

# Foreign Faces in Kuwaiti Places: The Challenges of Human Capital Utilization in Kuwait

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## Abstract

The study aims to shed light on the challenges of human capital utilization in Kuwait and the labor market reform approaches used to address them. Using secondary data and interviews with 28 subject matter experts, the findings revealed that the most salient challenges were the acute underutilization of the scarce native workforce accruing from absence of coherent and consistent workforce policies particularly impaired by overgenerous wages and working conditions. These policies led to concentration and underemployment of nationals in the public sector and heavy reliance on non-nationals in the private sector, deficit in the labor budget and a risk of un-sustainability of the present extravagant approach. Among the more effective labor market reform approaches are strict restriction of employment in the public sector and establishment of an agency to oversee several reform initiatives such as, enforcing quotas of natives in the private sector and directing natives - through incentives, training and employment support - towards the private sector. However, the approaches are still piecemeal and a more comprehensive reform system in which, among other things, the private sector transformation from rent seeking to economic leader is yet to be seen. The findings are discussed within the economic and socio-political contexts.

**Keywords:** human capital, labor market, reform approaches, Kuwait, workforce

## 1. Introduction

The world's interest in the Gulf Cooperation Council (GCC) countries has often been limited to headline affairs of persistently unstable politics and oil prices. As a result of the recent jump in oil prices the GCC countries emerged as strategically well-positioned oil producing economies with rapidly expanding wealth and influence. However, little of the international attention was directed to the wide range of developmental challenges facing the GCC countries, most important of which are providing suitable jobs to a rapidly growing number of young and educated workforce, building strong business and healthy private sector, expanding gender equity, advancing the quality of native human capital particularly their education and training quality, and effectively managing scarce human resources, water resources and finite oil wealth (Coury & Dave, 2009; Nabli, 2007a).

Creating enough jobs for the growing number of new entrants to the GCC and other Arab labor markets has proved to be difficult to achieve for decades. In this respect Nabli (2007a) stated that the challenge of job creation facing the Arab countries was unprecedented in the world and throughout history, with the Arab region experiencing an average annual workforce growth rate of 3.7% for several decades and the economies failing to create the needed jobs. However, since 2006 and due to the oil boom many Arab labor markets suddenly became more manageable as the employment growth rose to 4% from 2.5% in the 1990s. Yet, despite a reduction in unemployment the average Arab ratio remained high (14%) but was much lower in the GCC countries (Dyer & Yousef, 2007; Arab Fund for Economic & Social Development [AFESD], 2011). Many international and local pundits and specialists advised that effective human capital utilization in the GCC countries required a more encompassing and comprehensive macro-economic reforms which realign the GCC economies to move from public sector-dominated, expatriate-worker-dependent, closed, oil-dominated and volatile economies to private sector driven, open, stable, diversified and native-worker-dependent economies (Coury and Dave, 2009).

The employment predicament of Arabs, particularly youth, is attributed not only to poor demand for labor but also to low quality of labor supply. Several reports (e.g., UNDP, 2003) suggested that lack of knowledge capital was one of the main long-term problems faced by the Arab world and that knowledge, not income gap,

determined the prospects of countries in today's world economy (Powel and Snellman, 2004). To enhance utilization of their human capital, many Arab countries found it useful to introduce major changes in national strategies on education and training to cater more for the needs of the private sector, and also pursue more active labor market policies to raise skills and improve job matching through, for example, youth employment measures and temporary subsidies for private sector employment in targeted segments of the workforce (Gonzalez, Karoly, Constant, Salem, & Goldman, 2008; Bhattacharya and Wolde, 2010; Dyer & Yousef, 2007). In the Arab region such interventions are almost always undertaken by the State. The heavy involvement of the State in social and economic development goes back to the nature of the social contract established in the post independence era. Traditionally the social contract in this region includes such attributes as preference for states over markets in managing national economies; reliance on state planning in determining economic priorities; and an encompassing vision of the role of the state in the provision of welfare and social services.

Budhwar and Al-Mellahi (2006) noted that, due to the context-specific nature of human capital management and market reform approaches, one should expect cross-national variations between the systems of Middle Eastern nations. Thus, strategies used to manage human resources in one country are sometimes ineffective or irrelevant in another. Thus, despite the similarities of the socio-political setting of the GCC countries, it was suggested to study the workforce issues of each country separately. The GCC literature on these issues is very scant. Among the recent studies is Gonzalez et al (2008) which examined the challenges, reform approaches and evaluation mechanisms in Lebanon, Oman, UAE and Qatar and noted that while the human resource problems were similar, the reform approaches were different particularly those used in Lebanon and to some degree those used in Oman as compared to the ones used in UAE and Qatar. They also found that all four countries had poor systems for evaluating reform programs. Previous findings (e.g., Coury & Dave, 2009; Gonzalez et al 2008) indicated that the GCC countries were assigning high priority to the enhancement of employability of natives and they were heavily investing in their human capital development and labor market reforms towards this end. Among the more commonly cited challenges in the GCC countries was the high ratios of non-nationals in the workforce which was 90% in UAE, over 80% in Qatar and 66% in Kuwait in 2008. Most of the reform policies targeted developing indigenous skills and improving their employability in non-government sectors.

The main assumptions of this study are that a State generally strives to augment the employment opportunities of its citizens and hence when there is incongruence between the supply of and demand for indigenous labor, the State will take necessary measures to minimize it through certain reform approaches. It is also assumed that the labor market outcomes are influenced by a series of demand and supply side factors such as macroeconomic performance, investment climate, labor market policies and institutions, social values and attitudes, education, skills and labor regulations (Banerji, 2006). Within this broader framework, this paper focuses on studying the perceived challenges of utilizing native human capital and the labor market reform approaches used to enhance the natives' employment in Kuwait. Hence, this study intends to address two main research questions:

- 1) What are the perceived challenges of employability of the native human capital in Kuwait?
- 2) What labor market reforms approaches/initiatives have been implemented or are underway to address these challenges? What are the perceived relative value and role of the various reforms?

Generally policy reforms aiming to enhance utilization of human capital focus on education, labor market and other macroeconomic issues. The focus of this study is limited only to the set of labor market initiatives and reform approaches designed to promote natives' employability such as reform policies affecting employment conditions, provision of employment benefits in the public or private sectors, or the role of expatriates in the labor market. The reforms could be designed to affect the decisions of various members of the labor market, e.g., making certain economic sectors more or less attractive to jobseekers and making certain workers more or less attractive to employers. Broader economic reforms (e.g., reforms to expand the private sector) and education reforms have implications on the utilization of human resources but such reforms are not part of the focus of this study.

The paper proceeds with a description of the methodology, followed by a description of the present economic and sociopolitical contexts and historical developments of the unique configurations of national factors (e.g., cultural, institutional and business environments) which dictated human resource utilization in Kuwait. Then, the empirical findings regarding the perceived human resource challenges and reform approaches are presented and discussed within the Kuwaiti socioeconomic context.

## 2. Method

The study drew on secondary data from a variety of local, regional and international studies and public reports. The material was supplemented by primary data collected through interviews. The researchers interviewed 28

key figures from various relevant sectors, who were knowledgeable in matters of employment in Kuwaiti public and private sectors as well as from an insider perspective as one of the authors held several ministerial and executive positions related to the subject of this paper. The interviewees included ex-ministers and experts from regional and international agencies such as the AFESD, Arab Planning Institute, Supreme Council for Planning and Development, Manpower and Government Restructuring Program (MGRP), and the World Bank as well as senior officials from relevant sectors such as education, training, economists, senior human resources directors and leaders of private and public organizations. The purposes of the interviews were three folds: to obtain exhaustive lists of the main human capital challenges and labor market reform policies used as well as the respondents' assessment of their relative values. This information is important in light of the absence of reform policy evaluation mechanisms in the region.

Based on the literature available about the GCC countries a semi-structured interview procedure was developed. The interviews sought the participants' reflections and assessment of the most significant problems of Kuwaiti human capital employment. During the interviews the interviewees were handed two lists, one containing human capital challenges in Kuwait and the other contained a list of the reform approaches used to address the challenges. The lists were based on secondary data. The interviewees were asked to modify and add to the lists and to use a 3-point scale (3=very important; 2=important; 1=not important; and if the interviewee was unfamiliar with the item's content the answer was to be left blank) to estimate the importance of the challenges and reform approaches. The various reform approaches were grouped into three sets namely labor market reforms (7 items), training sector reforms (4 items), and selected economic reforms (4 items). The interviewees were asked to rank the various items within each group in terms of their importance and to explain the reasons behind their ratings. Since one of the aims of the interviews was to collect as a complete list of challenges/reform approaches as possible, the lists were considered work-in-progress and thus new items were added to the lists based on the suggestions of the interviewees. Summaries of the final lists of items are presented in Tables (1) and (2) and the interviews' findings are charted in Diagram (1). Given that the lists of challenges and reform approaches were modified during the interviews phase it would be misleading to use the absolute statistical values of the responses and thus the perceived significance of the items were estimated based on approximate aggregate responses and the researchers' discretion.

The interviews also inquired about the perceived drive behind the reforms and the challenges the State was facing in ensuring that the reforms were being successfully implemented, the progress of the job nationalization policies, affirmative action programs, other workforce and restructuring policies as well as the impact of the socioeconomic factors and organizational cultures on the skill utilization of Kuwaitis. The discussions in the interviews were broad enough to cover the employment issues at the macro level (government interventions) and the micro level (the human resource management practices in organizations). Thus, the findings of the interviews supplemented the scarce secondary data on this topic particularly because there are no well established mechanisms for evaluating the relative importance or the effectiveness of the various reform approaches. Thus, the findings are expected to fill a major void in the literature which is needed for research, policy making and business ventures in this region. Previous research (e.g., Gonzalez et al, 2008; Budhwar & Al-Mellahi, 2006) indicated that there was a need for more research in this area in the Gulf region.

### **3. Background Information**

#### *3.1 Socio-economic and Political Background*

##### *3.1.1 Economy*

Kuwait is one of six members of the GCC that also includes Bahrain, Oman, Qatar, Saudi Arabia and United Arab Emirates. Kuwait, like the other GCC countries has an economy that is highly dependent on oil and thus is exceptionally exposed to the boom and bust cycles in world petroleum demand and prices. Standard and Poor (2012), has recently upgraded Kuwait's economic rating to 'AA' up from 'AA-', and it noted that Kuwait's economic outlook was stable and its external and fiscal positions were strong. In the last decade, Kuwait hydrocarbon revenues escalated sharply due to the rise in oil prices, and as a result it had a strong GDP growth of 5.7% in 2011. Kuwait's GDP (PPP) per capita was \$45,539 and the estimated earned income was \$40,000 for men and \$24,722 for women in 2010, which were among the highest in the world (Hausmann, Tyson & Zahidi, 2011; AFESD, 2011). The spillover from the Arab Spring into Kuwait appears minimal. This is partly explained by Kuwait's more open society, particularly in terms of freedom of expression, political participation, and political accountability when compared with that of several of Kuwait's regional peers (Standard & Poor, 2012). However, there were issues of concern noted in international reports among which were the ineffective political setup leading to sustained gridlock between the government and National Assembly, a strong dependence on hydrocarbons -

budget revenues stem overwhelmingly from oil and investment income, which accounted for a combined 95% of government revenue in 2011, slow progress thus far on structural reform, and lavish public expenditure. A recent IMF report (June, 2012) warned of future pressures on public finances in the medium term due to rising public sector wage and pension costs and rapid population growth. In general, the IMF recommended improving the productivity and welfare impact of government spending.

### 3.1.2 Population

The population of Kuwait was estimated at 3.6 millions in 2010, with a rate of growth of 4.1% (AFESD, 2011). The population grew 5 folds in the period 1955-1970 and 3.6 folds in 1970-2008 (Central Statistical Bureau [CSB], 2010). The high rate of population growth is attributed to high fertility rate and high growth rate of imported labor. The native population represents one-third of total population - with an annual growth rate of 3.4%. The native population has a young base (population under 15 years was 42% among nationals compared to 14% among non-nationals). The age group 15–64 years represents 54% of the total population. Kuwait achieved gender equity in primary and secondary education, and the ratio of women enrolled in tertiary education is higher than men (female/male ratio was 2.3 in 2010). Also, two-third of the native workforce with higher education were women (AFESD, 2011).

## 3.2 *The Profile of the Labor Force*

### 3.2.1 Economic and Workforce Participation

Kuwait labor force stood at 2.13 million in 2010 representing 59% of the total population and had a growth rate of 5%. The high labor force participation rate is due to a high ratio of expatriate labor unaccompanied by their families. Of the total workforce 83.6% was in the service sector and 14.6% in industry in 2010. The high rate of labor force growth is attributed to greater numbers of native women and youth as well as foreign labor entering the labor market (AFESD, 2011). Like most Arab countries, labor regulations constitute a main mechanism to protect workers' rights as collective bargaining is not widespread.

### 3.2.2 Women

The share of women in the labor force was 26.7% in 2008 compared to 13.1% in 1980 and 8% in 1970. Despite their high education, Kuwaiti women economic participation (33%) was among the lowest in the world (world average was 55.6%) in 2008. Women's ratios in decision making and policy making were very low as they represent 7% of ministerial positions; 14% of legislator, senior official and managerial position category; and 34% of professional and technical worker category in 2008 (Hausmann *et al*, 2011; CSB, 2010).

### 3.2.3 Workforce Education and Nationality

In 1965, half of the Kuwaiti labor force was illiterate, but that declined to 14% in 1985 and to none at the present. Of the native workforce in government, 38.6% of women and 14% of men had higher education degrees. About 13% of men and women in the joint sector were graduates of higher education while only 16% of men and 10% of women in the private sector had higher education (CSB, 2010). The proportion of non-nationals in the labor force in Kuwait was 66% in 2010, down from 84 percent in 1986. The economic participation rates were 75% among non-nationals, 31% among nationals, 35% among native men and 27% among native women. The low native representation in the workforce is due to the high ratio of population under 14 years of age and also due to high enrollment of young population in the education system (AFESD, 2011).

Asians and Arabs are the two main foreign groups in the workforce. Jobs such as nursing, sales, and domestic service are not popular among Arab labor, whereas other jobs requiring knowledge of Arabic language, such as teaching, are not accessible to Asian labor. The Arabs' share in the private sector is much lower than that of the Asians, perhaps because some of the jobs require fluency in English and/or expertise in certain technology. Also, Asian's salaries are often lower than Arabs with similar credentials and Asian workers are perceived to be more obedient. Hence, for jobs that are open to both, the private sector often prefers Asian employees. The motivation of non-nationals working in GCC countries is mainly financial. The expatriate workforce has always been perceived as a product of cooperation and reciprocation of needs between the labor-sending countries and the GCC countries. However, among the concerns of the labor-exporting countries are the cost of educating and training the emigrant labor, conspicuous consumption and remittances which may lead to inflationary pressures, particularly in real estate (Abdalla, 2006; Girgis, 2002).

## 3.3 *The Challenges of Human Capital and Reform Initiatives: The Legacy*

Since the start of oil production in Kuwait in 1930s, the State assumed a leading role in the country's development based on a 'welfare system'. The concept of a welfare state in Kuwait differs from that commonly

held in Western countries. The State provides its citizens free social, health, housing, educational and training services in addition to subsidized basic consumer's goods and amenities. There is no income tax and the business tax is nominal. The State also secures well paid jobs for all Kuwaitis. Labor Law no. 18/1960 regulated the employment in the public sector and asserted that every citizen had the right to a job in the public sector. This law broadened the role of the State in employing citizens, and eventually increased the size of the public sector to economically inefficient levels. Now Kuwait, and the other GCC countries, maintains the highest levels of public sector's employment ratios in the total workforce in the world (Nabli, 2007b; AFESD, 2011). The result of 'big government' is a serious underutilization of indigenous human resources and a labor budget deficit. The generous salaries, benefits, working conditions, job security and prestige of the public sector - that are unlinked to productivity - encouraged natives to queue for public jobs. These jobs were very easy to get until a decade ago. On the other hand the 'welfare state system' engendered a sense of entitlement among the native population as they perceive the State as a distributor of the oil wealth as well as a body which creates and develops wealth, (Al-Tarah, 2003).

With the sharp increase in oil revenues in 1970s, the Kuwaiti government (as well as the governments of the other oil-producing countries in the region) sought to build up support not only among the merchant elite but also among other strata of society, through the implementation of massive economic and social development plans. Thus, a huge influx of expatriate labor was employed, in light of the small native population, to meet the demand. Most of the projects during the 1970s and 1980s were highly labor intensive, resulting in a demand for large numbers and a wide variety of professionals, skilled and unskilled workers. Hence, all types of labor (teachers, clerks, engineers, unskilled labor, etc.) flowed steadily to Kuwait from Arab and Asian countries.

By the end of the oil boom decade (1973-1982), stricter controls over the admission of foreign workers and comprehensive policies pertaining to nationalization of jobs were introduced. The aim was to rationalize expenditure of the public sector, better utilize native human resource and reduce the ratio of expatriates within the workforce. Since the supply of the indigenous workers was very limited the aim in 1985 was to equalize the size of the national and foreign populations by the year 2000. The plan was to introduce advanced technology in business operations and scale down labor intensive projects. Among the other measures imposed by the Government to restrict the growth of the foreign population were tough work-permit restrictions, a high cost of recruiting expatriates, significant wage differentials between national and non-nationals performing same jobs, restrictions of expatriate labor mobility (transfer from one local employer to another) and stringent security policies (Abdalla, 2006). However, despite the various attempts to encourage native employment in the private sector, 96% of the Kuwaiti workforce were in the public sector at the beginning of the nineties (MEED, 1993). The World Bank indicated that many of the civil servants were holding relatively undemanding and high-paying jobs. In order to eliminate the problem of low productivity, the World Bank recommended major changes in human resource management practices and greater uniformity of wages and benefits in the public and private sectors (MEED, 1993). Incentives were offered for those working in the public sector to transfer to the private sector. In 1993, a bill was passed proposing a quota of 30% of private jobs be reserved for nationals, the bill included incentives (e.g., government contracts) for businesses which adhere to the terms of the bill and penalties for those who persistently fail to meet the target.

By the turn of the century, the bulge of public sector workforce was pushing at the seams while less than 10% of the natives worked in the private sector, (Abdalla & Al-Imam, 2007). The State tightened its control of human resource management in all sectors through its Civil Service Bureau and establishing an offshoot of the Bureau namely, MGRP. The purpose of MGRP is to assist in correcting the imbalances of the labor market and to direct citizens from the government sector to the private sector. To achieve the desired control, Law No. 19 (2000) was enforced which represents the most comprehensive act by the Government to shape and influence the nature and future direction of human resource management in Kuwait. The law authorizes MGRP to suggest and develop policies pertaining to manpower and specify the role of government in recruitment, training, unemployment benefits, employment conditions, ratios of nationals in the various sectors, social and children's allowance given by government to all citizens engaged in vocational trades and those who are employed by various corporations. Also, the Government issued several decrees towards the same end, for example decree no. 3/2001, to implement Law No. 19, which authorizes MGRP to prepare the unemployed to work in non-governmental organizations through providing free training and counseling, decree no. 4/2001 which specified hiring procedures and the contents of advertisement and decree no. 1104/2008 which raised the native' ratios in the various sectors, e.g. it is 60% in the banking sector at the present.

Consequently, the influence of the Government on the role and functions of human resources management in the private sector has been obvious and, in some cases, invasive (for example, MGRP's regulation of advertising for

new jobs, monitoring the recruitment procedures when there are Kuwaiti applicants, identifying job requirements, training and its contents, etc.). Indeed, the government focus on recruitment policies, sponsoring and frequently underwriting the cost of training and development in the private sector, besides specifications for jobs needs and descriptions, improved HRM practices. Nevertheless, these regulations and instructions have been mostly undertaken within traditional frameworks and outlooks, rendering some of them ineffective (Ali & Al-Kazemi, 2006).

#### 4. Findings of the Interviews

##### 4.1 Perceived Human Capital Challenges

A summary of the perceived main challenges of human capital revealed by the interviews are presented in Table (1). The findings suggested that the majority of the interviewees believed that the most important challenges were the natives' absence in the private sector, their under-employment in the public sector and their low participation in the total workforce. In sum, the perceived main problem seemed to be the underutilization of native human resources. This could be attributed, among other things, to poor employment policies such as the State's full employment policy, overcrowded public sector, high ratio of economically inactive native population, severe market segmentation by gender and nationality – Kuwaitis and non-Kuwaitis (Angel-Urdinola and Kuddo, 2010; Abdalla & Al-Imam, 2007). Furthermore, the early retirement system offers generous pensions and discourages nationals from staying in their jobs beyond a certain number of years of work.

Table 1. Summary of perceived human resource challenges in Kuwait

Challenges
<ul style="list-style-type: none"> <li>• Kuwaitis' high concentration and underemployment in government sector; private-sector employment is less attractive.</li> <li>• Total workforce made up mostly of non-Nationals; very low native participation in the private sector.</li> <li>• Serious labor budget deficit, risk of discontinuity of welfare system. Kuwait has the most costly wage and benefits system in the region.</li> <li>• Kuwaitis work hard in their private business and not as hard in public jobs. Perceived by private employers as less obedient than expatriate labor.</li> <li>• Education and training system not preparing students well for the workforce.</li> <li>• Creeping unemployment among young first-time jobseekers.</li> </ul>

Also among the perceived significant challenges were the natives' poor work attitudes, their reluctance to work long hours as well as young employees' lack of soft skills and a tendency to shun vocational training. These problems were perceived to be more serious than the often reported mismatch between natives' technical skills and market needs (Chaaban, 2010). The findings also suggest that skill deficiencies of the young job seekers were concerning but were considered of lesser importance than other problems facing both private investors and employment creation. A main inhibitor of job creation was the inability of the private sector to grow due to the poor business infrastructure and investment climate. In this regard one of the interviewees, a real estate investor, said, "People are criticizing the government for failing to attract foreign investors while logically it should first provide an inviting business environment for the local investors to invest locally. We invest abroad because of the poor local business climate". These findings are consistent with previous reports (e.g., World Economic Forum & the OECD, 2011; IMF, 2012; Pasquier & Stone, 2008) which indicated that Kuwait ranked relatively low on essential elements for competitiveness, lagged in the quality of its physical and social infrastructure relative to its GDP per capita level and it is even behind some of the GCC countries, particularly UAE.

The interviews also revealed a strong concern about the growing labor budget deficit of the public sector, (Table 1). This deficit burgeoned because of several recent salary hikes in public organizations which were expected to pose a difficult and long term problem. The successive salary hikes were triggered by the increase in oil prices and were not related to increases in work productivity. They also widen the gap between the wages of government and private sectors and hence impede the reform efforts. Several experts and professional reports have warned that a decrease in the oil prices below 90 dollars a barrel would make it difficult for the State to cover the wages and benefits and the lavish government expenditure. The World Bank (2012) has warned the Kuwaiti government against approving any proposal to increase the salaries of citizens while the country depends solely on oil as its main source of income. It has highlighted the fact that 84 percent of oil revenues mentioned in the first chapter of the budget has been allocated for salaries; hence, the need for Kuwait to look for other sources

of income to meet the requirements which will be stipulated in this chapter in the future. Indeed, the labor budget deficit has been a major motivator for the State to abandon its hesitance, which persisted for decades, and take more serious measures regarding downsizing the public sector and diverting job seekers to work in a more competitive productive environment. Generally these findings substantiated previous research findings (e.g., Gonzalez et al, 2008) however, none of the previous research on this topic on GCC countries attempted to assess the relative significance of the challenges which this study has attempted to do, (Table 1; Diagram 1).

#### 4.2 Reform Approaches

Table (2) summarizes the reform approaches used in Kuwait to tackle some of the above mentioned challenges. They are similar to those used in Qatar and UAE (Gonzalez et al, 2008). Gonzalez et al suggested that the reform policies used in GCC countries could be classified into three groups: the first group aims to give employers incentives to hire nationals through a quota system that is linked to getting government contracts or pay a penalty. The second set of reforms is geared to make the private sector more attractive to nationals by equalizing employment conditions between the public and private sectors. A third set introduces institutions that facilitate nationals' transition to the private sector through job match, training, social security and financial support. In Kuwait, the MGRP coordinates, develops and oversees the three groups of initiatives identified by Gonzalez et al (2008), hence the establishment of MGRP was hailed by the interviewees for being a step in the right direction. However, there was a concern about MGRP's bureaucratic nature and cost effectiveness. Also, the present findings suggest that the most urgent measures were those which directly address the issue of reducing the size of the public sector, expanding the pool of Kuwaitis in the private sector and supporting the mechanisms which facilitate better recruitment and placement processes - including remedial training programs to improve relevance of the skills of new recruits. As is shown in Table (2) and Diagram (1) the items included in this group are: 'elimination of automatic employment of nationals in the public sector', 'enforcing a quota for employment of nationals in the private sector', and 'establishment of job placement/matching and training agencies'. These items focus on ensuring certain numbers/ratios of natives in the workforce of each organization. Also, included in this group is a macro economic reform approach namely, 'developing a more efficient business infrastructure' which was seen as a necessity for the development of a private sector that can become a leading natives' employer. This suggestion is consistent with the findings of previous research which pointed to the difficulties of doing business in Kuwait (e.g., World Bank, 2008).

Table 2. Labor market reform approaches in Kuwait

Reform Approaches
<p><b>Labor market reforms</b></p> <ul style="list-style-type: none"> <li>• Elimination of automatic employment of nationals in the public sector.</li> <li>• The establishment of an all encompassing body namely, MGRP, which is responsible for recommending policies on directing natives to the private sector, enhancing their employability in this sector, overseeing training, support and administration of the job benefits of natives jobseekers or working in the private sector. Among its functions are: <ul style="list-style-type: none"> <li>• Recommends quota for employment of nationals in non-government sectors.</li> <li>• Provides job placement/matching and training services.</li> <li>• Ensures equalization of worker rights or access to benefits in public and private sectors.</li> <li>• Provides training and financial support to start new business.</li> </ul> </li> <li>• Use rewards and sanctions for employment of nationals in targeted sectors</li> </ul> <p><b>Training systems reform</b></p> <ul style="list-style-type: none"> <li>• Establishment of technical/vocational colleges.</li> <li>• Government underwrites training cost of private sector's new recruits.</li> <li>• Establishment of training coordinating bodies.</li> <li>• Public-private partnership to train nationals.</li> </ul> <p><b>Other economic reforms</b></p> <ul style="list-style-type: none"> <li>• Training and other support for more efficient public administration.</li> <li>• Developing a more efficient business infrastructure.</li> <li>• Using incentives to expand peripheral industries.</li> <li>• Establishments of free zones exempt from government requirements.</li> </ul>

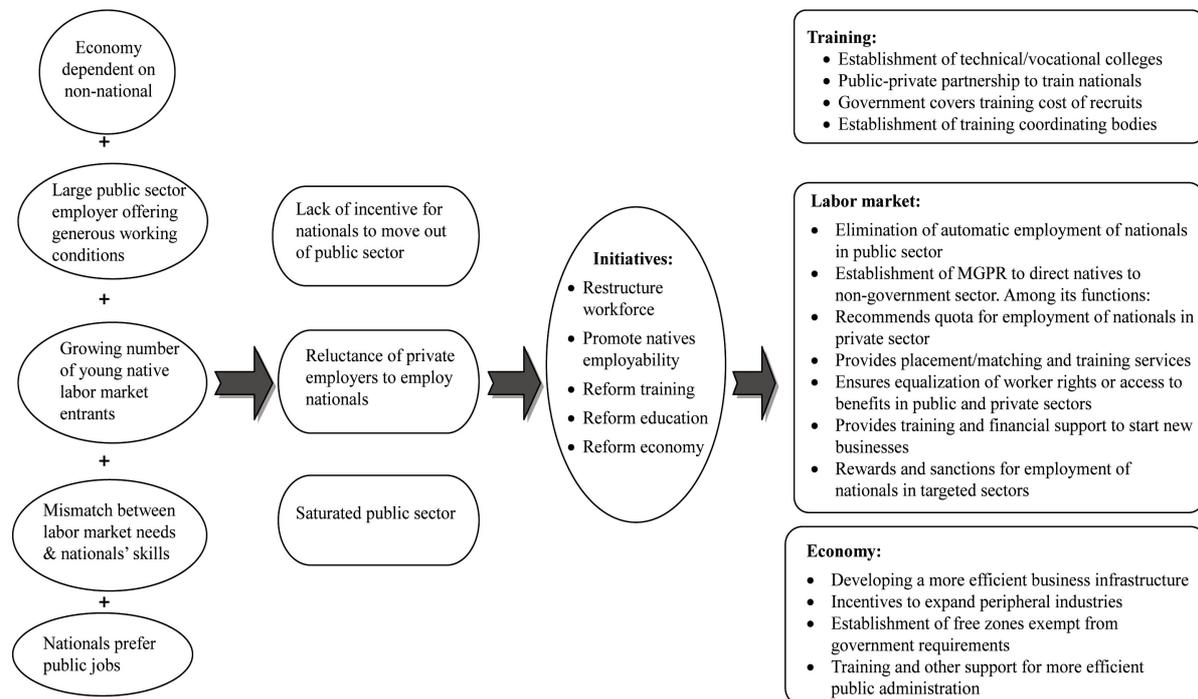


Figure 1. Human capital challenges and labor market reform approaches in Kuwait

In second place, in terms of significance, are the reform policies that used incentives to expand natives' representation in the private sector. The reform approaches included in this group are: 'use rewards and sanctions for employment of nationals in targeted sectors', 'equalization of worker rights or access to benefits in public and private sectors', and 'training and financial support to start a new business'. There was a tendency among the interviewees to see the items in this group as of lower value than the first group of items because of their low cost-effectiveness and/or high risk of un-sustainability in the long term as they entail heavy subsidies to the private businesses and their native employees. These subsidies go against economic efficiency as they bear no relationship to individuals' or organizations' productivity. As one interviewee put it, "By aiming to maintain the inflated benefits in the private sector as is the case in the public sector, the government in reality is spreading the problem and not solving it." Another interviewee commented, "With over 52% of Kuwaitis under 21 years of age how much will be the cost of the subsidies to nationals' employment in the long term? A more permanent fix should be put in place through expanding the private sector!" There was a tendency among the interviewees to perceive the policy of 'training and financial support to start new business' as poorly cost-effective approach as most of the young investors lack the entrepreneurial skills and they are facing unusual level of barriers due to poor infrastructure and limited access to markets. For the limited success stories of these ventures so far the contribution of this reform approach in enhancing employability was perceived as relatively lower in value (Table 2).

The third group of reform approaches focuses on training (Table 2). It was found that the 'establishment of technical/vocational colleges' and 'government underwrites training cost of new recruit of the private sector' were perceived as more important than the schemes of 'public-private partnership to train nationals' and 'establishment of coordinating bodies'. Many interviewees indicated that the public-private partnership in training nationals was often unsuccessful because public organizations and their employees do not take training seriously and hence the benefits were limited while the private training offices often overcharge the government. Consequently, there is a flourishing private training sector in Kuwait. It is worth noting that the government of Kuwait is considered a pioneer in the region in encouraging and underwriting training of nationals in government and non-government sectors (Ali & Al-Kazemi, 2006). In contrast, the private sector rarely invests in training. The findings also revealed a need to establish some sort of strong link (e.g., coordination committees) between the education establishment, the employment agencies and the employment initiatives, which currently does not exist. Several interviewees were against establishing new independent coordination entities and prefer low level coordination because independent coordinating bodies often mushroom into bureaucracies, seem to

have a life of their own and as a result do not achieve their original purposes. It was also suggested that coordination between these agencies should be supported by dynamic information infrastructure to facilitate the effective communication, dissemination and processing of economic - not only labor market - information. Needless to say, adequate information about market opportunities and returns for the skilled employees/job seekers will provide them with a keener sense of the precise skills needed to operate competently and thus they will be able to use the education and training opportunities more effectively.

The fourth group is related to macroeconomic measures. As was mentioned in section 4.2, 'developing a more efficient business infrastructure' was seen by interviewees as much more important and urgent than the other three items in this group. In contrast, 'incentives to expand peripheral industries' and 'establishments of free zones exempt from government requirements' were not favorable particularly the 'free zones exempted from government requirements' which was perceived as a scheme that discourages rather than encourages employment of nationals. Thus, within this group 'training and other supports for more efficient public administration' was perceived as relatively more important than the other two items (Table 2).

## 5. Discussion

The findings of this study generally support previous research findings in the Gulf region. For example, the perceived human capital challenges and the reform policies are mostly similar to those of Qatar and UAE (Gonzalez et al, 2008); however the salaries and benefits of Kuwaitis tend to be higher than in other GCC countries. In contrast, Kuwait's challenges and reform policies were different from those reported in other Arab countries (Chaaban, 2010). This is expected given the economic, demographic and sociopolitical differences between GCC countries and other Arab countries. For example, none of the other Arab countries has sizable number of expatriate workforce; in fact they are labor exporting countries which make their experience largely irrelevant to their peers in the Gulf region.

Recently, Kuwait has managed to diverge from its legacy. Kuwait, like many Arab countries, experienced high economic growth in the 1970s but it did modestly thereafter until the beginning of the current millennium, when it has enjoyed a revival of economic fortunes. Its economic growth rate in 2006 was the highest since the 1970s. Job creation has been relatively high in Kuwait and other GCC countries in the last few years and it was driven by the high prices of crude oil which more than tripled from \$30 per barrel in 2004 to around \$100 recently. Through the accumulated oil surplus and some improvement in the investment climate, Kuwait has revived its economic and employment growth and has been moving away from 'big government' by gradually losing its role as an employer of last resort. The rate of expansion of the public sector in recent years has been less than half of its growth rate in the 1990s, however, the fact that the government sector is still growing could be considered a discouraging sign.

One of the positive signs is that since the 1980s there was a steady increase in the number of qualified nationals who have been replacing expatriates, mostly in managerial, professional, and clerical jobs, and typically in the public sector. The recent efforts by MGRP have assisted the job nationalization in the private sector and as a result 21% of the total native workforce was in the private sector in 2010 up from 15.7% in 2008. It is interesting to see that the native workforce of the private sector is getting increasingly feminized. During the last 10 years the growth of native women numbers have been double that of men: growth ratios of women and men in the native workforce were 19% and 9.4% respectively. Women now represent half of the native workforce in the private sector.

Traditionally, private sector participation by nationals used to be concentrated almost exclusively in top management positions but now Kuwaitis do occupy lower level jobs in this sector. A major obstacle to success of many of the reform approaches is still the persistent popularity of public sector employment. Now the private sector, though still far from assuming the leadership of the economy, is increasingly assuming a leading role in recruiting citizens motivated by government incentives. It is expected that the privatization programs and mega projects specified in Kuwait Economic Development Plans will enhance employment even further. Unfortunately, the implementation of several development programs has stalled due to the political squabbling between the government and National Assembly. If the State Plans are not satisfactorily implemented, one could still expect the private sector to continue employing natives as long as this sector is living off the State. But obviously the present arrangements may not be sustainable for the long term because most of the private sector's jobs do not require highly educated people whereas the increasing numbers of new labor market entrants are higher education graduates. Consequently, in the long run, with no significant improvements in the business environment the private sector may have fewer numbers of suitable jobs to offer to nationals. Given that the high momentum of the native population is not expected to significantly subside before two decades (AFESD, 2011;

World Bank, 2009) there is a possibility that the unemployment ratios may rise especially among educated native women because their numbers are bigger than men and also because priority in employment is often given to men.

As is clear from our review of the literature and the present findings, the State used the oil wealth to accelerate and encumber human capital development and utilization. Its lavish expenditure in its welfare system and public sector raised citizens' expectations, occasionally reinforced negative attitudes toward hard work and created underemployed public sector personnel (Ali & Al-Kazemi, 2006). Also, the public sector employment is characterized by a large number of employees possessing education that does not match the employment requirements of the private sector or the efficient functioning of the public sector. This was attributed to the common practices of government employment agencies which did not pay much attention to matching jobs to skills. Given the fact that civil service jobs do not require acquiring technological skills or engaging in entrepreneurial experience, civil servants would find it difficult to move to and survive in more competitive workplaces. Consequently, the overstaffing of the public sector and under-employment of its personnel is likely to continue. This in turn may slowdown the rate of decline in the numbers of non-nationals in the workforce.

Another related problem is the increasing rate of unemployment among fresh graduates, most of whom are educated females. It is mainly a result of the recruitment slowdown in the public sector. The tendency of educated Kuwaitis, like the rest of educated Arabs, to shun the private sector and queue for jobs in the public sector gave rise to a very odd pattern of unemployment as the unemployment ratios are often highest among the educated (high school and higher education graduates). Kuwaiti jobseekers are offered free training, employment counseling and paid generous unemployment benefits in addition to their private resources of social support. Hence, they often live comfortably until they get 'suitable jobs' which may create more voluntary unemployment. The average transition period from school-to-work for native fresh university graduates in Kuwait is about a year (Abdalla & Al-Imam, 2007). It is alarming to see that the investment in higher education is going unused (whether in the form of open unemployment or underused competencies in the public sector) particularly in a country where expatriate labor represents half the well educated workforce. Given the large number of higher education graduates expected to join the workforce in the coming few years and lack of clear employment strategy it is likely that an increasing number of graduates might have much longer and painful school-to-work transition; an experience which is very common among educated youth in other Arab countries and was one of the triggers of the Arab Spring.

As is indicated above, the State, for so long, has failed Kuwaitis by offering them jobs which garner high private returns but without productively utilizing their competencies. Consequently, job seekers were often confronted with two suboptimal choices of whether to seek the high paying no learning jobs of the public sector or work in more challenging private sector jobs with low job security and lower financial returns. Another issue of concern is that some private firms, in order to meet the quota requirements, tend to employ Kuwaitis in less challenging jobs that bear little relation to their skills. These new recruits by occupying token positions end up getting poor deals which offer little learning, longer working hours, and lower wages than that of the public sector. These token appointments are means used by private firms to dodge the reform systems since they are merely putting Kuwaiti faces in private workplaces. Also, the hiring process in all economic sectors is often compromised for the social habits and values of the decision makers. For example, Arab's strong in-group orientation may encourage nepotism in recruitment, as managers often prefer to appoint "people of trust and loyalty" rather than "people of competence" (Abdalla, 2006). The same could be said about the employees' performance appraisals and promotion systems. These practices too are undermining the reform efforts and often render it ineffective.

## 6. Conclusions

In view of the expected high growth in the size of the native labor force (women and youth), there may be more pressure on the State to accelerate the recent momentum in employment creation. Sustaining the government-led-interventions to create jobs is doubtful and even undesirable as it reinforces the dominance of the State in the economy which is unlikely to bring the desired productive employment. To expand native human capital employability major and comprehensive macro economic reforms are needed. According to conventional wisdom, 'piecemeal' approach to labor market reforms as is currently taking place in Kuwait, is unlikely to bring substantial benefits in terms of growth and employment. In this respect Coe and Snower (1997) suggested that effective labor market reform programs must be sufficiently broad (i.e., to cover a wide range of complementary policies) and deep (of substantial magnitude). Such comprehensive programs of structural reforms are included in the State Economic Development Plan which is yet to be implemented.

The unfinished agenda for employment creation, as per previous literature and the present findings, can be

summarized in the following major areas: modernizing labor regulations by allowing wages and other conditions of employment to be determined by market forces in tandem with offering well-targeted labor market programs. Ensuring the availability of data, monitoring, advisory and supportive mechanisms which are needed to create more informed policy makers and entrepreneurial class and more mobile workforce that can respond to an expansion of the private sector. There is also a need to reduce the direct economic role of the public sector while improving its regulatory functions and governance; improve education and training; increase productivity growth by encouraging the expansion of the private sector and supporting entrepreneurship and innovation; and encouraging export growth by improving the trade regime.

Sustainable solutions to natives' employment cannot be achieved without a globally competitiveness businesses sector. Greater openness encourages competition, fosters modern work methods and utilization of skilled labor, and promotes learning. If the private sector is empowered to compete more effectively then the labor market and capacity building systems may adjust to the new situation accordingly (Dasgupta, Nabli, Pissarides & Varoudakis, 2007). But as long as the public sector jobs and the newly created private sector 'quota' jobs are protected by government regulations and financial support, there will be a persistent and large element of rent seeking on the part of those individuals who secure these types of opportunities and there will be relatively low demand for quality capacity building. In this respect, Nabli (2007b, p. 208) stated that, "education can only be internationally competitive if work is".

Among the research questions of relevance and which need to be addressed by future research are 'in what ways did the various subsidies and employment enhancement initiatives boost or undermine incentives, trade, equity, education choices and so on?' and 'how much investment and employment creation can be expected from the private sector, with or without the government stimuli?' We conclude that there are serious economic, social and political obstacles to sound labor market practices and unless these obstacles are eliminated or neutralized the prospects of balanced and productive native workforce is likely to be jeopardized.

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