

Consult Within: Analyzing the Recent Decision to Localize Consultancy Professions in Saudi Arabia

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Introduction

In October 2022, Saudi Arabia's Ministry of Human Resources and Social Development (MHRSD) issued a decision mandating the progressive localization of consultancy professions up to 40% by the end of March 2024 (Arab News 2022). Such targeted localization (or Saudization) of specific professions is not extraordinary in Saudi Arabia.¹ In the mid-2010s, directives began being issued to reserve specific retail positions for Saudi women as a means to increase female labor force participation (Saudi Gazette 2014). Saudizing of retail positions accelerated at the end of the decade (Saudi Gazette 2018). In the early 2020s, more professions were targeted, including pharmacy workers, aviation workers, engineering professions and even cinema workers (Saudi Gazette 2022). The recent decision to Saudize consulting professions targets a service and industry that is in high demand in the Kingdom. Furthermore, these occupations are both desirable for its citizens and could help further economic policy goals by reducing the unemployment rate of educated Saudis. This short paper analyses the decision to localize consultancy professions and argues that it represents a significant step in a cohesive local content strategy for Saudi Arabia.

Saudi Arabia and Consulting

It is no secret that Saudi Arabia has leveraged international consultancies in its recent economic transformation. All major international consulting firms have been fixtures in the country for much of the past decade at high levels of government (Forsythe et al. 2018). McKinsey's December 2015 report on risk factors for the Saudi economy was arguably influential in some areas of Saudi Vision 2030, outlining in broad strokes possible sectors to target for successful diversification (Grand and Wolff 2020). In 2016, foreign consulting revenue in Saudi Arabia was estimated at \$1.2bn (Consultancy.uk 2016), and by 2019 this had risen to \$3.1bn (Gibbon 2019). This latter valuation prompted action at the government level, as it represented a significant outlay on expertise that theoretically could just as easily come from Saudi Arabia's own base of educated citizens. A royal decree was issued in September 2019 banning government departments and agencies from contracting foreign firms for consultancy services, except in dire circumstances (Saudi Gazette 2019). Explicitly, dire circumstances were when no qualified Saudi expertise could be found.

The effect of that decision is difficult to measure, as it came into effect near the beginning of the COVID-19 pandemic, when specific expertise on the topic might have been difficult to find locally. Saudi Arabia remains an extremely attractive and profitable market for international consultancies, with industry articles noting that competition for Saudi contracts is fierce between the various firms. (Consultancy.uk 2016). If Saudi Arabia is so attractive to these firms while also retaining high demand, then an opportunity exists for policymakers to use this space to achieve further their development goals through localization. The goal of localization is to capture extra value locally beyond the mere value of the end product or service. Ideally, this extra value should be aligned with national development goals, and localizing consulting professions in Saudi Arabia seems like a good fit.

¹ These decisions on "reserved occupations" work in parallel to the formal Nitaqat system that prescribes national quotas of Saudization for each industry. While Nitaqat mandates an overall percentage of Saudis at each private sector establishment, the reserved occupations target specific roles for Saudis in these establishments.

Saudis and the Consulting Profession

Consulting positions span a broad spectrum of professions that could offer anything from general business strategy advice to tailored specialist advice on a specific issue. It is therefore only possible to speak broadly about the consequences of localizing professions in the consulting industry. What we do know, however, seems promising, and highly suitable for Saudi workers. While mentioning that the decision targets all professions in the consulting industry, the press release for the MHRSD decision listed six specific occupations to be targeted, and this can give us some indication of the likely impact of the policy (Arab News 2022). These specified occupations were financial advisory specialists, business advisers, cybersecurity advisory specialists, project management managers, project management engineers and project management specialists.

In 2020, Saudi Arabia's Shura Council approved the adoption of the General Authority for Statistics' (GaStat's) Saudi Unified Classification of Occupations, a system designed to make job classification in the Kingdom more in line with international standards (GaStat 2019c).² The system classifies all occupations in the kingdom into 10 main groups, each containing a number of sub-occupations (Table 1).

Table 1. Classification of occupations.

Occupation group	Unique sub-occupations	Examples
Armed Forces	18	Soldier, royal guard
Managers	311	CEO, government minister, village chief, research manager
Professionals	628	Scientist, engineer, designer, teacher
Technicians and associate professionals	370	Plant supervisor, artists, prayer caller, professional athletes
Clerical support workers	52	Customer service worker, data entry, bank teller
Service and sales workers	109	Driving instructor, shop salesperson,
Skilled agricultural, forestry and fishing	53	Farmer, coastal fisher
Craft and related trades workers	179	Carpenter, stone mason, house painter
Plant and machine operators	218	Offshore drilling rig operator, textile machine operator, vehicle assembler, train driver
Elementary occupations	77	Cleaner, construction worker, refuse worker
	2015	

Source: GaStat (2019c).

² The Unified Saudi Occupational Classification system aligns with the International Standard Classification of Occupations 2008 (ISCO-08) and the Arab Standard Occupational Classification.

Of note is the number of occupations contained within each group. The “professionals” category, for example, covers over 600 unique occupations, while “clerical support workers” has just over 50. Naturally, this leads to a lot of disparity within the broader categories. However, one point to note is that the main categories all contain a spectrum of minimum and maximum of education attained, and ‘professionals’ in this case is thus roughly equivalent to “skilled workers with advanced (diploma level) education” (GaStat 2019c).

The system includes detailed specifications for thousands of occupations and, due to this, we can match the example consulting jobs with their standardized classification details. Table 2 outlines these details from the matched occupations.

Table 2. Matching example targeted jobs with specific professions in Saudi Standard Classification of Occupations.

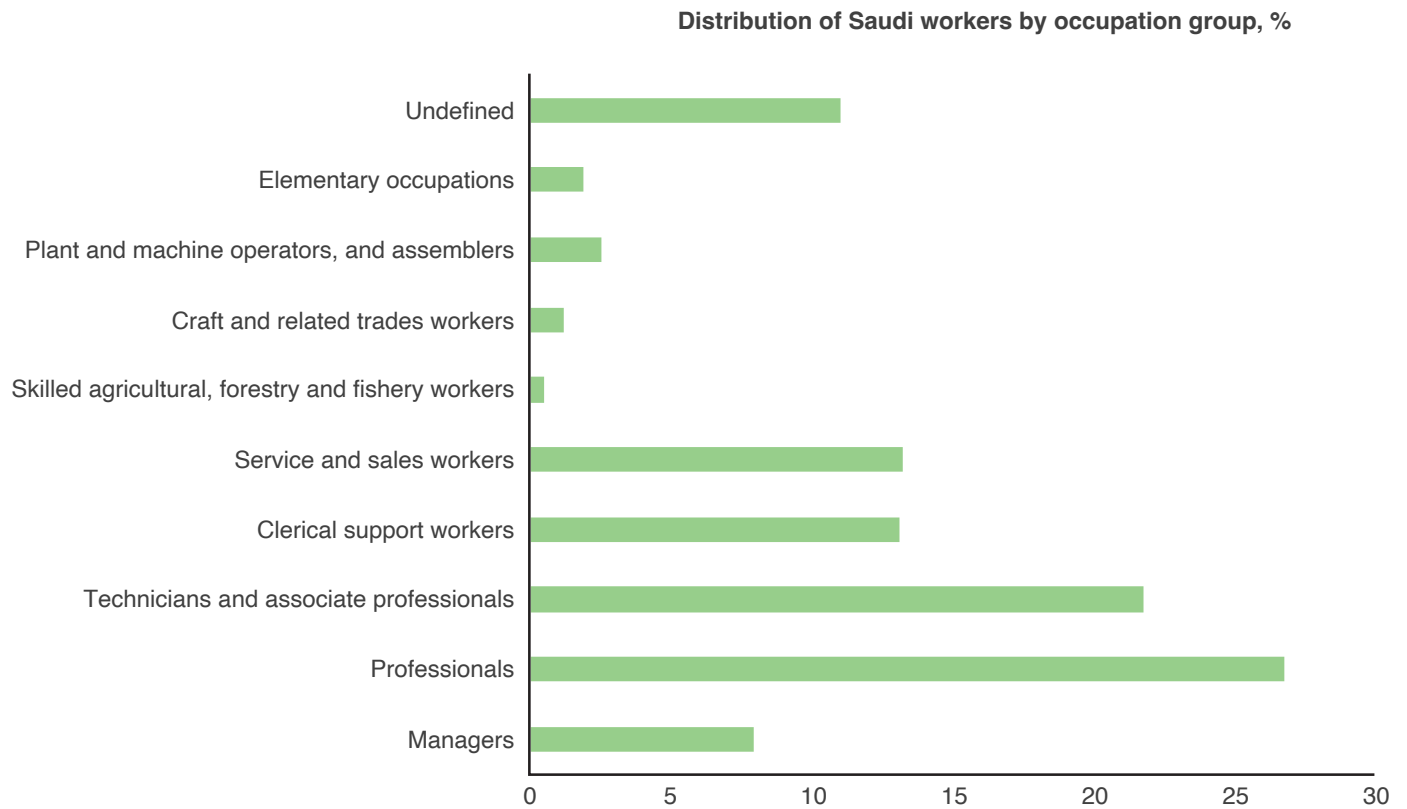
Example jobs for Saudization	Matched job	Code	Occupation group	Sub-major	Minimum education level	Education specialization
Financial advisory specialists	Financial analysis specialist	241303	Professionals	Business and administration professionals	Bachelor's degree	Finance, banking and insurance
Business advisers	Business consulting specialist	242106	Professionals	Business and administration professionals	Bachelor's degree	Management and administration
Cybersecurity advisory specialists	Cybersecurity consulting specialist	242126	Professionals	Business and administration professionals	Bachelor's degree	Software and applications development and analysis
Project management managers	Project management manager	121314	Managers	Administrative and commercial managers	Bachelor's degree	Management and administration
Project management engineers	Project management engineer	214909	Professionals	Science and engineering professionals	Bachelor's degree	Building and civil engineering
Project management specialists	Project management specialist	242108	Professionals	Business and administration professionals	Bachelor's degree	Management and administration

Source: GaStat (2019a, 2019b).

We can see immediately that at least a bachelor's degree is required for all these occupations, while degrees in business and management are highly desirable. Also informative is that all occupations fall under the broad “professionals” and “managers” occupation groups in the system. Using these details, we can make some inference using data from the most recent Saudi Labor Force Survey (Q2 2022), and investigate how the localization decision fits in with the current labor market structure.

Insights from the Saudi Labor Force Survey

Figure 1. Distribution of Saudi employees by occupation group, Q2 2022 (%).



Source: GaStat (2022).

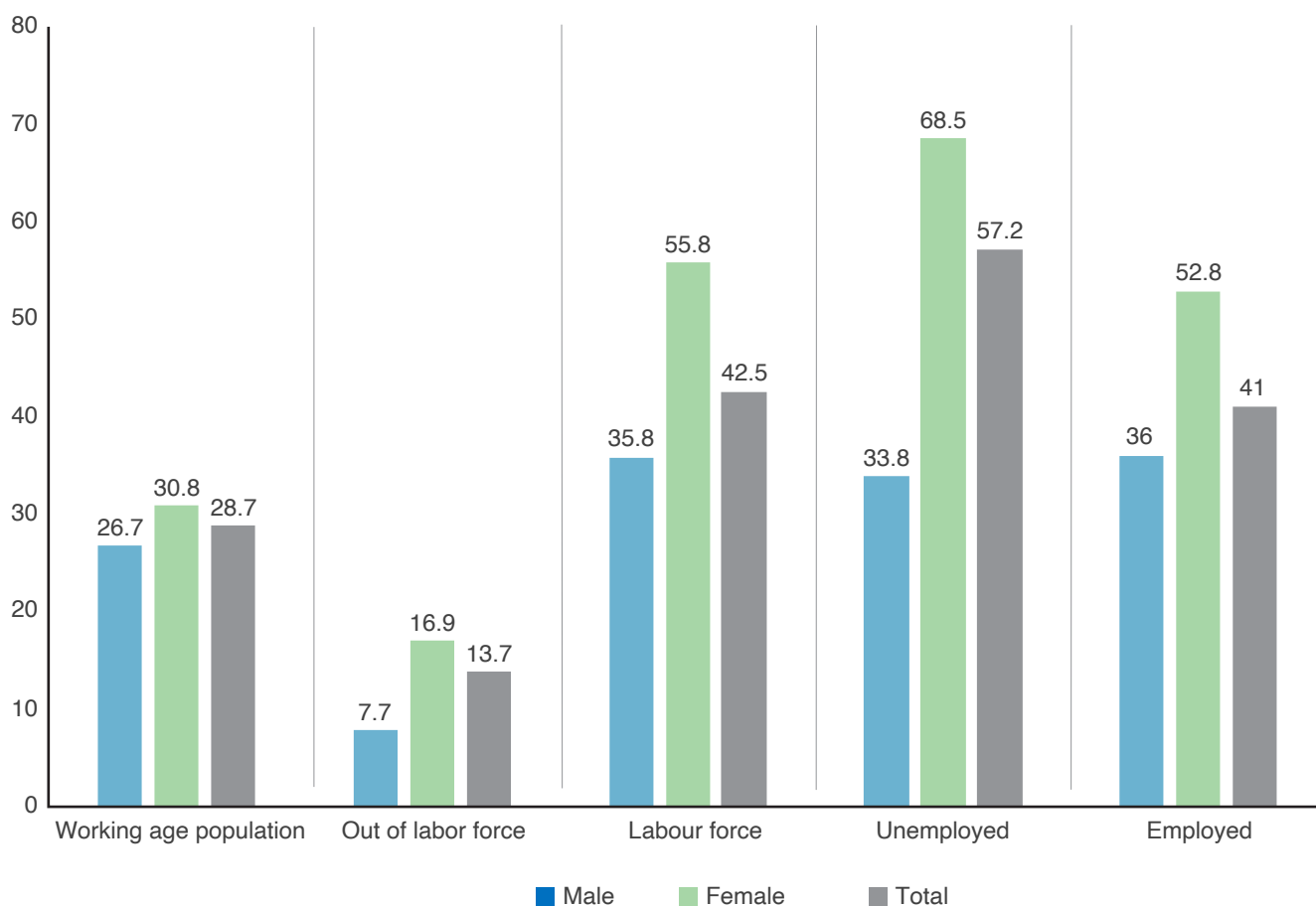
Starting with those currently employed, Figure 1 above shows that, of the nine major occupation groups, “professionals” is the group most favored by Saudis, constituting 26.8% of all current Saudi employment. This is especially true for Saudi women, of whom 34.8% are categorized in this group. Overall, Saudis hold 52% of all professional occupations in the private sector and 74% of all managerial positions (GOSI 2022), compared to 26% in all occupation groups in the private sector combined.³

³ While not specifically outlined in this paper, it is important to remember that private sector employment in Saudi Arabia is dominated by expatriate employees. GaStat no longer publish absolute numbers in their Labor Force Survey releases. However, these statistics comparing Saudi and non-Saudi numbers are available via General Organization for Social Insurance's register-based records.

Given that all the example consulting professions require a bachelor’s degree, we can see from Figure 2 that 41% of all employed Saudis have at least a bachelor’s degree, which includes almost 53% of all employed Saudi women and 25% of expatriate employees. As expected, higher average wages correlate with higher education levels (Figure 3), and a significant Saudi wage premium exists at all education levels.

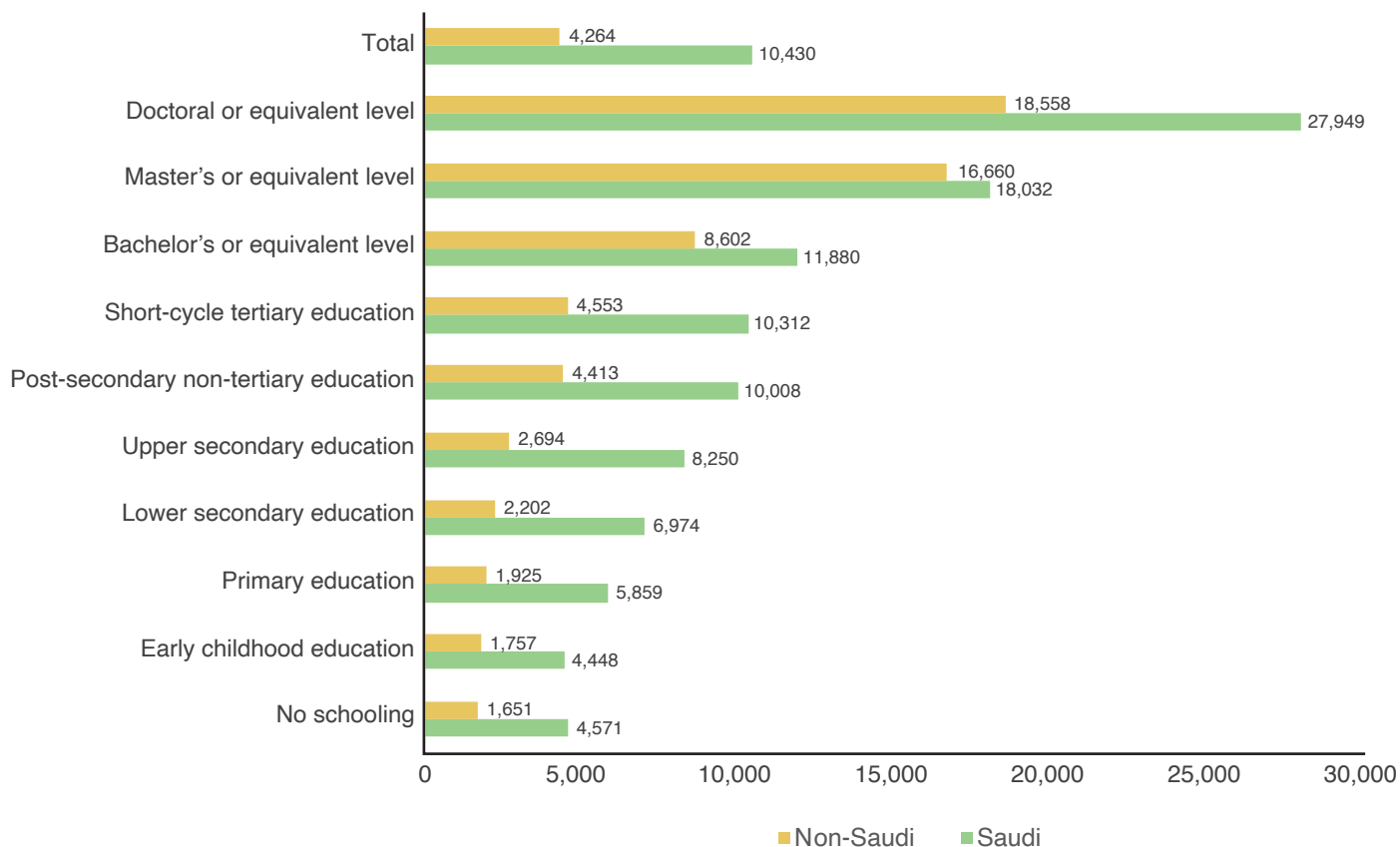
Turning towards Saudi unemployment, a key part of Vision 2030, we see that 57% of unemployed Saudis have a bachelor’s or master’s degree (Figure 2). Saudi women in possession of a bachelor’s degree have an unemployment rate of 24.7% and, within this group, graduates specialized in business, management and law have an unemployment rate of 27.8%.

Figure 2. Saudi possession of a third-level degree by sex and labor market status, Q2 2022 (%).



Source: GaStat (2022).

Figure 3. Average employee wages by nationality and educational level, Q2 2022 (SAR).



Source: GaStat (2022).
 Note: SAR = Saudi riyal.

Discussion

All of this bodes well for the decision to localize consulting professions. Saudis already flock toward these highly paid and highly educated occupation groups, and there is space to target more Saudization within the group. The labor force participation rate for Saudis with a bachelor's degree is almost 76%, and 89% for those with a master's degree (GaStat 2022). This helps explain the high level of unemployment for educated Saudis: Bachelor's holders are the single largest group of Saudis in the labor force (38%), so many are economically active but temporarily unemployed while searching for a job. Therefore, unemployment for tertiary-educated Saudis masks the successful economic activation of the group, particularly for women.

Consulting professions are an ideal target for unemployed Saudis, especially as a large cohort of those unemployed and educated have a specialization in business, which, as we have seen, is in demand in the targeted consulting professions. In truth, consultancy firms are generally indiscriminate about degree specialization (LSE 2022), so most Saudis with a third-level degree will be in contention for those positions.

The wage detail is important, as the wage level impacts Saudization policies due to Saudi minimum wages and even wage expectations. The latest Saudi Labour Force Survey (Q2 20220) shows average Saudi wages are 59% higher than average expatriates,⁴ with this statistic varying across education levels (Figure 3). This makes Saudization mandates a serious cost factor in private sector industries, as wages for strictly Saudized professions could be a big factor in a company's budget (Hertog 2018)., The government offers subsidizes up to 50% of Saudi wages in Saudized professions through schemes such as the HADAF system (Saudi Gazette 2021). However, it is unclear how long these subsidies will last, and this has the potential to cause uncertainty regarding manpower budgets in these industries. Due to the higher-than-average wages associated with higher education in the "professionals" category (Figure 3), the wage floor in the consulting industry arguably makes a discussion of subsidies redundant.

Conclusion

The decision to localize consulting professions in Saudi Arabia seems like a high-quality local content strategy. Due to the current restructuring and transformation of the Saudi economy, there is an obvious need for consultancy activities in the country. While ministries and private sector businesses may have a preference for the best international consultancies, there is no reason why highly educated Saudi employees cannot fill these roles within these companies. Local content policy, in essence, aims to extract as much added value as possible from an industry. Good local content policy examines the market as well as the capabilities of the local population to fulfil the roles, and balances these in the context of the country's development plan. The decision to Saudize consultancy professions is not only a good local content policy, but it could be a high-quality labor market intervention due to its potential to absorb highly educated unemployed Saudis into jobs that match their skillsets. In summary, this is quality, strategic localization that balances the needs of the economy with the capabilities of its labor force.

⁴ This is the raw wage gap between average Saudi and expatriate wages.

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