Expatriate Games

Where is the Long Term Value?

In the 1970's the Middle East saw the beginning of a dramatic rise in oil and gas exploration and production activity, with an equally dramatic growth in the expatriate community. Companies in the region required the skills and know-how of these expatriates to exploit the development opportunities. However, as part of the arrangement they expected a progressive transfer of skills and knowledge to come with it. A review of the same region today shows that this skills transfer has not been delivered.

The pressure is now on to close the gap, as national oil companies seek to expand their presence in the global energy market, competing as world-class multinational operations. In addition many countries are now faced with the need to find employment for their newly educated population.

This paper examines where the shortfall has occurred, and proposes actions to ensure that the situation can be transformed in the future.

A Region of Opportunity

As the Middle East started to experience high development rates sparked by the 1970s oil boom that led to large economic developments (Fig. 1 overleaf), an acute need for skilled manpower was felt throughout the region.

Faced with these massive opportunities international energy companies turned to their qualified, experienced staff from overseas to make the most of the opportunities within the region. This led to an inflow of skilled expatriate workers who took up jobs that required expertise, knowledge and skills not available in the region.

Importing expatriates certainly filled an immediate need at the time. However, the longer term aim of all this activity was to build local capability and hence reduce the need for expatriates in the future.

Almost 40 years later, whilst the total workforce in Middle East oil and gas projects has grown, the percentage of expatriates in that workforce has remained virtually the same.

Have the promises of local capability building been kept or has a generation of learning been lost?

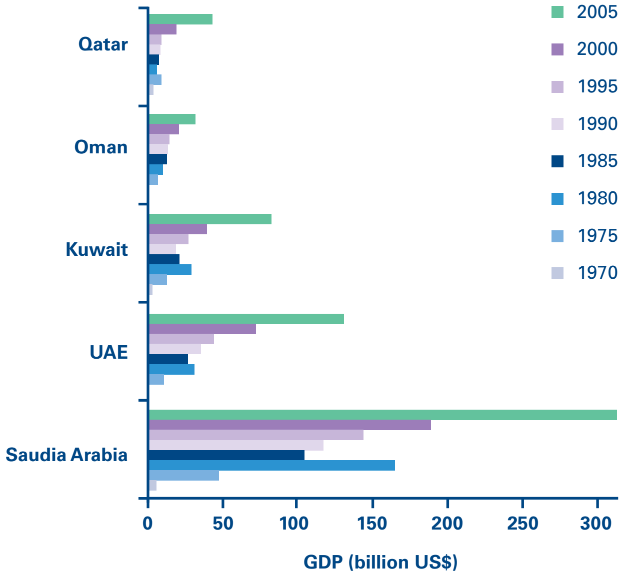
Arthur D. Little has reviewed the situation to identify why progress has slowed in making the Middle East less dependent on expatriates.

Unwritten rules shape 'expatriate games'

Several factors distinguish the position of an expatriate worker. The postings are financially rewarding; expats are typically paid more than their colleagues in their country of origin and assignments are usually short. So the people who take them up tend to be made responsible for delivering short-term results. This contributes to a rather transaction based approach to the job.

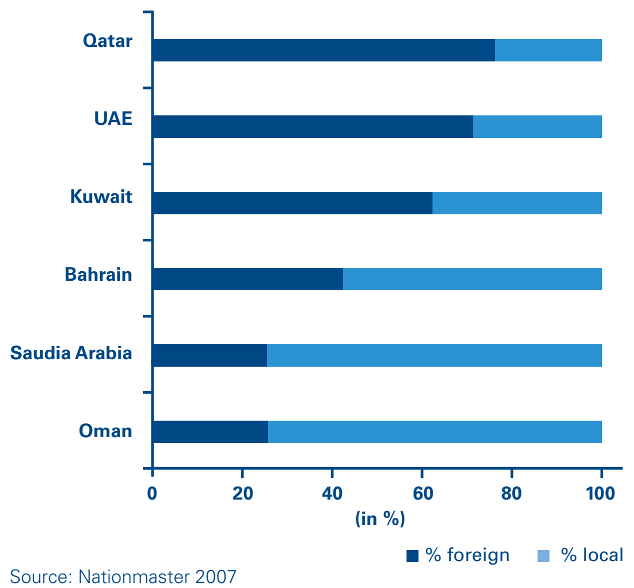
Such characteristics foster an attitude and environment which Arthur D. Little describes as 'the unwritten rules of the game'. Every organization has its 'unwritten rules' which equate to 'the way things actually work around here', and can be quite different from publicly stated company values and policies.

Figure 1: GDP Evolution from 1970 to 2005 (billions $)



Source: World Bank 2008

Figure 2: Percentage of local versus foreign workforce in 2006



Source: Nationmaster 2007

In the Middle East expatriate world, the 'unwritten rules' include a view that the expatriate is there to provide their experience, not to pass on their skills and bring their posting to an early finish. In fact, building the capability of a local colleague may be exactly what an expatriate does not want to achieve; because of the short-term duration of their stay, they can operate with little sense of ownership or commitment to the company as long as they fulfill their defined roles and responsibilities. Due to the transitory nature of their posting, they are not incentivized to drive long term business development or sustainable improvements.

For the locals the 'unwritten rules' are that the expatriate has the knowledge and experience and knows what to do, so they are the real decision makers. Responsibility often does not truly reside with the local manager, compromising his or her ability to manage the business.

Cashing in the Expatriate dividend

Forty years after the boom in expatriate assignments began things have changed little. The typical expatriate position is still financially rewarding, of limited duration and largely transactional.

In our review of this environment, we found that the processes, incentives and methods for developing learning and skill transfer have not moved on since the 1970's and 80's.

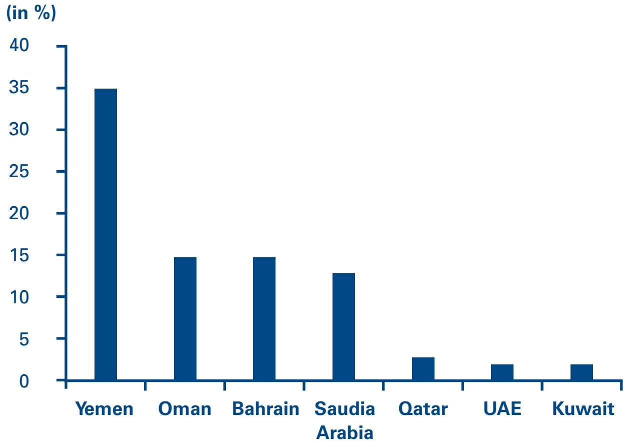
What has changed is the pressure on local governments to increase localization and to cash the development dividend from expatriate investment. The increased pressure has several drivers. These include:

- Increasing local unemployment, particularly among a rapidly burgeoning young adult population.
- The need to provide local job opportunities for top graduates or risk seeing them emigrate, taking their talent and educational investment with them.
- The need for more proactive and expert management of maturing oil and gas assets.
- National oil company aspirations to play as multinationals in the global energy market have also risen sharply in recent years. Expertise is needed to manage the local production but also the growing international operations, all of which requires greater numbers of skilled local staff.
- NOC's need to be seen as national champions; finding ways of hedging against their country's expatriate dependence in the future.

All of these issues are being played out in a labor market where 50% of the current expatriate workforce is due to retire over the next 10 years which further exacerbates the situation.

The national companies' ambition to develop local capability and local opportunities, with diminishing help from expatriates, has not changed in 40 years. Yet the gap between aspiration and reality remains wide open.

Figure 3: Unemployment rate in the GCC



Source: Nationmaster 2007

Barriers to change

The factors preventing skills transfer all share a common feature: lack of follow-through.

- Targets for skills transfer in the form of localization policies have been set by governments but with little in place to assure delivery. Pressure to achieve targets often dissipates until the operating license is up for review or renewal.
- Staff have received education in a transactional environment. The style in which expatriates work with locals has not progressed to a true coaching and development relationship. Specialist skills have been transferred, but staff have not had the fast-track application and learning opportunities in the field to gain genuine mastery of these skills.
- Learning appears to be blocked by the drive for short term milestones, often used to explain why the task was achieved but the learning objectives were not.
- There is a doubling up of resource between local and expatriate staff. This can create an oversized organization with slow decision making and limited innovation.

Ultimately this legacy business model is slowing progress in building local capacity. Its distinguishing features; centralized control with hierarchical decisions driven by administration rather than performance goals has not changed in decades.

In these features, we see a set of 'unwritten rules of the game' emerging which remove the incentive for local workers to learn and be accountable. What has changed is the pressure on local governments to increase localization and to cash the development dividend from expatriate investment.

Delivering the promise

In recent work on business improvement for clients in this market, Arthur D. Little has found robust ways of accelerating local staff development, gaining greater leverage from expatriate staff, and aligning the needs of all those involved more closely. In particular, we have identified a number of key steps that need to take place to ensure that in a further 20 years the situation will have changed.

These include a new approach to fast-track transfer and application of skills, a new approach to incentivizing expatriates, and a revised approach to development plans.

1. Fast-track skill transfer and application should include a process of learning in everything the person does. In the past, local labor was not educated adequately to actively participate in the drive for economic development. Today, local labor is better prepared for these challenges, with high levels of graduates coming out of top universities. However, they are lacking the experience required to transform knowledge into capability. The learning model needs to embrace behaviors as well as tools. Pragmatic processes for setting business performance targets, creating personal objectives and translating those into a series of skill development challenges for the year are missing. Through embedding a cycle of planning and review of business and personal performance, learning can be embedded into every aspect of the business.
2. Human resource processes and mechanisms must focus on linking business demands with opportunities for personal development. Training courses provide the knowledge but the cycle of application of the skill and personal reflection on what has been learnt has to be formalized and embedded in the organizational culture.
3. Scorecards of expatriates would benefit from a complete revision, so that measurements and rewards reflect the desired capability building as opposed to simply the transactions carried out. Encouragement is needed to build a legacy of skills and experience, rather than simply a number of people trained. Development plans need to become more focused on results and less on 'traffic' through the system. Follow-through processes and measures are required to monitor accurately the success of each learning activity and of the overall development of each participant.

A new era

The potential for local capability building in the Middle East, and solving the talent crisis in the international energy industry, is large. Facing up to the 'unwritten rules' of the game, and actively attacking the barriers to progress by reducing expatriate dependence, can open the way for a new era in this sector.

5 Questions that all Middle Eastern business leaders should ask themselves

1. Is your expatriate workforce transacting tasks or transferring skills?
2. Where are you investing development resources for the future staff?
3. How 'fit' is your business model to drive future performance by local people?
4. How are you accelerating the experience of nationals?
5. What hidden rules in your organization help or hinder your future ambitions and why?

If you would like to discuss how your business processes for developing staff and leveraging expatriates might be reviewed and reworked, to the benefit of all those concerned, please contact your local Arthur D. Little office.

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