



## MANAGING LABOUR IN MULTINATIONAL CORPORATIONS IN SAUDI ARABIA

**AYMAN ADHAM**-Assistant professor in the Business Administration Department, Umm Al-Qura University, Kingdom of Saudi Arabia

---

### ABSTRACT

*This qualitative research explores how formal and informal institutional structures shape HRM practices of a Japanese MNC operating in Saudi Arabia. The analyses in this research are mainly derived from neo-institutionalism theory and comparative institutionalism. The empirical findings from the in-depth case study show a complex reality that consists of Japanese HRM practices that are highly influenced by the Saudi institutional structure. The company did not transfer all of its HR practices from Japan, rather it has amended and developed its practices while operating in Saudi Arabia relying on host-country HRM specialists. Since the firm focuses on having long-term employment, it mostly hires Saudi fresh graduates rather than migrants to build its workforce in the subsidiary. The social norm of wasta is widely practiced among host-country employees and influence HRM practices, in particular performance appraisal and promotion.*

**Keywords:** *Saudi arabia, multination corporations, human resources management, institutionalism theory*

### INTRODUCTION

Market globalisation has increased the competition between multinational corporations (MNCs) seeking to acquire better market share worldwide. Although those MNCs operating in a foreign country deal with home, host and third countries workers, they mostly apply practices in their subsidiaries that were developed in the country of origin. Their home grown human resources management HRM policies and practices, are often challenged on different levels when they operate abroad. In most cases, the misunderstanding of the host country's context has led to conflicts between employees and management, which has eventually led to failure (Lauring, 2013). Therefore, these challenges place a huge burden on the HRM function in MNCs, since HRM believed to play a key role in managing employees successfully (Liu, 2004; Tregaskis and Almond, 2019).



There are countless reasons that make investigating MNCs in the Saudi context a necessity for the fields of economics and HRM. Saudi Arabia is the largest oil exporter, and most notably one of the largest recipients of foreign direct investment in the Middle East. Non-Saudis account for a third of the total population, and more than 80% of the workforce in the Saudi private sector are expatriates (Saudi Arabia. General Authority of Statistics, 2021). At the same time, the Saudi ministry of human resources and social development is strictly monitoring the number of Saudis working in private organisations through applying the *Saudization* legislation. By law, all of the senior HRM positions should only be occupied by Saudis, which has implications on the HRM divisions in MNCs.

Although a large amount of research has been done to explore the transmission and formation of HRM in MNCs in developed and developing countries, Saudi Arabian case has not been explored sufficiently. A limited number of empirical studies have been conducted on MNCs in Saudi Arabia, but their focus is on North American and European MNCs (e.g., Hain, 2011; Luring, 2013; Alhejji et al., 2018). Therefore, our knowledge of Japanese MNCs subsidiaries and their HRM practices in Saudi Arabia remains very limited.

This research draws on the neo-institutional framework and aims to contribute to the current knowledge on MNCs in Saudi Arabia by empirically investigating the influence of the Saudi institutional structure on HRM practices of a Japanese MNC. The two questions of this research are:

- How HRM policies and practices of a Japanese MNC are transferred and formed in its subsidiary in Saudi Arabia?
- To what extent the Japanese HRM practices are influenced by the Saudi institutional system?

This paper is structured as follows. The next section reviews and argues for combining the neo-institutionalism approach with comparative institutionalism to gain a deeper understanding of the research problem. Section three consists of an analysis of the Saudi institutional environment. Section four discusses the research methods, and section five presents findings on the case study firm. Discussion and conclusions are drawn in the final section.



### **Theoretical framework**

Research proved that MNCs are embedded in their home institutional systems and, therefore, their managerial practices are shaped by a number of cultural and legal elements in their home environment (Almond et al 2006; Almond, 2011; Tregaskis and Almond, 2019). For the purpose of comprehensively exploring how HRM practices of MNCs are shaped and adapted in Saudi Arabia, the theoretical framework adopted in this study incorporates the two strands of institutionalism theory: 'neo-institutionalism' and 'comparative institutionalism'. Both strands offer deeper analyses at two levels: macro-national and micro-organisational levels. Taking into consideration the two levels of analysis, contributes to a better understanding of how home grown HRM policies and practices, in particular recruitment, training, pay and performance appraisal, are reformed in MNCs' subsidiaries.

#### **Neo-institutionalism: Micro-level**

Institutionalism theory can be traced back to the late of the 19th century, which is known as 'Old Institutionalism', when scholars were at that time interested in analysing governments to identify how they successfully managed to structure individuals' behaviours (North, 1990; Scott, 2001). The study of institutions can be considered as the birth of political science due to its concerns of analysing formal institutions of governments and compare them with other countries and why a good political system in a country is better than the other (Lowndes and Roberts, 2013). The old institutionalism was flouted in the period following the Second World War by the emergence of two main approaches: Rational Choice and Behaviouralism (Peters, 2005). However, in the 1980s it had strongly returned as the 'neo-institutionalism' with a more sophisticated theoretical framework that even successfully reached out other disciplines such as economics and the study of organisations. One of its major additions to the old institutionalism was through expanding the concept of institutions to incorporate informal conventions and narratives to the formal procedures that was believed as the sole constrain to individuals and governments behaviours (Lowndes and Roberts, 2013). The adopted view on institutions in neo-institutionalism is that 'institutions are multifaceted, durable social structures, made up of symbolic elements, social activities, and material resources' (Scott, 2001: 49).



### **Pillars of institutions**

There are three key elements/ingredients of institutions (regulative, normative and cognitive) that create and sustain institutions, these known as the 'pillars of institutions' (Scott, 2001). The regulative pillar is the expedient and explicit rules that are normally monitored and involve incentives and sanctions activities. Whereas, the normative pillar, constitutes from both values and norms that are also obligatory, since it constrains social behaviours by encouraging/rendering behaviours that are desirable/not desirable. The cognitive pillar, is the 'shared conceptions that constitute the nature of social reality and the frames through which meaning is made' (Scott, 2001: 57). All these elements collectively direct MNCs towards conformity with institutions in the context of their presence.

When considering the study of MNCs in the international management context, the neo-institution a list approach provides a useful but a narrow view since it focuses on, micro-level (companies obtaining their legitimacy in their sector) and how these companies comply with external institutional pressures(Almont and Ferner, 2006). However, this might be valid for domestic organisations, but it is not necessarily valid for MNCs, being that they have more a complex internal environment and react differently to local pressures (Kostova et al, 2008). Therefore, the national level is an essential element in the analysis ofMNCs behaviour.

### **Comparative institutionalism: Macro-level**

Similar to the neo-institutional approach, the comparative institutionalism approach considers that organisations are embedded in their home institutional environment and this forms their HRM practices. However, it focuses on the macro level, especially on political, financial and educational systems on the national level. Comparative institution a lists view institutions as interlocking frameworks that give rise to the HRM practices of firms. Within the comparative institutionalism strand, there are a number of approaches that have been widely used in the fields of political economy and HRM; most notably, the social system of production (Maurice et al, 1980), the National Business System (NBS) (Whitely, 1999), and the Varieties of Capitalism (VoC) (Hall and Soskice, 2001). Despite both approaches of societal effects and NBS having valuable contributions to the institutional analysis at the macro level, theVoC model was adopted due to its familiarity and potential in understanding the institutional system.



Hall and Soskice (2001) emphasise analysing five institutional spheres in developed market economies: inter-firm relations, coordination problems with employees, industrial relations, corporate governance, and vocational training and education. They argued that resolving coordination issues through developing relationships with different actors in these five spheres, determines the company's core competencies and the state of the production system in market economies. MNCs behaviours are also influenced by these domains, since they are deeply embedded in their home business system (Edwards and Kuruvilla, 2005). However, what gives MNCs especially from dominant countries a unique feature, is their ability to operate across different capitalist systems, that each one has its own roles of the game (Edwards et al, 2007).

In the original framework of the VoC (Hall and Soskice, 2001), developed economies are grouped under either the typology of Liberal Market Economy (LME) or the Coordinated Market Economy. Buhr and Frankenberger (2014) enlarged the VoC and proposed a heuristic model that incorporates emerging economies through emphasising the role of the state-business relations. Based on the informally institutionalised mechanisms of 'co-optation', Saudi Arabia and its neighbouring 'rentiers' economies are grouped under the typology of Patrimonial Market Economy (PME), where the state plays a centric role in the economy through strategically tie business and political elites with the regime through family ties, clientelism and patronage in managing its business relations. The following section provides a brief analysis of MNCs in the Saudi institutional system.

### **MNC literature and the Saudi context**

Actors' interests at different managerial levels have great implications on the transfer of HRM practices (Edwards et al, 2007). Interestingly, workers in foreign subsidiaries do not necessarily prefer their local policies and practices over those coming from the headquarter (Almond, 2011; Tregaskis and Almond, 2019). For instance, previous studies show that practices transferred from LMEs to CMEs are much more than the opposite direction (Iseke and Schnieder, 2012). In addition, realising the fact that MNCs are deliberately recruiting workers who are more likely to indulge with their organisational cultures, have great implications on the transfer process since this may entail an MNC to apply practices that in reality do not conform with the values of the host country. However, exploring how local



employees perceive, and interpret practices of foreign MNCs they work for, is essential in understanding the smoothness and complications of the transfer of HRM policies and practices. Therefore, interests of actors in the headquarter as well as the subsidiaries are key in shaping the behaviour of HRM in MNCs.

A limited number of empirical studies have been conducted on western MNCs in Saudi Arabia, including a recent one by Hain (2011) investigating risk management in German MNCs. Following a quantitative method, Hain has analysed risk in terms of four main categories (Cultural, Political, Economic and Financial risks), with each one involving several factors. The results show that cultural factors are the most important (i.e., religious traditions and family orientations) then followed by political factors (i.e., bureaucracy and legal system). Although Hain does not adopt an institutional position and relies on culturalist theory (Hofstede, 2002), his results clearly show the influence of the Saudi institutional system on the behaviour of German MNCs in regard to risk. For further clarification, taking the religious traditions as an example of a cultural factor, it is noted that the Saudi legal system is based on sharia law which is reflected in the Saudi's religious traditions constituting the local norms and values.

Mellahi (2007) has researched how the legal framework shapes HRM in the Saudi private sector. Pressures from international organisations have improved social protection for employees and helped in enforcing *Saudization* to solve the unemployment issue among Saudis, particularly after becoming a member of the World Trade Organisation in 2005. The results of Mellahi's (2007) study show that firms are abiding by new laws and regulation - in regard to working hours, maternity leave and overtime pay - in order to avoid sanctions irrespective of how appropriate the new legislation is to HRM practices in within the organisation.

A study of a Danish MNC in Saudi Arabia was conducted by Lauren (2013) by investigating the transfer of the HRM practice of diversity management from the headquarter to its subsidiary. Participant observation, documents review and semi-structured interviews were used collectively as means of collecting qualitative data from a single case study. The results show that not all diversity management is transferable but some ethical standards have been maintained to ensure a proper practice of diversity management that suits the organisation's environment. Similarly, a more recent study conducted by Alhejji and his



colleagues (2018) to explore gender equality in a British MNC in Saudi Arabia. Their findings show that culture play the main role in hindering gender equality despite the presence of legal policies to support female labour. Both studies of Luring (2013) and Alhejji et al (2018), touch upon a single case study and a sole HRM aspect, yet the area of HRM in MNCs in Saudi Arabia requires more exploration to include different aspects of HRM, and also to determine how the business system of Saudi Arabia influences the transfer of such practices from parent companies.

### The Saudi institutional environment

#### Informal relations and corporate governance

The state-business relations in Saudi Arabia are much represented in the informal institution of 'economic familism' (see Mazaheri, 2013). This informal institution is built on close personal relationships between the state and other key business actors either by kinship or patronage of business elites in the private sector to protect the interests of the state for the long-term (Buhr and Frankenberger, 2014). Besides the presence of giant state-owned firms, economic familism is used to incorporate all other major family-owned companies into the economy. These companies are considered creditworthy and thus they are guaranteed finance and facilitation of commercial transactions. These provisions are tighter for non-family-owned firms (Mazaheri, 2013). Schlumberger (2008) argues that what maintains and enforces the informal institutions in the socio-political relations in all Arab countries is a societal norm that is known by '*wasta*'. *Wasta* is an Arabic term meaning intermediary or mediation. Considering the social norm of '*wasta*' is a necessity for this research to capture a clearer picture of the interactions in a Saudi workplace, primarily because it is considered one of the bases for the informal institution of 'economic familism'.

Following the post-1970s boom in oil prices, Saudi Arabia, with its neighbouring Arab Gulf countries, witnessed a great economic expansion that led to the emergence of major private businesses in various sectors. These businesses are either owned by the state and/or by merchant families (Hertog, 2008; Mazaheri, 2013). Thus, the private sector became dependent on state support through contracting, low taxation and generous loans in areas such as finance, construction and retail (Hanieh, 2015). The state employs all the regulations of corporate governance to its interests in the private sector through direct and indirect



control mechanisms (Buhr and Frankenberger, 2014). It is directly involved in banks and major corporations through having a full ownership or being a major investor. The state indirectly intervenes in the financial sphere mainly through controlling credit and loans via state-owned banks and development banks (Musacchio et al., 2015). Having this firm control over the financial system is a crucial tool which rentier states can use to reward their loyal elites and penalise their opponents (Schlumberger, 2008).

The Arab Gulf countries managed to undertake more reforms in their business environment than the other regimes in the Middle East and North Africa (MENA) region. This attributed to their ability to reinforce the informal institution of 'economic familism/co-optation governance mechanism' as an effective tool that continually sustains trust and loyalty from the country's elites (Mazaheri, 2013). The World Bank (2021) reported that all of the six Arab Gulf countries are among the top eight countries in the MENA region in terms of 'ease of doing business', with Saudi Arabia taking the fourth place. This data clearly shows that monarchies have more liberalised business environments than the other democratic and republic regimes in the MENA region. This is ascribed to formal institutions and also to the efficiency of the informal institution of 'economic familism to solve the credible commitment problem between the government and private sector elites in order to facilitate business environment reforms' (Mazaheri, 2013: 300).

### **Employment and Industrial relations**

Due to the severe shortage of manpower in Arab Gulf economies, the massive contribution to the economy is still generated by an overwhelming majority of expatriates, who account for 80% of the total workforce in the Saudi private sector. On the other hand, the state struggles to resolve unemployment among Saudis, especially females, which has been hovering around 12% during the last decade (Saudi Arabia. General Authority of Statistics, 2021). The *Saudization* legislation is the main tool used to replace migrants with Saudi workers to reduce unemployment.

To supervise state-labour interactions, the Saudi state has recently reformed the Ministry of Human Resources and Social Development. The main roles of this ministry include manpower planning and development, labour relations, disputes, work permits, and the general monitoring of all matters relating to employment affairs in the private and public sectors. This Ministry also acts as the chairperson of the General Organization for Social



Insurance, General Organization for Technical Education and Vocational Training (GOTEVT), and the Human Resources Development Fund HRDF. In the absence of trade unions and the industrial relations arena, the state controls all aspects of employment relations in both private and public sectors. For example, labour cannot undertake any strike since the Saudi law criminalises any attempt to protest, regardless of the reason.

### **Vocational training and education**

The organisations that are responsible for skill formation in Saudi Arabia can be divided into two groups. The first group is under the control of the Ministry of Education (known as the ministry of higher education prior to 2015), which comprises more than 26 public universities with a total capacity of graduating over 350,000 students each year. All of these universities offer bachelor degrees and beyond in social and applied sciences. In contrast, the other group includes both the higher technical institutes (49 colleges, only 10 are for females), which offer diplomas in fields such as communications and IT, and the vocational institutes (71 schools) that prepare semi-skilled workers such as electricians and mechanics, which offer degrees that are equivalent to high school education. Both of these types of vocational institutes are under the control of the Technical and Vocational Training Corporation (TVTC) (Saudi Arabia. Ministry of Education, 2021).

Most notably, all full-time students in these two groups of the higher education system are entitled to free tuition fees, and monthly salaries around \$260 for the whole period of their education. Furthermore, besides the vast educational opportunities within the country, the government launched the King Abdullah Scholarships programme, which has offered overseas studying opportunities to more than 200,000 Saudis since it was initiated in 2005. More than two-thirds of those students have been receiving education in North America and Europe. All students enrolled in this programme enjoy monthly salaries, health insurance, and full coverage of their tuition and fees (Saudi Arabia. Ministry of Education, 2021).

### **Research Methods**

To our knowledge, the transfers of HRM policies and practices from Japanese MNCs in Saudi Arabia have not been investigated. Therefore, it is difficult to design a questionnaire that



covers the main factors of the research issues. For instance, one of the main research questions is to explore how HRM is formed in the Japanese MNC present in Saudi Arabia. To address this question clearly, it requires a deep understanding of whether these practices are copied from the parent companies or whether they are refined in order to suit the institutional system of Saudi Arabia, and this cannot be discovered quantitatively. Therefore, the qualitative case study design was adopted to offer deep and rich data on the experiences of both managers and employees of the Japanese subsidiary.

This research is based on information-rich evidence from a Japanese joint venture in Saudi Arabia, anonymised throughout as JapanCo. The absence of in-depth qualitative research on Japanese firms in Saudi Arabia motivated the researcher to select JapanCo for this research. The methods of collecting data through observing the environment of the case study firm, analysing written documents and interviewing participants were all used to acquire rich and revealing data (Woodside, 2010). Fieldwork was predominantly conducted in the last quarter of 2019. Data were collected primarily through 15 face-to-face interviews, with workers and managers from a variety of nationalities and occupations.

Data were analysed through the analytical technique of template analysis (King, 2004), as part of the general analytical strategy of case description. Template analysis is a hierarchical thematic approach to qualitative data analysis (ibid). The broad analytical strategy of descriptive framework (Yin, 2009: 131) guided the organisation of the findings. The descriptive framework was necessary to organise the data because the main dimensions of the theoretical framework cut through all the HRM dimensions under investigation (recruitment, training, pay, and performance appraisal). After converting all data to written form, the data were uploaded to NVivo software for labelling by giving each code a suitable name. Then, similar codes were combined into broader categories.

## **Findings**

JapanCo entered the Saudi market in early 2000 as a joint venture with a Saudi partner. Since its establishment, it is headquartered in Japan and has many branches worldwide. The firm offers multiple services in fields related to industrial manufacturing. These services are provided to the sectors of energy, steel and logistics. The organisational structure applied at Japan Co is hierarchical, and the decision-making process is very centralised.



Thus, managers and supervisors do not enjoy much autonomy. The company only transfers its technologies and knowledge from Japan to its branch in Saudi Arabia through Japanese employees. However, the company did not transfer all of its HR practices from Japan, rather it has developed practices while operating in Saudi Arabia relying on Saudi HR specialists, as shown in the findings presented below.

### Recruitment

Based on the type of contracting, Japan Co classifies its workforce into two categories: home-country labour and host-country labour. The first group are predominantly skilled Japanese workers, who are technical workers and high-level managers sent from the head quarter in Japan. The second group is those who are hired in Saudi Arabia. They are mainly made up of semi-skilled or low-skilled labourers. Those host-country employees are mostly from Saudi Arabia, India, Bangladesh and the Philippines. North Americans and Europeans represent less than 1%. The following table presents key figures on JapanCo's workforce.

**Table1: Key Figures for JapanCo's Employees**

Total number of employees	1,357
Japanese labour	64
Saudi labour	726
Other nationalities	567
Female labour (all are Saudi clerks)	24

Source: Author, based on interviews in the HR department

Workers sent from Japan mostly occupy senior administrative positions in all departments of the firm. Their presence is essential for establishing and maintaining the firm's business activities. Also, they are specifically sent to transfer technology from the headquarters to the Saudi subsidiary. Therefore, most of them spend a maximum of two years in Saudi Arabia before they return back to the headquarters in Japan. A minority of the Japanese workers do not speak English; thus there is a noticeable gap between them and host-country employees. One Saudi worker stated:

We feel like we work in two different companies, we do not communicate with each other. Those who can speak English are high level managers and they are not



friendly with us. I only know one Japanese worker here because he can speak English.

As stated by the Saudis and non-Saudis, secure employment is the norm in JapanCo. All the Saudi employees interviewed stated that they had rarely witnessed a Saudi being fired; rather Saudis chose to move to another firm. When hiring Saudis, the firm mostly relies on fresh graduates. Whoever successfully completes the three-month training programme, will be granted a job in Japan Co. Therefore, it is witnessed that the firm considers Saudi workers as an investment that needs to be maintained and developed. An interview with a HR manger revealed that this philosophy of having long-term employment is embedded in JapanCo's culture since its establishment and it also applies throughout its subsidiaries.

To recruit non-Saudi workers from Saudi Arabia, Japan Co relies on employment agencies in many countries. However, the firm avoids dealing with agents in countries where it is difficult to find English-speaking workers, such as China. The process of recruiting migrants starts with an internal recruitment request from a department manager to the recruitment manager in the HR department. The recruitment manager provides the agency with the requirements for labour. The agency selects the best candidates and send their resume to Japan Co for assessment. The prospective candidates are contacted by the agents to prepare for an interview with Japan Co representatives. The firm usually forms a recruitment panel that consists of three to five managers to conduct interviews. Interviews in the past five years were all made through the internet. When the non-Saudi workers are recruited to Japan Co, they are hired on a 12-month contract. This period is considered a test for new workers. The HR manager stated:

We normally test the new employees during the first year to observe their performance. If they do not fit in with the organisation's culture or they are being lazy and uncommitted to work, we give them two warnings followed by the termination of the contract if necessary.

### **Training**

Japan Co's training strategies are related to its recruitment strategies. The firm does not hire non-Saudi fresh graduates; rather they rely on recruiting experienced expatriates from



around the globe. Those experienced workers help the company to manage the firm's activities effectively and train the recruited Saudi fresh graduates. A HR specialist stated:

We only recruit highly experienced and educated workers from Europe and America. They help us in training the new Saudi workers here. In a few years, the Saudis will occupy most of the senior positions in the firm.

It was observed that Saudis receive much more training than the non-Saudis since all the Saudi fresh graduates are enrolled into training programmes that are provided through in-house courses. After completing the courses successfully, they continue to receive on-the-job training from their supervisors. In contrast, Japanese workers only take training in the headquarters before they come to Saudi Arabia, since the firm only sends highly experienced worker to the subsidiary in Saudi Arabia. Some Japanese workers also train the Saudis by being their mentors. However, the Japanese spend a couple of weeks rotating in different departments when they first arrive to the subsidiary in Saudi Arabia.

Since Japan Co is highly focused on quality, all manual workers are supervised very closely to ensure they follow safety and quality regulations. All workers are trained on a specific skill or task, then after three months they are tested by their direct supervisors to ensure they mastered this skill/task. In contrast, administrative workers receive very little training (on-the-job). The interviews show they are not satisfied with this situation. One Saudi clerk stated:

When I was hired here, they told me I will get to enrol in training courses every three months. But I am working here for three years now and they only enrolled me to one training course outside the firm.

A HR manager explained that JapanCo only train administrative workers when the benefits of the training is guaranteed. The firm views training as an investment that needs to yield some tangible benefits, otherwise it will be a waste of time and money. The training strategy of the firm is tied to its appraisal system as discussed next.

### **Pay and performance appraisal**

Japan Co has two distinct salary systems: one for the home-country workers (Japanese) and the other for host-country workers. On average the former group receive around 100%



higher salaries than the latter group. For example, if a Saudi clerk receives a monthly basic salary of 4,000 USD, the Japanese clerk will receive no less than 8,000 USD. Additionally, industrial labourers enjoy an extra monthly payment of 250 USD. This discriminatory pay policy is justified by a HR specialist as follows:

When the company first established its subsidiary in Saudi Arabia, there was no interest among the Japanese workers in coming here. Therefore, the firm had to offer them higher salaries and other benefits like promotions after repatriation. Also, the company take into consideration the cost of living, which is much higher in Japan than here, meaning the Japanese workers need to earn more.

JapanCo managed to apply the performance appraisal system used in the headquarters. The firm links salary raises and promotions to performance appraisal. All workers in the firm (manual and clerks) are assessed based on a number of criteria which includes: attendance, quality, achievement of goals. There are four grades of performance ranging from four (excellent) to one (poor). In order for an employee to get a raise, they need to achieve a minimum of three.

The interviews show that most host-country workers are not satisfied with the current performance appraisal system because of two main factors: 1) they rarely achieve grade four, and 2) the widespread practice of nepotism, also known in the Arabic language as *wasta*. The interviews show that some workers did not receive a raise for three years since they did not achieve grade four. An Indian clerk stated:

Managers here will never give you grade four in the annual appraisal. We all work very hard here but rarely will someone get grade four. I think the company wants to save its money for other purposes.

An interview with a HR manager revealed that almost 20% of JapanCo's workers receive pay raises every year. He asserts that the appraisal system in JapanCo is objective and fair. Nevertheless, all of the interviewed workers stated that nepotism or *wasta* play a major role in the salary raise and promotion system. A British worker stated:

Promotion here is not given to you because of your achievements but mostly because of your relationships with managers in this company. The Japanese



workers are a totally different case because they get their promotions in the headquarters.

All the interviewed host-country workers, both manual and clerks, agreed that *wasta* is the most important factor in obtaining a promotion. A Saudi clerk stated:

I know an employee who get an upgrade every year or two because he has a relative in the HR department. But at the same time some workers here did not get a single upgrade for three years now.

The evidence of the research shows that Japan Co could not eliminate the use of *wasta* among its host-country employees; rather it became the norm in the firm.

## DISCUSSION AND CONCLUSIONS

This research was set out to explore how HRM practices of a Japanese MNC are transferred and formed in its subsidiary in Saudi Arabia, and to examine how far they are influenced by the Saudi institutional structure. The study contributes to the current literature on HRM practices of MNCs in Saudi Arabia (Lauring, 2013; Alharbi et al., 2016; Alhejji et al., 2018). The analysis in this research is mainly derived from the neo-institutionalism theory (Scott, 2001) and the comparative institutionalism approach (Hall and Soskice, 2001). The investigation of the Japanese case study yielded interesting findings that are discussed below.

The findings show that the home grown HRM practices of the Japanese case study firm were mostly amended to suite the host country of Saudi Arabia. State regulations related to employment, directly forced the firm towards conformity with host country institutions (Almont and Ferner, 2006; Lowndes and Roberts, 2013). This supports Mellahi's (2007) argument that the Saudi legal framework shapes HRM practices in the Saudi private sector. Nevertheless, this does not apply to the technical aspect of the work. The firm were able to transfer most of its technologies and processes of operation to the Saudi subsidiary without major changes. The firm was able to sustain its quality procedures through investing in training of the Saudi fresh graduates.



The study supports the argument of Edwards and his colleagues (2007) that different managerial levels have great implications on the transfer of HRM practices and the production processes. The Japanese managers were observed as being the only personnel who transfer the practices from the headquarters in Japan to the host country. Workers hired within the subsidiary (Saudis and non-Saudis) were all exempt from the process of transferring. A key reason is the language barrier. None of the workers speak Japanese and the firm does not teach them Japanese. The outcome of this division between home and host-country workers is the presence of two work cultures at the same workplace, which causes consistent tension between the two groups. This finding echoed the Danish case presented in the study of Lauren (2013).

In regard to the informal institutions, the institution of 'economic familism', which describes the personal relationships between the state and other key business actors (Mazaheri, 2013), was not present in the Japanese case study. The firm officially complies with the state regulations in terms of *Saudization* and other labour law regulations. The firm is able to maintain 'formal' relationships with the state's institutions and firms in the same business field, through its Saudi HR representatives. Nevertheless, the cultural factor raised in the study of a German MNC by Hain (2011) was seen to play a critical role in shaping HRM practices inside the firm. Despite that, the findings show that the firm applies formal policies and procedures, non-Japanese workers and managers rely on informal relationships i.e., *wasta*, to gain a raise and to be promoted. A large number of studies show that the presence of *wasta* is also practiced widely in the Arab world (e.g., Tlaiss and Kauser 2011; Smith et al. 2012; Kilani, Al Junidi, and Al Riziq 2015), and this research shows that it is strongly present in this Japanese subsidiary in Saudi Arabia.

While providing an in-depth insight into a Japanese joint venture in Saudi Arabia, there remains some limitations to the study, as well as further opportunities for future research. The fieldwork took place in early 2019; thus, it does not cover the recent changes which occurred since the outbreak of the Covid-19 pandemic. In addition, the study relies on evidence from a single firm, which raises the question of the generalisability of the findings. Findings from other Japanese subsidiaries in Saudi Arabi would provide further insights. Additionally, the findings of this study could be used to devise a survey to cover a greater number of firms to increase overall generalisability.



## REFERENCES

- Alharbi, J, Gelaidan, H, Al-Swidi, A, and Saeed, A (2016). Control mechanisms employed between headquarters and subsidiaries in Multinational Enterprises (MNEs): An empirical study. *Review of International Business and Strategy*. 26 (4), 493–516.
- Alhejji, H, Ng, E, Garavan, T, and Carbery, R (2018). The impact of formal and informal distance on gender equality approaches: The case of a British MNC in Saudi Arabia. *Thunderbird International Business Review*, 60 (2), 147–59.
- Almond, P. and Ferner, A. (2006). *American multinationals in Europe*. Oxford: Oxford University Press.
- Almond, P. (2011). Re-visiting 'country of origin' effects on HRM in multinational corporations. *Human Resource Management Journal*, 21(3), 258–271.
- Buhr, D. and Frankenberger, R. (2014). Emerging varieties of incorporated capitalism. Theoretical considerations and empirical evidence. *Business and Politics*, 16(3).
- The World Bank (2021). *Doing Business - Measuring Business Regulations - World Bank Group*. [online] Available at: <https://www.doingbusiness.org/en/rankings?region=middle-east-and-north-africa>[Accessed 1 June. 2021].
- Edwards, T. and Kuruvilla, S. (2005). International HRM: national business systems, organizational politics and the international division of labour in MNCs. *The International Journal of Human Resource Management*, 16(1), 1–21.
- Edwards, T., Colling, T. and Ferner, A. (2007). Conceptual approaches to the transfer of employment practices in multinational companies: an integrated approach. *Human Resource Management Journal*, 17(3), 201–17.
- Hall, P. and Soskice, D., (2001). 'An Introduction to Varieties of Capitalism', in (eds) Hall, P. and Soskice, D., *Varieties of Capitalism. The institutional Foundations of Comparative Advantage*. Oxford University Press, 1–68.
- Haak-Saheem, W., Festing, M., & Darwish, T. K. (2017). International human resource management in the Arab Gulf states – an institutional perspective. *The International Journal of Human Resource Management*, 28(18), 2684–2712. doi:10.1080/09585192.



- Hertog, S. (2008). Petromin: The slow death of statist oil development in Saudi Arabia. *Business History*, 50(5), 645–67.
- Hofstede, G. (2002). Dimensions Do Not Exist: A Reply to Brendan McSweeney. *Human Relations*, 55(11), 1355–61.
- Iseke, A and Schneider, M. (2012). Transfer of employment practices, varieties of capitalism, and National Employment systems: A review. *The German Journal of Industrial Relations*, 19 (2), 236–52.
- Kostova, T., Roth, K. and Dacin, M. (2008). Institutional Theory in the Study of Multinational Corporations: A Critique and New Directions. *Academy of Management Review*, 33(4), 994–1006.
- Lauring, J. (2013). International Diversity Management: Global Ideals and Local Responses. *Brit J Manage*, 24(2), 211–224.
- Liu, W. (2004). The cross-national transfer of HRM practices in MNCs: An integrative research model. *Int J of Manpower*, 25(6), 500–17.
- Lowndes, V. and Roberts, M. (2013). *Why institutions matter*. Basingstoke: Palgrave Macmillan
- Maurice, M., Sorge, A. and Warner, M. (1980). Societal Differences in Organizing Manufacturing Units: A Comparison of France, West Germany, and Great Britain. *Organization Studies*, 1(1), 59–86.
- Mazaheri, N. (2013). The Saudi monarchy and economic familism in an era of business environment reforms. *Business and Politics*, 15(3), 295–321.
- Mellahi, K. (2007). The effect of regulations on HRM: private sector firms in Saudi Arabia. *The International Journal of Human Resource Management*, 18(1), 85–99.
- Musacchio, A., Lazzarini, S. and Aguilera, R. (2015). New Varieties of State Capitalism: Strategic and Governance Implications. *Academy of Management Perspectives*, 29(1), 115–31.
- North, D. (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press
- Hanieh, A. (2015). *Capital, Labor, and State: Rethinking the Political Economy of Oil in the Gulf*. Oxford Handbooks. [online] Available at:



<http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780199672530.001.0001/oxfordhb-9780199672530-e-3>. [Accessed 18 Jan. 2019].

Peters, B. (2005). *Institutional theory in political science: the 'new institutionalism'*. London: Pinter.

Saunders, M., Lewis, P. and Thornhill, A. (2012). *Research methods for business students*. Harlow, England: Prentice Hall.

Saudi Arabia. General Authority of Statistics (2021) 'إحصاءات سوق العمل للربع الرابع ٢٠٢٠'

[Labour Market Statistics for Q4 2020]. Available from:

[https://www.stats.gov.sa/sites/default/files/LM\\_Q4%202020%20%28Press%20release\\_AR%29\\_1.pdf](https://www.stats.gov.sa/sites/default/files/LM_Q4%202020%20%28Press%20release_AR%29_1.pdf). [Accessed 18 May. 2021].

Saudi Arabia. Ministry of Education (2021). 'Open Access Data'. Available from:

<https://www.moe.gov.sa/ar/knowledgecenter/dataandstats/Pages/opendata.aspx>.

[Accessed 11 April. 2021].

Scott, W. (2001). *Institutions and organizations*. Thousand Oaks: SAGE.

Tregaskis, O. and Almond, P. (2019) Multinationals and skills policy networks: HRM as a player in economic and social concerns, *British Journal of Management*, 30 (3), 593-609.

Whitley, R. (1999). *Divergent capitalisms*. Oxford: Oxford University Press.

Woodside, A. (2010). *Case study research*. Bingley: Emerald Group Pub.

Yin, R. K. (2009) *Case Study Research: Design and Method* (4<sup>th</sup> edn) London: Sage.

Schlumberger, O. (2008). Structural reform, economic order, and development: Patrimonial capitalism. *Review of International Political Economy*, 15(4), pp.622-649.