that insist on systematic and well developed institutional environments and pressures are inappropriate in the context of developing countries as the case of Saudi Arabia. Given its recent history of being a modern state, the institutional environment in Saudi Arabia is less organised and well occupied with ineffective bureaucracy. Hence, the evaluation of institutional processes in such contexts through frameworks developed in western counties may lead to false institutional realities. Therefore, we recommend researchers to develop institutional frameworks that take into account the differing features of socio-economic contexts. Thirdly, however, we found that specific institutional elements are influential across different contexts. In the current research, the cause, content, and control factors were found to powerful on shaping the behaviour of MNEs. This indicates that MNEs make rational decisions when responding to institutional pressures. They mostly pay attention to institutions when they attain legitimacy and economic gains, and when institutional requirements are consistent with their goals, and when they legally required complying with these requirements.

In our findings, there was close alignment with existing literature and empirical evidence, and yet there were also a number of interesting divergences, which were unexpected. Addressing the similarities first it was found that the most significant influence in respect of the model was the institutional dimension. For example, it was established that this had a strongly positive and significant impact on localisation success. Dealing deeper into this aspect the granular detail of the

findings revealed that the drivers of this impact were specifically social perception (in the form of legitimacy) and extrinsic economic pressure. In direct terms whether it was considered that localisation was both feasible and reasonable. From a theoretical perspective this is significant as it represents an under-investigated area of research which would benefit from further analysis. Specifically, the perceived gap between legislative requirements under the 2005 law as discussed by Political Risk Services (2012) and its pragmatic implications as voiced by Mellahi (2007) and Alharan (2004). As such the over-riding conclusion is that 'buy-in' from the Saudi Labour force, and especially the younger generation, helps to accelerate the perception of legitimacy and feasibility thereby increasing the success rate, however this gap would serve as a valid area of future research.

It was also observed that a degree of caution is required here, as factors it was anticipated would be highly influential were, in fact, far less significant than might have been anticipated given the weight of existing empirical evidence. For example, it was hypothesised that context would have a significant positive effect, and yet it was ascertained that the level of influence here was in fact very low (8%). This is indicative of the fact that there is a dichotomy between the existence of an MNE within a region and the level of acclimatisation from a cultural perspective. In an attempt to express this more simply, there is a need to acknowledge the potential conflict between the established organisational culture and goals of the MNE, and the extent to which this is adapted to localise the organisation within a Saudi context. The implication arising from this finding is that there is a need to investigate organisational context more closely as it seems that superficial attempts to localise an organisation are less successful. It is posited that when there is a failure to elicit localised support and knowledge the result is that the activity is perceived as unfeasible, ergo, the local labour force do not embrace the process. The interesting factor is that this finding appears to run counter to existing empirical evidence of scholars, such as Clemens & Douglas (2005) and Jamali (2010), have determined that interconnectedness is a critical feature of successful localisation. Once again it is suggested that deeper investigation in this area would be of value.

It was also duly observed that legislative and regulatory influence was found to be a strongly positive determining factor, however this was not wholly surprising given

the strength and impact of legislation in Saudi Arabia and the simple fact that if MNE's wish to conduct business in the Kingdom then they must abide by the rules. From a theoretical perspective it is concluded that greater diffusion of policies which acknowledge the potential variations in skill sets and labour availability and capability would in fact result in a more transparent approach. In the long term increased trust between organisations and policy-makers could have the effect of accelerating the localisation process because MNE's work collaboratively with policy-makers and are prepared to invest resource in improving the level of localisation as a form of strategic and competitive advantage. This conclusion is in alignment with the work of Fryxell *et al.* (2004), but would of course require adaptation to suit the bespoke needs of the kingdom in terms of labour and resource requirements.

Finally, it is very important to evaluate the role of institutions in Saudi Arabia on the success of localisation policies. Based on the findings of this research, it is obvious that such role has yet to substantiate systematic effects on organizations as only five institutional hypotheses out of ten were accepted. These hypotheses pertain only to the cause (legitimacy and economic gains), content (localisation consistency), and control (legal coercion and broad diffusion) factors. Our results imply that MNEs respond to localisation positively only when they conceive external gains, when localisation is consistent with organizational objectives, when they are legally obligated, and when localisation practices are widely employed within the industry. In this sense, institutions within the Saudi context are effective on stimulate and support localisation success. However, institutions constrain and undermine the localisation process in regard to the factors of context, constituents, and content. Our findings indicate that these institutional factors do not impact localisation success in the Saudi context. These finding imply that the role of Saudi institution lack efficiency in these areas and hence undermine the success of localisation success.

6.5.2   Managerial Implications

In regard to the areas of HR and the specifics of MNE's, there were also a number of implications that arose from a pragmatic or managerial perspective. These were more

granular and short term in nature suggesting that there is the potential to implement these more readily or rapidly as required on the basis of the findings.

The first managerial consideration was the attitude and level of support offered by the senior executive in regards to the localisation policy, and specifically the response of the HR director. This is largely unsurprising as a concept; however, it was interesting to observe quite how significant this aspect was (60% influence) and also the increased level of success when the HR director was a Saudi national. These findings were in alignment with the research of Achoui (2009) who established that clear and unequivocal support from the senior executive was instrumental in the success of localisation policies. This was found to increase markedly when the position of HR director was localised (Law *et al.*, 2009). Whilst it is not suggested that it is an entirely straightforward process to find a high calibre HR director who also satisfies the criteria of being a Saudi national (if it were then presumably the organisation would have already employed them), it is certainly demonstrated that training and developing high-calibre individuals who may fulfil the role in due course is a prudent strategy for the medium-term.

Similarly, strong training and development policies that actively support a localisation agenda or strategy have been found to be of benefit as a cost-effective route to improved localisation. This is reflected in the research of both Law *et al.* (2009) and Boon (2009), and is unsurprising as a research finding. Overall, it is concluded that this is the most effective and efficient means of securing localisation success, although its value as a strategy increases considerably when it is applied in conjunction with other approaches such as having a nationalised HR director who is of high calibre, and also implementing localisation policies that are perceived by Saudi nationals to be both feasible and economically viable. It is noted that training and development delivers maximum return on investment when the policies are tailored to the needs of Saudi culture and when they respect and incorporate the unique needs of the region. As such, it is of critical importance that training is delivered at a local level, preferably by means of on-the-job training and locally trained trainers who are sensitive to the specific needs and requirements of localised employees. Again this is not wholly surprising as it is in accordance with the findings of both Harry (2007) and Bjorkman (2007); however, it is worth reiterating

as a pragmatic factor that should be considered by MNEs reviewing their localisation strategy.

In respect of the specifics of MNEs and their unique characteristics, this study found that age and market share or size actually have far less influence than might have been anticipated in light of existing evidence. As a counter-point to this it was specifically identified that industry sector (petro-chemical) had some bearing. The practical implications of this would suggest that the prevailing culture and preferences of Saudi Arabia as a geographic and socio-cultural region actually over-ride theoretical boundaries and concepts. Expressed more simply, an organisation can have a highly distinguished pedigree but Saudi nationals are confident in their own preferences and beliefs to the extent that, if an MNE wishes to establish itself, it then would be well advised to embrace localisation policies.

6.5.3   Methodological Implications

It is necessary at this juncture to give consideration to the methodological implications of the selected research approach and strategy. It will be recalled that a multiple regression technique was applied and matched against the conceptual model. From a technical perspective it is important to acknowledge that multiple regression models are grounded in a number of assumptions which include the presence of a normal distribution curve and the expectation of linear responses (Anderson *et al.*, 2011). Obviously, in a social sciences setting such as this, discrete linear responses are not always feasible as humans are fallible and as such it is necessary to apply multivariate models to allow for the limited dependency factors. The wider implication of this is that variations from the norm can obviously have an abnormal effect on the results, although it is considered that sufficient care was taken during analysis to prevent this from occurring and thus adversely impacting on the results. It is also noted that the use of Likert ranking can influence results, and in extreme cases the outcome is loss of valuable data as it becomes excluded under testing (Anderson *et al.*, 2011). However, typically, this issue arises in data sets that are dispersed widely and, as such, is not as significant in this study as to warrant concern.

6.5.4 Research Contributions

It is suggested that the findings of this study have made a number of valuable and insightful contributions to the existing body of knowledge. These are derived from both the affirmations of and divergences from existing empirical research literature. Recalling that the core objectives of this research were to identify and assess the key factors in localisation success and to explain why some firms have been more successful in this regard than others, it can be concluded that this research study has added value in both of these areas.

This research has established that the development and implementation of a fully integrated localisation strategy is almost certainly the key to successful localisation. To this effect an integrated localisation strategy should comprise a feasible and economically viable strategy which has the full support and backing of the senior executive and which is sensitive to the cultural needs of local employees. The research has confirmed that this must be driven by the HR Director, and ideally the HR Director should be a Saudi National because they have a far greater awareness of the nuances of cultural requirements. Further to this, the research has also established that organisational size or pedigree is not a precursor to localisation success, which it appears, is a common misconception. Instead, success in localisation is derived directly from an acknowledgement of unique localised requirements and adaptation of organisational culture and approaches to embrace these needs. Prior to this research, these specific details had not been noted or acknowledged in the literature; hence, they form the thrust of the unique contribution to this area of research.

6.5.5 Research Limitations

The main limitations of this research relate to practical considerations which are outside the control of the researcher, as opposed to theoretical interpretation or analytical rigour. Such limitations can be summarised as population size and sampling, and also cross-sectional data collection.

The most likely influencing limitation is the population size as it is acknowledged in the literature that the larger the research population the greater the level of statistical reliability (Creswell, 2008). Although the population size in this study was more

than sufficient to satisfy requirements for statistical reliability at 157 discrete responses, it is accepted that wider testing would increase the level of confidence in the results. Similarly, given increased financial resources and more time, it would be preferable to widen the parameters of the research population and broaden the nature of the study over time to assess the impact of variables on a longitudinal basis as this would offer deeper insights into the influence of independent variables over time. It should also be acknowledged that lessons could be learned from other industry sectors and smaller and potentially more agile organisations which have adopted localisation strategies, although for reasons of research clarity these fell outside the remit of the study.

6.5.6 Challenges for Doing Research in Saudi Arabia

During the research process, the researcher has encountered many challenges related to the context of Saudi Arabia. To the benefits of future research, we would like to highlight the following issues:

- During the stage of literature review, we observed that many studies conducted in Saudi Arabia are not published electronically but can be obtained through academic libraries and government institutions which proved to be valuable resource in Saudi Arabia.

- Many research participants or prospect participants from Saudi Arabia underestimate the value of scientific research. This not only undermines participation but can also negatively affect the quality of data collected. Hence, we recommend that researcher must engage in two-way communication before data collection to increase the awareness of the benefits generated from scientific research to the society.

- From our research experience, marketing our research to high ranking individuals in both private and public organizations has increased research participation. In the initial stages of data collection, we obtained few completed surveys without the support of these individuals.

- Personal contacts also are proved to be instrumental in data collection in Saudi Arabia. For instance, many HR directors neglected the filling of our surveys but when our personal contacts who knew them had asked them to fill them, they did so.

- Many research participants are worried about research confidentiality when realising sensitive information. Hence, we came by an idea to address these concerns. We used a big box to shuffle all collected surveys in front of participants after they complete their surveys.

6.6   Summary

The final chapter of the research discusses the results, sets out the overall conclusions of the study, and explains the implications which arise from these conclusions from multiple perspectives. Specifically, the chapter assesses the theoretical implications in regards to contribution to the body of knowledge, and potential areas for further research alongside the pragmatic implications of the findings. This chapter also acknowledges the limitations of the research and the subsequent implications this may have for future research studies.

The empirical testing indicates that the two institutional categories of causes, legitimacy and economic pressures are relevant, significant and positively related to the process of Saudisation. MNEs consciously and strategically choose to comply with institutional pressures in anticipation of specific self-serving benefits that may range from social legitimacy to economic benefits. The empirical test on the impact of context, an institutional determinant associated with the uncertainty and interconnectivity of MNE with its environment, emphasise that the same is not a relevant factor for the success of localisation. The result is a surprise having in mind the many empirical tests in the past which proved the impacts of both factors. The findings, however, are not unexplainable but reflect the duality of the definitions of interconnectivity and uncertainty in the unique context of Saudi Arabia, and are one of the main contributors to the Institutional Theory from the findings of this research. The impact of the institutional factor of constituents defines the influence of the multiplicity of government constituents on the Saudisation of MNEs and the impact of the level of dependence on government for resources. The analysis of the impact of the factors of the constituent determinant provides no support for the assumptions expressed with these hypotheses. In both hypotheses, our results contradict the original proposition of Oliver (1991) and previous studies. This is perhaps owing to the different nature of constituents and their roles in the context of Saudi Arabia compared to the western context of previous studies. The content as an institutional determinant is related to the content of the localisation policy itself, it is determined by the consistency of localisation demands with the organisational goals of MNEs in terms of efficiency and growth and the constraints imposed on organisational decisions when responding to localisation pressures. The analysis

indicates that the level of consistency associated with MNEs' goals is related positively with localisation success whilst the impact of the low localisation constraints on MNEs' decision is irrelevant for the Saudisation success. The findings are in line with the growing literature on the importance of balance between globalisation and localisation in MNEs' structure, decision-making and culture. The findings on the impact of control as a last institutional determinant indicate that the determinant is highly significant. There are two mechanisms for imposing localisation upon MNEs: legal coercion and broad diffusion. The significance of the legal coercion on the success of the localisation in Saudi Arabia implies that a strict regulation with a comprehensive framework and guidelines which penetrate and guide all managerial hierarchies of MNEs will ensure the success of the Saudisation. The significance of the legal coercion and broad diffusion on the success of the localisation in Saudi Arabia implies that a strict regulation with a comprehensive framework and guidelines that penetrate and guide all managerial hierarchies of MNEs will ensure the success of the Saudisation. In actual fact, it implies the development of the Saudisation programme in collaboration with MNEs. The impact of the role and the nationality HR director on the localisation success has not been investigated before in literature and the findings are one of the most important findings of this study. The strategic role of HR director becomes a significant HR determinant for the success of the localisation efforts. For the nationality of HR director, the existence of a Saudi HR director positively affects the localisation success. This is deprived form the fact that local HR managers are more committed to localisation and more knowledgeable about the local labour market. The empirical test on the impact of recruitment and training is strongly significant and positively related to localisation success. Our results indicate that MNEs that employ localisation specific recruitment and training practices are more likely to succeed in localisation. The results suggest that MNE size and MNE age do not have a significant impact on the localisation success. Finally, the findings suggest that MNEs operating in the petrochemical sector are more likely to succeed in their localisation polices than MNEs that operate in certain industries, namely high-technology and low-technology industries. Our justifications for our findings are related to the importance of certain industries to the Saudi economy. It is extremely important to make an industry distinction in Saudi Arabia, because of the large impact of the Saudi petroleum industry.

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Appendix A

SECTION A: BASIC INFORMATION

(1) Please complete the following:

(a) Years since the subsidiary established in Saudi Arabia:
(a) 1 – 5 years __   (b) 6 – 10 years ago__   (c) 11 – 15 years __   (d) 16 years and more__

(b) Please indicate the industry in which this subsidiary is operating:
(a)Petro-Chemicals____(b)Electronics, electrical equipment____(c)Food, Beverages____ (d)Printing, office equipments _____ (e)Motor vehicles and parts____(f)Pharmaceuticals____ (g)Papers products____   (h) Banking , finance _____ (i) Insurance _____   (j) Real estates _____ (k) Business services (legal services, consultation) _____ (l) Trading, retail distribution _____ (m) Hotel , catering _____ (n)aircraft and spacecraft____ (o)Others____ (p)Media equipments ____ (q)Medical Equipment____ (r)Others____

(c) Please Tick the country origin of this subsidiary:
(a) Gulf and Middle-East states __ (b) Asia__ (c) North America__ (d) Europe__ (e) South America__
(f) Africa__

(d) Please Tick One : our subsidiary is :

- (a) a majority owned Multi-National Enterprise _____
- (b) a minority owned Multi-National Enterprise _____
- (c) a joint venture_____

(e) Nationality of the company's CEO. *Please Tick one*:

a. Saudi national. ___   b. Non Saudi national. ___

(f) Number of total employees: *Please Tick one:*
(a) Up to 10 employees __ (b) 11- 50 employees__ (c) 51- 500 employees__ (d) 501 employees and more_

(g) Approximately what percentage of your total employees are:
              a. Saudi.___ %   b. Non-Saudi. ___ %   c. Saudi Male. ___ %   d. Saudi Female. ___ %

(2) *Please tick one.:*
(a) When did the company start implementing saudisation
(a) 1 – 3 years ago__.   (b) 4 – 6 years ago__.   (c) 7 – 9 years ago__. (d) 10 years ago and more__.

(b) Number of positions filled by local employees since localization started in your company:
(a) Up to 10 positions __ (b) 11- 50 positions__ (c) 51- 100 positions__ (d) 101 positions and more_

(3) On average, what percentage of your **total employees** leaves the company voluntarily each year? *Please tick as appropriate.*
(a) 1 – 3 %. __ (b) 4 – 6 %. __ (c) 7 – 9 %. __ (d) 10 – 12 %. __ (e) 13 - 16%. __ (f) 17 - 20 %. __ (g) More than 20%. __

(4) On average, what percentage of your **local employees** leaves the company voluntarily each year? *Please tick the appropriate.*
(a) 1 – 3 %. __   (b) 4 – 6 %. __   (c) 7 – 9 %. __   (d) 10 – 12 %. __   (e) 13 - 16%. __

(f) 17 - 20 %. __   (g) More than 20%. __

(5) How do you describe your business with the Saudi government? *Please tick as appropriate.*
The government is our largest client.__
We have been hired by the government to deliver any type of service.__
We have a few government contracts.__
We don't deliver any businesses to the government at all.__

(6) Do you agree with following statement: The business we deliver to the government is very important to our company. *Please tick one.*   YES.__   NO.__

SECTION B: BUSINESS ENIVRONMENT

(1) Please indicate your opinion of the following statements regarding the company's business environment. *Please tick the appropriate number on the scale:*

(a) Importance: To what extent do you think the following sectors have had an impact on your firm's performance?

		Weak			Strong	
(1)	Competitors	1	2	3	4	5
(2)	Customers	1	2	3	4	5
(3)	Suppliers	1	2	3	4	5
(4)	Regulatory	1	2	3	4	5
(5)	Socio-culture	1	2	3	4	5

(b) Predictability: To what extent do you think the following sectors have been unpredictable?

		Weak			Strong	
(1)	Competitors	1	2	3	4	5
(2)	Customers	1	2	3	4	5
(3)	Suppliers	1	2	3	4	5
(4)	Regulatory	1	2	3	4	5
(5)	Socio-culture	1	2	3	4	5

SECTION C: LOCALIZATION OVERVIEW

(1) Please indicate your opinion on the following statements. *Please tick the appropriate number on the scale:*
   The company has sufficient knowledge about the following:

		Disagree				Agree
(a)	Government resolutions and regulations concerning saudization..............	1	2	3	4	5
(b)	Which government agency to be approached if information or support is needed concerning saudization..	1	2	3	4	5
(c)	The sanctions resulting from non compliance with saudization laws........	1	2	3	4	5
(d)	Government subsidies concerning saudization..	1	2	3	4	5

(2) Please indicate your opinion on the following statements. *Please tick the appropriate number on the scale:*

		Disagree				Agree
(a)	In our company, we regard saudisation as a legal mandate which we must follow..	1	2	3	4	5

(b)	We implement saudisation to avoid government sanctions resulting from non compliance...............	1	2	3	4	5
(c)	Saudisation policy is widely accepted and appreciated by our top management.....................	1	2	3	4	5
(d)	Our managers believe that saudization objectives are achievable..........	1	2	3	4	5
(e)	The company's management are confident of the abilities and skills of Saudi nationals to carry out their jobs as good as expatriates........	1	2	3	4	5

(3) Please indicate your opinion on the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	The performance of local employees has not negatively affected our firm performance......................	1	2	3	4	5
(b)	Hiring local employees will not result on extra costs for our company................	1	2	3	4	5
(c)	The performance of local employees is high comparing to expatriates.....................	1	2	3	4	5
(d)	Our local employees understand the local market very well..........	1	2	3	4	5
(e)	Our local employees are able to make good relations with local customers.........	1	2	3	4	5
(f)	We have benefited from the financial subsidies of saudisation..........	1	2	3	4	5

SECTION D: IMPLEMENTING LOCALIZATION

(1) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	The company has a special unit to deal with saudisation...........................	1	2	3	4	5
(b)	The company has developed a coherent plan to implement saudization.....	1	2	3	4	5
(c)	The company is implementing effective practices to attract and recruit Saudi nationals..	1	2	3	4	5

(2) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	There is a lack of coordination between government bodies on the issue of saudization process..	1	2	3	4	5
(b)	We find the saudisation demands of one government institution contradict with the demands of another institution.	1	2	3	4	5
(c)	There is lack of communication between government bodies responsible for saudisation...........................	1	2	3	4	5

(3) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	We keep the government informed about our saudisation progress and problems...	1	2	3	4	5
(b)	The government helps us address our own saudisation problems.............	1	2	3	4	5
(c)	We have been given the opportunity by the government to participate In formulating the saudisation policy...	1	2	3	4	5

(4) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	We are legally obligated to implement saudisation....................	1	2	3	4	5
(b)	We are legally obligated to keep the government informed about our saudisation progress	1	2	3	4	5
(c)	We are legally obligated to report our saudisation problems........	1	2	3	4	5

(5) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

Disagree   Agree

(a)	We believe that saudisation is widely appreciated by other Companies in our industry....................	1	2	3	4	5

		Disagree				Agree
(b)	We believe that saudisation is widely implemented in our industry................................	1	2	3	4	5
(c)	We believe that other companies in our industry are endorsing the implementation of saudisation.........	1	2	3	4	5
(d)	We implement saudisation because we believe it has benefited other companies in our industry.........	1	2	3	4	5

(6) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

		Disagree				Agree
(a)	In our company, we believe that we must hire the most appropriate job candidate regardless of his/her nationality....................................	1	2	3	4	5
(b)	Local employees are able to adopt to the company's culture..............	1	2	3	4	5
(c)	Saudisation is not hindering our ability to grow as a business........	1	2	3	4	5
(d)	Local employees are able to achieve their performance targets.......	1	2	3	4	5
(e)	Saudisation will not negatively affect our company efficiency........	1	2	3	4	5
(f)	When we hire new workers, we always give priority to local workers...	1	2	3	4	5
(g)	We feel constrained by saudisation requirements when deciding to hire new workers..	1	2	3	4	5
(h)	In some instances, we have hired some unqualified local workers just to comply with saudisation...	1	2	3	4	5

SECTION E: HR DIRECTOR & LOCALIZATION PROCESS

(1) The nationality of our HR director is: *Please tick one.* (a) Saudi national.__   (b) Non Saudi national. __

(2) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

		Disagree				Agree
(a)	The head of our HR department participates in the strategy formulation and development of our company...........	1	2	3	4	5
(b)	Saudisation is important responsibility for the HR Director..........	1	2	3	4	5
(c)	The HR director has been given support by top management to implement saudisation..	1	2	3	4	5
(d)	The HR director is successful in implementing saudisation in our company...	1	2	3	4	5
(e)	The HR director has helped increase the number of local employees	1	2	3	4	5

(3) Please indicate your opinion of the following statements. *Please tick the appropriate number on the scale:*

		Disagree				Agree
(a)	Saudisation is an important business objective for our company..............	1	2	3	4	5
(b)	The saudisation policy in our company is successful................................	1	2	3	4	5
(c)	The saudisation policy is hindering our firm's competitive advantage......	1	2	3	4	5
(d)	Our company has a sufficient number of capable local workers.................	1	2	3	4	5
(e)	Our number of Saudi workers increased due to the implementation of saudization...	1	2	3	4	5

SECTION F: RECRUITMENT, TRAINING, PAY

(1) *Please tick the appropriate number on the scale* regarding your recruitment practices of Saudi workers.

		Disagree				Agree
(a)	Our recruitment practices of Saudi workers are different from recruitment practices of foreign workers..	1	2	3	4	5
(b)	When recruiting a Saudi candidate, we mainly rely on a recruitment agency..	1	2	3	4	5

		Disagree				Agree
(c)	We have established links with educational and training providers to recommend potential Saudi candidates…………………………………	1	2	3	4	5
(d)	We have recruited Saudi candidates through Human Resources Development Fund (HRDF)..	1	2	3	4	5
(e)	The costs of hiring Saudis are lower compared to non-Saudis...................	1	2	3	4	5
(f)	We are able to identify a pool of suitable Saudi candidates	1	2	3	4	5

(2) Please indicate your opinion on the following statements regarding your training of Saudi workers. *Please tick the appropriate number on the scale.*

		Disagree				Agree
(a)	We mostly choose or design training programs based on company needs and training needs of local staff..	1	2	3	4	5
(b)	On the job training have helped us improve the performance of local employees..	1	2	3	4	5
(c)	Our training programs have improved the performance of local staff.......	1	2	3	4	5
(d)	Government training programs have helped us improve the performance of our local employees..........................	1	2	3	4	5

(3) We mostly pay Saudi workers based on their job performance. *Please Tick one*:
YES.__   NO.__

(4) We mostly increase the salaries of Saudi workers to retain them. *Please Tick one*:
YES.__   NO.__

SECTION G: THE LOCAL WORKFORCE

(1) Please indicate your opinion on the following statements regarding both local and foreign workers. *Please tick the appropriate number on the scale.*

		Disagree				Agree
(a)	Foreign workers are more disciplined than local workers........................	1	2	3	4	5
(b)	Foreign workers are more devoted to their job tasks than local workers...	1	2	3	4	5
(c)	Foreign workers are less costly to hire than local workers........................	1	2	3	4	5
(d)	Foreign workers are more committed to the firms......................................	1	2	3	4	5
(e)	Foreign workers are more qualified than local workers..............................	1	2	3	4	5
(f)	Foreign workers are easier to be retained than local workers.....................	1	2	3	4	5

(2) Please rate the following with respect to the local employee in general. *Please tick the appropriate number on the scale (1 = low, 5= high).*

	Personal Characteristics:	Low				High
(a)	Ability to grow with the job	1	2	3	4	5
(b)	Ability to handle pressure	1	2	3	4	5
(c)	Independent judgement	1	2	3	4	5
(d)	Willingness to accommodate new ideas	1	2	3	4	5
(e)	Self-Motivation	1	2	3	4	5
(f)	Ambition	1	2	3	4	5
(g)	Punctuality	1	2	3	4	5
(h)	Respect for superiors	1	2	3	4	5
(i)	Trustworthiness	1	2	3	4	5
(j)	Loyalty and commitment to duties and tasks	1	2	3	4	5
(k)	Numerical ability	1	2	3	4	5
(l)	Verbal ability	1	2	3	4	5
(m)	I.T. Abilities	1	2	3	4	5
(n)	Ability to deal with logistic problems	1	2	3	4	5
	Work:					
(a)	Work ethics	1	2	3	4	5
(b)	Ability to work with foreign workers	1	2	3	4	5

(c)	Team spirit	1	2	3	4	5
(d)	Motivation	1	2	3	4	5
(e)	Attitude to training	1	2	3	4	5
(f)	Response to rewards and incentives	1	2	3	4	5
(g)	Prospects for promotion	1	2	3	4	5
(h)	Response to appraisals and feedback	1	2	3	4	5
(i)	Ability to communicate with superiors	1	2	3	4	5
(j)	Ability to communicate with subordinates	1	2	3	4	5

Convergent validity for research constructs

Constructs	OL	EG	IC	UC	CM	CC	DC	LC	BD	RH	RP	TP	LS
OL 1	.813												
OL 2	.711												
OL 3	.601												
OL 4	.556												
EG 1		.801											
EG 2		.731											
EG 3		.701											
EG 4		.592											
EG 5		.552											
EG 6		.801											
IC 1			.732										
IC 2			.714										
IC 3			.635										
IC 4			.571										
IC 5			.551										
UC 1				.862									
UC 2				.828									
UC 3				.726									
UC 4				.718									
UC 5				.687									
CM 1					.632								
CM 2					.601								
CM 3					.555								
CC 1						.815							
CC 2						.741							
CC 3						.716							
CC 4						.626							
CC 5						.618							
DC 1							.639						
DC 2							.608						
DC 3							.557						
LC 1								.704					
LC 2								.662					
LC 3								.559					
BD 1									.806				
BD 2									.736				
BD 3									.641				
BD 4									.583				
RH 1										.811			
RH 2										.732			
RH 3										.705			

RH 4										.613			
RH 5										.581			
RP 1											.853		
RP 2											.807		
RP 3											.742		
RP 4											.705		
RP 5											.648		
RP 6											.551		
TP 1												.722	
TP 2												.706	
TP 3												.624	
TP 4												.617	
LS 1													.886
LS 2													.807
LS 3													.735
LS 4													.712
LS 5													.584
Average Variance Execrated (AVE)	.81	.79	.81	.76	.77	.83	.77	.64	.82	.68	.84	.66	.74
Reliability(cronbach's alpha)	.74	.72	.78	.81	.69	.62	.64	.67	.83	.86	.68	.69	.75

Descriptive Analysis

Variables	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Std. Error			Statistic	Std. Error	Statistic	Std. Error
MNE Age (MA)	9.89	.519	6.50	42.26	1.380	.194	1.552	.385
MNE Size (MS)	308.02	25.97	325.51	105962	2.113	.194	4.899	.385
LOGMNE Size (LMS)	2.28	.034	.432	.187	−.015	.194	−.533	.385
Legitimacy (OC)	9.15	.242	3.04	9.25	−.125	.194	−.683	.385
Economic Gains (EG)	5.89	.170	2.13	4.55	−.153	.194	−.616	.385
Interconnectedness (IC)	17.99	.335	4.20	17.64	−.580	.194	−.409	.385
Uncertainty (UC)	16.37	.355	4.44	19.79	−.165	.194	−.515	.385
Constituents Multiplicity (CM)	11.91	.240	3.01	9.08	.038	.194	.038	.385
Dependence on Government (DG)	3.69	.0584	.732	.537	.331	.194	−.752	.385
Consistency (CC)	5.48	.092	1.15	1.34	−.350	.194	.842	.385
Constrains (DC)	9.68	.202	2.53	6.41	−.182	.194	−.065	.385
Legal Coercion(LC)	7.25	.140	1.76	3.11	−.508	.194	−.322	.385
Broad Diffusion (BD)	13.89	.298	3.73	13.94	−.134	.194	−.946	.385
Role of HR Director (RH)	14.07	.281	3.53	12.48	−.336	.194	−.634	.385
Recruitment Practices (RP)	15.17	.257	3.22	10.42	.046	.194	.305	.385
Training Practices (TP)	13.9682	.24771	3.10380	9.634	−.036	.194	−.623	.385
Localisation Success (LS)	15.58	.36840	4.61	21.30	.126	.194	−.918	.385

Outliers' detection
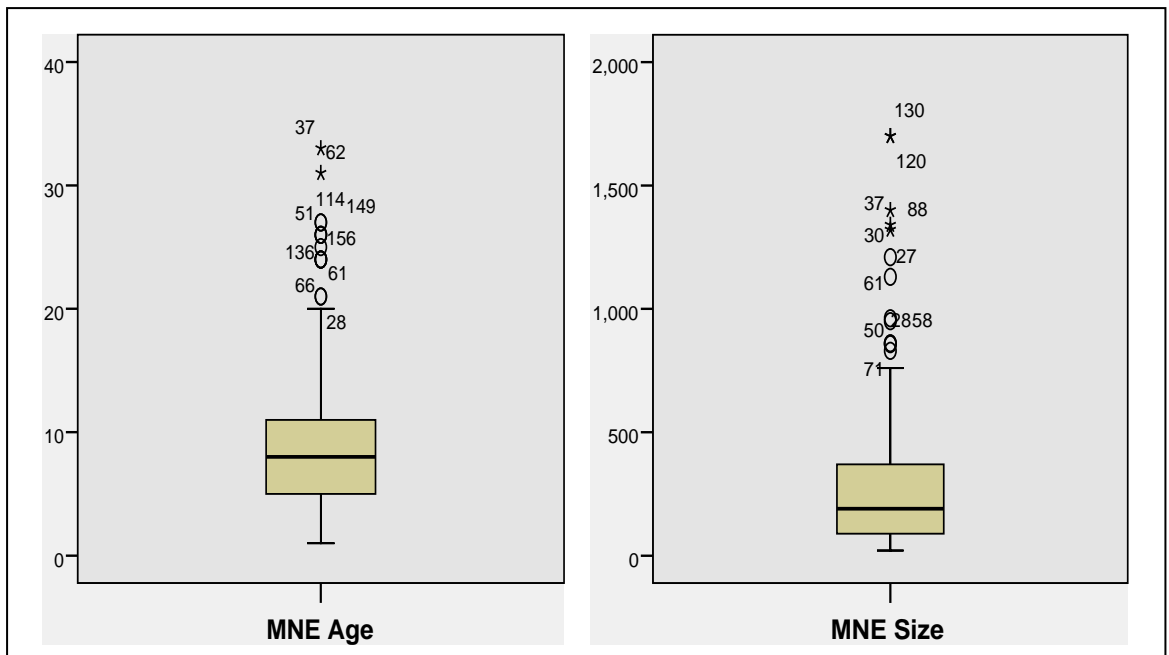
Correlations of research varibales

Construct	MA	LMS	MI	HRDN	OL	EG	IC	UC	CM	GD	CC	DC	LC	BD	RH	RP	TP	CP
MA	1																	
LMS	.405**	1																
MI	.368**	-.292**	1															
HRDN	.065	-.119	.102	1														
OL	-.045	.066	-.161*	-.286**	1													
EG	.056	.064	-.146	-.097	.048	1												
IC	.054	.171*	-.270**	-.076	.196*	.071	1											
UC	-.089	-.073	-.011	-.018	.233**	.051	.413**	1										
CM	.097	-.055	.020	.086	-.158**	-.270*	-.057	-.083	1									
GD	.175*	.375**	-.078	-.042	.022	.013	.013	.108	-.080	1								
CC	-.106	-.006	-.020	-.200*	.386**	.281**	.184*	.175*	-.241**	.010	1							
DC	.036	.092	-.078	-.161*	.070	-.094	.036	.066	.184*	.082	.179*	1						
LC	-.050	-.095	-.024	-.025	.303**	-.392**	.106	.121	-.011	.021	.055	.037	1					
BD	.031	.195*	-.085	-.381**	.443**	.036	.079	.162*	-.001	.161*	.218**	.127	.274**	1				
RH	-.061	.047	.002	-.280**	.660**	.002	.192*	.261**	-.122	.017	.312**	.143	.378**	.503**	1			
RP	.000	.018	-.194*	-.201*	.400**	.103	.141	.141	-.094	-.050	.286**	.008	.243**	.281**	.348**	1		
TP	.012	-.050	-.179*	-.179*	.461**	.056	.174*	.305**	-.152	.050	.211**	.034	.096	.292**	.407**	.249**	1	

**Correlation is significant at the 0.01 level (2-tailed).*Correlation is significant at the 0.05 level (2-tailed).

Normal P-P Plot of TotalLocalizationSuccess
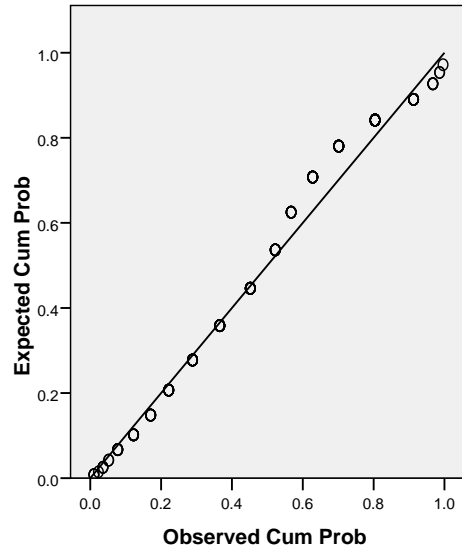
Detrended Normal P-P Plot of TotalLocalizationSuccess