

# Challenges and Strategies in Tackling the Issues of Structural Unemployment in Saudi Arabia: a Vision 2030

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**Abstract:** *The aim of this paper is to analyze and review the current unemployment crisis in Saudi Arabia and alternative schemes that might be designed to reduce structural unemployment in Saudi Arabia. Localization of the workforce is one of the major initiatives taken by the Saudi government to reduce the unemployment of their local work force. The current study comprehensively reviewed the effectiveness of the measure called by the Saudi regime. The data and information are collected using secondary data which are government reports, website, as well as past research. Literature indicated that the incorporation of the workforce initiatives has significantly reduced the unemployment of the Saudi work force. Yet the trouble still exists, and Saudi government and policy makers still required developing more efficient strategies to cope with the situation. The Kingdom has never hit 100 percent employment due to various factors including the nature of the labour market. It was also suggested that the continuous issue for this structural unemployment is because there are still large number of expatriates in many organizations in the Saudi even after the government has implemented the Saudization program.*

**Index Terms:** *Alternative Solution, Localization, Vision 2030, Structural Unemployment.*

## I. INTRODUCTION

According to the World Economic Forum's Outlook on the Global Agenda 2014, the three most serious problems confronting policy-makers in the next years are: – Rising societal tensions in the Middle East and North Africa – Widening income disparities – Persistent structural unemployment [1]. Countries' economic and employment performance varies considerably; even if growth is resuming in a number of them, job creation remains subdued, and many people are experiencing deeper crisis. Additionally, [2] pointed that many developed and developing countries are struggling to offer enough jobs for their people, Saudi Arabia has plenty of jobs to offer however young Saudis want only certain jobs such as in education and as general administrations, and preferably in the public sector [3]. Another potential issue in Saudi is suggested due to a mismatch between the education system and global/Saudi labour market, and so far there is no careful tracking of the education achievements of King Abdullah Scholarship Program (KASP) or the new trends of a changing Saudi

labour market in order to meet graduates requirements for job titles [4] and [5].

According to the Economist [6], structural unemployment refers to skills mismatches or skills gap, and the government will need a longer time and perhaps restructuring it education and imposing innovation in order to overcome such issues. Further they pointed that the policy-makers should not ignore this issue as it can raised to a higher natural unemployment rate and this structural unemployment is also harder to fix in comparison to other types of unemployment, thus must be given serious attention. Meanwhile, ASTD (American Society for Training & Development) the world's largest association dedicated to workplace learning and development professionals defines a skills gap as a significant gap between an organization's current capabilities and the skills it needs to achieve its goals. It is the point at which an organization can no longer grow or remain competitive if they cannot fill critical jobs with employees who have the right knowledge, skills, and abilities. It is not just individual organizations or sectors that are feeling the consequences of the skills gap. Communities, states, regions, and entire nations pay a heavy price when they cannot find or equip workers with the right skills for critical jobs. The McKinsey Global Institute 2012 report predicted a potential of 90 million to 95 million low-skill workers (those without college training in advanced economies or without even secondary education in developing economies) than employers will need [7]. Low-skills workers will be in least demand at 10 percent. Additionally based on [8] has stated that the Gulf Cooperation Council (GCC) including the Saudi Arabia government have implemented several programs to solve these challenges this include imposing quotas on the number of nationals employed – so-called Saudization or Emiratization – by offering partial reimbursement of the salary and training costs if the hire them.

The purpose of this paper is to investigate the persistence of the current unemployment crisis in Saudi Arabia and alternative strategies that might need to be redesigned to reduce structural unemployment. As mentioned earlier, localization of the workforce is one of the major initiatives taken by the Saudi government to reduce the unemployment of their local workforce. 'Localization' of human resource in the Kingdom of Saudi Arabia referred to as the 'Saudization' [9].

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Earlier, [10] defined Saudization as the replacement of the expatriate workforce with a locally qualified and skilled workforce. The Ministry of Labour (2013) described the Saudization policy as a vision aimed at increasing self-sufficiency and security within Saudi society [11]. The Saudization program aims to focus on a job localization strategy with three goals: increasing employment for Saudi nationals, reducing and reversing over-reliance on foreign workers and recapturing and reinvesting income from overflowed to overseas as remittances to other countries [12]. This strategy was proven to be positively performed but further reforms are required in making them more effective, especially with regards to the reliance on migrant labour. This is because private companies still preferred expatriates rather than the local graduate, who have less work experience but high expectations.

## II. FACTORS CAUSING TO STRUCTURAL UNEMPLOYMENT

### A. Perceived Nature of the Saudi Workforce

Research by [13] revealed that that The Saudi social perception working in the private sector is negative because they believed it is lower societal status and prestige, less job security, less stability, and higher demand for productivity in comparison with the public sector. Saudis seemed to choose working in the public sector especially in education and general administrations [2], the percentage of them in both positions is over 90%. In addition, the story of the Saudi labour market and Dutch Disease has increased dependency on the natural resources and the large inflow of foreign assistance [14]. Prior to 2000, although the Saudi education system graduated a lot of educated young Saudis, a mismatch between the Saudi labour market and the nationals was identified [13].

### B. High Dependency on Foreign workers

According to [2] the growth of the private sectors in the nation is currently depending on expatriated or foreign workers. They further stated that even though there are many industrial cities and private sectors in Saudi that potentially creates many jobs, these positions are generally occupied with non-Saudis because most Saudis lack of the required skills. Therefore, Saudis must improve their skills and become more competitive in order to be able to replace foreign workers.

### C. Saudis graduates' expectations

Unemployed Saudi graduates, especially those under the King Abdullah offers scholar-ship programme's (KASP) are said to have unrealistic expectations and they sometimes being choosy when they only request to work with well-known large companies such as ARAMCO or SABIC [2]. According to OilWell7 report, the cause for the unemployment include high expectations, gender segregation, religious and cultural challenges, lack of experience, lack of skills, lack of KASP pre-departure market awareness and a lack of job seeking skills [15]. Further, it is said that local graduates are gravitating to more prestigious, more secure public sector jobs that often offer better pay and flexible working hours, such as a five-day week rather than six days. Only 9% of

students in both Saudi Arabia and the United Arab Emirates, expect to work in a local private company when they leave university [8].

### D. Cultural and Religious Challenges

Saudi Arabia also known as communities that embraced gender segregation due to religion and cultural commitment. Although, this issue has become debatable and flexible for many families, to allow their family members to operate in a mixed environment, it is still widely common among females or males to prefer a segregated environment [2].

## III. GOVERNMENT STRATEGIES BASED ON VISION 2030: AN OVERVIEW

According to [16] two approach to handle unemployment, which are;

- Demand side policies to reduce demand-deficient unemployment
- Supply side policies to reduce structural unemployment

Further, he suggested that the quick list to reduce structural unemployment is through education and training [16]. In addition, [2] has suggested few recommendations for policy-makers;

- To sustain investment in cost-effective active labour market programs. This suggests the government to focus on building the human capital especially for the low skills labor. This is importance to promote in-depth and individualized support for a shift from the "work-first" approach to a "learn-first" model.
- Take action to boost employment especially to women, aging people and members of minority group.
- To implement well-designed and managed migration policies to respond to demographic change, coping with skills shortages and maintain the growing economy.
- To increase the number of quality apprenticeships available for young people and improve the training provided.

Previous research also indicated that to be intentional about organizational learning, organizations need to focus on doing four things well. (See Fig. 1: Four Elements of Organizational Learning below.)



**Fig 1: Four Elements of Organizational Learning**  
Source: Adapted from [17].

Based on the Fig. 1, the author suggested that the leaders must champion organizational learning. They need to demonstrate their commitment by setting a vision and goals for learning and they must be the role models who will also participate in the learning activities. Second, leaders need to foster a culture of continuous improvement that values organizational learning. Thus, the must reinforce learning by providing incentives for learning behaviors and by measuring and communicating results of learning. Third, the organization needs to define a learning structure that specifies the people who are accountable for capturing, distilling, applying, and sharing knowledge. The structure also should include networks and coordinating tactics that help information flow among the people who need it, when they need it, [17]. Further, they pointed that organization needs to design intuitive knowledge processes that are aligned to how people performed their work. These processes help people to understand a learning agenda, and how they capture, distill, and apply knowledge. These processes include the technology as well as people-to-people interactions [17].

Based on the above literature, the paper has analyzed the relevant of the Saudi Arabia's Vision 2030, especially with regards to the government intention to lower the unemployment rate from 11.6% to 7%, [18]. It is said that the Saudi private sectors must employ 4.1Million citizens by 2030 and the Ministry of Labor are expected the demand would go beyond in order to reduce the number of foreign workers. Saudi nationals compose less than 10% of the current private sector workforce and less than half the workforce overall. In order to do this, the government has proposed several alternatives and planning.

#### A. Human resource development in Saudi Arabia

The Kingdom currently has 24 universities and a 508 colleges and institutions. Apart from that there are 34,749 schools in Saudi Arabia consist of 5.187 million students. In 2005, KASP enabled more than half a million Saudi people continued their education abroad. Prior to 1984, the Saudi university graduates worked in the public sector, however with the KASP, they are encouraged to work in both public and private sectors. The Saudi government also initiated more

than 75 training institutes for vocational field under the supervision of the General Organization for Technical Education and Vocational Training (GOTEVT) to provide training and development for low skilled people [19]. Further the Ministry of Labor planned to employ 120,000 Saudis in the private sector every year which forced the GOTEVT training institutes to add another 40 facilities throughout the country. This kind of effort has resulted into the skill formation among Saudis and contributed significantly towards the skill readiness to join the private sector. Thus, this program is believed to be effective and the Saudi government should continuously put further investment in education and infra-structure to prosper in a knowledge based economy [19].

Additionally, The Saudi Ministry of Labour (MOL) has launched replacement programs, to further localize jobs and minimize foreign workers. It is stated that 30% of foreign workers has been replaced with KASP graduates. However, the success and effectiveness of the KASP graduate in meeting the goal of Saudisation in terms of corporate careers or white-collar careers still need to be explored [9].

#### B. Competency training in Saudi Arabia

There is a national system for vocational and technical training supported by policies and implemented through a bureaucratic structure comprising funding and standards (i.e., HRDF) and execution (i.e., TVTC). The TVTC controls the National System for Joint Training (NSJT), which was set up in 2001 to provide resources to employers. The public sector participants who share out the joint training system agreed that it supports Nitaqat program in giving school leavers and graduates the competencies needed to come into the labour force. The Ministry of Labour launched this program under the "Saudisation" program and focus on employment quotas for nationals in private companies [11].

#### C. Learning and Knowledge Gap

In this age of rapid innovation, organizations must be able to sustain competitive advantage over competitor via a culture that advocates knowledge development and learning [20]. Thus, every organization must be willing to make huge investments on employee training and development each year [21]. However, at best, only 15 % of the total learning that takes place during training gets transferred at work [22]. Thus, it raised the needs to hire ready-made talent or skilled workers. However, in most countries, there is a clear and significant shortage of individuals who are appropriately skilled to meet the demands of business and industry thus called the Governments to recognize the acute need for improving and expanding professional education strategies [23].

In line with Knowles' theory of andragogy, adult education should focus on experiential techniques that tap into the experience of learners, such as group discussion, problem-solving, case methods, simulation exercises, games, and role-play, instead of primarily using transmittal techniques such as lecture [24].

Using a combination of the following teaching strategies will have the greatest impact in order to increase the workforce readiness, which is required to be implemented within the Saudization program [9].

This issue also leading to the motivation to direct the effectiveness of the current strategies with the training needs analysis (TNA). Based on the prior literature and analysis of the Saudi government's formal documents, it have been shown that Saudi Arabia government is actively initiating programs in order to cope with unemployment challenges. But as far as it is concerned there is still a weak link between educational system output and the needs of the economic sectors, especially those of the private sector [5]. The later issue which requires skilled and professional labour is assumed to be the most critical here in order to overcome the structural unemployment issue. Thus it is believed there is role need to be played by the Saudi government especially with regards to converting organizational policies into management practices that will implement change. Since the early 2000s, the government has introduced an extensive legal framework to regulate the management of people in the private sector. In this attempt, the Saudi government has introduced several laws to force private sector firms to employ Saudis. Thus, Saudi Arabia has recently being put under pressure by international bodies such as the International Labour Organization (ILO) and World Trade Organization (WTO) to reform its labour laws with regard to the issues of social protection of workers, labour rights and work standards in the private sector [13]. This suggests efforts are needed to assess the effectiveness and better result in tackling the main issue here. As stated by [2] it is still too early to judge the success of these programs. Researchers should undertake more research in the 5 or 10 upcoming years to explicit and statistically measure the degree/s and their success or failure of these programs and also measure the degree/s of the change in the Saudi society and ways of thinking.

It is also suggested that the government put initiative to revise the wages of skilled actors in order to change the negative values towards the skilled jobs. For example, a British skilled worker who works in plumbing earns around £150,000 a year, while Doctors earn around £100,000 a year [25], skilled workers on building sites in Saudi Arabia earns around \$6,000 a year on average [26] and a Saudi academic professor earns \$60,000 a year on average. In Switzerland, the government encourages its citizens to join training centers to improve their skills, as a result, 70% of the population occupies skilled jobs with a decent salary, and only 3% of its population remained unemployed [25]. This suggests that increasing the pay for skilled labour could also support the modification of values and the work ethics among Saudis, especially that skilled jobs are now the main driving power of the Saudi private sector growth.

#### IV. RECOMMENDATIONS

Based on their studies [9] have suggested that there is a strong need to adopt a comprehensive human resource development (HRD) framework to develop local employees and aligning it with the demands of the job market. A holistic *Saudization* policy is needed which can bridge the gap of talent and skills required after the removal of the expatriate workers. This is in line with [21] suggestion that with uncertain nature of organizational environments, it is

necessary for every organizations to give a focal attention in the human resource development (HRD) and organizational development (OD) and strive to become learning organizations.

Further, it is suggested that the governmental bureaucracy and isolation from the private sectors need to be split up and made more lucid in order to update the training organization and enhance the human resources system. Thus, organizations both private and public should adopt learning organization theory that advances the understanding of how to develop Saudi human capital qualifications through by establishing a culture to educate and innovate within the nationals 'educational journey.

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