

Saudization behavioral compliance synthesis report

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Executive Summary

For more than a decade, Saudization—also known as the Saudi Nationalization Scheme, or Nitaqat—has been steadily increasing the number of Saudis working in the Kingdom’s private sector. The program, which mandates that a certain percentage (based on a company’s size) of employees must be Saudi nationals, or else fines will be imposed, was created to decrease unemployment, and increase Saudi participation in the private-sector labor force.

While most Saudi workers have been drawn to public-sector employment historically, population growth, more women entering the workforce, and other factors have increased the need to turn to the private sector for employment opportunities, and the Saudization plan has made impressive inroads. But there has been a downside: Over 70% of Saudi Arabia’s private-sector jobs are filled by foreign nationals. There is still a reluctance among some Saudi workers to engage with the private sector, and the reverse is true as well: Many private-sector employers express hesitation to hire Saudis. Further, more than 11,000 companies have either shuttered or downsized to avoid complying with Saudization. And perhaps most daunting of all: For many firms, the benefits of not complying with Saudization (e.g., perceived better productivity, better fit between roles and skills, lower salaries and benefits, and lower operational costs and worker protections) can outweigh the cost of the fines. Clearly, this compliance problem needs to be solved, and to do so requires innovative thinking and a multipronged approach.

“Saudization Behavioral Compliance Synthesis Report” constructively and proactively examines the issues surrounding noncompliance and determines ways to reverse the trend. It presents a comprehensive plan for tackling noncompliance based on solidly researched behavioral science data, leveraging the “COM-B” framework—standing for capability, opportunity, motivation, and behavior. It ensures success by breaking problems down into different pieces that determine solvability. First, it determines whether it’s possible for a person to make a change (capability). Next, it examines the outside factors that will affect the change (opportunity). And finally, it asks if the person sufficiently desires to make it a reality (motivation). Only by addressing all three aspects can modifications to behavior successfully be implemented.

Perhaps not surprisingly, the private-sector companies who struggle most with Saudization compliance are small to medium enterprises (SMEs). This is because compliance often requires a significant investment—in both cost and time—when it comes to hiring and training Saudi nationals and ultimately retaining those same employees. Larger companies find this task easier to accomplish, but it becomes a significant issue for SMEs, causing many companies to opt for paying noncompliance fines rather than making the investments needed to comply. This may explain why just 2.5% of companies in Saudi Arabia account for 70% of the Saudi nationals employed in the private sector.

The COM-B framework also reveals that a host of structural issues undermine the capability and opportunity of many SMEs to comply with Saudization requirements, affecting noncompliant firms’ motivation in the process. A two-part approach is adopted: (1) diagnosing challenges by distinguishing between structural and behavioral barriers and (2) recommending interventions to tackle those barriers. Using a matrix that maps supply and demand for Saudi national workers, this report highlights what needs to change to make it easier for SMEs to improve rates of compliance, both in the short and long terms. Highest priority must be given to developing hiring venues that connect SMEs with qualified Saudis, alleviating the financial and operational costs of attracting, training, and compensating Saudi employees—perhaps through a tax credit or a subsidy to help pay Saudi wages—and, finally, fixing the skills gap in Saudi Arabia. An apprenticeship program, for example, would allow companies to train qualified employees at a lower cost, and with a smaller investment, than they can currently.

All three of these solutions would address structural capabilities that SMEs experience in the Kingdom currently. But there are also opportunity issues that must be addressed, such as persisting perceptions that Saudi citizens have about working in the private sector. Largely, many Saudis lack engagement with private-sector employment. How do you solve an issue such as this, when historically, the vast majority of Saudi citizens have been employed by the government? The most effective solution, as examined and explained within this research paper, would be to create a marketing campaign to boost the benefits of private-sector employment—particularly noting the new benefits that would be in place after the structural capability issues have been addressed.

Other broad issues must be recognized as well, and Saudi Arabia can and must take a pluralistic approach to mitigating all compliance issues. Such an approach necessitates instituting partnerships between regulatory bodies, employees and prospective employees, and specialized labor groups (unions, activists, and other special interest groups) to exert influence, as well as focusing on shifting the burden of inducing compliance with Saudization from the regulator onto specialized labor groups and employees. Another tool for success: cross-model enforcement, which means implementing positives (i.e., rewards) for compliance rather than focusing solely on punishing violators. As illustrated throughout “Saudization Behavioral Compliance Synthesis Report,” proven best compliance enforcement practices must be implemented to increase the motivation for and sustainability of compliance.

Once all of the well-researched tools presented here are put place, Saudization compliance will increase, and attitudes will begin to change, paving the way for a new future for the Kingdom and its working citizens.

Introduction

The Saudi Nationalization Scheme—sometimes referred to as Saudization or *Nitaqat*—is a policy instituted by the Ministry of Labor in the Kingdom of Saudi Arabia obligating private enterprises in the country to employ a minimum percentage, based on their size, of Saudi nationals.¹

Historically, the government and state-owned enterprises have been the largest employers of Saudi nationals, while a large portion of private-sector jobs were filled by foreign workers. The seismic growth of Saudi Arabia's population and economy, however, left the government unable to provide public-sector employment for a majority of eligible workers. Further compounding the issue: The private sector has not traditionally been considered a viable career option for many working Saudis.

In response to the growing gap between the country's population and available jobs, the government instituted the Saudization policy. It is designed to increase private-sector employment for Saudi nationals and reduce reliance on foreign labor.² Now, though, one of the most pressing labor market challenges faced by the KSA government is many private-sector companies not complying with Saudization requirements. It even extends to faking numbers ("Ghost Saudization").

This paper looks into the policy challenge related to Saudization noncompliance of private-sector employers. It adopts a behavioral lens aimed at inducing compliance among private-sector firms (small and medium enterprises in particular) and uses the COM-B framework as a means to explore how regulatory bodies can address barriers. The paper has two main objectives: (1) diagnosing challenges by distinguishing between structural and behavioral barriers and (2) recommending interventions to tackle the identified barriers.

The COM-B Framework

Behavior change frameworks are the bedrock of applied behavioral science. Designed by behavioral scientists for policy makers and industry leaders, these summaries of cutting-edge insights are essential for applying research to concrete problems in the public and private spheres.

One of the most commonly implemented frameworks for behavioral change is the COM-B model.³ The COM-B model cites capability (C), opportunity (O), and motivation (M) as three key factors that contribute to sustainable behavior change.

- **Capability** is whether a behavior can be accomplished or not. It generally refers to the ability to participate in a desired behavior, practically or psycho-socially.
- **Opportunity** is whether there is a sufficient opportunity for a desired behavior to occur or be practiced. Whereas capability refers primarily to *internal* enabling factors, opportunity refers to *external* enabling factors.
- **Motivation** is whether the desire or drive exists for a certain behavioral change to occur, encompassing both conscious and unconscious cognitive processes that direct and inspire behavior.⁴ Motivation sits in a complex, reciprocal relationship with both capability and opportunity. A higher level of motivation can overcome greater obstacles of capability and opportunity, and similarly, a change in capability and/or opportunity can affect an actor's level of motivation.

¹ James 2010.

² Ibid.

³ TDL 2020.

⁴ Buonomano 2020.

The COM-B model recognizes that behavior is influenced by many factors and that behavior changes are induced by modifying at least one of the three underlying components.⁵ The COM-B model is particularly useful for diagnosing real and perceived barriers to specific behaviors and then using those barriers to frame interventions. COM-B is a strong tool for interveners who are not solely concerned about behavior change but want to ensure that new behaviors are sustainable over the long-term.⁶

Saudization: The Current Landscape

Since its inception, Saudization has been successful at increasing the number of Saudi workers in the Kingdom's private sector. However, it has also resulted in at least 11,000 companies leaving the market (or significantly downsizing their operations, as companies under a minimum headcount are exempt from the policy).⁷

Saudi nationals tend to be primarily employed by large organizations: 2.5% of companies in Saudi Arabia account for 70% of the Saudi nationals employed in the private sector.⁸ Inversely, expats tend to be employed by smaller firms, particularly where employers seek lower-skilled labor for roles related to general labor, transit, and cleaning services, or alternatively in very high-skilled roles where there might be a lack of expertise among Saudis.⁹

Frequently cited difficulties relating to compliance with Saudization include:

- a lack of relevant skills among Saudis entering the workforce.
- increased private-sector costs related to hiring Saudis.
- restrictive worker protections.
- cultural factors and incompatibilities.
- a lack of strategic planning between the government and private sector.
- difficult or unattractive working conditions.¹⁰

Firms not already in compliance with Saudization requirements, particularly those with no or very few Saudi employees, face the highest costs to achieving compliance.¹¹ These difficulties can be attributed to a host of factors including, but not limited to:

- rigorously enforced quotas with automatic fines.
- problems hiring, training, and retaining Saudi talent due to structural issues arising from Saudi Arabia's economic development.
- a lack of training or relevant skill sets.
- the cultural heterogeneity traditionally prevalent in certain sectors.

Private-Sector Employment and SMEs

Larger firms, once they have achieved compliance, tend not to have trouble retaining it. Smaller firms have the strongest financial incentives to comply with Saudization requirements; however, once they

⁵ Sheffer et al. 2016.

⁶ Ibid.

⁷ Koyame-Marsh 2016.

⁸ Strategy & analysis.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Peck 2017.

become compliant, they are more likely to face issues sustaining compliance.¹² This might be partially explained by a particular form of economies of scale: When firms have a larger proportion of Saudis in their workforce, it becomes easier to retain, train, and attract additional Saudi talent. Cultural factors around the perceived appropriateness of jobs in these companies also play a role.

The frequently cited difficulties small and medium-size enterprises (SMEs) face in complying with Saudization requirements can be translated to a supply and demand matrix. The top left quadrant of the matrix presents the ideal market conditions for optimum compliance. Inversely, the bottom right quadrant presents market conditions in which mass Saudization compliance is structurally and culturally incompatible. The bottom left and top right quadrants represent market imbalances in which it is possible to improve Saudization compliance. To make compliance sustainable over the long run, for SMEs in particular, the barriers identified in the quadrants must be overcome.

	High Supply	Low Supply
High Demand	In this thriving private-sector employment market, both employers and employees are satisfied.	There is a gap in demand to be filled by prospective Saudi employees. <ul style="list-style-type: none"> - Difficult or unattractive working conditions.
Low Demand	An oversupply of Saudi workers means potential workers outstrip demand. <ul style="list-style-type: none"> - Restrictive worker protections. - Increased costs to hiring Saudi nationals. 	Meaningful supply and demand for Saudi employees in the private sector are both low. <ul style="list-style-type: none"> - Cultural factors and incompatibilities. - No strategic planning between the government and private sector. - A lack of relevant skills among Saudis entering the workforce.

Understanding the above matrix gives insight into where to focus efforts to remove barriers to compliance. Targeting areas in the bottom left and top right quadrants will make compliance more sustainable over the long term, while targeting barriers in the bottom right quadrant will increase the structural capacity of SMEs to comply with Saudization in general.

For these reasons, the highest-value option toward compliance and increasing Saudi employment is to use the COM-B model to enhance the behavior of SMEs in Saudi Arabia, promoting sustainable compliance at their level of operation. After we've mapped the gaps to compliance onto the COM-B model and discerned the relevant intervention to address each gap, we can approximate how each of the frequently cited difficulties may be affected.

Capability

Structural Capability Gaps

¹² Ibid. and Strategy & analysis.

Given the timeframe the policy has been in effect, combined with its rigorous enforcement and strong publicity, awareness of Saudization is not an issue.¹³ However, in light of their structural features, SMEs and organizations with fewer Saudi employees are likely to benefit from additional resources in order to effectively hire, train, and retain Saudi talent.¹⁴

Hiring venues

A structural capability gap worth noting is the lack of access SMEs have to venues where sufficiently skilled and/or interested Saudis seek employment or at least indicate interest in learning about a field. An intervention that could alleviate this would be **to facilitate the development of such a platform** (or other venue) in conjunction with employers and employees to ensure **their specific needs drive the design decisions**. A key feature would likely be matching employers and employees based on relevant education, skills (and interest in learning specific skills), and experience to challenge gaps frequently cited by Saudi private-sector employers.¹⁵

Costs of transition

The cost of transitioning an SME to meet Saudization targets may be prohibitively expensive. In this case, **lack of compliance does not reflect an active choice but rather an inability to comply**. For organizations that are not compliant, the financial and operational costs of attracting, training, and compensating Saudi employees exceeds that of foreign employees and carries more risk.¹⁶ This is partially due to the higher minimum wage commanded by Saudis, as well as their increased protections.¹⁷ A suitable intervention may be **to create a subsidy, possibly via a tax credit or wage assistance**, either for the first employee or over a transitional period, such as six months to a year.

Addressing employer inertia

At the beginning of their careers, the majority of working Saudis are traditionally prepared for government-related employment. This has resulted in a lack of meaningful engagement between prospective Saudi employees and the private sector.¹⁸ The mismatch between the skills sought by private-sector employers and skills acquired by prospective Saudi employees has limited the capability of SMEs to hire Saudi nationals with relevant skills and fostered aversion toward hiring them. It has also produced an unintended consequence: pushing up the wages for Saudis with relevant private-sector skills. Many firms have increased their wages to meet Saudization requirements.

A corresponding intervention to fix the skills gap in the labor market between Saudi employees and the private sector would be **to introduce a subsidized nationwide apprenticeship program**. This would give more Saudis the requisite skills and create opportunities for employers. It would also reduce the market rate for Saudi employment, making it more financially affordable to SMEs.

Cultural Capability Gaps

Cultural factors may limit the opportunities that SMEs have to comply with Saudization requirements. A common complaint from private-sector enterprises, and SMEs in particular, is the lack of Saudi candidates with the right skills and attitudes.

¹³ Zakaria 2021.

¹⁴ Koyame-Marsh 2016.

¹⁵ Ibid.

¹⁶ Seron 2022.

¹⁷ Ibid.

¹⁸ Koyame-Marsh 2016.

Anchoring commercial perceptions

The historical lack of engagement between the private sector and Saudi nationals in the labor market has fostered negative perceptions regarding the attitudes, aptitudes, and costs of potential Saudi employees.¹⁹ These perceptions often render employers reluctant to recruit Saudi nationals.

A potential intervention aimed at shifting the common private sector attitude toward hiring Saudi nationals is **to broadly anchor the perceptions of the commercial community**. This can be accomplished through a marketing campaign that increases the appeal of hiring Saudi nationals, highlighting information such as “More than 80% of enterprises that consistently met their Saudization requirements over the last four years increased their profits by over 30%.” This type of intervention could operate synergistically with the state-sponsored apprenticeship program described above—the state’s support of an apprenticeship program symbolically indicates the cultural acceptability of Saudis as private-sector employees.

Opportunity

Structural issues hinder SMEs’ opportunities to comply with Saudization targets. These structural factors typically relate to employer desirability to prospective Saudi employees.

Structural Opportunity Gaps

Inertia in employee perceptions

Historically, the government has employed the majority of working Saudis, either directly or through government-controlled enterprises, thus making public-sector employment emblematic with prestige, family support, enhanced marriage prospects, and lifetime security.²⁰ This has fostered some reluctance among Saudis to pursue private-sector employment. In turn, over 70% of Saudi Arabia’s private-sector jobs are filled by foreign nationals.²¹

To take on the historically low engagement with private-sector employment as well as increase the salience of various private-sector career options for young and working-age Saudis, a potential intervention is **to introduce a nationwide apprenticeship program**. This program would introduce young Saudis to the private sector, socialize them to the possibility of a long-term career there, and provide the necessary skills to do so.²²

An apprenticeship program serves two purposes. For *employers*, it gives an opportunity to engage with potential employees and qualify them as leads for permanent employment. (The lack of mechanisms to connect with candidates is a capability gap for companies.) For *employees*, it gives the opportunity to engage with potential employers and develop, refine, and demonstrate the skills that will make them successful longer-term in the private sector. (The lack of appropriate candidates to connect with is an opportunity gap for companies.)

Cultural Opportunity Gaps

Cultural factors may limit the pool of Saudi candidates who apply for work in the private sector, thus increasing the difficulty for SMEs to become compliant with their requisite Saudization rate.

¹⁹ Ibid.

²⁰ James 2010.

²¹ Rivera and Koettl 2022.

²² Such a program would have the dual effect of addressing structural barriers by helping employees develop in-demand skills and reducing the cost to SMEs of training Saudis, increasing their financial and operational capability to more readily hire Saudis, as well as increasing the overall viable pool of candidates to hire.

Anchoring social norms

A historical lack of engagement with the private sector makes it difficult for employers to engage enough prospective employees to meet their Saudization requirements.

Culture has also shaped heterogeneity within the workforce. For example, certain professions are deemed appropriate for only one gender, further exacerbating the lack of Saudi talent employers are prepared to hire.²³

Correspondingly, an intervention addressing common cultural norms could increase the organic opportunities for employers to meet their Saudization requirements. Such an intervention should focus on broadly **anchoring social norms for the general population**. For example, a marketing/messaging campaign aimed at increasing the attractiveness of private-sector employment could highlight such messages as “95% of Saudis working in the private sector take pride in their work and feel respected in their communities.”

Once again, this is a mirror image of an intervention described above: There are cultural barriers both for employers (some of whom are not inclined to consider Saudis for open positions) and employees (some of whom are not inclined to consider the private sector when seeking employment). Social norm messaging can be effective in overcoming both of these cultural barriers. Dedicated campaigns would be required to deal with the tacit beliefs of both sides of the employer–employee relationship.

Motivation

Reflective Motivation Gaps

Hiring Saudi citizens instead of foreign nationals comes at an elevated cost, immediately and over time. The decision to hire a Saudi national to reach Saudization compliance is often framed as a cost-benefit analysis.²⁴ In their pursuit of Saudization targets, employers must navigate a host of factors beyond the costs of higher salaries: productivity, skills, organizational fit, and additional operational costs from transitioning to hiring processes that attract and retain Saudi nationals.

Based on feedback from the private sector, the cost-benefit analysis favors hiring non-Saudis, as the benefits of not complying with Saudization (e.g., perceived better productivity, better fit between roles and skills, lower salaries and benefits, and lower operational costs and worker protections) can outweigh the cost of the fines.²⁵

A pluralistic/pragmatic approach

Tilting the results of the cost-benefit analysis in favor of Saudization compliance requires pulling multiple levers:

- instituting specialized hiring venues in partnership with private-sector actors (notably SMEs).
- increasing subsidies for employing Saudis.
- addressing the inertia in private-sector perceptions among Saudis.
- closing the skills gap in the employment market.

²³ Peck 2017.

²⁴ Sergon 2022.

²⁵ Koyame-Marsh 2016.

However, a pluralistic/pragmatic approach does not rely on the state to be the sole source of pressure; it also uses public interest and private actor partnerships to motivate compliance.²⁶ Such an approach focuses on **instituting partnerships between regulatory bodies, employees and prospective employees, and specialized labor groups** (unions, activists, and other special interest groups) to exert influence to increase compliance.²⁷

In practice, the pluralistic/pragmatic approach would focus on **shifting the burden of inducing compliance with Saudization from the regulator onto specialized labor groups and employees**. This can only be achieved when the shared interest among the three aforementioned stakeholders converges in having employers meet their Saudization targets.²⁸ Over time, such a bottom-up approach would induce sustainable compliance with Saudization by not only pressuring employers, but also by increasing the overall active engagement of Saudi employees and potential employees.²⁹

Cross-model enforcement

The deterrence model of enforcing compliance, which is most akin to current Saudi practice, is based on enforcing noncompliance by issuing proportional fines: $[\text{benefit}] < [\text{fine cost} \times \text{probability of being fined}]$.³⁰ However, this model implicitly fails to recognize that resistance to compliance with a regulation is often the result of manifested feelings of unfairness.³¹

When it comes to Saudization, such feelings may stem from the structural and cultural gaps that act as barriers to complying, such as low interest from Saudis regarding private-sector work, a lack of qualified Saudi candidates, unmanageable costs associated with hiring Saudis, and prohibitively strong worker protections.

Inducing employers to comply with Saudization requirements in spite of those potential harbored feelings is contingent on **not focusing solely on punitive measures to enforce compliance and instead adopting a “cross-model enforcement strategy,”** which is shown to be more effective.³²

A cross-model approach still enforces noncompliance with punitive measures such as fines, but it also helps noncompliant organizations craft a path to compliance.³³ This takes the form of assisting noncompliant firms through technical and legal resources, in conjunction with a strategic plan on how to utilize those resources.

Increasing the value of compliance

After barriers to compliance with Saudization have been sufficiently overcome, it is prudent to think about how to further shift the calculus of the cost-benefit analysis in favor of compliance.

An effective method is **a progressive fine structure, whereby the scale of punitive action is increased in proportion to the consistency of noncompliance**. Such an intervention would **increase the costs of noncompliance** over time and prompt noncompliant organizations to reevaluate their cost-benefit model every time they make an active decision to remain noncompliant.

²⁶ Chung 2015.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

³⁰ Pires 2008.

³¹ Ibid.

³² Ibid.

³³ Ibid.

For example, if a marketing organization employing five people does not comply with its 30% Saudization requirement, a fine is levied. If it remains noncompliant, the fine continues to increase by a predetermined proportionate amount. When implementing such a strict policy, multiple dimensions must be considered (such as potential negative impacts on the economy overall if a large number of SMEs must grapple with increasing labor costs). It should not be considered until virtually all barriers to compliance have been addressed or, better yet, until compliance behavior has become a norm.³⁴

Automatic Motivation Gaps

Smaller business owners preoccupied with ensuring the immediate survival of their businesses may be less focused on the longer-term impacts of their decisions and overly invested in what they think will keep them afloat in the short term.

It is easy to imagine situations in which small business owners make expedient business decisions while discounting future consequences. Sometimes, short-term survival or simple operational functionality take precedent.

Imagine a small, severely understaffed business either not meeting or at risk of not meeting their Saudization requirements and unable to continue operating without the additional help. The small business owner may discount future fines by weighing the immediate need for labor and the ease of finding talent through their informal contacts.

Overcoming hyperbolic discounting

Hyperbolic discounting refers to the **human inclination to choose rewards that immediately materialize** rather than ones that come down the line. People may choose not to comply with a policy because they only consider the short-term benefits of noncompliance and discount the costs that will come in the future.³⁵

A strong strategy for combating short-term thinking is the use of narrative-based messaging. **Narratives resonate more with those prone to quick decisions.**³⁶ Potential narratives to combat noncompliance with Saudization requirements could be centered around how hiring a Saudi is easier and faster than most believe.

Narratives help make future consequences more salient, a phenomenon often referred to as future focus priming.³⁷ Consider how highlighting narratives about organizations that discounted the risks of noncompliance and faced catastrophic consequences could compel decision-makers to reconsider their choices. Ultimately, it may increase compliance.

Imbuing compliance values

The number of stakeholders responsible for making key organizational decisions in SMEs tends to be quite small; more than likely, the decisions fall on the shoulders of a single individual. Compliance with any policy tends to suffer when fewer stakeholders are responsible for making decisions.³⁸ Accordingly, a relevant intervention to increasing compliance when few stakeholders are making decisions is to **ensure that the values of those stakeholders are aligned with the compliance values.**

³⁴ Stipdonk and Goldenbeld 2014.

³⁵ TDL 2021.

³⁶ Ibid. and Kahneman 2011.

³⁷ Ibid.

³⁸ Holzinger and Biddle 2016.

A possible way to ensure that employers are aligned with Saudization values is to mandate workshops aimed at promoting the value of Saudization among all new business license holders or to make a Saudization workshop mandatory for all owners of businesses with a specified number of employees. Compliance outcomes tend to be strongest within organizations that prioritize its value.³⁹ **By promoting its value among business owners, compliance with Saudization requirements should grow organically** in tandem with their businesses.

To ensure their effectiveness, workshops promoting Saudization values need to have a clear value proposition articulated. This avoids further manifesting feelings of unreasonableness with regard to the requirements. The value proposition should be predicated on two components: (1) ensuring the content saliently frames the near- and long-term benefits of Saudization to employers, and (2) participants get access to technical or legal materials relevant to their situations.

Piloting Strategy

The majority of the nonstructural friction that was unearthed and mapped can be attributed to motivation. In other words, behavioral approaches are needed to foster increased motivation to comply with Saudization.

Capability	Opportunity	Motivation
<ul style="list-style-type: none"> ● Develop hiring venues to match relevant employers and employees based on needs, skills, and interests. ● Reduce the cost of becoming compliant so it reflects an active choice vs. a financial consideration. ● Introduce a subsidized apprenticeship program to close the skills gap in the market. ● Anchor commercial perceptions with messaging focused on increasing the appeal of hiring Saudis. 	<ul style="list-style-type: none"> ● Introduce a subsidized apprenticeship program to foster long-term private-sector careers for prospective employees. ● Anchor social norms to the attractiveness of private-sector careers for prospective employees. 	<ul style="list-style-type: none"> ● A pluralistic/pragmatic enforcement approach can shift business owner cost-benefit analysis in favor of hiring Saudis. ● Implementing cross-model enforcement—levying fines while working with businesses to craft a path to compliance—is more effective than purely punitive enforcement. ● Reduce the value of noncompliance via tools like progressive fine structures. ● Narrative-based messaging helps make future consequences more salient, overcoming short-term reasoning. ● Imbuing compliance values ensures that business decisions reflect Saudization at their heart.

With respect to the development of a piloting strategy, increasing SME motivation to comply with Saudization must be prioritized. In parallel, structural barriers should be overcome to enhance the sustainability of compliance.

³⁹ Parker and Nielsen 2008.

Therefore, the pilot strategy should aim to:

1. Focus on **reflective motivation** by skewing the cost-benefit calculus in favor of compliance, engaging multiple levels of stakeholders in inducing motivation to comply, and implementing a cross-model of enforcement using both deterrent and pedagogical approaches.
2. Address **automatic motivation** by highlighting narratives that speak to the short-term goals of noncompliant actors, and establish a norm among employers of valuing compliance to organically increase motivation.
3. Return to **reflective motivation** by considering how a progressive fine structure might tilt the cost-benefit analysis in favor of increasing employment of Saudi nationals.
4. Examine **cultural capability gaps** by challenging employer inertia toward hiring Saudi employees as well as by creating messaging that establishes hiring Saudis as the norm rather than the exception.
5. Finally, close **cultural opportunity gaps** by leveraging social norms among prospective Saudi workers and positioning private-sector careers as both normal and desirable.

Once all of the above have been dealt with, efficacy would be improved if structural barriers were also covered:

6. Address **structural capability gaps** to Saudization by ensuring the financial costs of transitioning are not overly burdensome; also, provide a proper venue for organizations to interact with and hire Saudi talent.
7. Reduce **structural opportunity gaps** to Saudization by changing the way current and prospective Saudi workers view private-sector employment.

Revisiting the supply and demand matrix, we can map the pilot strategy to corresponding gaps impeding Saudization compliance, creating a more contextualized understanding of where the piloting strategy will affect the compliance landscape.

	High Supply	Low Supply
High Demand	In this thriving private-sector employment market, both employers and employees are satisfied.	There is a gap in demand to be filled by prospective Saudi employees. <ul style="list-style-type: none"> - Difficult or unattractive working conditions. (1)(2)(4)
Low Demand	An oversupply of Saudi workers means potential workers outstrip demand. <ul style="list-style-type: none"> - Restrictive worker protections. (1) - Increased costs to hiring Saudi nationals. (1)(3)(7) 	Meaningful supply and demand for Saudi employees in the private sector are both low. <ul style="list-style-type: none"> - Cultural factors and incompatibilities. (2)(3)(4) - No strategic planning between the government and private sector. (1)(5)(6)(7) - A lack of relevant skills among Saudis entering the workforce. (1)

Conclusion

Saudization aims to decrease unemployment and increase Saudi participation in the private-sector labor force. Traditionally, the bulk of the working Saudi population has taken up public-sector or public-enterprise employment, which has fostered a reluctance among some Saudi workers to engage with the private sector, as well as a hesitation on the part of private-sector employers to hire Saudis.

Using the COM-B framework reveals that a host of structural issues undermine the capability and opportunity of many SMEs to comply with Saudization requirements, affecting noncompliant firms' motivation in the process.

Proven best *compliance enforcement* practices should be implemented to increase the motivation for and sustainability of compliance. To maximize the effect of enhanced motivation for compliance, structural issues should also be addressed to ensure the long-term sustainability of Saudization compliance.

Appendices

Research Methodology

Evidence from multiple academic publications covering a swath of areas directly related and adjacent to labor law compliance and quota-based employment—tax compliance, occupational health, legal enforcement, EU transpositions—was mapped onto the COM-B framework of behavioral change to determine what barriers stand in the way of Saudization compliance, as well as interventions that may help overcome them.

Document Collection and Literature Review

The research documents covered in this study were collected using a stepwise approach. First, an initial set of keywords was established based on the framed problem of *increasing compliance with Saudization requirements*. The keywords were broken into three broad categories:

1. **Saudization:** to develop in-depth background knowledge of the Saudization policy, its history, and its outcomes. [Keywords: *Saudization, Saudization compliance, Saudization development*]
2. **Compliance:** to develop an understanding of barriers to compliance among commercial entities, as well as to understand differences in compliance outcomes based on policy objectives and enforcement styles. The primary focus was on compliance with labor laws. However, related areas with rich compliance literature were also considered, including tax, occupational health, and EU transposition compliance. [Keywords: *Corporate Compliance, Labor/Labour Law Compliance, Improving Compliance, Occupational Health, Labour Inspection/Labour Enforcement, Tax Compliance/Enforcement, Game Theory Compliance*]
3. **Quota-Based Employment:** to compare experiences and outcomes elsewhere where quota-based employment programs have been undertaken, most notably in the USA and India. [Keywords: *Quota-Based Employment, Affirmative Action*]

All documents were thoroughly reviewed and their key findings extracted manually. Findings were then used to elucidate key barriers to compliance, as well as a subset of interventions that have either addressed those barriers specifically or have been used to increase rates of corporate compliance.

Framework Synthesis

With the structured data collection and literature review completed, key barriers and intervention candidates were aggregated and mapped directly into the COM-B framework. Structural elements that have an influence on Saudization were further elucidated during our interview with officials from the Saudi Ministry of Labor in collaboration with our Strategy& colleagues.

This helped identify where the needle needs to be moved with respect to structural and cultural gaps that might increase compliance with Saudization requirements and also outlined some common behavioral interventions that may help develop sustainable compliance.

How Saudization Compliance Moves Forward

A prominent limitation that arose during the literature review was a lack of quantitative literature about the enforcement approach and results of the Saudi regulator. Therefore, much of the discussion surrounding the regulator's enforcement style is based on assumptions derived from conversations with Saudi Ministry officials, literature broadly discussing the administration of Saudization policy, and projections from literature discussing theoretical frameworks of regulatory enforcement that fit with the first two points. As a result, some of our recommendations are not as specific as they may have been had we had access to more data.

Next Steps

To enhance the context of the current work, behavioral journey maps of SMEs operating in different industries and with organizations of different sizes could help create more detailed interventions aimed at increasing compliance with Saudization requirements. This would greatly improve the utility of the current COM-B framework.

To develop such journey maps, we would need to be able to conduct qualitative and quantitative fieldwork with a range of stakeholders including regulators, SME owners/operators, Saudi employees, prospective Saudi employees, non-Saudi employees, labor specialists, and subject matter experts with detailed knowledge of the Saudi labor market and its resources.

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