
Substituting expats with locals: TNCs and the indigenization policies of Saudi Arabia

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Owing to rising unemployment among Saudi nationals, the Kingdom of Saudi Arabia (KSA) has instituted Saudization, a localization policy that strives to induce the employment of more Saudi nationals in the private sector. A major gap in the literature is the lack of empirical investigation regarding the relationships between indigenization and the underlying principles of its process. This study seeks to fill this gap. The study assesses the success or otherwise of the Saudization initiative empirically and uncovers several features. It finds that TNCs that experience the external pressures to “localize” their workforce, and those that wish to enhance their social legitimacy, are more likely to comply with Saudization. Furthermore, TNCs do not believe that the process of localization provides them with economic gains. Legal coercion to adhere to the Saudization initiative turns out to be a highly significant instrument in making TNCs adhere to the localization process. The study also finds that neither age nor the size of the firm have an impact on the Saudization programme. Implications for theory and practice are drawn out.

Keywords: hierarchical regressions, indigenization, KSA (Kingdom of Saudi Arabia), transnational corporations, work force localization

1. Introduction

The concept of workforce localization, or indigenization as it is sometimes referred to, is the recruitment and development of local employee skills and capabilities and the delegation of decisions to them, with the final objective to replace foreign workers with locals (Wong and Law, 1999). Indigenization policies have been a top priority for many countries in the Gulf States (Haak-Saheem and Brewster, 2017). Some governments have acted firmly and spared no efforts in forcing private organizations to implement indigenization policies. The urgency behind these

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measures is owed to rising unemployment among locals. Although indigenization policies apply to all private firms, transnational corporations (TNCs), in particular, have been pressurized to apply the regulations owing to the high rate of failed foreign assignments and the costs associated with such cases (see Haak-Saheem et al., 2016; Collings et al., 2007; Law et al., 2004; Oddou, 1991). It has been found that when all expenses are accounted for, international assignments cost more than five times the expatriate's home salary (see Collings et al., 2007; Selmer, 2001; Shaffer and Harrison, 1998; Shaffer et al., 1999).

However, some TNCs opt not to implement localization policies. The unavailability of skilled local workers and expatriates' knowledge of the parent company culture are two of the main reasons for firms' decision to retain expatriate workers (Haak-Saheem and Brewster, 2017; Collings, 2007; Law et al., 2004). TNCs may opt to preserve the central and operational control of their subsidiaries for strategic reasons through the appointment of expatriates – especially in managerial positions (Child and Yan, 1999; Wong and Law, 1999). However, most TNCs have no choice but to implement indigenization policies – especially in contexts where localization is regarded as a requirement of the host country's institutional environment. TNCs operating in foreign markets must adapt to such an environment through compliance with the norms and demands of the host government and society (Forstenlechner and Mellahi, 2011; Kostova and Roth, 2002). This enables TNCs to overcome the liability of foreignness by gaining external legitimacy from the host environment (Hymer, 1976; Chan and Makino, 2007; Forstenlechner and Mellahi, 2011). External legitimacy promotes TNCs' status in the host country, enables access to important resources, and enhances their ability to compete (Baum and Oliver, 1991).

Despite the importance of indigenization for the host economy and its potential impact on TNCs' performance, research in this area is limited (Sadi and Henderson, 2010; Haak-Saheem et al., 2016). Existing literature largely centres on issues of rationale and the barriers imposed by of indigenization policies. *Hence, a major gap in the literature is the lack of empirical investigation into the relationship between indigenization and the underlying principles of its process.* Present indigenization research lacks multidimensional models that can identify the factors associated with the success of such policies (see Forstenlechner and Mellahi, 2011; Law et al., 2009). Hence, this article closely examines indigenization policies and their implementation by TNCs in Saudi Arabia and delivers a number of interesting implications for theory and practice.

To fulfil aforementioned gaps in the literature, we have addressed the following research questions: (1) How do TNCs respond to institutional pressures? Are TNCs that perceive localization pressure as a legitimate directive from the government more successful in substituting expatriates with locals than those that do not

perceive this to be a legitimate directive? (2) Do TNCs that expect economic gains from following localization directives fare better than those that do not expect such gains? (3) What is the role of legal coercion in localization success?

The paper is structured as follows. First, we highlight the main elements of the existing literature on indigenization policies in general, and in Saudi Arabia in particular. Second, we discuss a specific set of institutional determinants that may have an impact on workforce indigenization and accordingly develop our hypotheses. Third, we present our methods, followed by the results. Finally, conclusions are drawn, and the implications for theory and practice are set out.

2. Literature reference on indigenization policies

Whilst the localization of human resources is considered a significant issue for many countries and TNCs, there is limited work on this topic (Law et al., 2009). From the limited research available, two main areas of focus have emerged. The first investigates the rationale behind indigenization and enquires whether it is beneficial to both countries and organizations (e.g., Selmer, 2004; Forstenlechner and Mellahi, 2011). The rationale behind the localization of workforce can be classified into governmental and organizational. The governmental rationale includes concerns related to local unemployment rates and the desire to lessen the socio-economic effect of over-dependence on foreign workers in the labour market. Organizational rationales pertain to cost-saving, solving the problems associated with the settling down of expatriate workers in the host country, and better relations with local customers and the host government. The second area identifies the factors affecting the outcomes of the localization process (e.g. Fryxell et al., 2004; Bhanugopan and Fish, 2007; Mellahi, 2007; Law et al., 2009). They are examined below.

2.1. Factors affecting indigenization

A number of studies on indigenization have focused on identifying the factors affecting its process (e.g. Law et al., 2009; Bhanugopan and Fish, 2007; Harry, 2007; Whiteoak et al., 2006; Wong and Law, 1999). Such factors fall into three categories: organizational factors, characteristics of the local workforce, and factors related to the host government's role.

2.1.1. Organizational factors

With regard to organizational factors, earlier studies identified organizational commitment towards employing local workers as the major factor influencing the success of any localization programme. Moreover, an elaborate study identifying successful localization factors, conducted by Kaosa-ard (1991), suggests that

such factors include the human resource base of the host country, the age and corporate strategy of a TNC, the development gap between the home and host countries, and the type of industry concerned. On the other hand, Selmer (2004) has argued that certain localization-based human resource (HR) practices, such as recruitment, selection, training, and the retention of potentially promising local employees, are crucial elements in successful localization. In the context of TNCs, Law et al., (2009) found that the high degree of autonomy of a subsidiary vis-a-vis its parent and the strategic role of the local HR function is positively related to localization success. Moreover, top management commitment to localization has a positive impact on the success of the localization process. Also, the findings support the importance of certain human resource management (HRM) practices, such as job assignment, appraisal, compensation, and repatriation of expatriates, promotion, training and retention of local managers.

2.1.2. Characteristics of local workers

There is agreement amongst scholars that negative characteristics of local workers affect the outcome of localization policies (see Forstenlechner, 2010; Forstenlechner and Mellahi, 2011). These characteristics include low skills levels, low performance compared with expatriates, negative behavioural attitudes toward working under demanding work systems, and preference to work for the government owing to job security, and better compensation and benefits (Singh et al., 2019; Haak-Saheem and Brewster, 2017; Al-Lamki, 1998). In a detailed study, Bhanugopan and Fish (2007) identify among the main obstacles to successful localization some characteristics of the local workforce, such as a relatively low level of performance and a lack of training and development. Culture is an additional factor preventing organizations from implementing localization 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 compels local employees to settle family issues first, which affects their career plans and paths (Mellahi, 2007; Bhanugopan and Fish, 2007).

2.1.3. Factors related to the host government's role

Governments play a central role in localization policies. In many countries facing high unemployment, governments tend to act as drivers in encouraging, planning, implementing and monitoring job localization policies. Mellahi (2007) reports that such an approach might exclude or minimize the participation of private organizations in terms of the decision-making process – particularly as regards localization policy implementation. Importantly, this makes localization plans unrealistic and thus decreases the commitment of firms toward localization policies. Furthermore, corruption in government bodies tasked with implementing

localization programmes might hinder the overall effectiveness of adoption. For example, connections with powerful government officials in some Asian and African countries have enabled some private firms to avoid compliance with localization 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 as a result of inadequate law enforcement in developing countries. In such contexts, enforcing localization through laws and regulations is not adequate to influence private firms to adopt localization. The arbitrariness of law enforcement, combined with a lack of government transparency, may cause firms to respond to localization requirements through illegal practices. For example, Al-Qudsi (2006) points out that localization laws force some employers to utilize the fake employment of nationals, employing them only “on paper”, just to avoid government penalties.

3. Rationale of indigenization policy in the Kingdom of Saudi Arabia

In the Kingdom of Saudi Arabia, principally owing to rising unemployment among Saudi nationals, the drive towards localization (often called “Saudization”) has been particularly strong. The labour market in Saudi Arabia is characterized by a high presence of foreign workers, higher levels of unemployment amongst nationals, and low female participation in the labour market. In fact, the prominent presence of expatriates in the labour market has contributed to the unemployment problem amongst Saudis. In 2014, the unemployment rate was estimated at around 12 per cent of the total Saudi labour force (SAMA, 2015), although other estimates place the figure much higher. Foreign workers constitute more than 75 per cent of the total workforce and 86 per cent of the workforce in the private sector (SAMA, 2015). Other sources in the popular media and business press consider that official sources present a glossed-over view of just how bad unemployment is amongst Saudi nationals. For instance, whilst official figures on unemployment hover at around the 10-12 per cent mark, the reality is that unemployment amongst Saudi nationals is more likely higher (see Hardy, 2006). Hence, the government’s objective was to boost the percentage of locals in the workforce to reach 75 per cent of the total workforce by 2020 (Ministry of Labour Report, 2010). To achieve this aim, the government has acted firmly in compelling private organizations to implement the indigenization policy. Companies are threatened with closure and severe financial penalties if they fail to implement the policy.

There is a particular strain of research that focuses on the problems of expatriates’ employment as a basis for launching localization policies. Due to the shortage of local staff, private firms have been forced to employ expatriates from different countries; yet, it has been alleged that a significant percentage of expatriates

do not do their jobs properly, and therefore dismissals are common. The resulting turnover has subsequently caused private firms enormous direct and indirect costs (Yavas, Luqmani and Quraeshi, 1990). That being said, it seems that expatriates who fail to perform effectively have concerns regarding their salaries, rewards, job security, and overall adjustment to Saudi culture (Bhuiyan and AlJabri, 1996). Mellahi and Wood (2001) further examine HRM policies and practices in Saudi Arabia and provide a clear picture of how the socio-economic and political contexts of Saudi Arabia shape HR policies and practices. They claim that the labour market structure and the localization policy are key factors affecting the kinds of HR practices that companies choose to employ. They compare the characteristics of Saudi employees with expatriates and stress the preference of Saudis to work in the public sector.

4. Institutional theory, localization and TNCs

Institutional theory is “policymaking that emphasizes the formal and legal aspects of government structures” (Kraft and Furlong, 2017). A corollary to this definition, one of many on institutional theory, is that legally structured government institutions formulate rules and regulations that social actors are directed to follow. The study of institutions and their interface with the society has a long history beginning with the earlier writings of Veblen (1898), Mitchell (1967) and more recently Scott (1995, 2001). The “old institutional theory” is embedded in the premise of the rational-actor model of classic economics, while the “new institutional theory” seeks cognitive and cultural explanations for social actors’ behaviours (Powell and DiMaggio, 1983, 2012; Scott, 1995, Meyer and Rowan, 1977). It has been pointed out that in order to survive, organizations must conform to the rules and regulations, as institutional isomorphism would earn organizations legitimacy (Dacin, et. al., 2007, Deephouse, 1996, Suchman, 1995). The institutional theory, as defined by Scott (2001), describes the forces that pressure companies and shape their internal and external behaviour, while the framework of Oliver (1991, 1997) provides the logic behind their choices. These tenets of institutional theory are of particular relevance in the context of the localization efforts made by the Saudi government.

The framework provided by institutional theory can help explain the success or failure of the process of localization in general, and in Saudi Arabia in particular. There are more than 200 TNCs present in Saudi Arabia at the moment, and their number is likely to increase in the future. The success of the employment localization amongst TNCs is of particular importance for the success of localization policies in the country overall, as TNCs do not affect the process through direct employment only, but they influence the labour market as well, through the movement of employees from one firm to another and through their investment in upgrading the skills of local staff.

Applied to the process of Saudization amongst TNCs, institutional forces translate into the following assumptions: (a) TNC subsidiaries in Saudi Arabia engage in staff localization in order to conform to HRM regulations for employing local labour; (b) TNCs' subsidiaries adjust their HRM strategies according to the values, norms and practices that prevail in Saudi Arabia, whilst (c) the cognitive forces include the actual beliefs of their executives regarding the benefits or threats of staff localization for business. These cognitive beliefs may lead to TNCs engaging in or avoiding localization. The debate around the latter issue is related to the advantages and disadvantages of localization. The literature, however, provides more support for the advantages of job localization for a company's performance (Law et al., 2009; Haak-Saheem et al., 2016). As a result, further analysis is based on this assumption. The application of Oliver's framework (1991, 1997), detailed below, is focused on the identification of the key determinants of firms' strategic choices that result in localization success (Law et al., 2009).

5. Institutional determinants of localization success and hypotheses

The institutional determinants of job localization in Saudi Arabia are approached through the key conceptual note of Oliver (1991) and her theoretical framework for studying the relationship between institutional pressures and *companies' strategic responses* to these pressures. This framework has been tested through a number of studies in the past, such as those of Goodstein (1994), Ingram and Simons (1995), Etherington and Richardson (1994), Milken et al., (1998) and Clemens and Douglas (2005), and there is rather strong empirical support in the literature for the model. Oliver (1991, pp. 152–159) identified five categories of strategic response to institutional pressures: acquiesce, compromise, avoid, defy and manipulate. Oliver 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 that 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 1. Organizational responses to institutional pressures will depend on why such pressures are being emphasized, who is exerting them, what these pressures are, how or by what means they are applied, and where they take place. Consequently, such determinants represent the following factors of strategic responses: cause, constituents, content, control, and context. For the purpose of this study, we focus on the cause and control determinants.

Table 1: Institutional determinants of responses to institutional pressures

Institutional factor	Questions addressed	Predictive dimensions
<i>Cause</i>	Why is the organization being pressured to conform to institutional rules or expectations?	- Legitimacy and social fitness. - Efficiency and economic fitness.
<i>Context</i>	What is the environmental context within which institutional pressures are being exerted?	- Environmental uncertainty. - Environmental interconnectedness.
<i>Constituents</i>	Who is exerting institutional pressures on the organization?	- Multiplicity of institutional constituents. - Dependence on institutional constituents.
<i>Content</i>	To what norms or requirements is the organization being pressured to conform?	- Consistency with organizational goals. - Discretionary constraints imposed on the organization.
<i>Control</i>	How or by what means are the institutional pressures being exerted?	- Legal coercion or enforcement. - Voluntary diffusion of norms.

Source: Oliver (1991).

5.1. Cause

Oliver (1991) 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 fall into two categories: social and economic pressures. In cases where the company assesses that the social and/or economic pressures fit with its interests, the likely response then is acquiescence, i.e. the company will not resist the pressures (Haak-Saheem et al., 2016). However, when the situation is the opposite – i.e. the company sees the pressures as contrary to its interests – this results in organizational scepticism towards the legitimacy of institutional pressures.

We conceptualize legitimacy as the “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate” (Suchman, 1995: 544). As institutional theory indicates, gaining legitimacy or the acceptance of an organization by its external environment is a major consequence of institutional isomorphism (Deephouse, 1996; Forstenlechner and Mellahi, 2011). TNCs are subject to constant demands to comply with regulative, normative, and cognitive pressures in their institutional environment in host countries (Kostova and Roth, 2002; Forstenlechner and Mellahi, 2011). Hence, we look at legitimacy as the recognition and approval of the TNC by the key stakeholders in the host country’s institutional environment.

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

Hypothesis 1: *TNCs that perceive localization pressures as legitimate are more likely to achieve localization success.*

Economic gains resulting from the implementation of localization policies can be seen when hiring local employees would not result in extra costs for TNCs, and their performance is adequate for these corporations. Furthermore, economic gains can also be seen when the performance of local employees is high compared to expatriates, and when, for instance, their knowledge of the local market benefits the firm. In the case of Saudi Arabia, government subsidies were provided for hiring local employees, in combination with investments in education to overcome the perceived skills shortage of Saudi nationals (Achoui, 2009; Mellahi, 2007). Yet, it has been reported that Saudi workers are less qualified than expatriates, resulting in indirect costs – such as the need for extra investment in training and recruitment. Such costs can be significant for organizations that employ a high percentage of Saudi workers (Whiteoak et al., 2006). Hence:

Hypothesis 2: *The higher the perceived economic gain a TNC enjoys from localization, the greater the likelihood of localization success.*

5.2. Control

Institutional control describes the means by which pressure is exerted on organizations. These pressures can be legal coercion and voluntary diffusion (Oliver, 1991). This proposition was later supported by the findings of Bansal and 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 organizations. The findings of Bansal and Roth (2000) support the impact of the legislation, whilst Tenbrunsel et al., (2000) distinguish between means-oriented

and ends-oriented regulatory pressures, emphasizing 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 Saudization, the strength of the coercive control then prevents companies from choosing more active strategic responses. Hence, the following hypothesis:

Hypothesis 3: *The higher the legal coercion to implement localization, the greater the likelihood of localization success.*

Further, the broader the diffusion of the localization rules amongst the industries in which TNCs operate, the greater the social pressure for compliance. Oliver (1991) argued that the extent to which institutional requirements are voluntarily and broadly diffused amongst organizations in the same industry is a predictor of compliance with institutional pressures. Moreover, the broad diffusion of institutional rules will result in the adoption of these rules by most organizations, especially new entrants, because of their social validity. In the case of Saudization, AlShammary (2009) reports that most banks and financial institutions are voluntarily and widely implementing Saudization 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 localization, it results in the following hypothesis:

Hypothesis 4: *The broader the diffusion of localization rules and practices within TNCs, the greater the likelihood of localization success.*

6. Methodology

6.1. Data and sample

Data for this study come from a primary survey administered amongst HR directors in TNCs operating in Saudi Arabia and targeting all TNCs operating in the country – estimated at 214 firms. The unit of analysis in the current study is the organization, and the targeted respondents are HR directors in TNCs given their expertise and knowledge in workforce localization policies. We approached all TNCs for the purpose of data collection. Researchers found that, in the case of e-mailed/posted surveys, respondents were not forthcoming with information. As a result of this, data had to be collected in person over a period of several months. Although all TNCs were contacted, 157 agreed to complete the survey, which makes for a relatively high and acceptable response rate.

6.2. Measurement

Outcome variable

Localization success: for the purpose and the context of the current research, we measured this outcome variable following prior work (Law et al., 2009; Alharan, 2004; Law and Wong, 2004; Alzaid, 2001; Al-Nemer, 1993; Potter, 1989); localization success was measured by five items on a Likert scale in the survey. These items were: Saudization is an important business objective for our company; the Saudization policy in our company is successful; the Saudization policy is hindering our firm's competitive advantage (reverse question); our company has a sufficient number of capable local workers; our number of Saudi workers increased owing to the implementation of Saudization.

Independent variables

We identify the institutional determinants that may have an impact on job localization in Saudi Arabia as defined in the framework of Oliver (1991, 1997). Aside from an identification of the strategic responses, Oliver (1991) developed scenarios that drive these decisions, defined by a set of five questions. Organizational responses to institutional pressures will depend on why these pressures are being emphasized, who is exerting them, what such pressures are, how or by what means they are applied, and where they take place. Consequently, such determinants represent factors of strategic responses. As mentioned above, for the purpose of this study, we look at cause (measured by legitimacy and economic gains), and control (measured by legal coercion and broad diffusion). Measures were developed for these determinants, based on some pioneering work in the literature (e.g., Oliver, 1991, 1997; Goodstein, 1994; Ingram and Simons, 1995; Etherington and Richardson, 1994; Milken et al., 1998; Clemens and Douglas, 2005). Table 2 below presents the variables and their associated measuring items.

Control variables

Some control variables are taken into consideration. A survey of literature reveals that firm size and age are most commonly used as control variables and can cause significant variations in the impact of management practices on organizational outcomes. Firm size, in particular, is considered an important control variable. In this study, TNCs' size and age are employed as control variables, measured, respectively, in natural logs (see also Kimberly, 1976; Huselid, 1995) by the number of employees in each company and the number of years the company has been in operation.

Table 2: Measures of institutional determinants of localization success
(used in the survey)

Variable	Measuring items
Legitimacy	<ul style="list-style-type: none"> a. In our company, we regard Saudization as a legal mandate which we must follow. b. We implement Saudization to avoid government sanctions resulting from non-compliance. c. Saudization policy is widely accepted and appreciated by our top management. d. Our managers believe that Saudization objectives are achievable.
Economic gains	<ul style="list-style-type: none"> a. The performance of local employees has not negatively affected our firm performance. b. Hiring local employees will not result in extra costs for our company. c. The performance of local employees is high compared to expatriates. d. Our local employees understand the local market very well. e. Our local employees are able to build good relations with local customers. f. We have benefited from the financial subsidies of Saudization.
Legal coercion	<ul style="list-style-type: none"> a. We are legally obliged to implement Saudization. b. We are legally obliged to keep the government informed about our localization progress. c. We are legally obliged to report our Saudization problems.
Broad diffusion	<ul style="list-style-type: none"> a. We believe that Saudization is widely appreciated by other companies in our industry. b. We believe that Saudization is widely implemented in our industry. c. We believe that other companies in our industry are endorsing the implementation of Saudization. d. We implement Saudization because we believe it has benefited other companies in our industry.
Localization success	<ul style="list-style-type: none"> a. Saudization is an important business objective for our company. b. The Saudization policy in our company is successful. c. The Saudization policy is hindering our firm's competitive advantage (reverse question). d. Our company has a sufficient number of capable local workers. e. Our number of Saudi workers increased due to the implementation of Saudization.

Note: all items were measured on a 5-point Likert scale.

Reliability, validity and common method variance

Factor loadings, average variance extracted (AVE) and the reliability of the constructs were used to assess convergent validity (see Hair et al., 2010). The results show that the factor loadings of each construct indicator are significant, ranging from 0.56 to 0.88, thus demonstrating a strong association between constructs and their respective factors, with the results indicating that AVE values were higher than the threshold value of 0.50, thus demonstrating adequate convergence of the constructs. Finally, the results of the Cronbach's alpha indicate that the scales satisfy the reliability criterion with values ranging from .70 to .86. When taken together, the results of factor loadings, AVE and reliability tests provide sufficient confirmation of the convergent validity. In addition, as shown in Table 3, the square roots of AVE values were compared with the constructs' correlations: the results showed that the squared roots of the AVE values were higher than any

correlation of the institutional factor constructs, therefore indicating an acceptable level of discriminant validity (see Fornell and Larcker, 1981).

6.3. Results

Descriptive Results

Table 3 reports the means, standard deviations and zero-order correlations of all variables. It is instructive to note, at the very outset, that the relationship between some of the institutional determinants and workforce localization success is significant, which provides preliminary support for some of the stated hypotheses. We can also note that the age and size of the TNCs do not significantly relate to the workforce localization success. This somewhat contradicts some prior work (see Law et al., 2009; Bjorkman et al., 2007) where authors argued that firm size is a relevant determinant of workforce localization policy.

Table 3: Mean, standard deviations, discriminant validity, and zero-order correlations

Variables	Mean	S.D.	1	2	3	4	5	6	7
1. Legitimacy	3.05	1.01	.80						
2. Economic gains	2.95	1.07	.05	.77					
3. Legal coercion	3.63	.88	.30**	-.39**	.82				
4. Broad diffusion	3.47	.93	.44**	.04	.27**	.82			
5. Localization success	3.11	.88	.62**	.09	.26**	.44**	.70		
6. Log. firm age	.91	.29	-.01	.04	-.03	.01	.05	---	
7. Log. firm size	2.29	.43	.07	.06	-.09	.19**	.05	.39**	---

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

Test of the institutional determinants

A hierarchical regression analysis through multiple steps was conducted to test the impact of the institutional determinants on workforce localization success. In the first step, control variables – namely the age and size of TNCs – were entered, followed by the institutional factors in the second step so as to evaluate their effect on workforce localization success. The results of the regression analysis are shown in Table 4.

Table 4: Hierarchical regression analysis for localization success

<i>Variables</i>		Model 1	Model 2
		<i>Localization success</i>	
Step 1: Control variables		Coefficient	Coefficient
Log Firm age		.010	.022
Log Firm size		.042	-.044
Step 2: Institutional determinants		Coefficient	Coefficient
Cause	Legitimacy		.171*
	Economic gains		.021
Control	Legal coercion		.199**
	Broad diffusion		.412***
R ²		.002 (-.011)	.354 (.328)
ΔR ²		---	.352
F for R ²		.169	13.693***
F for ΔR ²		---	20.412***

Note: $n = 157$. Standardized regression coefficients are shown. Adjusted R² in parentheses.

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$.

It can be noticed that legitimacy ($b = .171$, $p < .05$) is positively related to workforce localization success. As stated earlier, legitimacy (H1) is related to the “cause” of localization demands and refers to the underlying principles or objectives behind the call to comply with these pressures. It is one of the drivers behind the acquiescence to localization pressure. Such a result indicates that TNCs that seek legitimacy through the implementation of localization policy achieve localization results that are more successful. The results of the second hypothesis, on the other hand, revealed that perceived economic gains are not related to localization success ($b = .021$, $p > .10$). This indicates that the higher economic gains from the implementation of localization policies would have no notable contributions to the degree of localization success. The overall results of the first and second hypotheses provide support for both causes explained earlier. However, the results indicated that legitimacy is a strong determinant of the localization success.

In relation to “control” mechanisms, legal coercion (H3) is significantly and positively related to localization success ($b = .199$, $p < .01$). This outcome signifies that the higher the legal coercion imposed on TNCs to implement localization policies, the higher the likelihood of localization success. The results also provide strong support for broad diffusion (H4) in its positive relation with localization success

($b = .412, p < .001$). Hence, the results suggest that the broader the diffusion of localization rules within TNCs, the greater the likelihood of localization success. Both control mechanisms (H3 and H4) prove their strong presence as determinants of localization success. We further discuss all findings in the discussion section.

6.4. Discussion

This is a study of the institutional determinants of the workforce localization success in an emerging market setting. Following a literature review, we formulated a set of four hypotheses to empirically analyse the institutional determinants of localization success. These hypotheses included the factors of localization success as measured by legitimacy and economic gains, and control – measured by legal coercion and broad diffusion. All these parameters were controlled for firm age and size with which we will deal with first.

6.4.1. Firm age and size

Going through the results in table 4 sequentially, one result that strikes immediately is that “age of the firm” (i.e. how long the firm has been in operation) does not add to the success of localization policies. This is a little surprising, as one would imagine that firms that have been in existence for some time would influence positively the success rate of the localization policies and initiatives of the government (see Law et al., 2004; Young and Tavares, 2004). Several reasons can be attributed to this intuition. For instance, firms that have been in operation for a while would have acquired a respectable social and/or business standing. Safeguarding such a standing would be a priority for the firm (Law et al., 2004). As such, then, older firms would not only comply with localization directives but would possibly be proactive in adopting them. The reason for not doing so could possibly be that older firms, having embedded themselves well into the system, feel comfortable enough to be reticent towards government initiatives, taking the view that they would firefight the problem if and when it arose. This is only a conjecture but an interesting future topic for research. Second, the result on controls that comes out as insignificant is the size of the firm. What this result tells us is that whether the firm is large or small is of no importance to localization success. The same analogy that is applied to the age of the firm could be applied to the size of the firm. One possible explanation could be that firms – whether small or large – take the view that localization is an issue to be dealt with, but none accord any priority to it in order to add value to the success rate of localization (see Wood et al., 2019). Hence, it could be concluded that the size and age of the institution have no significant role when it comes to the success of localization policies for TNCs in Saudi Arabia.

6.4.2. *Legitimacy*

The results on legitimacy are significant and positive in relation to the success of the localization process. What these results mean is that TNCs that perceive the external pressures for localization (e.g., recognizing Saudization as a legal mandate that they must follow; seeking to avoid government sanctions resulting from non-compliance) and those that wish to enhance their social legitimacy are more likely to comply with the Saudization programme initiated by the government, resulting in the increased employment of locals (see Forstenlechner and Mellahi, 2011). The positive impact of accepting legitimacy is the result of the growing experience and knowledge of TNCs operating in different contexts, particularly in contexts with unique institutional features, as is the case in this study. In this respect, it is worth noting that the extant literature on international HRM shows that blindly following the practices of the parent company may conflict with local social and cultural norms, and subsequently result in a negative image of the subsidiary (see Haak-Saheem et al., 2016; Mellahi et al., 2011; Greenwood et al., 2010).

6.4.3. *Economic gains*

Somewhat puzzling is the result on the perceived economic gains emanating from the localization process. TNCs operating in the host country of Saudi Arabia did not believe that the process of localization would enhance economic gains for them. The dilemma for CEOs and TNCs is concentrated on comparing the additional cost of continuing to employ expatriates with the challenge of having to employ more locals who either lack the skills necessary for optimal performance or have different work ethics and practices (also see Robertson et al., 2001). At first, the response by CEOs of TNCs to indigenization policies had been somewhat unreceptive, and yielded a preliminary policy of “evasion” by TNCs and the private sector in general (see Fakeeh, 2009). Many TNCs initially sought to cope with indigenization policies by requesting authorized exemptions from quota requirements – that could be provided under various sections of the relevant Saudization laws (ibid) – rather than by actively complying with the requirements.

Later on, attitudes shifted among CEOs of TNCs and the private sector in favour of recruitment initiatives aimed at the younger Saudi generation to assist firms implement Saudization policies in a more cost-effective way. The rationale behind this was that younger workers could be paid lower wages, which could offset the additional costs resulting from the increased need for training and skills’ development to a greater or lesser extent (Fakeeh, 2009).

Many TNCs have found compliance with Saudization policy somewhat hard to manage, and they often see themselves as victims that are forced to follow the localization directives rather than beneficiaries of the policy. This becomes clear when one looks at results on legal coercion and broad diffusion.

6.4.4. Legal coercion and broad diffusion

Legal coercion turns out to be a highly significant instrument in enforcing adherence with the localization process. Legal coercion includes three aspects. First, TNCs are obliged to implement the government's Saudization initiative; second, TNCs are also obliged to keep the government informed about the progress they are making, and third, TNCs are also legally required to report any problems they might come across in implementing the Saudization programme. All three are rather stringent conditions that keep firms under strict checks. Interestingly, it also appears that the more broadly diffused the norms and rules of localization, the better the chances of success. This latter result was very significant. This is in line with Delmas et al., (2010) and Purdy and Gray (2009), who established that the adoption of institutional policies was a function of the widespread implementation of these policies by other organizations/firms. Such adoption is part of the mimetic perspective of the institutional process (Liu et al., 2010). In addition, when institutional policies and practices are diffused broadly amongst existing organizations, the new ones would implement these policies because their social validity is rarely questionable (Oliver, 1991).

7. Implications for theory and policy

7.1. Implications for theory

Our findings have important implications for institutional theory. First, institutional factors are found to be less influential in the context of Saudi Arabia compared with what has been observed in studies in developed country contexts. This is mainly owing to the distinctive features of the socio-economic context in emerging markets as institutional arrangements differ because of the specific nature of their political economy contexts (see Darwish et al., 2019; Singh et al., 2019; Thelen, 2012; Streeck, 2009).

Second, the findings imply that institutional factors that insist on a systematic and well-developed institutional context and pressures may be inappropriate in the context of developing countries such as Saudi Arabia. Given its recent history as a modern State, institutional factors in Saudi Arabia are less organized and effective, or one could argue that they are under-developed across the entire region (see Haak-Saheem et al., 2017). The evaluation of these institutional factors in such contexts through perspectives developed in Western countries may lead to false institutional realities (Darwish et al., 2016; Singh et al., 2017). A more carefully developed institutional perspective that takes into account the differing features of socio-economic contexts and existing local institutional realities would better highlight the case of emerging market settings.

Third, legislative and regulatory influence was found to be a strongly positive determining factor. This was not wholly surprising given the strength and impact of legislation in Saudi Arabia and the simple fact that, if TNCs wish to conduct business in the country, then they must abide by the rules. In the long term, increased trust between organizations and policymakers could have the effect of accelerating the localization process because TNCs would work collaboratively with policymakers and would be prepared to invest resources in improving the level of localization as a form of strategic and competitive advantage. This conclusion is in line with the work of Fryxell et al., (2004) but would of course require adaptation to suit the needs of the country in terms of labour and resource requirements.

Finally, however, we found that specific institutional elements are influential across specific contexts. In the present study, legitimacy and broad diffusion factors were found to be powerful in shaping the behaviour of TNCs. This indicates that TNCs make rational decisions when responding to institutional pressures. They mostly pay attention to institutions when they attain legitimacy, and when institutional policies and practices are diffused broadly amongst existing organizations. Delving deeper into these two aspects, the granular detail of the findings revealed that the drivers of their impact were, specifically, social perception (in the form of legitimacy) but not very much the extrinsic economic pressure. This is an important finding as it represents an under-investigated area of research which would benefit from further analysis.

7.2. Policy implications for the Kingdom of Saudi Arabia

The implications of the results of this study offer several take-home lessons for policymakers to achieve better results in their Saudization drive. Foremost would be the realization that they need to focus their efforts equally on all firms, and not only on larger firms or older established firms. There may be economies of scale in focusing on bigger firms if those firms contribute a large share of GDP. However, in a dynamic and competitive business environment, medium and smaller firms can rapidly grow in size in relation to larger established firms. Second, it is crucial not to slow efforts on disseminating information to TNCs (or for that matter to firms with various degrees of foreign ownership) on policy changes taking place in the context of the Saudization programme. In fact, such efforts can hit home the merits of complying with such measures. While staying focused on disseminating information about it, legal pressure to comply with the requirements of the localization programme should be maintained.

A second essential point by way of implication is one related to the specifics of TNCs and their unique characteristics. This study found that age and size are far less important than might have been anticipated in light of existing evidence. The practical implications of this would suggest that the prevailing culture and preferences of Saudi Arabia as a geographic and socio-cultural region actually

override theoretical boundaries and concepts. Expressed more simply, an organization can have a highly distinguished pedigree but Saudi nationals are confident in their own preferences and beliefs to the extent that, if a TNC wishes to establish itself, it then would be well advised to embrace localization policies.

Furthermore, the significance of legal coercion and broad diffusion for the success of the localization policy in Saudi Arabia implies that strict regulation, with a comprehensive framework and guidelines that penetrate and guide all levels of management of TNCs, will greatly contribute to the success of Saudization. In fact, it implies that the Saudization programme should be developed in collaboration with TNCs.

In addition, whilst this study indicated that firms did not expect economic gains from the implementation of localization policies in Saudi Arabia, the question remains as to how the government can induce TNCs to perceive localization as a way to enhance their economic gains. This could be done by working on the skill levels, education, abilities and knowledge of the Saudi workforce, and completely changing the mindset of Saudi employees. Notably, this also means that a localization policy may be about more than rules, coercion and financial penalties.

Finally, an important lesson to be learnt is that an indigenization policy has to be seen as a package of convergent policies in various areas. In other words, policymakers should take a broader and more systemic approach to ensure more successful outcomes from indigenization policies. For instance, in view of the result on economic gains, Saudi authorities could follow a wide-based approach and complement existing indigenization policies (based on rules and legal coercion) with education and talent-development policies to enhance the skills and competencies of Saudi nationals; the latter would potentially ensure that economic gains could be realized by TNCs. The same applies to broad diffusion where measures could be developed to ensure that positive messages are received at the firm level. Hence, combining compulsory regulation with actions and policies in other areas (e.g., education, youth development, communications, and outreach) could indeed be relevant.

7.3. Limitations and avenues for future work

We acknowledge some limitations of the present work. The data was collected from single respondents. Although crosschecks revealed data to be consistent, some elements of common method variance bias may have crept in. Time and funds permitting, future researchers could endeavour to use multiple respondents to gather data. Furthermore, it would be interesting 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 would also be rewarding to study if sectoral differences (e.g. between services and manufacturing) exist.

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