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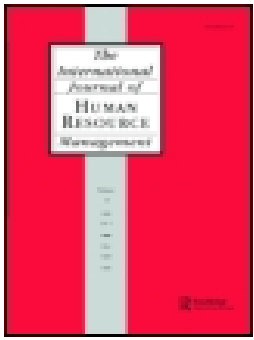
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Bringing it all back home: the HRM role in workforce localisation in MNEs in Saudi Arabia

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ABSTRACT

Governments across the Arabian Gulf aim to reduce their dependence on expatriates by implementing localisation policies. Building on institutional and legitimacy theories, we seek to advance our understanding of the effects of such policies on multinational enterprises (MNEs). We used data from 157 MNEs operating in Saudi Arabia and found the indigenisation of the human resource management (HRM) function is closely correlated with the level of workforce localisation: key factors empowering localisation, defined as recruitment and training practices geared towards the needs of locals, include the demographics and role of the HRM Director. Theoretically, we contribute to the literature on institutionalism and legitimacy by revealing how various institutional forces influence the process of selection and transfer of HRM practices to adapt to the institutional environment of a given context. Our research also shows that if MNEs follow government recommendations, develop links with local educational institutions to target suitable job candidates, and adapt to shortages in local skills and competencies by investing in the training and development of local workers, they will be more likely to achieve success in workforce localisation and legitimacy.

KEYWORDS

Localisation; MNEs; Saudi Arabia; institutional theory; legitimacy; HRM practices

Introduction

One of the key challenges faced by multinational enterprises (MNEs) involves their response to the institutional conditions in host countries (Wang et al., 2022). The level of engagement of MNEs with the local environment and local partners determines how firms and key stakeholders, such as local governments, co-evolve and create the basis for economic

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and social growth (Lundan & Cantwell, 2020). These collaborations take place in specific institutional contexts and require understanding and acceptance of MNEs as key players in the host country's environment (Farndale et al., 2017; Kostova & Roth, 2002; Lewis et al., 2019). In return, they gain legitimacy – the 'generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate' (Suchman, 1995, p. 544). Achieving such legitimacy is essential for promoting the MNE's status in the host country, enabling access to important resources and enhancing its ability to compete (Baum & Oliver, 1991; Wang et al., 2022).

Human resource management (HRM) is one of the management functions where MNEs, for both institutional and cultural reasons, are most likely to localise their practices (Rosenzweig & Nohria, 1994). However, given the simultaneous need to conform to both external and internal institutional forces, MNEs tend to employ expatriates on system-wide terms and conditions of employment (McNulty & Selmer, 2017). The issue of localisation and any resultant tension with internal organisational coherence and internationalism can be viewed from either perspective, so the nationality of the HRM Director will inevitably indicate only one side of the coin. In some countries, particularly outside the WEIRD (Western, Educated, Industrialised, Rich and Democratic) countries (Henrich et al., 2010), achieving local legitimacy includes responding to local government policies to replace foreign expatriates with the country's own nationals; thus, spreading the learning and income that comes from such jobs on a sustainable basis to the country's 'own people' (Ali et al., 2020). Workforce localisation includes policies for the recruitment and development of local employees' skills and capabilities and giving them, as citizens, priority over expatriates to fill positions for which they are qualified (Budhwar et al., 2019).

We examine the role of HRM in the success of localisation policies in the petrostate of Saudi Arabia. The Arabian Gulf states have sizable expatriate workforces and localisation has recently become a priority public policy supported by strict affirmative action laws and regulations (Elbanna, 2022). The reliance on expatriate workers despite unemployment among national citizens gave workforce localisation policy in Saudi Arabia and other oil-rich countries in the region a political dimension, even to it being classified as a national security matter (Harry, 2007), with resentment among the local citizenry and increasing pressure on the government to create jobs and to ensure that employers prioritise the hiring of national citizens over expatriates (Assidmi & Wolgamuth, 2017). Budhwar and Mellahi (2007) argue that building relationships with the government is particularly important in the Middle Eastern context, so MNEs are likely to be under increasing pressure to staff their subsidiaries with local workers (Law et al., 2009).

There is limited research on the implementation of localisation where the supply of qualified and experienced host country nationals (HCNs) is limited (Evans et al., 2002; Sparrow et al., 2016). In such cases, HCNs may even hesitate to work for a multinational business (Haak-Saheem & Festing, 2020). Thus, recruiting, developing and retaining local talent becomes a major concern for MNEs.

Despite the positive effects of localisation for HCNs, and its implications for MNEs' performance and legitimacy in the host country, research in this area remains scarce and equivocal (Elbanna, 2022). In particular, we lack empirical evidence that identifies the factors associated with the success or failure of such policies. Scholars have called for research to address HRM and the localisation agenda in Middle Eastern countries, including Saudi Arabia (Budhwar et al., 2019).

We examine the effects of HRM practices on the workforce localisation of MNEs operating in Saudi Arabia. The changing institutional environment in the country over the past decade requires MNEs to initiate changes in their HRM practices to create a more localised HRM system. While traditional institutional theory emphasises isomorphism (Lewis et al., 2019), we argue that MNEs in the Saudi context need to approach localisation with a sense of agency and to proactively undertake changes in their HRM practices. Given the traditionally heavy reliance on expatriates by MNEs in the Saudi context, such changes, especially in recruitment and training practices, are key to achieving the desired level of workforce localisation and maintaining the MNE's legitimacy in the local context. We contribute to improving understanding of how MNEs and their HRM managers perceive, respond to, and use the political, economic, and social contexts to optimise their HRM policies and practices to achieve efficiency and legitimacy (Vincent et al., 2020). In addition to specific practices, the nationality and status of the senior HRM specialist may be relevant and we test this hypothesis.

The paper is structured as follows: the next section discusses the theoretical underpinnings of workforce localisation in the Saudi context using institutional theory. This section also discusses the implications of the changing institutional environment on the relationship between localisation and HRM practices within the Saudi context and the wider Arabian Gulf region. In the following section we discuss the key determinants of localisation success and present the study hypotheses regarding the role of HRM Directors and HRM practices in successful workforce localisation. The third section describes our methodology and sample characteristics. We present our empirical results and finally discuss the findings in relation to existing literature and draw conclusions and implications for theory and practice.

Theoretical understandings of localisation policies

Governmental localisation policies

Governments from countries that are not WEIRD (Henrich et al., 2010) have long complained of MNEs bringing in expatriate expertise and, in return for visas, promising to use those expatriates to ‘upgrade the skills’ of locals, but then failing to do so and having to bring in other expatriates to replace the ones who leave. This occurs even whilst there is unemployment or underemployment in the local community (Jawali, Darwish, Scullion & Haak-Saheem, 2022). Scholars have argued that foreign direct investment brings a net positive effect on employment, capital and knowledge flows and training (Narula & Pineli, 2019), but evidence is sparse. These non-WEIRD governments are increasingly arguing that MNEs have to localise their staff, providing more opportunities for national citizens and replacing expatriates by locals rather than other expatriates. The Covid-19 pandemic, which led to international travel restrictions, made recruitment via the global labour market considerably more difficult, emphasising the need for local human resources (Caligiuri et al., 2020). On the other hand, imposed travel restrictions and local lockdowns hindered nationals from travelling abroad for studying or working purposes. Though this effect may be of a short nature, as international travel has resumed and it is unlikely that we will return to the heavy restrictions we experienced in early 2020, it gave a fillip to localisation.

In Saudi Arabi, MNEs have relied heavily on expatriates to manage their businesses and provide specialist skills and have invested little in recruiting and developing local talent (Wood et al., 2020). The effect has been to depress any incentive for locals to learn business skills, to develop technical knowledge or to seek jobs in the Saudi subsidiaries of MNEs. Hence, both local firms and MNEs have got into the mindset of recruiting large numbers of expatriates to deal with shortages of human resources (Forstenlechner, 2008; Mellahi, 2007; Haak-Saheem & Darwish, 2021). Governments have for decades been trying to pressure private sector employers to increase the proportion of locals in their workforce, but without success (Cooke et al., 2019; Forstenlechner & Mellahi, 2011; Haak-Saheem et al., 2017). The pressure to localise is now being stepped up and incorporated in legislation (Alanezi et al., 2020).

MNE localisation policies

Institutional theory holds that HRM practices reflect changes in the institutional environment surrounding the organisation (DiMaggio & Powell, 1983; Scott, 2013): institutional forces influence the process of selection and transfer of HRM practices to adapt to the institutional

environment of a given context (Mayrhofer et al., 2019). An MNE's actions therefore are not determined by internal requirements to integrate with the overall organisational strategy, but rather are seen as choices arising from the tension between such requirements and external pressures to adapt to the host country's institutional environment (Clark & Lengnick-Hall, 2012; Mayrhofer et al., 2019). Regulatory, normative, and cultural-cognitive elements of the institutional environment pressure organisations towards isomorphism. Regulatory elements involve establishing rules, control mechanisms, and sanctions to influence behaviour. Normative elements involve the creation of expectations, translated into prescriptive and obligatory elements in the social system. Cultural-cognitive elements involve the creation of shared conceptions, norms, and frames of meaning among members of a social group. Institutional theory explains the adaptation and diffusion of organisational practices and forms by arguing that the requirements of efficiency and legitimacy force organisations to adopt practices appropriate to their environment (Suddaby et al., 2017). Including recognition of managerial agency (Kostova et al., 2008), and attention to dynamics, social construction and values, such theories offer insight into the multiple institutional pressures faced by the MNE (Berry et al., 2010; Kostova et al., 2008). The institutional context and labour market conditions in Saudi Arabia and other Gulf Cooperation Council (GCC) countries involve uncommon aspects and characteristics that must be addressed in a holistic manner for workforce localisation policies to be successful (Al-Waqfi & Forstenlechner, 2014). Amongst other issues, the local workforce has been socialised in a different institutional environment than the one that conditions the HRM practices of MNEs (Björkman et al., 2007).

For many MNEs, particularly the larger and more visible ones, managing the tensions between global policy and local requirements is a key role in the management of subsidiaries (Chung et al., 2020). MNEs need to gain legitimacy from resource-providing audiences in the host country to acquire critical resources (Forstenlechner & Mellahi, 2011). External legitimacy provides MNEs with the ability to reduce the liability of foreignness and achieve social acceptance in the host country (Suchman, 1995). Changes in the regulatory, cognitive, and normative elements of the institutional environment in Saudi Arabia are increasingly visible due to the new localisation regulations and the pressure from the local government and people to create jobs for citizens and reduce the recruitment of expatriates. Organisations including MNEs are expected to respond to institutional pressures and expectations with self-interests and active agency (Oliver, 1991). Baum and Oliver (1991, p. 187) argued that 'external legitimacy elevates the organisation's status in the community, facilitates resource acquisition, and deflects questions

about an organisation's rights and competence to provide specific products or services'.

With job creation for locals high on the public policy agenda in those countries, Boon and colleagues (2009) argue that the interaction between institutional pressures and HRM in MNEs results in different degrees of institutional fit and hence, we would argue, of legitimacy. Fit requires consideration of the influence of different stakeholders (Beer et al., 2015), including political actors (Oliver, 1991). As such, providing employment to nationals could improve ties to government actors and secure access to critical resources. MNEs employing locals would improve relations with the host country government (Forstenlechner & Mellahi, 2011).

Expatriates can play a key role in diffusing the norms and values of HQ in foreign subsidiaries. For instance, Mellahi et al. (2016, p. 895) argue that having expatriates in newly established subsidiaries is 'a way of ensuring diffusion of corporate values and practices to the subsidiaries' (see also Gu & Nolan, 2017). However, localisation policies can bring intrinsic advantages for MNEs too, in terms of legitimacy, cost-savings (Bitektine et al., 2020), efficiency and resilience. First, local employees understand their local culture and local market environment better than expatriates and find it easier to build business relationships with local customers (Cascio, 2006). Second, expatriate managers, especially those who cannot speak the local language or are culturally distant, can have a negative impact on the morale of local employees (Cascio, 2006; Law et al., 2004). Third, expatriate managers may also, potentially, undermine local employees' commitment to the firm as managerial positions are given to them rather than acting as a conduit to higher positions for locals (Fang et al., 2010). Finally, as the 2020 pandemic revealed, extraordinary vulnerabilities arising from widespread global uncertainties such as employees 'stuck' in foreign countries around the world with their health and well-being at risk (Caligiuri et al., 2020). In resilience terms, the sharp decrease in international mobility during the pandemic was an issue for governments and MNEs: international travel restrictions, increased attention to and investment in remote work and expatriates' health and safety concerns may lead to re-evaluating international mobility policies and force MNEs to accelerate their localisation programmes (Caligiuri et al., 2020). Expatriate-dominated staffing strategies have been seen as less effective when uncertainty levels are high (Sartor & Beamish, 2020), and international relocation of expatriates is cost-intensive (Pinto et al., 2017).

The advantages of improving efficiency, legitimacy and resilience in crisis situations may be there, but localisation policies across the Arabian Gulf had, pre-2020, hardly impacted MNEs (Barnett et al., 2015). Even

governments' applying stricter quota-driven approaches had little effect (Elbanna, 2022). Some MNE started employing nationals to 'make up the numbers' in order to avoid penalties, but they were often given 'shadowing' or non-jobs and it was unclear what else could be done (Forstenlechner, 2008).

Localisation and the changing institutional environment

Employment in Saudi Arabia was subject to broadly liberal policies in relation to the involvement of expatriates. Over time, organisational cultures and management practices such as recruitment were almost entirely shaped by the dominance of the foreign workforce and companies in the private sector become adept at hiring well trained, if costly, expatriate workers. Citizens who might have considered working in the private sector felt an ironic sense of 'foreignness', as they would have to adapt to work environments where expatriates represent a majority of the workforce and play a significant role in shaping the organisational culture. The pressure on governments to create jobs gradually led to increasingly strict measures to limit access of expatriates to the labour market throughout the Gulf Cooperation Council states.

Prior to 2011, Saudi Arabia's localisation efforts had been similar to those of other countries in the region, with ambitious localisation targets that lacked proper enforcement mechanisms and were largely unmet (Peck, 2017). So, in 2011, the Saudi government announced a new programme, called *Nitaqat* (bands), including specific quotas with corresponding sanctions if they were not reached and benefits for compliance (Ministry of Labour and Social Development, 2018). Since then, private companies in Saudi Arabia have to report their employee localisation figures to the Ministry of Labour and are subjected to government sanctions when they fail to meet the specified quotas.

With the introduction of the *Nitaqat* programme, resisting localisation or engaging in 'cosmetic' compliance no longer works and more creative, entrepreneurial responses are needed. The new emerging institutional forces are driving MNEs to move towards more hiring of HCNs: companies that do not develop genuine and effective solutions for employee localisation will risk losing their business in the country. Institutional logics, representing recurrent patterns of behaviour, encompassing rules, interpretations, values, norms, and practices that underpin economic and social life (Lewis et al., 2019; Schotter et al., 2021). This transition involves new HRM models focussed on specific HRM practices that were not emphasised in the past. Table 1 summarises the key characteristics of the old and new approaches to HRM and the implications for HRM practice in the Saudi Arabian context.

Table 1. Key characteristics of the old and new HRM institutional logics in Saudi Arabia.

Old HRM model	New HRM model	Implications for HRM practice
1 Majority of the workforce in the private sector are expatriates while citizens work in the government.	Citizens must be given priority in the private sector and employers are required to increase their representation in the workforce.	<ul style="list-style-type: none"> • Empowering the role of the HRM Director of the MNE subsidiary to lead the workforce localisation process has a positive impact on localisation (H1) • MNEs with Saudi national HRM Director are more likely to achieve localisation (H2)
2 Supply of qualified expatriate workers is virtually unlimited and therefore they are preferred over citizens who are in short supply.	Supply of expatriate workers is restricted and their cost is increasing due to restrictions on access of expatriates and higher fees on work permits.	Recruitment practices designed to attract local applicants will have a positive impact on localisation (H3)
3 Limited need for training because of availability of large supply of highly skilled expatriates who can be hired easily.	Employers need to invest in workforce training since supply of expatriates is restricted by new regulations and most of local job seekers are either fresh graduates or citizens who only worked in government with no experience in the private sector.	Training practices focusing on development of local workers will have a positive impact on localisation (H4)

Hypotheses development

Determinants of localisation success: the role of HRM Directors

While laws and regulations may act as compelling forces driving MNEs to increase their level of workforce localisation, the process will not be successful unless it is supported by effective HRM practices to facilitate recruitment, placement, and development of local talent (Elbanna, 2022). Mellahi and Wood (2001) show how socio-economic and political contexts shape HRM policies and practices, emphasising that the labour market structure and localisation policies are key factors. Forstenlechner (2008) showed how an increasing use of tokenistic practices and short-term localisation programmes highlighted a lack of any real strategy or commitment to develop national human resources. Law et al. (2009) and Björkman et al. (2007) argue that the strategic role of the HRM department becomes a significant determinant for the success of localisation (Scott, 2002). In this case – and a determinant of localisation succeeding, according to Law et al. (2009, p. 1361) – the HRM department of the MNEs' subsidiary must be in a position to influence decision-making authority in activities such as recruitment, selection, training, performance management and compensation. In line with these findings, the strengthened decision-making role of the HRM specialist in charge is likely to have a positive impact on localisation practices. So, we hypothesise that:

H1: Empowering the role of the HRM Director of the MNE subsidiary to lead the workforce localisation process has a positive impact on localisation.

Determinants of localisation success: the nationality of HRM Directors

One key indicator of, and potential enhancer of, localisation is the localisation of the role of HRM Director itself. Law et al. (2009, p. 1361) imply that having nationals in the highest HRM positions will positively influence the localisation process. It could be argued that where the role of HRM Director is occupied by Saudi nationals, they may be more motivated to further a policy of localisation. Further, their knowledge of local cultures and values, and their ability to establish good networks with intermediary organisations such as universities and with potential job candidates, mean they are better placed to implement such a policy. Our second hypothesis therefore is:

H2: MNEs with Saudi national HRM Directors are more likely to achieve localisation.

Determinants of localisation success: impact of recruitment

Successful workforce localisation requires MNEs to embrace localised HRM practices, becoming more isomorphic with the local institutional context (Gooderham et al., 2006). It has been argued that HRM practices of MNEs tend to reflect the social and institutional context from which they originate (Wood et al., 2014). If that is true, the HRM practices of 'advanced' national business systems (i.e. developed economies) may be more sophisticated than those located in economies such as Saudi Arabia (Chiang et al., 2017; Fryxell et al., 2004). Practices such as recruitment and provision of further training and development represent reflections of, or responses to, rules and structures that exist in the surrounding institutional environment (Boon et al., 2009). In the Arabian Gulf region, the heavy reliance on expatriates has created an institutional environment in which local workers and job seekers are alienated, since employers have over time developed staffing and management systems and practices which perpetuate the continuing dependence on the foreign workforce (Al-Waqfi & Forstenlechner, 2014). The significant levels of government employment of Saudi nationals, with high salary levels relative to comparable rates in the private sector, contributes to an unwillingness amongst locals in Saudi Arabia to join MNEs (Wood et al., 2020). However, like other Gulf States, Saudi Arabia has spent heavily on automation in the government sector. Consequently, few jobs are available to locals in the public sectors moving forward. We expect that restructuring and reliance on technological advancements will impact on employment choices of locals which are rooted in the local socio-cultural and institutional environment (Al-Waqfi & Forstenlechner, 2014). But for MNEs, a key difficulty will remain in identifying a pool

of suitable candidates among the local citizens (Alanezi et al., 2020), without lowering hiring standards. Thus, Tlaiss and Al Waqfi (2022) call for a stronger involvement of HRM in ensuring successful transitions in the labour market. In addition to these changes in the external labour market, MNEs could lobby to change the host country's rules of the game related to local employment choices (Farndale et al., 2017). MNEs therefore need to reach out to locals, especially younger locals, to trigger a positive response (Achoui, 2009; Forstenlechner, 2009). Therefore, we explore a further predictor of localisation success: Recruitment practices designed to attract local applicants.

H3: Recruitment practices designed to attract local applicants will have a positive impact on localisation.

Determinants of localisation success: impact of training

In many countries with localisation policies, the formal education system is immature compared with the advanced economies, is gender-biased, and is concentrated on general academic fields in humanities and social sciences rather than professional fields including business, engineering, and natural sciences. Business-useful skills are lacking, leading to a concomitant, and continuing, insufficient supply of skilled labour (Vaiman et al., 2019; Wood et al., 2020). In the Saudi context, socio-cultural and religious norms and practices are relevant to educational and employment choices, shaping the status of women and influencing gender equality in the education and labour markets (Baki, 2004) and constraining job opportunities for women in male dominated industries (Bursztyn et al., 2020). However, major reforms have been introduced recently aiming at developing the country's economy and society, including the status of women. Vision 2030 launched in 2016 involved a strong commitment to strengthening the contribution of women in the economy and society and increasing their workforce participation from 22% to 30% (Tlaiss & Al Waqfi, 2022). With their international experience in inclusion and diversity management, and taking into consideration the above-mentioned institutional constraints, MNEs are well positioned to contribute to workforce localisation by developing hiring and training programmes aimed at increasing representation of Saudi females in their workforce.

Despite major investments by governments in the higher education sector over the past few decades, the education systems in the petro-states of the region do not appear to be equipping young local graduates with adequate skills for employment (Harry, 2007; Wood et al., 2020). MNEs may therefore be required to fill this gap, undertaking training and development in order to increase the skills of the locally-recruited workforce, especially in work-related skills (those required to perform the

job) and job-securing skills (skills in languages, IT and communication). There are successful examples that have been shown to be directly correlated with localisation (Achoui, 2009). As a further check on localisation success, therefore, we explore training practices, focussing on the development of local workers.

H4: Training practices focusing on development of local workers will have a positive impact on localisation success.

Methodology

Context

Saudi Arabia is a rich petro-state, with a total population of 34 million, 38% of them being foreign citizens (CIA, 2020), and with those expatriates representing up to 75% of the total workforce and 86% of the private sector workforce (Wood et al., 2020). Recently, increasing levels of unemployment have been reported in Saudi Arabia, especially among the younger generation. The overall unemployment rate is estimated at 5.8% while average youth unemployment reached 27.6% (ILO, 2017; GASTAT, 2022). Youth unemployment is becoming an increasingly sensitive issue in the Arab Middle Eastern countries in the wake of the Arab Spring. It is believed that high youth unemployment was one of the main causes of uprisings and political turmoil in several countries in the region recently (Fakih et al., 2020). By addressing this issue, MNEs operating in Saudi Arabia would be able to elevate their status and legitimacy in the local context.

In Saudi Arabia, as in other parts of the Arabian Gulf, policy makers and managers alike have for a long time operated under the assumption that in emerging economies a coordinated and controlled external labour market is the most effective approach (Meyer & Peng, 2016). The COVID-19 pandemic led to significant levels of labour market upheaval and uncertainty, requiring the government to act to ensure the system did not collapse. In Saudi Arabia, the General Authority for Statistics reported that 1.2 million expatriates left the country in 2020 (Arabian Business, 2020). Governments are using the momentum created by the uncertain employment conditions and the currently less attractive labour market for expatriates to get more nationals into employment.

Al-Shammari (2009) calls for restrictions on the entry of expatriates to support localisation of the workforce in the private sector. This context provides a unique opportunity for research as the Saudi government is forcing sceptical MNEs to implement localisation policies. To address rapid growth of the local population, and high local unemployment, the creation of sufficient employment opportunities for Saudis in this labour market is an urgent issue for the Saudi government (Ramadi, 2005).

Data and sample

We collected data from HRM Directors in foreign MNEs operating in Saudi Arabia. Not only are these the people with the best overview of the MNEs' subsidiaries in Saudi Arabia, but their role in localisation is likely to be significant (Björkman et al., 2007; Law et al., 2009). The Statistical Yearbook published by the Saudi General Authority for Statistics noted that there are 3449 foreign companies registered in Saudi Arabia (GASTAT, 2018). However, a discussion with the Ministry of Investment and a check of the 'Invest Saudi' platform revealed that not all these MNEs are currently active. We identified 214 MNEs in Saudi Arabia who were approached for data collection, and 157 (73%) agreed to complete the questionnaire.

Measurement

Outcome variable

Localisation success was measured by five items related to the extent to which the HRM Director perceives the localisation policy of the company to be successful in achieving its goals. These items are based on existing literature (see Law et al., 2009; Wood et al., 2020). An example item is 'The Saudisation policy in our company is successful'.

Predictors

HRM determinants of localisation policy (the empowerment and nationality of the HRM Director, recruitment, and training) were measured based on existing literature (Achoui, 2009; Björkman et al., 2007; Forstenlechner, 2009; Law et al., 2009; Truss et al., 2002). The empowerment of the HRM Director was measured by five items. An example is 'The HRM Director has been given support by top management to implement Saudisation'. Recruitment practices targeting locals were measured using six items. An example item is 'We have established links with educational and training providers to recommend potential Saudi candidates'. Training and development practices were measured by four items, including 'Government training programmes have helped us improve the performance of our local employees'. The full list of items is shown in Table 2. The HRM Director's nationality was measured as a dummy variable with zero assigned to being a Saudi national and one assigned to a non-Saudi national.

Control variables. The size and age of MNEs and dependence on government were used as control variables in this study. MNE size was measured respectively in natural logs (Kimberly, 1976) of the number of employees in each company's operation in Saudi Arabia and age by the number of years the company has been in operation in the country (e.g. Darwish et al.,

Table 2. Convergent validity for research constructs.

Items/Constructs	Role of HRM Director	Recruitment	Training	Localisation success
The head of our HRM department participates in the strategy formulation and development of our company.	.811			
Saudisation is important responsibility for the HRM Director.	.732			
The HRM Director has been given support by top management to implement Saudisation.	.705			
The HRM Director is successful in implementing localisation in our company.	.613			
The HRM Director has helped us increase the number of local employees.	.581			
Our recruitment practices of Saudi workers are different from recruitment practices of foreign workers.		.853		
When recruiting a Saudi candidate, we mainly rely on a recruitment agency.		.807		
We have established links with educational and training providers to recommend potential Saudi candidates.		.742		
We have recruited Saudi candidates through Human Resources Development Fund (HRDF).		.705		
The costs of hiring Saudis are lower when compared to non-Saudis.		.648		
We were able to identify a pool of suitable Saudi candidates		.551		
We mostly choose or design training programmes based on company needs and training needs of local staff.			.722	
On the job training have helped us improve the performance of our local employees.			.706	
Our training programmes have improved the performance of local staff.			.624	
Government training programmes have helped us improve the performance of our local employees.			.617	
Saudisation is an important business objective for our company.				.886
The Saudisation policy in our company is successful.				.807
The Saudisation policy is hindering our firm's competitive advantage.				.735
Our company has a sufficient number of capable local workers.				.712
Our number of Saudi workers increased due to the implementation of Saudisation				.584
<i>Average Variance Extracted (AVE)</i>	.68	.84	.66	.74
<i>Reliability(Cronbach's alpha)</i>	.86	.68	.69	.75

2016). We used dependence on government contracts as another control variable. It is assumed that MNEs with sizable business from government contracts will be more inclined to embrace localisation, measured by a Likert scale. An example item is: 'the government is our largest client'.

Construct validity and common method variance

Convergent and discriminant validity have been assessed to measure overall construct validity. To assess convergent validity, we considered

factor loadings, average variance extracted (AVE) and the reliability of the construct (see Hair et al., 2010). Factor loadings ranged from 0.55 to 0.89, indicating a strong association between constructs and their respective factors. AVE ranged from .66 to .84, signifying adequate convergence of the research constructs. Constructs met the reliability criterion with Cronbach's alpha coefficients ranging from .68 to .86. Together (see Table 2), convergent validity is established. For discriminant validity, we followed Fornell and Larcker (1981) by comparing the square root of the AVE values with the value of the standardised correlation of a particular construct. Table 3 shows an acceptable level of discriminant validity was established with the squared roots of the AVE values being higher than the standardised correlation of the constructs.

We attempted to minimise the potential effect of common method variance. First, we used 'scale reordering' (Podsakoff & Organ, 1986) when constructing our survey; hence, we asked questions in relation to HRM factors first, followed by the questions on the subject of localisation success. Second, we used Harman's one-factor test to check whether common method significantly impacted our findings. Results of principal component analysis with varimax rotation showed a number of factors with eigenvalue greater than 1.0, rather than a single factor. Whilst the majority of the variance was not explained by the first factor, which explains why a number of factors emerged rather than a major single one, these results indicate that common method variance was a lesser concern and did not confound the interoperations of our findings (Podsakoff & Organ, 1986).

Findings

Descriptive results

Table 3 reports the means, standard deviations and zero-order correlations of all variables. The relationship between HRM variables and localisation success is significant; the latter provides initial support for the proposed hypotheses. Then we run a regression analysis to test our hypotheses specifically.

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

	Variables	Mean	S.D.	1	2	3	4
1.	Role of HRM Director	2.81	.58	.89			
2.	Recruitment	2.52	.53	.35**	.82		
3.	Training	3.48	.77	.41**	.25**	.83	
4.	Localisation success	3.11	.88	.73**	.30**	.44**	.70

Note: $n = 157$.

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

Bolded diagonal elements are square roots of average variance extracted.

Tests of the HRM determinants

We conducted sequential (hierarchical) regression analysis through multiple steps. In the first step, the control variables, dependence on government and age and size of MNEs, were entered into the regression equation. In the second step, we entered the HRM determinants (role of HRM Director and nationality of HRM Director, recruitment, and training).

The results of the hierarchical multiple regressions are shown in Table 4. The values of R^2 and F -ratio for HRM determinants are highly significant ($R^2 = .579$, $F=29.235$, $p < .001$). The value of R^2 indicates that the change of 58% in the variation in localisation success can be explained by the HRM determinants. These results suggest that the model is good enough to predict the outcome variable. In addition, the adjusted R^2 is .559, indicating that the model is ideal in generalising and perfectly reflecting values similar to, or close to, the value of R^2 . Generalisability of results could also be extended beyond the Saudi context as the GCC states share similar economic, cultural and social characteristics (e.g. the dominance of local tribal values shapes several HRM practices in the region, such as international assignments, training and development) (see Haak-Saheem et al., 2017; Tlaiss & Elamin, 2016).

Having controlled for dependence on government and age and size of MNEs, significant changes in R^2 over the control variables ($R^2 = .576$, $F=50.955$, $p < .001$) provided preliminary support for some of the HRM determinants in their positive relationships with localisation success. First, there is a strong and positive impact of the role of HRM Director on localisation success ($b = .643$, $p < .001$). It seems that where the HRM Director plays an influential role generally, the subsidiary has

Table 4. Regression analysis for localisation success with HRM determinants.

Variables	Model 1	Model 2
	Localisation success	
Step 1: Control variables	Coefficient	Coefficient
Dependence on Government	.013	-.002
MNEs size	.037	.001
MNEs Age	.010	.033
Step 2: HRM determinants		
Role of HRM Director		.643***
Nationality of HRM Director		-.037
Recruitment		.102*
Training		.136*
R^2	.002 (-.017)	.579 (.559)
ΔR^2	-	.576
F for R^2	.119	29.235***
F for ΔR^2	-	50.955***

Note: $n=157$. Standardised regression coefficients are shown.

Adjusted R^2 in parentheses.

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

more success in achieving localisation, providing strong support for our first hypothesis.

However, the results did not support our second hypothesis in relation to the HRM Director's nationality ($b = -.037$, $p > .10$). The results indicate that MNEs that empower and support their HRM Directors are able to implement localisation policy that are more likely to succeed in localisation; but that occurs regardless of the Director's nationality – being Saudi national or not has no influence (in our dataset, there were 103 (65.6%) Saudi national HRM Directors and 54 (34.3%) non-Saudi nationals).

Recruitment is positively and significantly related to localisation success ($b = .102$, $p < .05$) which provides support for our third hypothesis, indicating that MNEs who employ intensive recruitment practices aimed at attracting local job candidates will succeed in their localisation efforts and increase the proportion of their local workforce. The results also support our fourth hypothesis, revealing that training is positively and significantly related to localisation ($b = .136$, $p < .05$). This suggests that MNEs that design their training programmes based on the needs of local workers, and balance them with the needs of job responsibilities, are successful in their localisation process. We further discuss our results in the next section.

Discussion

In the Kingdom of Saudi Arabia strong affirmative action measures favouring country of domicile nationals are in force. The record of MNEs in achieving localisation is, however, patchy. We examined the role of HRM in the implementation and success of localisation policies, focusing on the role of HRM Director, the nationality of the HRM Director, and HRM practices. Research on performance of MNEs indicates the benefits for companies in localising their operations, HRM included (Björkman & Budhwar, 2007). In an attempt to provide a better understanding, we proposed four hypotheses to examine the relationship between HRM and localisation success within the specific context of MNEs operating in Saudi Arabia. In our first hypothesis, we propose that localisation policies should succeed when MNEs empower the role of the HRM Director within their subsidiaries to lead the workforce localisation process. Notably, our results show that the HRM Director plays an essential role on the implementation and success of localisation policies. When the HRM Director is empowered to play a strategically important role in the organisation to implement localisation, this implies that MNEs are willing to support HRM in localisation efforts. A straight outcome is localisation success. Our finding supports the notion that implementation is genuinely desirable and that HRM specialists add

value to organisations by ensuring that policies have an impact on business outcomes (Brandl et al., 2022).

Existing literature indicates that having nationals in the highest HRM positions will positively influence the localisation process (see, for example, Law et al., 2009), but our results did not support this hypothesis. Our results, rather, suggest that HRM Directors empowered by their MNE are more likely to succeed in their localisation efforts regardless of the HRM Director's nationality, Saudi or not. Reflecting on this result, it makes sense that whatever the nationality of the HRM Director is, their willingness and capability to implement localisation policies and practices is more important than their passport. It is influential HRM Directors who will assist in achieving legitimacy in the host country (Brandl et al., 2021). The issue of localisation and any resultant tension with internal organisational coherence and internationalism can be viewed from either perspective, so the nationality of the HRM Director will inevitably indicate only one side of the coin.

Effective workforce localisation requires MNEs to embrace localised HRM practices and to become isomorphic with the local institutional context (Gooderham et al., 2006). The HRM practices of MNEs need to reflect the social and institutional context from which they originate (Wood et al., 2014). For localisation to succeed in any developing economy context with a history of high reliance on expatriates, steps will need to be taken towards overcoming differences in the quality of human capital between expatriates and local workers as well as the different socialisation experiences and expectations between the two groups. We found that all the MNEs that were successfully localising had links with educational institutions to target suitable job candidates, had the ability to identify local job candidates, and hired locals through the recommendations of government agencies endorsing localisation.

Local education systems in the petro-states of the region do not appear to be equipping young local graduates with adequate skills for employment (Harry, 2007; Wood et al., 2020). For MNEs to develop local workers to the levels needed to replace expatriates will take time and will require major investment in training and upskilling programmes, including on-the-job training, government training programmes designed to upgrade the skills of locals and specific company training programmes to balance the training needs of locals with their job responsibilities. HRM needs to look further than meeting short-term goals by recruiting from the international market, and cost-reduction by hiring 'ready-made' skilled workers and invest in 'making' their own local employees. Doing so will contribute to long-term organisational performance by achieving legitimacy beyond minimum legal compliance.

Implications for theory and practice

Our findings show that in situations, such as those of the pandemic, where resilience is needed, successful implementation of localisation policies will help MNEs to reduce reliability problems (Verbeke, 2020). MNEs may use this opportunity to reconsider their effort towards workforce localisation to reduce reliance on global talent and to increase legitimacy and resilience.

Although our findings overall are in line with the study of Law et al. (2009) on the success of localisation in China, and the comparative research of Björkman et al. (2007) on the impact of HRM practices on localisation in three countries (U.S.A., Russia and Finland), they also show a much higher impact when top management supports the localisation process by placing a higher value on the position of the HRM Director in the hierarchy of the MNE's subsidiary.

Our work has implications for institutional and legitimacy theories which help to reveal how various institutional forces influence the process of selection and transfer of HRM practices to adapt to the institutional environment of a given context (Mayrhofer et al., 2019). MNE's actions are not determined solely by internal requirements to integrate with global organisational strategies, but have choices among a set of options partly determined by external pressures to adapt to the host country's institutional environment. They can create new forms of institutional rationality (Lounsbury, 2008) that adheres to local regulations, values and conventions: localisation policy in Saudi Arabia and across the wider region should be viewed by MNEs as institutional logics that help 'guide [the] decision-making of actors in a field' (Lounsbury, 2008, p. 353) rather than negative institutional requirements. Scholars need to more closely explore the uniqueness of contexts and re-thinking the way HRM is conceptualised by taking into consideration their dominant cultural approach and local institutional arrangements. Such approach allows for explanation, understanding and contextualisation of the present findings within the Saudi context and the wider GCC region. Institutional logics, representing recurrent patterns of behaviour (e.g. rules, interpretations, values, norms, and practices) should shape MNEs' HRM practices (see Table 1 for examples). This is key to MNEs' success in contexts with fluid and underdeveloped institutional infrastructure like the one under study. Hence, we argue that our findings offer a more contextualised contribution (Al Jawali et al., 2022; Whetten, 1989) to institutional and legitimacy theories, particularly in the specific area of workforce localisation in the context of Saudi Arabia and the wider GCC region.

A first managerial consideration therefore is, as expected, the attitude and level of support offered by senior executives to both the HRM Director and the localisation policy. This applies regardless of whether

the HRM Director is a local or not. Such findings suggest that clear and unequivocal support from senior executives is instrumental in the success of localisation policies (Achoui, 2009). Identifying and developing high-calibre individuals who may fulfil the role in due course is a prudent strategy for the medium term if the firm wants to retain legitimacy in the local environment.

Similarly, strong recruitment and training and development policies that actively support a localisation agenda will be a cost-effective route to improved localisation. Training and development will deliver maximum return on investment when the policies are tailored to the needs of the local environment culture and when they respect and incorporate the unique needs of the region and are preferably delivered at a local level, by means of on-the-job training and local trainers sensitive to the specific needs and requirements of localised employees. To be successful, localisation efforts must address the nature of the local workforce and prevailing labour market conditions. In the case of Saudi Arabia and similar contexts, high rates of youth unemployment and low female labour market participation represent an opportunity for MNEs to engage in effective workforce localisation. Hiring young Saudis in entry level jobs might be preferable for MNEs due to lower salary expectations and better trainability (Posthuma & Campion, 2009) giving MNEs a chance to mould and integrate those young workers into its organisational cultures. Inclusive HRM practices aimed at hiring and accommodating Saudi women in the workplace represent another opportunity for MNEs to tap into this underutilised segment of the workforce and enhance their localisation success. Finally, local MNE may pay greater attention to inpatriation of Saudi expatriates to address skill gaps among the local workforce.

Research limitations and future research

Although sample size in this study was sufficient to satisfy requirements for statistical reliability at 157 discrete responses, it is accepted that wider testing would increase the level of confidence in the results. Similarly, given increased financial resources and more time, it would be preferable to widen the parameters of the research population and broaden the nature of the study over time to assess the impact of variables on a longitudinal basis as this would offer deeper insights into the influence of independent variables over time. It would be valuable to further examine the differences between foreign directors in future work, to test whether there is any variation according to nationality elsewhere in the region or, indeed, beyond it. We only focussed on HRM Directors when collected our data; future work could compare and contrast the perspectives of locally-based and foreign (perhaps

breaking down by foreign nationality) HRM Directors with HRM/Senior Managers at headquarters and also include the views of government officials and employer and employee groups. Different lessons may be learned from smaller and potentially more agile organisations which have adopted localisation strategies, although for reasons of research clarity these fell outside the remit of this study.

Conclusions

We established that the role of the HRM Director is one of the keys to successful localisation, but that the nationality of that Director is not a factor. This emphasises the importance of affording HRM Directors an influential role and allowing them to exercise their function of looking across stakeholders and looking to the long term in a way that managers in other functions, perhaps more pressured for immediate results, find difficult to do. This will enable them, in contexts where it may be crucial to effectiveness and legitimacy to run an integrated localisation strategy which has the full support and backing of senior executives, and which is sensitive to the needs of local employees.

Disclosure statement

No potential conflict of interest was reported by the authors.

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Data availability statement

The data that support the findings of this study are available from the corresponding author, upon reasonable request.

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