



Improving Labor Nationalization in the Private Sector

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Executive Summary

Achieving a higher level of labor nationalization in the public and private sectors has been a key priority for countries throughout the Gulf Cooperation Council (GCC) since the early 1980s. These efforts have been driven by GCC leaders all too aware of the long-term political, economic, and social ramifications of the region's dependence on expatriate employees to swell the workforce, especially within the private sector. In a bid to reduce this historical reliance, they have implemented a range of measures aimed at increasing nationalization levels over the years. However these measures, which focus primarily on quotas or exclusions, have led to rule avoidance and illicit practices instead of a genuine effort to increase national employment. As a result, current nationalization levels remain insufficient throughout the region.

The GCC today faces significant national underemployment despite the rapid economic growth, increased economic diversification, and nationalization efforts seen in recent years. In addition, the “plug and play” model of recruiting expatriates to sustain the private sector is no longer viable. It has resulted in organizations treating the hiring of nationals as a necessary, and costly burden with very limited benefits. Therefore, the private sector must now explore new approaches to meeting the challenging task of hiring and “upskilling” nationals—a demographic that, thanks to the security and benefits offered, often favors the public sector. To establish methodologies whereby private enterprises can benefit from the added value of nationals within their workforce, the private sector needs to reshape its approach to attracting national talent. Nationals must be seen as a competitive advantage for private enterprises under this reshaped approach. Furthermore, organizations need to offer nationals a range of benefits commensurate with their expectations, such as an attractive and welcoming work environment and a

clearly defined career path within the organization. Through this approach, organizations will begin the essential task of shifting nationals' mindset toward private sector employment by highlighting the benefits this sector offers nationals over and above the perceived security offered by public sector jobs.

Although there is no doubt that increasing nationalization levels within the private sector poses a number of challenges, these are not insurmountable. In addition, the microeconomic and macroeconomic benefits that increased labor nationalization levels will offer enterprises are significant: a greater level of human capital diversification, enhanced social impact, and the ability to leverage national talent as a competitive advantage. Consequently, this viewpoint provides Chief Human Resources Officers (CHRO) in private sector industries with an effective framework through which to attract, develop, and retain nationals within their organizations.

Historical Market Fundamentals

The first step in defining the optimal approaches CHROs in the private sector can adopt to viably increase nationalization levels is to understand the trends that have shaped the GCC labor market over the last 30 years. First among these is the fact that the public sector has traditionally been the main employer across GCC countries. It remains the largest employer today and continually attracts nationals, mainly through job security and generous retirement benefits. Conversely, employees in the private sector are predominantly expatriates throughout the GCC and particularly in the United Arab Emirates (UAE) and Qatar—a trend that must now be reversed to meet the evolving needs of the region.

Next is the GCC's historical private sector reliance on the oil sector as the primary driver of job creation. The oil industry endures as the main private sector job creator in the region today, although other private sector industries, such as

the construction and services industries, have increased the number of jobs available across the GCC over the last three decades.

Another key trend has been the evolving social contract that defines state and labor relations. The majority of countries in the GCC have used comparable systems over the years to protect their local markets and the growth of their economies. A perfect example of this is the *kafala* system, which requires in-country sponsorship for all foreign workers. These measures have, however, driven much of the rule avoidance and illicit practices employed by private enterprises today to enable them to meet mandated nationalization quotas.

Lastly, female participation in the workforce remains low across the region, even when compared with emerging economies. The inclusion of this sizeable national demographic must be an area of focus for CHROs in the private sector as they move their organizations toward greater levels of labor nationalization.

Current Labor Market Trends

Beyond the historical and enduring trends noted above, the GCC must also face the current developments within its labor market.

The youth population is growing at a rapid pace across the region. A large number of nationals are entering the increasingly competitive job market; however, concurrently, growth rates for non-oil private sector enterprises are projected to slow in the coming years. According to the International Monetary Fund, the GCC private sector is expected to create approximately 600,000 new jobs for nationals by 2019, absorbing only around 50 percent of the 1.2 million projected nationals in the workforce at that time. This is likely to lead to a further increase in national unemployment rates in the years to come if new approaches to job creation for nationals are not identified. One positive in this regard, is the increased diversification and growth evident in non-oil industries in the region. Leading to greater job

creation, this trend may offer nationals the opportunity to secure viable employment across a diverse range of industries.

Lastly, increased global competition and technological advances are prevalent trends in the job market today. These place the onus on nationals to increase their competency and acquire new skills better adapted to a rapidly evolving market. Expert thinking—the ability to devise solutions to problems that have no clear-cut or rule-based answers—is one skill in high demand in the private sector. Nationals also need to master multiple languages in order to compete in what has become a global market. Acquiring innovative and highly technical skillsets in the realm of technology, analytics, and innovation will also provide nationals with a competitive edge.

Nationalization in the GCC: The Status Quo

The evolving measures applied by GCC countries to increase nationalization levels in the private sector have been driven by widespread pressures across the region. These pressures include:

- The rise in the youth population, which today makes up the demographic majority.
- The general discontent fueled by nationals, in some countries, due to the high unemployment rate.
- The dominance of expatriates in the private sector workforce; as an example, expatriates currently account for approximately 85 percent of all private sector employees in Saudi Arabia.

Every GCC country has tackled the need for greater national employment in the private sector individually; however most have adopted similar measures. In Saudi Arabia the Nitaqat program was implemented to drive private companies to increase their nationalization levels. In addition, the minimum monthly wage for nationals within the private sector was raised. In Kuwait, nationalization has been pursued with the aim of reducing the

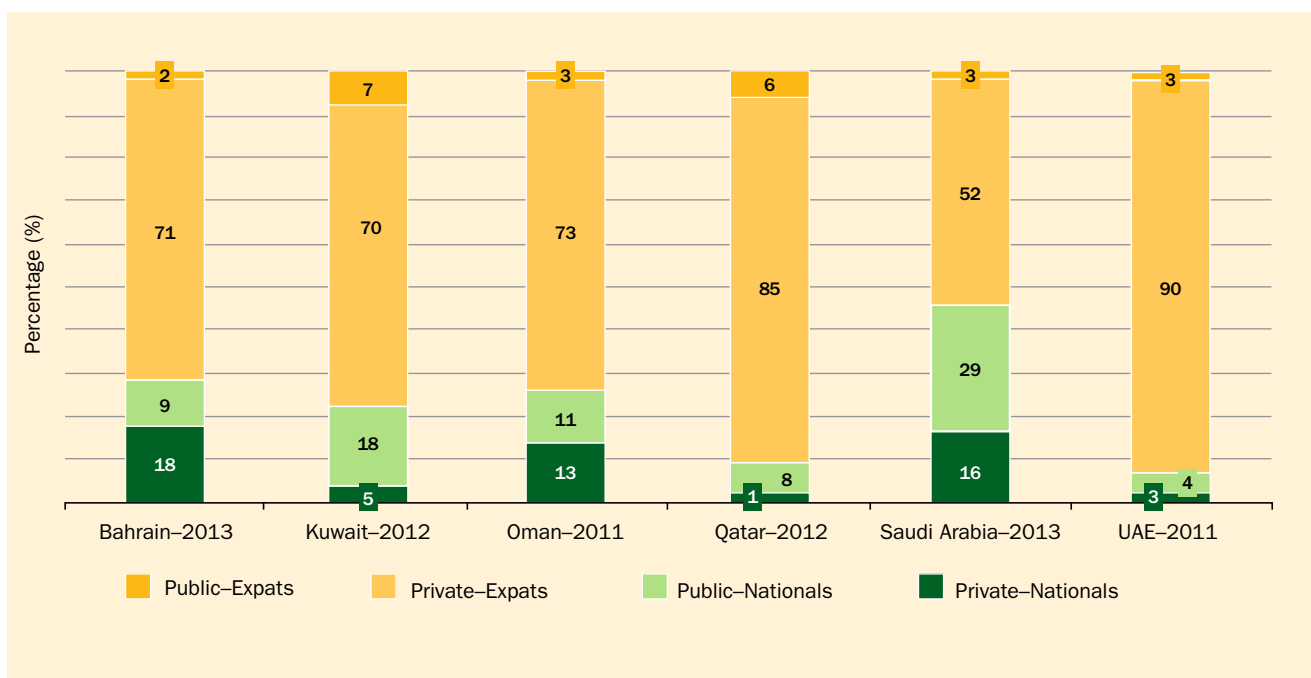
expatriate workforce in the country. To enable this, the Manpower and Government Restructuring Program was launched, and furthermore, quotas and salary premiums have been assigned for national employment in the private sector. In the UAE, the Emiratization program was implemented alongside a number of aligned government departments and quotas to boost national employment in the private sector. In Qatar, greater national employment is being pursued through education and training measures—the aim of the country's Qatarization program. Recent salary premiums have also been implemented for Qatari nationals in the private sector. In Oman, a number of avenues have been pursued to increase Omanization. These include improved working conditions, salary premiums for nationals in private organizations, and substantial minimum wage increases to draw nationals to the private sector. In Bahrain, Bahrainization practices

have driven more nationals into the private sector through national employment quotas and the elimination of the free visa program for expatriates.

Each of these efforts has had the same overall aim: to improve levels of labor nationalization. Despite every effort made, however, labor nationalization regionwide has been modest at best (please see Exhibit 1).

The private sector has been more negatively affected than the public sector by the limited effectiveness of these nationalization efforts. However, because of the focus these measures place on quotas and exclusions, the private sector response has treated nationalization quotas as an unwelcome cost of doing business—rather than an opportunity to integrate nationalization into their human resources (HR) strategy and broader strategic aims.

Exhibit 1 | Distribution of Employment by Sector and Nationality in the GCC



Source: Gulf Labor Markets and Migration Research paper, 2014

Beyond this, nationalization efforts have yet to yield significant results because many of the measures and practices implemented were not aligned to, or conflicted with, the needs of the private sector. These include the following:

- The one-size-fits-all approach to nationalization in the private sector employed by GCC governments.
- The attempt by some governments to fully nationalize segments of the private sector or reserve certain job categories for nationals.
- The imposition of prohibitions and restrictions for private sector companies who do not comply with mandated quotas.
- The short-term provision of wage subsidies and the enforcement of salary premiums for nationals employed in the private sector.

As a result, nationalization efforts are often seen by the private sector as a liability—one which imposes an artificial tax burden on an organization without delivering substantial benefits. This has created an incentive for organizations to work outside the established rules and to undertake illegal practices in an effort to meet quotas.

Challenges to Overcome

For CHROs in the private sector, becoming the drivers of greater levels of nationalization within their organizations will be a complex undertaking. They must secure the best talent available to meet their organizations' strategic aims. However, the current state of the labor market and the restrictive nationalization practices employed throughout the region place a number of barriers in their way when they attempt to identify nationals to onboard.

When speaking with Booz Allen Hamilton, CHROs in the GCC seeking to improve their nationalization strategy highlighted key challenges that were hampering their progress. Among these challenges, a number were found to be prevalent throughout the

region and were echoed by the majority of CHROs we spoke with. *"There is a lack of qualified nationals to meet the needs of our industry sector,"* stated one CHRO. Another noted, *"We do not have close relationships with educational institutions to influence nationals' skillset requirements at a young age."* A third stated, *"Our reward structure is not competitive enough to lure nationals away from the public sector."*

Thus, the primary challenges the private sector needs to overcome to negate the barriers CHROs face include the following:

- The private sector has limited involvement in shaping the skillsets of nationals through education at an early stage to meet the long-term needs of private enterprises.
- There are limited internships or apprenticeships for nationals to help prepare them for private sector roles.
- Segments of the private sector are simply not adapted to the national workforce. Cultural barriers exist in some organizations, while others offer jobs which are not socially acceptable to nationals or are even perceived as being demeaning to them.
- Private sector organizations do not have the talent management capabilities to allow them to replace expatriates with nationals without compromising their operational efficiency.
- Current reward structures are not competitive enough to draw nationals to the private sector.

To move toward greater levels of nationalization, CHROs in the private sector must address these challenges in a holistic manner. Whether through a greater involvement in education and training, or the tailoring of organizations' internal culture and processes to welcome nationals, CHROs can use multiple avenues to create beneficial change. They must approach the inclusion of nationals in the private sector workforce from a value-adding perspective, as the private sector can no longer afford to view the hiring of nationals as a necessary

and costly burden. For organizations in the GCC to continue to reap the benefits of operating in this region, CHROs in the private sector need to invest in taking strategic steps toward incorporating nationals into their workforce. This is an investment they will recoup over time as countries throughout the MENA region succeed in their nationalization endeavors. Only by balancing the strategic needs of the organization with the long-term social reality of operating in the GCC can true nationalization occur to the benefit of both parties.

Nationalization in the GCC: Success Stories

A number of leading regional and global organizations in the GCC have implemented a range of practices to successfully incorporate nationals into their workforce. These include Saudi Aramco, SABIC, Emirates Airlines, HSBC, and DHL, among others (please see Exhibit 2).

By taking a proactive approach to overcoming the challenges facing them, these organizations

Exhibit 2 | Select Practices Adopted by Regional and Global Organizations to Improve Labor Nationalization

COMPANY		DESCRIPTION OF SELECT PRACTICES TO IMPROVE LABOR NATIONALIZATION
Regional		<ul style="list-style-type: none"> Saudi Aramco offers a variety of apprenticeship, vocational college graduates and college degree programs to attract promising Saudis to the company and contribute to the development of a highly skilled Saudi workforce. The company also offers internship opportunities to a limited number of high caliber Saudi students who are attending in-country and out-of-country universities.
		<ul style="list-style-type: none"> SABIC and its affiliates provide ample opportunities for their Saudi employees to continue their higher education and specialize in their areas of work. SABIC companies often sponsor their employees for training courses that are designed to improve their learning and specialization. Jointly with universities and colleges in the Saudi Arabia, SABIC offers cooperation programs that are tailored for final-year students who are about to graduate.
		<ul style="list-style-type: none"> The Emirates Group developed a three-phased Emiratisation strategy "Rehlaty" to recruit and retain UAE nationals. Rehlaty will ensure UAE nationals who join the group are matched with the right opportunities and offered the necessary development tools to grow. Emirates also makes continuous efforts throughout the year to attract Emiratis, from regular visits to educational institutions and summer training programs for students, to career fairs across the UAE and proactive recruitment.
		<ul style="list-style-type: none"> Petroleum Development Oman supports Omani youth at virtually all levels of education. Specifically, the company provides scholarships to talented children so that they can go to primary and secondary schools. The company also offers summer internships to give potential recruits the chance to gain insight into, and experience in, the business.
Global		<ul style="list-style-type: none"> HSBC developed and launched a tailored program to improve the communication and computer skills of UAE nationals. The bank launched a 24-month UAE Graduate Training Program that focused on leadership development, tailored professional qualifications, structured career paths, performance-driven rewards, and international business exposure. HSBC continues to offer a wide range of training programs for nationals, such as the executive training program and Al Nukhba program for students in universities and colleges. The bank also provides mentoring programs for nationals to get the most out of their careers.
		<ul style="list-style-type: none"> DHL was recognized for its training and development excellence and commitment to Bahrainization with two national awards. DHL was commended for its training and vocational development programs aimed for Bahraini youth.

Source: Company websites, Trade Arabia dated February 23, 2008, Emirates 24/7 dated March 4, 2010, Post and Parcel dated February 27, 2007

have been able to implement practices that have allowed them to viably integrate nationals into their workforce. They have heavily invested in education and training for nationals. They established dedicated training and development programs for nationals internally, as well as a system to support nationals as they pursue further education and skills training. These organizations partnered with local schools and universities to offer scholarships and sponsored nationals through higher education to ensure an incoming national workforce adapted to their business needs. They made career path progression for nationals a core priority. They reshaped their internal approach to the recruitment of nationals and adapted it to the demands of the local market. In short, they made the recruitment of nationals into their organizations a strategic objective and took the steps needed to meet this objective.

Improving Nationalization in the Private Sector: The Booz Allen Hamilton Framework

CHROs within the private sector in the GCC must today meet the challenge of improving their nationalization levels. Our proposed approach enables CHROs to tailor the entire HR model to meet nationalization needs (please see Exhibit 3).

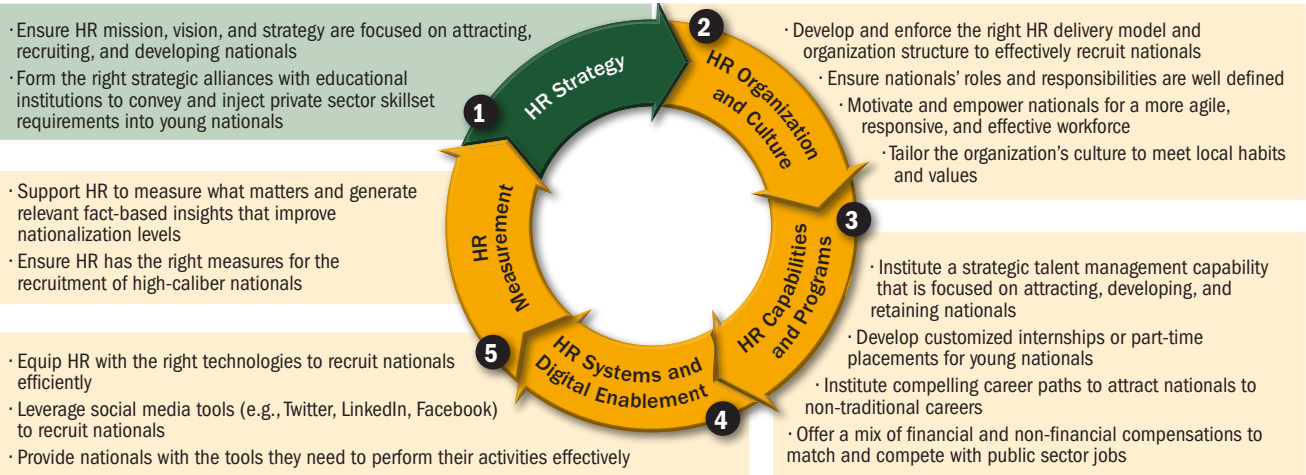
The approach is based on five key pillars, outlined below.

1.0 HR Strategy

To be successful, nationalization efforts within private sector organizations must start at the strategic level. CHROs need to integrate their nationalization goals into their overall HR strategy. They need to make the inclusion of nationals as a core segment of their workforce a primary objective, which will add value to their organization. To this end, CHROs must proactively ensure the skillsets their organizations require are available within the national labor market. This requires the CHROs to look outward and convey the skillset requirements of their organizations to educational and learning institutions. Through investment and involvement in local education, CHROs will:

- Begin to shape the skills and specializations of nationals entering the workforce to fit organizational needs.
- Create alliances with educational institutions, councils, and ministries to balance their educational focus with the needs of the private sector.

Exhibit 3 | Booz Allen Hamilton Approach to Improving Labor Nationalization in the Private Sector



Source: Booz Allen Hamilton

- Build relationships with high-quality learning institutions, providing the opportunity for CHROs to identify promising individuals at an early stage and sponsor their journey through further education.
- Establish partnerships with universities and vocational institutions that enable private sector organizations to align learning materials and assist in curriculum development. As a result, this will ensure a constant graduate pool of national talent ready for immediate hire by the private sector.
- Develop highly targeted programs for final-year university and college students, allowing these students to be employed seamlessly upon graduation.

2.0 HR Organization and Culture

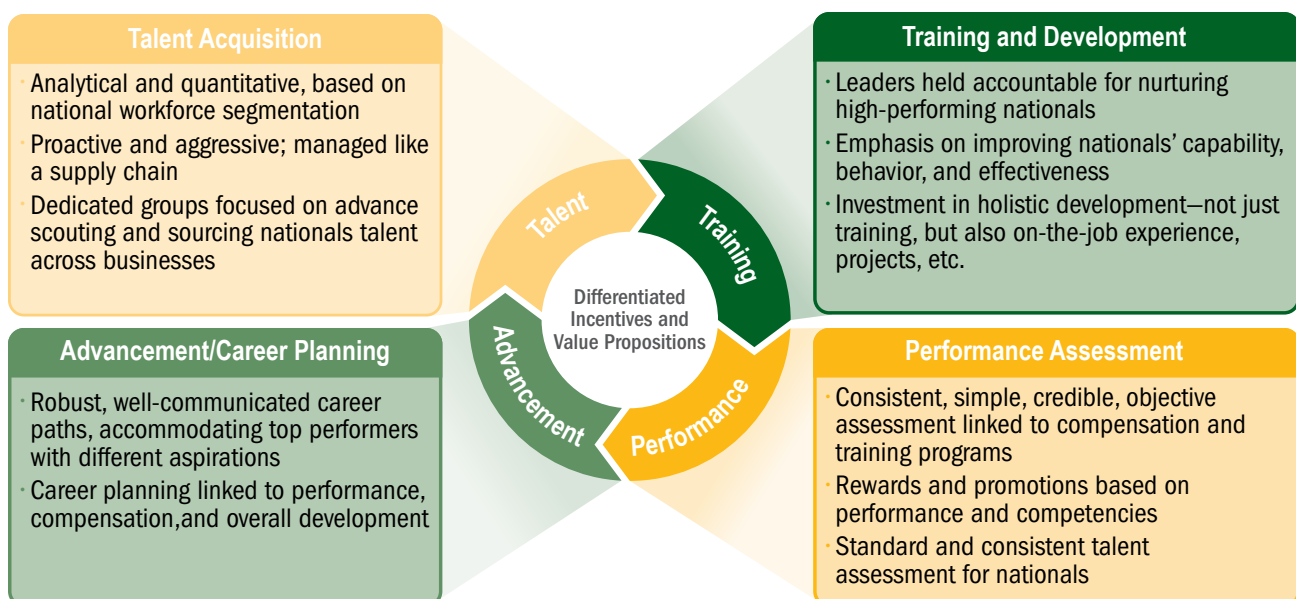
Beyond an adapted HR strategy, which offers nationals varied value propositions, comes the need for CHROs to develop their HR structure and corporate culture to respond to the reality of the markets in which they operate.

With regard to HR structure, CHROs must ensure they develop and enforce the right HR delivery model and organizational structure to effectively recruit and deploy nationals. They must also ensure the roles and responsibilities of nationals are clearly defined within this structure. Furthermore, a successful nationalization strategy must include processes aimed at integrating local values and cultural prerequisites into the broader corporate culture. CHROs should accordingly develop an approach that ensures national norms are ingrained within their organization. They must invest the time and dedicated resources required to attain a deep understanding of local values and thus attract nationals. To facilitate nationals' integration, CHROs should also identify key national employees who can be empowered to assist in cultural integration processes and to act as brand ambassadors in the local market.

3.0 HR Capabilities and Programs

CHROs can significantly enhance their nationalization efforts through the implementation of an integrated talent management process (please see Exhibit 4).

Exhibit 4 | Fostering National Talent Through Strategic Talent Management



Source: Booz Allen Hamilton

In this process, talent acquisition is quantitatively measured and driven by clear workforce segmentation for nationals. CHROs should dedicate resources to proactively and aggressively pursue the best national talent for their organization in an increasingly competitive market. Using a clear view of their workforce needs, CHROs should cross-leverage nationals' skillsets to meet their business needs, optimizing the benefits incoming nationals bring to their broader strategic aims. To help secure the necessary talent, CHROs must put in place processes to ensure company leaders are consistently nurturing the talent of high-performing nationals. By way of structured training programs and on-the-job coaching, CHROs can work with department heads to ensure the holistic development of their national workforce.

Next, CHROs should turn their attention to the processes through which performance assessments and their associated reward structures are defined. For these processes to be effective, nationals' performance must be measured through objective, consistent, and transparent means. In turn, these performance measures must be clearly linked to compensation, the continued provision of training and development programs, and succession planning for nationals. Most of all, the performance of nationals must be consistently measured companywide with the same standards applied to all company employees.

Exhibit 5 | Career Path Best Practices for Nationals

Career Path Best Practices for Nationals

- Allow nationals to see the full spectrum of opportunities throughout the life of their career
- Delineate all the different career options available, and encourage nationals to think both horizontally and vertically
- Demonstrate how nationals can move in and out of job families and gain experience
- Clearly identify what steps nationals have to take to reach their career goals
- Explain the existing job titles, grade levels, experiences, and where/how positions feed into one another
- Develop careers with varying competencies by creating separate career tracks to leverage and build nationals' skillsets

Source: Booz Allen Hamilton

Aligned to performance assessments, the next stage in the implementation of an integrated talent management process is the development of a compelling and robust career planning and advancement structure—one that offers high-performing nationals varied career paths that align with their aspirations and specializations. Instituting a compelling career path will enable CHROs to enhance the value proposition for non-traditional jobs for nationals. Please see Exhibit 5 for key characteristics of best-in-class career path practices.

To attain a holistic nationalization strategy, CHROs will also need to explore measures specifically designed to lure nationals away from the public sector. The avenues open to them lie in both the financial and non-financial benefits private sector employers offer their national workforce. To successfully draw nationals to their organizations, CHROs will therefore need to ensure they offer financial benefits that combine generous starting salaries with performance-based rewards. Beyond these however, non-financial benefits are critical to the continued retention of nationals. Public recognition and reward for exceptional performance, greater interaction with senior managers and personalized coaching, and a higher level of autonomy and inclusion in the decisionmaking process are just some levers CHROs can pull to increase nationals' retention rates.

4.0 HR System and Digital Enablement

CHROs can capitalize on the ubiquity of social media throughout the GCC to effectively recruit qualified nationals into their organizations. By disseminating their nationalization strategy and differentiated value propositions through varied social media channels, CHROs will benefit from the wide reach social media can offer their organizations and attract digitally savvy nationals.

From an operational standpoint, CHROs should enforce the concept of a “digital workforce” within their nationalization strategy. This approach will enable nationals to work from anywhere and at any time. By embracing social media and collaboration tools, CHROs will enable nationals to work across organizational and workplace barriers. They will improve nationals’ operational efficiency and further facilitate their ability to work effectively, allowing them to make decisions or take action and interact with their colleagues outside of a physical office environment.

5.0 HR Measurement

The final step for CHROs as they establish a viable nationalization strategy within their organization is measurement. Without this necessary step, the core aim of any effective nationalization strategy—to align nationalization goals with continued business growth—cannot be assessed. By way of clearly defined metrics, CHROs will be able to monitor the success and effectiveness of their nationalization approach and refine it as required.

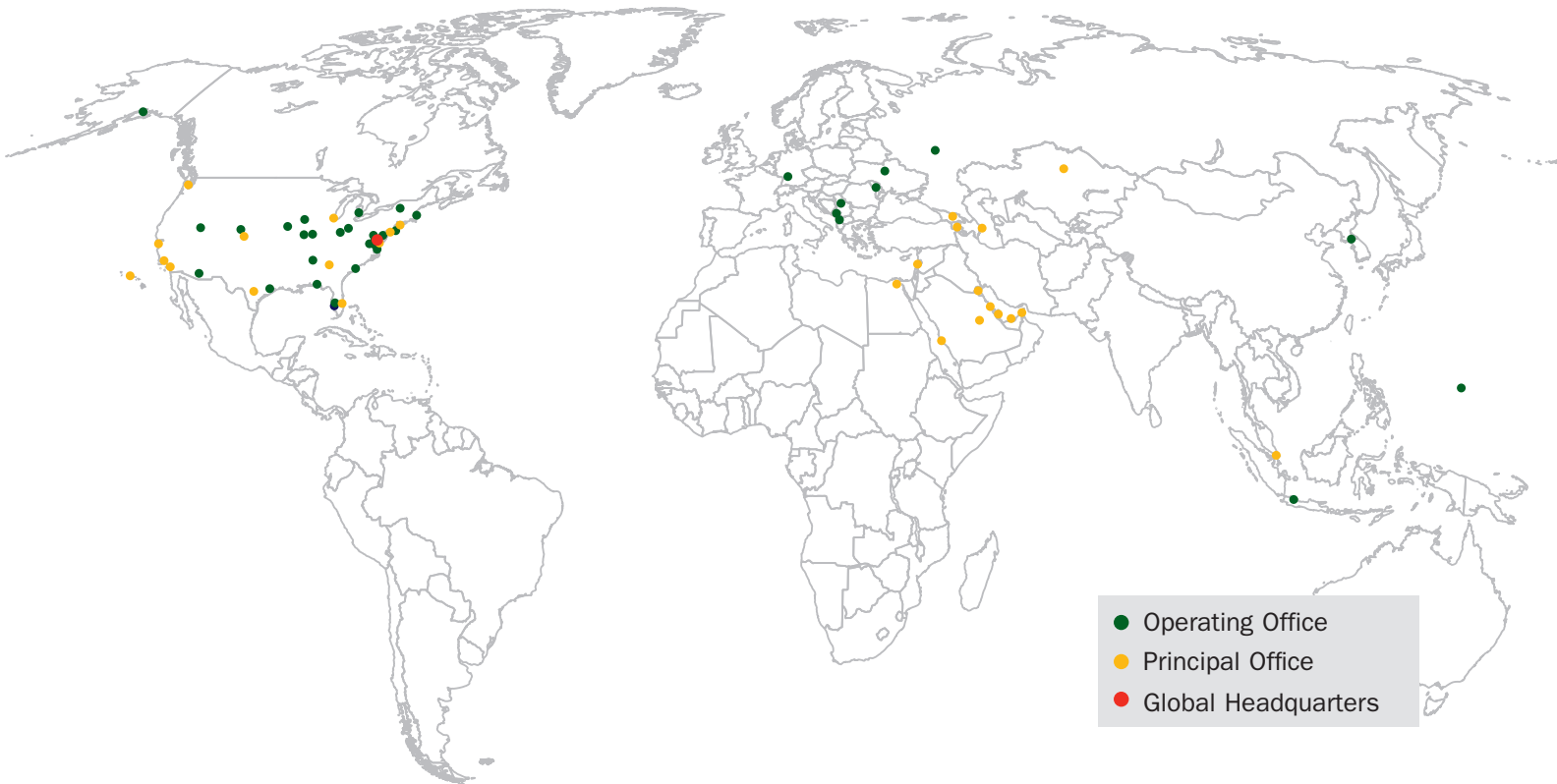
Conclusion

For the private sector, meeting nationalization quotas has been a constant, costly, and seemingly unsurmountable issue for decades—an issue that current measures have failed to resolve. Rule avoidance, the adoption of illicit practices to meet quotas, and the employment of expatriates to swell the private sector workforce have instead resulted in a sector that will be unable to sustain long-term growth in the region. Consequently, private companies who have failed to take a proactive stance toward nationalization are today bearing the cost of short-term measures that offer them limited tangential benefits, to the detriment of their productivity, profitability, and sustainability.

As evidenced by the successes of both regional and global firms that have implemented tailored nationalization and HR strategies to attract regional talent, however, this need not be the case. By adopting the framework defined in this viewpoint, organizations within the private sector can begin to redress their approach and work holistically toward greater levels of nationalization. The microeconomic and macroeconomic benefits private sector organizations stand to reap from this approach will, in addition, assist them in aligning their corporate and nationalization goals. Increased appeal and standing in the local market, a diversified workforce and thus inclusive workplace, and the ability to leverage national talent as a competitive advantage are just some of the benefits CHROs will reap when they attract nationals with the skills and aptitude their organizations require. Finally, under this approach private sector organizations can transform a costly burden into a profitable and sustainable HR pipeline of talent.

Undeniably, the private companies that preemptively addressed the challenges of nationalization are today able to attract these nationals away from the public sector and into their workforce. To compete, CHROs throughout the private sector must take a proactive approach to nationalization in what has been to date a largely reactive market. Only by taking the initiative, and implementing a strategic and holistic nationalization approach, can private companies throughout the region continue to thrive and maintain their edge in an increasingly competitive market.

International Office Locations



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