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## The role of HR capabilities during external change in Saudi Arabia

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### ABSTRACT

**Purpose** – State-led initiatives in Saudi Arabia have focused on ‘localisation’, a term, which here is taken to mean a state-led process to increase employment of workers from the local labour market, and displace workers from other countries. In Saudi Arabia, the ‘Nitaqat’ regulations in 2011 required private sector firms to recruit more Saudi nationals, limiting their access to the non-Saudi labour market, and penalising firms that did not comply. To cope with these staffing requirements, firms have been incentivised to upgrade their approaches to HRM. Drawing on the concept of Dynamic Capabilities, this study examines the development and use of human resource capabilities shortly after these regulations were implemented.

**Aim** – To understand the role of operational and dynamic HR capabilities in organisations’ abilities to manage external change.

**Design/methodology/approach** – The paper uses a case study design and drew on both primary and secondary data collected in 2013-2014. Data were 17 primary semi-structured interviews with key decision makers of three private firms, and secondary government documentation on Nitaqat were analysed by means of a content analysis approach.

**Findings** – The present research reveals that HRM capabilities do not automatically lead to innovation or successful adaptation to external change, but rather, outcomes depend on how HR strategies interact with, and are shaped by other contextual, environmental factors.

**Limitations of the study** – The study is limited by its relatively small number of cases, and focus on a single country context.

**Practical implications** – The results may bring awareness as to the role of socio-cultural context in operational and dynamic HR capabilities and this knowledge can benefit companies that face similar external pressures in the successful development of their capabilities.

**Originality/value** – The originality of the paper lies in its detailed consideration of how HR capabilities shape, enable and constrain strategic choices during external change. It also points to the vital importance of sociocultural context in understanding how firms navigate change, with the use of HR capabilities being shaped considerably by this context in Saudi Arabia.

### KEY WORDS

dynamic capabilities, human resource management, external change, regulation, Saudi Arabia, localisation, Nitaqat

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## 1 INTRODUCTION

This paper uses the concept of Dynamic Capabilities to offer valuable insight into how organisations use human resources to manage external change. The role of human resource activities in contributing to the competitive advantage of organisations has been increasingly recognised in research over the last 30 years. In particular, the resource-based view of the firm has highlighted that resources that are valuable, rare, inimitable and non-substitutable in nature can provide organisations with a sustained competitive advantage, and that many human resources do fit this description (Barney et al, 2001; Collins, 2020). However, the static nature of resource-based view theories and the lack of attention paid in these models to the external environment has been the subject of criticism.

Dynamic Capabilities approaches consider how organisations can develop capacity, including HR capabilities, to sustain competitive advantage as external environments change (Garavan et al., 2016; Hansen et al., 2019; Lopez-Cabrales et al., 2017). Operational HR capabilities can provide firms with greater control over HR processes during

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change, whilst dynamic capabilities can help firms to respond strategically and deliberately to the changing environment (Maatman et al., 2010). To date, research into how capabilities facilitate or constrain firms' management in specific contexts and circumstances remains very limited. The development of dynamic HR capabilities may depend upon the presence of a baseline level of operational HR capability within firms, and some capabilities may be particularly helpful in navigating change (Ambrosini et al, 2009; Teece, 2018; Hansen et al, 2019). Furthermore, the development of HR capabilities at the organisational level may be shaped by particular institutional and socio-cultural contexts, which will impact upon firms' abilities to manage change (Eisenhardt & Martin, 2000).

This central question addressed by this paper is: what is the role of operational and dynamic HR capabilities in organisations' abilities to manage external change? The focus of the paper is on Saudi Arabia during a period of state-led regulatory reform of the labour market. The last decade has seen significant changes to both the Saudi Arabian economy and labour market (Cherif, 2020). Oil revenues have declined radically and this has led to pressures to develop the rest of the economy and address low levels of productivity. State-led initiatives have focused on 'localisation', a term which means a process through which the state seeks to increase employment participation of Saudi workers and displace workers from other countries. The 'Nitaqat' regulations in 2011 required private sector firms to recruit more Saudi nationals, limiting their access to the non-Saudi labour market, and penalising firms that did not comply. To cope with the quantitative staffing requirements under Nitaqat, firms have been incentivised to upgrade their approaches to HRM through investment in staff retention, training and development (Forstenlechner, 2009).

As part of Nitaqat, but not subject to sanctions and penalties, the Saudi government also sought to 'feminise' parts of the labour market and encourage firms to employ more female labour (Ministry of Labor, 2013). However, participation of women in the labour market remains relatively low in Saudi Arabia, and is concentrated in the public sector, whilst religious laws mean that physical gender segregation is widespread, meaning that firms' labour strategies and use of women as a response to the Nitaqat regulations may be varied in practice. Socio-cultural context such as this is a neglected dynamic in research on strategic HRM and capabilities. The Nitaqat regulations in Saudi Arabia thus provide an interesting empirical lens through which to explore how HR capabilities are developed within different firms, and the challenges firms face in utilising capabilities to manage change within a very particular sociocultural context.

This paper draws on three detailed case studies of private sector organisations to explore the varied HRM responses of firms to Nitaqat. The paper draws on 17 semi-structured interviews with key decision makers within firms, allowing insight into the development and implementation of capabilities and responses to the localisation initiative within firms. There are two main contributions of the paper. First, that operational and dynamic HR capabilities can indeed enable firms to respond more effectively to external change, enabling innovative actions, and in some cases allowing the development of further dynamic capabilities. Similarly, a lack of operational and dynamic capabilities may significantly constrain some organisations' strategic choices. Secondly, the research shows how state-firm relations, and the socio-cultural environment do shape organisations' responses to change and their HR capabilities. Strong state-firm relations opened up and facilitated the development of capabilities within some firms, allowing them to respond more effectively to Nitaqat. Increasing participation of women in the labour market, and religious authority accommodation of mixed-gender workplaces facilitated the HR strategies being pursued by some firms, whilst for other firms, the use of female labour only in limited roles acted as a longer-term constraint on their abilities to navigate change. The paper argues that more attention needs to be paid in research to how such socio-economic contexts impact upon strategic HR choices and the management of change.

The remainder of the paper is structured as follows. Section 2 reviews debates on dynamic capabilities and HRM, before looking at the changing labour market in Saudi Arabia and the development of the Nitaqat programme. Section 3 sets out the case study methodology used in the paper. Section 4 presents the findings, with each case covered in turn, followed by an overall analysis of findings in Section 5. Conclusions and implications follow.

## 2 THEORETICAL REVIEW

### 2.1 DYNAMIC CAPABILITIES AND HUMAN RESOURCE MANAGEMENT

Dynamic Capabilities is one of a group of theories that seek to understand how organisations achieve and sustain competitive advantage, paying particular attention to responses to external environmental change (Barreto, 2010; Laaksonen & Peltoniemi, 2018). Unlike the more static resource-based views of the firm, which are focused on the identification of resources which contribute to competitive advantage, rather than processes of change, dynamic capability theories focus on how the evolving external environment shapes and constrains organisational choices (Ambrosini et al., 2009). Capabilities can be split between those that allow a firm to survive and function (operational capabilities) and those that enable the firm to prosper and adapt to change (dynamic capabilities)

(Teece, 2007). Organisations may vary in their abilities to purposefully, deliberately extend or modify their resources and adjust to change (Barreto, 2010), with those with the strongest dynamic capabilities able to collectively create the ability to sense external changes (and opportunities) take advantage of them to maintain competitiveness (Teece, 2007).

Critical to this approach, then, is the issue of how capabilities are created and used the extent to which they give organisations the capabilities to operate in certain environments (Ambrosini et al., 2009; Eisenhardt & Martin, 2000). This process of acquiring new resources or capabilities can come from the relatively slow process of internal investment or the quicker, but potentially more expensive, approach of external acquisition. Thus, if a given set of skills are widely available in a given economic system, they can be acquired relatively easily if additional capabilities are suddenly needed. If they are not readily available, firms either enter into competition to acquire these or have to spend time and resources on internal capability building. Some organisations may be better suited and prepared to undertake this internal capability building than others. (Lopez-Cabrales et al., 2017).

This suggests that the processes through which HRM capabilities are developed within firms are worth considering in more detail (Tsai and Shih, 2013). Dynamic capability approaches have increasingly recognised the important role of HRM capabilities in contributing to competitive advantage (Maatman et al., 2010; Hansen et al., 2019). These capabilities can be operational, developed through day-to-day transactional HR activities, or dynamic, developed through more strategic and deliberate approaches to recruitment and selection, training, work design, often configured through a high-performance work system (Maatman et al., 2010; Wei and Lau, 2010). The HR function can therefore play a number of roles in the development of capabilities. It can ensure a minimum level of 'operational, zero-level' HRM activities to ensure human resources can be deployed effectively (Maatman et al., 2010). HR departments can also scan the environment and develop dynamic responses to ensure ongoing fit between organisational activities and environmental change.

Existing HR capabilities may also enable the development of further capabilities (Garavan et al., 2016). A benefit of prior investment in HRM capabilities is that this may give organisations a wider set of choices and to be able to plan and deal more effectively with a new situation (Easterby-Smith et al., 2009; Tsai & Shih, 2013). Similarly, low levels of existing HR capabilities may mean that organisations are constrained in their abilities to adapt (Maatman et al., 2010; Teece 2007). In effect, the existence of HRM capabilities and an already-present strategic approach to HRM may create the space for further elements of capabilities to be developed during change.

## 2.2 THE CHANGING LABOUR MARKET IN SAUDI ARABIA

Over the last decade the Saudi Arabian economy has undergone major changes (Cherif, 2020). Rapidly declining oil revenues, rising domestic unemployment and low levels of productivity (Maisel, 2017) led the state to embark on a significant labour market change programme. There has been a renewed interest in Saudization, in which firms are required to recruit domestic nationals in preference to foreign workers; similar 'localisation' initiatives have become a common theme across the Gulf Cooperation Council states (Forstenlechner, 2009). In Saudi Arabia, the Nitaqat (meaning 'bands' or 'ranges') process was introduced in 2011 (Alshanbri, Khalfan, & Maqsood, 2015; Sadi, 2013), following earlier, largely voluntary localisation initiatives in the 1990s and early 2000s. Nitaqat regulations placed quota requirements at the firm level on the recruitment of Saudi employees (Alshanbri et al., 2015). These quotas varied across sectors and size. Targets were also established for salary levels of local workers, requiring firms to pay Saudi workers a minimum monthly salary of at least SR 3,000 (USD 800) to be included in quota counts (Ministry of Labour, 2013). As Peck (2014) notes, at the time of Nitaqat, the average wage in some private sector firms for a foreign worker could be around half of that of a Saudi worker, with Nitaqat effectively bringing in a minimum wage for Saudi workers and shaping organisational responses.

Nitaqat regulations also incentivised firms by awarding credits for their employment of Saudi women and came alongside policies to 'feminise' some parts of the private sectors by increasing participation of women (Ministry of Labour, 2013; Elamin Abdallah & Omair, 2010; Sidani, 2005). Increasing female participation in the labour market was not the primary aim of Nitaqat, and firms could comply with Nitaqat without engaging in any feminisation of their workforce, however, increasing participation levels of women did provide many private sector firms with a new source of local labour.

The socio-cultural context of Saudi Arabia is vitally important to consider when seeking to understand firms' use of HR capabilities and their response to change. Cultural norms, socially conservative traditions and religious law and interpretations were limiting some sectors and roles that women undertake in paid work, female employment remains heavily concentrated in the public sector, and participation rates are lower than in Western economies, at around 1 in 5 women (Syed et al., 2019) Alongside this there were extensive physical gender segregation, with women generally not permitted to work alongside men, either as co-workers or customers (Al Asfour, 2017).



Localisation, in various guises has become a common policy but in most of the smaller Gulf States it has been primarily focussed on ensuring own nationals take key roles in the public sector and the petrochemical industry, without specific quotas (Forstenlechner, 2009; van Gestel & Nyberg, 2009). The Saudi approach was different with targets being more strictly enforced, with incentives and penalties for different levels of performance (Alshanbri et al., 2015; Sadi & Henderson, 2010). Organisations that did not meet Nitaqat requirements faced restrictions in securing and renewing visa permits to employ foreign workers in the future and received very small levels of training and recruitment subsidies for the Saudi workers they did employ. Firms that complied to a high level received more extensive subsidies, gained access to more visas to employ foreign workers, and secured assistance and guidance from the Saudi Labour Ministry around recruitment, training and development. Firms that exceed the Nitaqat requirements were also able to 'poach' workers from other firms (but the reverse was not permitted) and had greater freedom to amend job roles for their workers, something which provided them with considerable flexibility in a highly regulated regime of employment (Peck, 2014; Alshanbri et al., 2015).

Traditionally HRM practice in the Gulf region has been underdeveloped, with many states relying on foreign workers who were tied to firms by their visa. Hiring and firing approaches towards foreign labour were used extensively, with relatively low investment in skills and development of Saudi workers (Budhwar et al., 2018). In this context, localisation has been seen as a means through which HRM can help upgrade the Saudi national economy with the setting of employment quotas for home workers typically necessitating changes to recruitment and selection practices, and in some cases training, development, appraisal and pay systems (Budhwar et al., 2018; Singh & Sharma, 2015). In the case of Nitaqat, it was expected that the requirements for compliance would force firms to invest in HRM capabilities to cope with the new demands. The extent to which Saudi firms were prepared for these changes, for the stricter regime of enforcement in Nitaqat compared to earlier localisation initiatives, and for the upgrading of HRM are issues which are considered in the empirical part of the paper.

### 3 METHODOLOGY

The research utilised a case study approach, based on qualitative interview data, to understand the early responses of Saudi private sector organisations to the state-led localisation regulations, known as 'Nitaqat', between 2011 and 2014. Multiple cases were carefully selected to allow for broader exploration of the research question (Creswell, 2016). The cases were three private sector firms that offered variations in their levels of compliance with the Saudization quotas before and after Nitaqat, and with variations in HRM capabilities.

The three specific cases investigated in this study were three Saudi owned, private sector firms. One was a chain of fast food restaurants (called FastFoodCo), the second was a firm that manufactured glassware (identified as GAGlassCo) and the third was a Sugar manufacturing firm (SugarMillsCo). At the time of Nitaqat, in 2011, both FastFoodCo and GAGlassCo would not have met the quota ratios required under localisation. SugarMillsCo, on the other hand, already had 57% of its workforce as Saudi nationals at that time. By 2013, all three firms were meeting Nitaqat requirements, with FastFoodCo having improved its proportion of Saudi workers to 21% and GAGlassCo to 32%. SugarMillsCo remained compliant but had dropped to 53% localisation.

Case study research requires the use of multiple sources of data to enhance the quality and strengthen the validity of the study (Cassell et al., 2006). To this effect, the study drew on three data sources: individual in-depth interviews, information of each firm's labour force between 2011 and 2013, and published government documentation on Nitaqat. The primary data source consisted of 17 in-depth interviews with key decision makers of the three Saudi firms that formed the cases of this study, allowing insight into the development and implementation of strategic choices within firms. Respondents are detailed in Table 1, these included decision makers within and outside HR, as well as general managers, and in some cases specialist training and development specialists, and managers' whose role involved direct liaison with the state over Nitaqat and other policies.

The interviews were carried out in 2013-2014 and focused on the early responses of the study population to Nitaqat. A semi-structured interview protocol was adopted, with questions around HR and labour strategy, engagement and responses to Nitaqat, and challenges experienced. More specifically, a first set of questions aimed to understand the impact of Saudization and Nitaqat in particular on firms and the Saudi labour market in general. These questions allowed for assessment of participants' knowledge and perceptions of these regulations. A second set of questions related to the impact of Nitaqat on participants' own workplace and particularly on how this government-led initiative has changed the HRM role and practices in their firm. A last set of questions sought to understand how participants perceived the potential impact of non-compliance with Nitaqat. The aim of these questions was to get a better idea of how important participants felt that it was to comply with Nitaqat regulations. Flexibility in the interview schedule was incorporated to allow for discussion of emergent issues.

Table 1: Fulfilment Grade of OA and Linked Bonus Level

FastFoodCo	GAGlassCo	SugarMillsCo
Regional General Manager	Executive Director	Chief Executive Officer (CEO)
Human Resources Director (HR. Director)	Administration manager	Human Resources Director (HR. Director)
Regional Recruitment manager	Recruitment officer	Resourcing Manager
Regional personnel and government affairs manager	Plant Operations Manager	Government Affairs Manager
Manager of Staff Training and Development	Government affairs officer	Training and Development Managers
Regional operations manager		Chief Operating Officer (COO)

Source: Considered Company

The interviews were conducted in Arabic by a bilingual researcher and lasted from a minimum of 30 minutes to a maximum of 120 minutes each. The interviews were recorded and then translated into English; the initial translation tried to keep the idiomatic nature of the Arabic and was used to code the responses (Santos et al., 2015). Where a quote is provided in the results section, the English has sometimes been adjusted to make the meaning clearer to native English readers. A thematic analysis approach was used to pinpoint, examine, and record patterns (or themes) within data. At the end of this process, the research produced some overall insights as patterns, themes and categories which emerged from the data, such as specific challenges and tensions faced by firms when implementing localisation programmes in their companies or major HRM decisions/practices that had been taken at different stages of the implementation.

## 4 RESEARCH RESULTS

Each case is discussed separately below, followed by an overall analysis. Specific attention is paid to how each organisation managed the requirements imposed under the localisation regulations, the role of HR capabilities was in this regard, as well as the challenges they faced.

### 4.1 FASTFOODCO

FastFoodCo was formed in the early 1970s as a fast-food restaurant chain. At the time of the interviews (2013) it employed 8,000 staff, of whom 1,700 (21%) were Saudi nationals. The company was pursuing an aggressive growth strategy and had, in the last three years, increased its number of outlets from 180 to 230. At a strategic level the organisation was committed to this expansion continuing and key staff had convinced senior management that achieving compliance with Nitaqat was essential to the success of expansion:

‘I have told the HR director to tell the shareholders, either we perform good in localisation or let them forget to open another 70 outlets in the coming years, because the government will not give us the visas we want for foreign workers’ [Regional Personnel and Government Affairs Manager, FastFoodCo].

There was some evidence that the HR function had struggled to gain support for elements of its HR strategy prior to Nitaqat. HR Managers indicated that they had been prepared to engage with localisation in earlier voluntary initiatives, but that some senior leaders in the firm were worried about the implications of recruiting more expensive, less experienced Saudi staff when they could continue with their long-standing strategy of hiring and firing foreign nationals to meet their labour needs. Senior HR managers certainly felt the firm had the HR capabilities in place to allow it to successfully manage Nitaqat:

‘Even before Nitaqat, I used to believe that localising the jobs is a strategic option for the company, and even if local workers have issues, these problems can be solved through training programmes and HRM solutions’ [Human Resource Director, FastFoodCo].

Challenges stemmed from the demanding but relatively low-skilled nature of the work within FastFoodCo. Like many hospitality firms in Saudi Arabia at the time of Nitaqat (Al-Ismail et al, 2019) the firm employed no female staff, but as the firm struggled to recruit sufficient Saudi men during their expansion, they looked to women as a new source of labour. This approach posed considerable challenges in the socio-cultural context of Saudi Arabia, in which gender segregation in roles, and physical segregation in workplaces remained the norm. At an operational level, their expansion required the establishment of a telephone call centre to organise recruitment and screening of new recruits.

FastFoodCo adopted a strategy to resource this entirely by women, allowing the organisation to maintain physical gender separation. More ambitiously, however, FastFoodCo was looking to integrate men and women working in their fast food restaurants, requiring the establishment of mixed-gendered workplaces, something that was not typical practice in Saudi Arabia. This change required the development of significant new dynamic HR capabilities related to work redesign, the recruitment and training of women into new roles, and changes to the nature of teams and supervisory structures. Crucially, it also required negotiation with the Saudi government religious authorities in order to gain permission to construct mixed-gender workplaces:

‘I had to go to the labour minister and met him personally, and then went to the Committee for the Promotion of Virtue and the Prevention of Vice (CPVPV) to convince them to consider the back line of restaurants as a production line and also showed them all the training and prevention measures we intend to take in order to reduce inter-gender interaction and prevent negative consequences... they approved it at the end’ [Human Resource Director, FastFoodCo].

The localisation programme did seek to push firms towards upgrading their HRM practices, but the approaches adopted can only be understood through explicit consideration of the socio-cultural context of Saudi Arabia. FastFoodCo’s HR strategy was shaped by increasing availability of female labour, albeit in the context of still relatively low participation rates for women in the labour market, and some restrictions on mixed-gender working. Their approach required significant negotiation with religious authorities, and approval for the strategy they wanted to follow. Once permission had been granted by state religious authorities, the firm moved rapidly from having no female staff in 2011 to 250 female employees in 2013. FastFoodCo did also seek to create clearer internal labour market structures so that local employees could professionally develop themselves and eventually fill in management and supervisory roles, which traditionally were filled by non-locals:

‘(there is a limited) supply in the Saudi labour market of well-experienced supervisors and restaurant managers because these jobs are historically filled by non-locals’ [Regional Recruitment manager, FastFoodCo].

To enable progression and internal development, the firm reduced the minimum experience levels required for promotion and provided additional support and training. This seemed to be a fruitful strategy as the number of Saudi supervisors had increased from none in 2011 to 45 in 2013, with 26 Saudis being assistant managers. By 2013, 6 (13 per cent) of these supervisory roles were occupied by women, meaning women had progressed to some degree within internal labour markets, but remained underrepresented in some of these positions. Within the firm, they remained concentrated in a smaller number of roles in the firm, particularly in call centre roles.

Prior to localisation, HR capabilities in FastFoodCo were heavily operational in nature. The HR function in FastFoodCo was very centralised, with HR activities focussing on the recruitment of workers and basic HR administration of contracts and pay. The HR function also collated necessary data to make statistical returns on employment to the Saudi authorities. These operational HR capabilities did provide a baseline level on which expansion of the firm could be built. The localisation of supervisory and management roles in the organisation represented one means through which further HR capabilities had been developed:

‘(We involve Saudi managers in) recruiting, developing, promoting and retaining local workers. This clearly has improved their commitment towards workforce localisation. No one now blames the HR department for poor recruitment and selection of local workers because today, they know they participated in the selection” [Regional Recruitment manager, FastFoodCo].

Senior management in HR had also actively sought to develop operational and dynamic capability through significant investment in HR professional staff, to enable the firm to deal with the changes required by expansion and by Nitaqat:

‘I have recruited different HR staff to support me in building different HR departments and functions to deal with different labour market challenges and government pressures ... most of HR team is recruited from a reputable large local and international firm ... who (already) had strong HR systems and successful implementation of workforce localisation... [Human Resource Director, FastFoodCo].

Effective adaptation was dependent then, upon a latent dynamic HR capability within FastFoodCo, in particular the presence of key personnel who were able to formulate and push for a more strategic approach to human resources. The firm undertook major HR changes during the first 2 years of the localisation initiative, retaining its wider strategic goal of expanding the number of fast food outlets, whilst simultaneously identifying the recruitment of female workers as a possible solution to the demands placed on them by Nitaqat. The authorisation by the state of the plans to allow women to work in the fast food outlets was of course, a requirement in order to pursue this approach, but the strategy did also draw on capabilities that were in place in the firm long before the introduction of Nitaqat. As noted above, there had been some resistance from senior leaders in the firm to calls from HR to upgrade capabilities, with these senior leaders arguing that there was little imperative to engage in far reaching HR changes (even though the capabilities to do this were in place). The shock of having to adapt to Nitaqat was a major driver to FastFoodCo being prepared to undertake change, and build on the HR capabilities it already had in place:

‘I told the senior management in the company; either you take serious and immediate actions to implement Nitaqat through ensuring all the HR systems to recruit and retain locals, or you forget to sustain the business or to meet the company’s strategic plan in reaching 300 restaurants by 2016 from 230 today... they choose to go with the expansion plan and they had no option but to increase the manpower budget from 10 to 25 per cent’ [Human Resources Director, FastFoodCo].

#### 4.2 GAGLASSCO

GAGlassCo produced containers, tableware and perfume bottles from a single site and exports to over 100 countries. Its manufacturing plant contains the full range from production to packing the finished goods. In 2013, it employed 875 workers. Prior to Nitaqat, they had relied on non-Saudi nationals and had been unwilling to recruit Saudis to manufacturing roles, with some senior managers in the organisation holding highly negative attitudes about the attitudes of the local workforce which perhaps reflected the basis for this choice:

‘Even if we offer such jobs to local workers, I doubt if anyone of them could accept this challenging job under this challenging environment. There is heat exposure in most of the fieldwork, besides the high noise coming from the furnace extraction systems and overall vacuum systems’ [Plant Operations Manager, GAGlassCo].

However, even before Nitaqat, the firm had recruited substantial numbers of Saudi women to work in their finishing and packing departments. Senior staff regarded this female labour as a relatively low-cost source of labour. Senior management quickly identified that they could comply with Nitaqat regulations by expanding Saudi female recruitment further in packing and finishing areas. This strategy was adopted with the primary aim of complying with regulations, rather than being driven by any broader business strategy of expansion or innovation.

GAGlassCo expanded female employment from 10% in 2010 to 23% in 2013, maintaining strict physical gender segregation in plants. This expansion involved some modifications to work design and to operational HRM capabilities. Packing areas were expanded and air conditioning installed to improve the working conditions. Wages for female workers were slightly increased to the minimum level required to enable locally recruited workers to count towards quota targets, and working hours were adjusted to allow the female staff to take the weekend off and not work for more than 8 hours a day. While interviews revealed an awareness of the broader social and economic goals of Nitaqat, compliance was the primary driver for the actions undertaken with management:

‘We breathe Nitaqat, to be in the green band it means you are inhaling oxygen and stay alive as a company, once you get in the yellow band the oxygen will reduce gradually’ [Executive Director, GAGlassCo].

However, whilst GlassCo’s approach to Nitaqat might be seen as successful in its own terms, there was some concern that it was not sustainable, and that constraints on developing more dynamic HR capabilities to adjust to environmental change could cause long-term problems for the organisation. Their minimal compliance strategy essentially consolidated a long-standing dual labour market within the firm. Career progression for women was



relatively limited, pay for women was at low levels, and very little training was provided. As a result, labour turnover rose in GAGlassCo over the first few years of the localisation regulations. This meant that the minimal compliance approach to Nitaqat was not a viable long-term option. GAGlassCo continued to seek to rely upon the external market to recruit further female workers, but found that this strategy had an in-built obsolescence with female workers increasingly seeking alternative employment, with more attractive conditions and progression opportunities:

‘For years, we had very efficient and disciplined local females... they stayed with us for a long time... today most of them were gone, and the newcomers have much less discipline and have no patience for the job at all.... more than 70 per cent of them don’t complete even six months with us” [Plant Operations Manager, GAGlassCo].

With relatively few dynamic HR capabilities existing in GAGlassCo, the organisation was gambling that its approach could be sustained to allow it to continue to meet the Nitaqat quotas. As with FastFoodCo, there were internal tensions within GAGlassCo between HR and senior leadership over the implementation of HR policy to meet Nitaqat. Recruitment officers and plant operations managers expressed their frustration at the lack of attempts to invest in more dynamic HR capabilities:

‘The CEO or the administration manager think if they fill the cracked water tank every day (by new women recruited in packing jobs), things will be fine, but they don’t know or they are ignoring the fact that...the crack is still widening (turnover). At any time the whole tank could break. Sooner or later the crack has to be fixed or at least should be reduced.... It might look to you that we have a high number of female workers but every month 10 of them leave us, and we hire another 10. This is very time-consuming. .... The top management prefers to put high pressure on us to fill the gap of those who left and ignore to look or give time to know the reasons behind the turnover...’ [Recruitment Officer, GAGlassCo].

GAGlassCo’s strategy did begin to look increasingly risky, due to its reliance on meeting quantitative Nitaqat targets through the employment of more women in very specific, limited, roles in the organisation. However, its relatively low levels of operational and dynamic HR capabilities placed significant constraints on adopting an alternative strategy.

### 4.3 SUGARMILLSCO

SugarMillsCo was a sugar refining company. Historically, it had received tariff protection from the Saudi authorities that allowed it to dominate the Saudi market, with around 60% market share at the time of the research. At the time of Nitaqat it had 800 employees. Even before Nitaqat, in 2011, Saudi nationals made up 57% of SugarMillsCo’s workforce, and 65% of managers, half of engineers and other specialists and 84% of the supervisors. The company was already exceeding Nitaqat targets, and the majority of Saudi employees were in high-skilled technical and managerial roles. Despite being ahead of compliance for Nitaqat, there was no engagement, unlike GAGlassCo and FastFoodCo with the feminisation elements of the regulations. The organisation employed no female workers in 2011, and with the lack of compulsion in Nitaqat to increase female employment, the firm was not seeking to address this:

‘Our refinery is not equipped for the employment of women ... it is a hazardous environment, a massive refinery, and not safe for women. The jobs offered to females in other factories are limited to packing jobs where you can isolate females. Here in our refinery, we don’t need any manual packing services almost all the packing area is automated’ [Chief Operating Officer, SugarMillsCo].

Rather, automation was central to the workforce strategy being pursued by SugarMillsCo, even prior to Nitaqat. Senior management in SugarMillsCo had anticipated likely changes to labour market regulation, with potential limits on the use of foreign workers, and had embarked on an automation programme to reduce reliance on these workers in the years leading up to Nitaqat:

‘Top management and shareholders have examined the possible future impact on operation in such unpredictable and unstable labour laws. So they decided to go with another automation project to be accomplished in different stages in the next 3-4yrs costing the company 48 million US dollar aiming to free the company from dependence on casual foreign labourers. This will ensure the sustainability of the business in the long run’ [Chief Executive Officer, SugarMillsCo].

The firm had developed a strong relationship with the state and had agreed to commit to localisation much earlier than Nitaqat to reciprocate for the state support they had received in the form of extended tariff protection. This meant that the organisation was already in a strong position to meet the localisation requirements, and they had received a significant financial injection of state funding to develop their operational HRM capabilities:

'During the same period at that time, because of the good relationship we build with the government, we received around 700 thousand US dollars to enhance localisation, injecting this money on the employment and training of locals' [Human Resources Director, SugarMillsCo].

The training provided focused on both technical skills but also preparation of workers for progression into managerial roles:

'We have a very advanced learning management system in our company. Our training system aims to increase the efficiency of our employees (for both locals and non-locals), which we consider as one of our essential assets to lead the market' [Training and Development Manager, SugarMillsCo].

This response does point to the presence of dynamic HR capabilities in the organisation prior to localisation, along with strong support from senior leadership for the HR strategy being pursued. These had certainly helped the firm to pursue its automation strategy and reduce its reliance upon foreign labour. However, this also shows that organisations do not simply engage with changes in the regulatory environment in isolation, but rather that a combination of factors shape and enable particular choices and decisions. For SugarMillsCo, the strong relationship with the state, and the financial support received from the government to pursue its automation strategy, meant that there was a strong element of reciprocity in its willingness to engage with localisation even prior to Nitaqat.

SugarMillsCo's strong existing dynamic HR capabilities allowing it to pursue selective recruitment and provide extensive training allowed it to engage more meaningfully with Nitaqat than other organisations once it was introduced:

'we have a social and patriotic duty to help in enabling Saudis to work efficiently and succeed in their jobs, which will at the end of the day, help our business too. We are proud of our efficient training programmes and we believe it's one of our competitive advantages, especially after Nitaqat when the competition has increased. Our training programmes are keeping us miles ahead compared to the others' [Training and Development Manager, SugarMillsCo].

Nitaqat did create some challenges for the firm. As experienced by other firms, there was greater external competition for staff, and SugarMillsCo did see increases in turnover. The extensive technical levels of training provided by the firm, supported by strong linkages with colleges and Universities meant that other organisations increasingly sought to poach local Saudi workers from SugarMillsCo, in order to meet their own Nitaqat quota requirements. However, the company argued that it was well placed to meet these challenges, and its compliance with Nitaqat provided some protection against poaching by firms who were non-compliant.

Between 2011 and 2013, the proportion of the workforce who were Saudi nationals actually fell from 57% to 53%, yet this still allowed them to easily meet Nitaqat objectives for their sector. This fall reflected the success of the automation strategy in reducing the overall headcount rather than being a calculated plan to reduce Saudi employment. In this case, the adoption of a strategic approach to HRM also provided the basis for the development of further operational capabilities after Nitaqat to monitor implementation and compliance. In particular, SugarMillsCo had introduced systematic workforce localisation targets to the KPIs of unit managers, as it looked to develop a greater fit between HR practices to help meet Nitaqat regulations.

## 5 DISCUSSION

This study sought to understand the role of operational and dynamic HR capabilities in organisations' abilities to manage external change. The last decade has seen significant changes to both the Saudi Arabian economy and labour market (Cherif, 2020). One state-led initiative, called Nitaqat, has had a significant impact in particular. Nitaqat was firstly implemented in 2011 and required private sector firms to recruit more Saudi nationals, limiting their access to the non-Saudi labour market, and penalising firms that did not comply. This qualitative case study provided an in-depth understanding of how Saudi firms have developed and used their HR capabilities to respond to this changing environment.

The analysis takes our understanding of dynamic capabilities forward in two ways. First, the research shows that operational and dynamic HR capabilities can enable firms to respond more effectively to external change. The results demonstrate that for many firms, Nitaqat indeed created strong pressure to adopt a structured approach to the development of specific HR capabilities, notably in workforce planning, job design, and recruitment and selection and employee development and progression. This resulted in a successful and much-needed re-evaluation of their HR practices.

From the three cases in this study, FastFoodCo's approach involved the most significant changes. Alongside existing HR capabilities, they had developed some new capabilities enabling them to pursue an innovative approach to extend Saudi employment through the introduction of mixed-gender workplaces in its fast-food restaurants. GAGlassCo relied almost entirely on existing operational HR capabilities, which other studies have highlighted as important to help firms manage change (Maatman et al., 2010; Wei and Lau, 2010). Yet, their minimal compliance approach to Nitaqat, and their mere reliance on existing capabilities to navigate the changing environment of Nitaqat was problematic in the longer-term, clearly demonstrating the importance of modifiable HR capabilities.

GAGlassCo's reliance on a strategy to meet Nitaqat by continuing to employ more women but in a very limited range of roles, within a segmented internal labour market, and with limited progression opportunities had a built-in obsolescence as women increasingly sought employment elsewhere and turnover increased. In alignment with these findings, other studies have shown how a lack of dynamic capabilities can constrain choices and responses and ultimately hurt a firm (Garavan et al., 2016; Hansen et al., 2019).

SugarMillsCo's strong existing operational and dynamic HR capabilities meant that they were able to comply straightforwardly with Nitaqat, although their approach did not extend to engagement at all with the feminisation aspect of the regulations. Together the findings provide new evidence that indicate that HRM capabilities can be important in providing the 'operational zero-level' resources (Maatman et al., 2010) required to allow firms to adjust to external change. Indeed, the findings were in line with previous research that has demonstrated the relevance of operational and dynamic HR capabilities in successfully responding to external change (Ambrosini et al., 2009; Lopez-Cabrales et al., 2017). In addition, the findings confirm earlier research that demonstrates that the prior existence of operational and dynamic capabilities can provide a springboard for firms to innovate further and to develop new dynamic capabilities (Ambrosini et al., 2009; Lopez-Cabrales et al., 2017).

The second main contribution of the paper is to highlight how important contextual factors are in understanding how organisations respond to external change. Some aspects of context, and the role they play in shaping and constraining the development of HR capabilities have been highlighted in other studies (see Teece, 2018). However, socio-cultural factors are usually not taken into account in Western-based research. Yet, they are important to consider, as suggested in this study. Our paper indeed foregrounds the socio-cultural context of Saudi Arabia in which religious laws and dominant norms around the role of women in society continue to impact the operation of the labour market.

SugarMillsCo's response to external change was shaped by its long-standing close relationship with the state, which placed it in an advantageous position compared to others in the sector to use existing HR capabilities to respond rapidly to the quota requirements of Nitaqat. However, it did dismiss the idea of recruiting women during Nitaqat, despite its enthusiastic engagement with other aspects of the regulations. With feminisation of the workforce not being the central aim of the regulations, and not enforced by sanctions, its' strategy had strong elements of continuity with its' long-standing practices.

The socio-cultural context of Saudi Arabia was particularly important to understanding the use and development of capabilities in FastFoodCo and GAGlassCo. The success of FastFoodCo's strategy was indeed crucially dependent on the approval and support of state religious authorities, suggesting that socio-cultural context plays a particular role in enabling HR capabilities. Their plans to create mixed-gender restaurants involved significant negotiation and required permission from Saudi government religious authorities. Supported by these findings, Eisendhardt and Martin (2000) argued that different capabilities are needed for different market conditions and the external environment will influence what level of capabilities are needed both for basic functioning and for firms to gain a competitive advantage (Ambrosini et al., 2009). Indeed, whilst their planned strategy was innovative, other aspects of the FastFoodCo's HR strategy reveal how the organisation continued to work within the prevailing institutional and societal norms around the role of women in the labour market, with physical gender segregation being maintained in the new call centre it created which was staffed entirely by women. GAGlassCo also sought to achieve localisation by using more female workers while highlighted the importance of maintaining physical segregation.

## 6 CONCLUSION

The paper has revealed new insights into how HR capabilities are used within organisations, how they can facilitate the management of change, and the socio-cultural challenges firms face in utilising capabilities to manage change within specific contexts. Sociocultural context is a particularly important consideration, neglected in many Western based studies of strategic HRM. In this regard, the present research reveals that HRM capabilities do not automatically lead to innovation or successful adaptation to external change, but rather, outcomes depend on how HR strategies interact with, and are shaped by other contextual, environmental factors. Whilst this is an important finding, the limitations of the study are also worth noting. The study is based on a relatively small number of cases, across different sectors. Further research might consider whether the findings can be applied more widely. A further limitation of the research is that it has focused on just one country, Saudi Arabia. Whilst this has illuminated the importance of socio-cultural context in shaping HR capabilities and adaptation to change, further research would be needed to see whether the findings apply in other, different contexts.

The practical implications of these findings arise from the greater awareness that this paper brings of the importance of socio-cultural context to the development of operational and dynamic HR capabilities and their capacity to enable or constrain change. Organisations facing a changing external environment may be able to draw upon existing HR capabilities to help them manage change, whilst a knowledge of gaps in HR capabilities may enable firms to recognise which areas need further investment or development, to allow them to deal with change. Different capabilities may be more or less valuable for managing change in particular socio-cultural environments, as this paper has demonstrated. A mapping of existing HR capabilities in the areas of recruitment and selection, training, job design, employee development and progression, and a consideration of this alongside the features of the socio-cultural environment (labour market regulations, labour market participation norms, the employment system in place, religious and cultural rules and norms), can help any organisation to plan for and navigate change in the external environment. Overall, the paper points to the importance of considering context to understand the potential and actual impact of HR capabilities on outcomes during change.



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