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Workplace quotas: Building competitiveness through effective governance of national-expatriate knowledge transfer and development of sustainable human capital

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Building competitiveness through effective governance of national-expatriate knowledge transfer and development of sustainable human capital

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Abstract

Purpose – This study aims to develop a theoretical model that specifies the most important factors hypothesised to facilitate reciprocal knowledge transfer between nationals and non-nationals in the context of workplace quotas.

Design/methodology/approach – Expatriate labour is viewed as a form of contingent employment that provides firms with ready access to experienced and specialised knowledge. We argue that in a knowledge economy, the successful use of workplace quotas for nationals depends on effective management of both nationals and non-nationals. By drawing on scholarly contributions in the areas of strategic management, agency theory, knowledge management and absorptive capacity, this paper consolidates extant knowledge and proposes a new framework aimed at developing a more integrated agenda for future research.

Findings – Three broad categories are posited as strategic enablers to effective knowledge management. First, senior leadership has a direct role in developing appropriate policies, promoting transparency and fostering a culture of trust and an indirect role through the establishment of incentives. Second, the influence of incentives on both knowledge management and process improvement is addressed. Third, the characteristics of each group with regard to qualifications, motivation and receptivity are discussed. Optimally, these factors work in concert to build competencies that ultimately satisfy customers and meet organisational goals.

Originality/value – There is a gap in scholarly research that explicitly links important organisational and management concepts to the study of expatriate-national interactions. This article contributes to understanding how policy makers and leaders can strengthen the transformative forces that will drive successful development of human capital.

Keywords Expatriates, Knowledge sharing, Agency theory, Workforce quotas

Paper type Conceptual paper

Introduction

Established in 1981 in Abu Dhabi, the Gulf Cooperation Council (GCC) is composed of the six Arab states: Saudi Arabia, Kuwait, Bahrain, the United Arab Emirates (UAE), Qatar and Oman. Together, they are positioned on the world's largest proven crude oil reserves (Crescent Petroleum Research, 2010) and play a vital role in meeting the energy needs of the world. Over the past two decades, countries in the Arabian Gulf have

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successfully attracted professional expatriate labour in contractual, contingent employment relationships to support rapid development of their economies (Naithani and Jha, 2010). Investing their substantial oil rents in infrastructure, education and human capital development, these countries have successfully improved their economies and global competitiveness (World Bank, 2011).

However, against the backdrop of economic growth, today the governments of the GCC countries are seeking to reduce their dependency on expatriate labour by implementing workplace quotas for nationals to sustain their economies with a local workforce. Estimates vary, but over 40 per cent of the GCC labour force is comprised of non-nationals ranging from 81 per cent in the UAE to 30 per cent in Saudi Arabia (see Table I). The greatest number of expatriates is in Saudi Arabia and the UAE at 8.2 and 4.6 million, respectively.

Expatriate labour is a form of contingent employment that provides firms with ready access to experienced and specialised knowledge, resources and technologies. There is a theoretical gap in the research that explicitly links important organisational and management concepts to the study of expatriate and national interactions to determine their applicability to this setting. What is needed to make progress in understanding these important and growing employment arrangements is a model, based on the accumulation of knowledge in performance management that specifies the most important factors hypothesised to govern reciprocal knowledge transfer between expatriates and nationals. To what extent should we expect findings from other cultures to apply to different work arrangements? Based on the extant research, we outline a model that provides the grounding for describing the principal contributors to successfully managing knowledge in expatriate-national settings. We then discuss how these factors work in a model–theoretic perspective to contribute to ongoing empirical management research. This provides the basis for suggesting a program of research to facilitate progress in understanding this alternative work arrangement.

In the next section, a theoretical overview is provided with the conceptual model of strategic enablers to knowledge management. Each category of variables in the model is then described in subsequent sections with a discussion and rationale of the causal path between the variables. In the conclusions, the specific implications to organisations as well as the broader implications to economic growth are addressed.

Country	Population	(%) in Population Nationals (%)	Non-nationals (%)	No. of nationals	No. of expatriates
Bahrain	1,314,089	46.0	54.0	604,481	709,608
Kuwait	2,742,711	31.3	68.7	858,469	1,884,242
Oman	3,219,775	70.0	30.0	2,253,843	965,933
Qatar[a]	2,123,160	20.0	80.0	424,632	1,698,528
Saudi Arabia	27,345,986	70.0	30.0	19,142,190	8,203,796
UAE	5,628,805	19.0	81.0	1,069,473	4,559,332
Total	42,374,526	57.5	42.5	24,353,087	18,021,439

Note: [a] The estimate of the % in population is based on the The World Factbook, 2013 March
Source: The World Factbook, 2014 June

Table I. Local and expatriate population statistics for the GCC

Theoretical overview and model

Investments in human capital and learning are increasingly viewed as a source of competitive advantage (Hatch and Dyer, 2004). According to the resource-based view of the firm, firms create a competitive advantage over rivals by developing resources that are valuable and inimitable, thereby resulting in superior financial performance (Acedo *et al.*, 2006; Hatch and Dyer, 2004; Peteraf, 1993; Wernerfelt, 1994). As long as rivals are unable to replicate a valuable resource, firms can create a sustainable competitive advantage.

In general, expatriate work arrangements are a type of non-standard, contingent work, set up for a fixed period of time which can be classified as Cappelli and Keller's (2013) direct contract work that involves two parties: the client organisation and the worker. Typically characterised as full time, the work usually occurs at the employer's place of business. Such contracts may span a broad range of types of work as well as skill levels, e.g. from low pay, unskilled labour workers to independent, professional and highly paid experts that includes educators, medical experts and innovative, up-to-date technology specialists such as military, computer and nuclear energy expertise. While in the past, non-standard work may have been associated with substandard employment, this is not necessarily the case with expatriate contracts which can be very good jobs in the sense that they pay well and afford the individual control over the terms and conditions of work. We know relatively little about the effective management of expatriate work across these widely varying arrangements and activities.

Contingent work arrangements have been increasing for several decades (Szabó and Négyesi, 2005), and Stickney (2008) demonstrates that the use of contingent workers who are used in high importance areas improve the organisation's performance. In addition, expatriate professionals with unique, highly specialised knowledge and experience can facilitate the development of local human resource capital. At the same time, human capital can be transient and move from firm to firm or country to country. As labour recruitment efforts in the GCC to attract skilled workers with a high added value are contractual, the temporary nature of the work contracts adds to mobility in the workforce. The high rate of turnover among expatriates and nationals can mean the loss of essential knowledge.

The degree to which learning can be appropriated by the hiring firm before the end of the contractual period is contingent on optimising the national/expatriate exchange through effective leadership and management of the interactions between targeted individuals and groups. As indicated in Figure 1, we begin with the strategy enablers, or leading indicators to knowledge transfer, which are senior leadership, incentives and characteristics of the national and expatriate.

The role of leadership is essential to:

- establish appropriate policies regarding governance of the contract;
- build a culture of trust and transparency; and
- align incentives for talent management so that knowledge transfer, learning and competency development occur.

While it is important to establish incentives for knowledge transfer, drawing on the precepts of agency theory, it is equally important to link incentives for both nationals and non-nationals through measurement of process improvement and customer

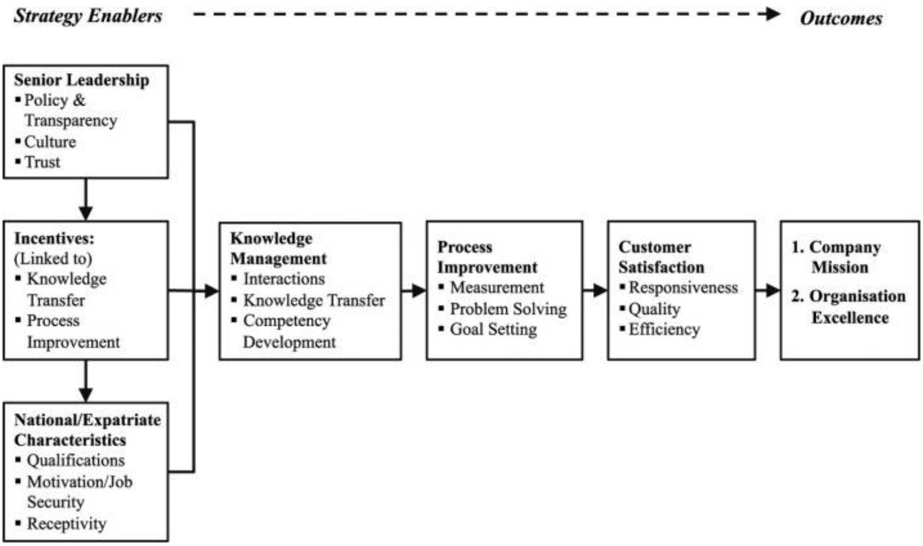

Figure 1.
Conceptual model of nationalisation pathway to excellence through strategy enablers and knowledge management

satisfaction that are clearly linked to strategic initiatives. Ultimately, for a sustainable competitive advantage and economic growth to occur, incentives must be aligned to support knowledge transfer, process improvement and customer satisfaction.

Senior leadership

Effective and ethical leadership is directly linked to sustainable organisational success (Stead and Stead, 2014) and the role of senior leadership is essential in establishing the type of culture through policies and actions that will encourage learning and growth of employees through effective governance of national/expatriate exchanges. Sustainable leaders, therefore, must be able to articulate their mission and have the ability to intrinsically motivate and inspire their followers through their mission statements (Conger, 1991). Both transparency and trust are important strategic enablers to knowledge management and the establishment of these factors in an organisation's culture is appropriately under the purview of senior leadership. Transparency is important to both establish accountability and visibly link incentives to appropriate behaviours and outcomes.

Transparency involves the free flow of information both horizontally and vertically in the organisation, e.g. from the top-level managers to the front-line employees, and, therefore, creates a bridge between management levels as well as among divisions in the organisation. When information flows freely in an organisation, employees, including managers, are more likely to have a sense of belonging to the organisation and therefore be committed to achieving important organisational objectives (Transparency International, 2014). Additionally, employees working in this kind of environment are more creative, motivated and productive. They are more likely to perceive the success or failure of the organisation as their own, have a positive work attitude, and be motivated to maximise the output of the organisation (Benko and Anderson, 2010). On the other hand, when information is largely withheld from employees, they generally think that the organisation belongs to top management and may only perform to meet the minimum level job requirements.

In the area of workforce quotas, creating a transparent and open culture with regard to rewards and incentives promotes a sense of responsibility in employees and they are more likely to be committed to common organisational goals such as knowledge sharing. When there is a clear link between the implications of decisions in relation to achieving key performance results, transparency creates a more responsible and accountable workforce (Crumpton, 2011).

Effective knowledge transfer depends on the fit among various important properties of knowledge, work groups and the associations between work groups (Szulanski, 1995). One of the most important factors that is influential in decisions pertaining to the sharing or concealment of knowledge is the role of trust – particularly at the interpersonal level (Nayar, 2010). When team members trust each other, they are more likely to disclose important information to each other (Zanni and Michael, 2013). In general, employees trust one another based on the assumption that they will receive similar behaviour and treatment. While there are numerous definitions of trust, two essential elements include dealing with uncertainty and risk, as well as accepting vulnerability. Trust is the mechanism that fosters the vulnerability that is necessary for open exchanges (Shih-Chieh *et al.*, 2013). When an external source is perceived to be untrustworthy, unreliable or unknowledgeable, knowledge transfer is more difficult (Szulanski, 1995). Yang (2012) demonstrates that when there is a low level of trust between standard workers and contingent workers, standard workers are reluctant to share important knowledge.

Creating a culture of transparency starts with developing appropriate policies and building transparent relationships that foster trust. Investing in an open communication systems, linking incentives to knowledge transfer, performance management and ultimately process improvement will result in optimising performance. In this regard, an open and transparent communication system is a necessity in establishing trust and ensuring high productivity in the organisation.

Incentives

While a widespread view of previous empirical research is that management and incentives are important, we have little understanding regarding the task of managing workers under different employment arrangements, especially when these groups work alongside each other while performing similar tasks, but at significantly different incentives and benefits, thus complicating the jobs of managers. In view of these differences, will policies and cultures that promote transparency combined with incentives linked to knowledge transfer and improvement of organisational outcomes, positively shape how these groups interact and develop relationships that results in transferring knowledge and building competencies?

Recently, talent management is seen as a strategy for recruiting, selecting, retaining and developing employees to realise their full potential as future leaders of the organisation (Whelan and Carcary, 2011), but Schutz and Carpenter (2008) indicate that knowledge capital may be the organisational asset that is managed least effectively. At the same time, important workplace constructs, such as motivation and performance management are predominantly based on a full-time employment model. Understanding how these variables operate in the broader and global context of expatriate work has implications for the management of expatriate–nationals and the design of incentives to improve organisational outcomes.

Transferring specialised knowledge that clients usually lack makes it difficult to evaluate the performance of the agent. Agency theory posits that effective governance mechanisms, such as the use of monitoring and/or incentives, will ensure that agents act in the organisation's interests (Jensen and Meckling, 1976). However, in the situation of knowledge asymmetry, governance is based on interpersonal attraction and trust is more relevant rather than objective performance measures (Sharma, 1997). Hence, in this situation, the use of incentives vs monitoring and control is more appropriate for aligning the goals between principals and agents.

Knowledge asymmetry can exist on both sides of the national–expatriate transaction. Nationals have built long-term, mutually committed relationships that provide access to decision-makers and they are much more in tune with the cultural context within which organisations operate. Both nationals and expatriates may be reluctant to share critical information out of concern that their expertise is questioned in the former case, or replaced in the latter case. It is challenging to ascertain whether principals and agents are altruistic and committed to the well-being of the organisation vs self-interested, short-term players who exploit opportunities to maximise their own benefit.

Agency theory, based on research by Eisenhardt (1988), is based on the premise that relationships focus on cost-benefit analysis and that information is a commodity; problems emerge when individuals seek different goals or have incomplete knowledge as well as different attitudes toward risk. In the case of tacit information, knowledge resides in the individual, and cannot be accessed unless the agent is willing and able to explicate it or willing to share through highly interactive experiences with the principal. Initially, when contracts are signed, both the principal and agent agree that the relationship is temporary. However, a problem arises when expatriates desire to continue their employment and, therefore, do not want to transfer knowledge to others, e.g. nationals, the effect of which would be to work themselves out of a job. In agency theory, the principal is assumed to be risk neutral and the agent is presumed to be risk averse and to prefer security (Eisenhardt, 1988); therefore, seeking assurance of a desirable outcome against the probability of an undesirable outcome (Bergen *et al.*, 1992), e.g. unemployment.

Generally, employment relationships generate more commitment and involvement, as well as loyalty, to the firm than a contractual relationship (Galup *et al.*, 1997). Therefore, it is likely that the long-term interests of expatriate professionals are less aligned with those of the organisation due to the temporary nature of the contract. In the area of workforce quotas, the process to recruit and select contract professionals is different than the selection process used for nationals, and training and professional development options are more restricted. Firms may increase the likelihood of contractors performing in ways that are beneficial to the long-term goals of the firm by offering contractual arrangements that are more similar to employment contracts. Bringing professional managers into an employment relationship, e.g. longer contractual periods, would reduce opportunism and the associated costs to the firm (Moshandreas, 1997) as well as reduce the costs of turnover.

Compensation schemes that link employee performance to meeting appropriate departmental and organisational objectives are required for successful nationalisation programs, development of individual competencies and, finally, organisational performance. In an assessment of the causes of the global financial crisis, a report from the International Monetary Fund (2013) discussed the need for better designed compensation schemes especially in those countries in the GCC that rely heavily on an expatriate workforce. Expatriate workers have fixed-term contracts compared to nationals, e.g. three years, which leads to high turnover in the expatriate workforce. This situation may have encouraged expatriates to take excessive risks and focus on the short-term instead of the long-term development of the country.

The use of financial incentives as a strategy to improve job performance has been widely documented across a range of organisational settings (Guest, 1997; Young *et al.*, 2012). Superior organisation performance is associated with tacit knowledge and the retention of employees who possess this knowledge (Kiessling and Harvey, 2006). In the area or workforce quotas where expatriate labour is available on a more temporary basis, e.g. for the duration of the work contract, the ability to consistently transfer their knowledge and expertise to nationals is essential to optimising the development of the human capital of the organisation. Nationalisation strategies require adjustments in human resource strategies. Therefore, organisations need to adopt a strategic approach to managing the expatriate–national interactions by providing incentives that are linked to knowledge transfer. Rewarding nationals for self-development and nationals and expatriates for knowledge transfer is an important aspect in managing the learning and growth of the human capital in the organisation.

As management is central to the design of reward systems, their support of diverse opinions, open communication and knowledge exchange is also an important determinant of knowledge transfer. Incentives and rewards that are linked to business goals will encourage both groups to act in the best interests of the firm.

National/expatriate characteristics

To understand the important factors to predicting successful knowledge transfer between expatriates and nationals, we draw from the research of management scholars in strategic alliances and absorptive capacity. Then, the interplay and reciprocal nature of these factors, i.e. ability, motivation and receptivity, is discussed in the context of nationalisation quotas.

Strategic alliances are key to the competitive strategies used by many corporations as they offer speed and flexibility in the achievement of market access, economies of scale and the development of competencies. Learning strategies for knowledge transfer are based on collaboration between allies that have high levels of receptivity and transparency. The manner in which partners in a strategic alliance conduct the management of the collective learning process will significantly determine whether the strategic alliance will succeed or fail (Larsson *et al.*, 1998).

Research on absorptive capacity examines the flow of knowledge in multinational settings with a focus on the dissemination of knowledge across national borders. The focus in this research stream is on the absorptive capacity of the receiver, and illuminates the individual behavioural characteristics that must be present for successful knowledge transfer to occur. The motivation and learning intent of the individual learner is often cited as the major determinant of knowledge transfer, e.g. Minbaeva *et al.* (2014), Minbaeva (2007), Minbaeva *et al.* (2003), Simonin (2004), Szulanski and Cappetta (2003). Cohen and Levinthal (1990) refer to the receiver's ability to recognise the value of new information as well as assimilate and apply that information. Although the disposition of the sender is less researched than the receiver, there is evidence to support the importance of the sender's ability and willingness to share knowledge (Husted and Michailova, 2002; Minbaeva and Michailova, 2004; Minbaeva, 2007).

Similar to strategic alliances, successful nationalisation programs depend on importing talented, professional labour to build knowledge capital and the subsequent knowledge transfer between expatriates and nationals. But knowledge exchange does not occur automatically, or even easily, between nationals and expatriates. Informal groups can form in organisations that are based on similar nationalities, genders and cultural backgrounds, which then influence not only knowledge transfer but also hiring choices, work allocation and rewards and recognition. Groups may develop based on similarities in language and attitudes, as well as how to conduct business that may ultimately foster distrust and barriers between groups. In the case of strategic partnerships, inter-organisational learning is made difficult by the lack of motivation and failure to effectively communicate information among groups (Larsson *et al.*, 1998).

On the one hand, experienced expatriates in a given area possess knowledge that is primarily tacit (unspoken) in nature. Learning is viewed as the accumulation of experiential knowledge and tacit knowledge is difficult to formalise or identify because managers may not know what they know and it can take up to two years for senior managers to acquire the tacit knowledge from an expert that is required to successfully apply that knowledge (Nonaka and Takeuchi, 1995). In general, tacit knowledge is linked to innovation (Harlow, 2008), and Kiessling and Harvey (2006) maintain that organisations need to adopt a more strategic approach to retain these individuals and continuously acquire their knowledge and expertise. Talented, experienced managers play a critical role by helping organisations benefit from what might otherwise take years to understand. They are able to anticipate challenges, facilitate change and circumvent years of trial and error learning by the host organisation.

On the other hand, experienced nationals have more knowledge and expertise on how to effectively manage work in their culture and they have the advantage of established working relationships with important stakeholders to the organisation. Similar to expatriates, they can anticipate challenges, albeit of a different nature and facilitate the implementation of complex projects in the context of their country. Nationals possess what Portes (1998) terms social capital – the ability of individuals to secure benefits by virtue of membership in social networks. Based on this view, Inkpen and Tsang (2005, p. 150) and Tsang describe social capital as the benefits that accrue to an organisational member that "include privileged access to knowledge and information, preferential opportunities for new business, reputation, influence, and enhanced understanding of network norms". The notion that knowledge transfer occurs within social networks implies that for effective knowledge transfer to occur, the contribution of both groups needs to be managed proactively so that access to each group's knowledge is realised.

Therefore, in the transfer of knowledge between nationals and expatriates, the motivation, receptivity and ability of both parties is important to successful learning. In other words, knowledge exchange is optimised when individuals and groups such as expatriates and nationals are motivated to interact in meaningful ways to share information and learn. A fundamental premise of the model in Figure 1 is that expatriates and nationals working in concert to achieve company goals, i.e. with the skills, motivation and receptivity to learn, will not only result in more knowledge transfer, but ultimately, improved organisational outcomes as well.

It is in this complex situation that nationalisation efforts are implemented and which present numerous challenges. Such programs must incorporate clear objectives for both partners to foster intra-organisational learning. Most importantly, effective workforce quota programs should stipulate the process through which the functions of performance management and strategic organisational objectives are linked to workforce learning and skills or training and development.

Knowledge management

The three previous research streams, i.e. leadership, human resource management and national/expatriate characteristics (sender/receiver characteristics), are the most important hypothesised strategic enablers, independent variables, to knowledge transfer, the dependent variable. Together, they influence the nature and degree of interactions between the groups. Interactions are a necessary prerequisite to transferring knowledge, especially tacit knowledge. Previous research suggests that knowledge transfer is facilitated by intense interactions among organisational members (Lane and Lubatkin, 1988).

Knowledge exchange is contingent on quality interactions over time between qualified and motivated participants in the exchange. When organisational actors are rewarded for knowledge transfer and trust each other, interactions will lead to knowledge transfer. Knowledge transfer manifests itself through changes in the knowledge or performance of the individual (Inkpen and Tsang, 2005). Thus knowledge transfer is essential for developing competencies. In the case of expatriates, knowledge transfer can occur across a wide range of skill levels and types of knowledge including different departments and positions in the organisational hierarchy.

Process improvement

In the context of the foregoing, it is worth noting that the effective transfer and sharing of knowledge facilitates development within organisations by preventing them from re-inventing the wheel or continuing with ineffective and unproductive practices. Knowledge sharing facilitates the adoption of new ideas and innovation while enhancing productivity and profitability (Angelos and Buckley, 2013). Despite the importance of knowledge transfer in facilitating organisational effectiveness, it can be a fragile process with a broad range of conflicting interests between the people involved.

High-performing organisations integrate analytics and performance measurement into their decision-making at both the strategic and operational levels (LaValle *et al.*, 2010). In a study conducted by IBM in collaboration with MIT Sloan Management Review, LaValle *et al.* (2010) note that in a survey of almost 3,000 managers and analysts from 108 countries across more than 30 industries, half of the respondents indicated that using information to drive business results was a strategic priority. They reported that top performing organisations use and apply analytics/data *five times* more than low performers. Based on the explosion of "big" data that is available from new technologies, many managers are challenged to understand what information to collect that adds value to decision-making and action. Changing a company culture from one where decisions are based on personal experience or intuition to decisions based on the right data is extremely difficult.

Resources and capabilities such as knowledge capital will have a positive impact on a firm's performance when they are translated into relevant activities, procedures and internal processes. To ensure that a nationalisation program is contributing to the organisation's goals, common metrics could include survey ratings of knowledge transfer, turnover and whether the processes in a particular division meet and exceed customer expectations, e.g. are responsive, effective and efficient. New performance metrics may be appropriate such as the duration, efficiency or response time of activities and services, the quality of goods and services from the customers' perspective and the cost/benefit of the value of goods and services in relation to competitors or best practices.

Measurement that focuses solely on quotas may increase the number and ratio of nationals to non-nationals in an organisation but do little to either build nationals' skills or improve the organisation. Stereotypes that nationals are less motivated and competent (Al-Waqfi and Fostenlechner, 2010) lead organisations, especially in the private sector, to be reluctant to hire nationals. Even when nationals are hired, private employers may consider them a burden and simply an added cost of doing business (Al Qudsi, 2006). Management of employees' work performance needs to move beyond discipline for absenteeism to rewards for improving productivity and effectiveness of processes and, ultimately, through aggregate measures such as revenues/employee or profit/employee. When measures such as revenues/employee are benchmarked against peer organisations, there is an impetus to improve the output of all employees.

Customer satisfaction, company mission and organisation excellence

Business leaders and researchers agree that effective leadership that clearly links incentives to strategy, internal processes and customer satisfaction through performance measurement will result in above-average financial returns, e.g. Kaplan and Norton (1996), Baldrige Excellence Framework (2015-2016) and EFQM Excellence Model (2015). Customer satisfaction depends on process improvements that enhance responsiveness, reduce costs through improved efficiency and improve quality. Therefore, optimal resource utilisation requires simultaneous improvements in time, costs and quality. Effective implementation of quality management will provide a competitive advantage and knowledge workers require leaders who can foster improvements in organisational performance. Employee incentives that are directly linked to knowledge transfer that also results in improved process performance and customer satisfaction will provide the impetus for employee development and organisational learning.

Developing future leaders requires building the leadership skills of young people. This entails identifying and inculcating knowledge and leadership competencies through training and placement in real-life leadership situations. According to Teece (2007), attaining a sustainable competitive advantage requires not only inimitable or difficult to replicate knowledge assets but also dynamic capabilities that change to meet the emerging needs of the organisation.

However, for organisations to harness this knowledge, they must first develop their employees, as it is they who use it and implement an organisation's strategies. For instance, businesses must gather relevant knowledge about their competitors, financial capabilities, operations' efficiency and capacity, consumer preferences and characteristics, supplier capabilities and human resource capacity. In addition, they must make this knowledge available to their employees at all levels for them to make correct decisions. Moreover, organisations must tap into the knowledge that their employees themselves possess about their processes and deficiencies, and involve them in problem–resolution and new-idea-generation (Conti, 2011). When organisations develop and empower their employees through knowledge management initiatives, they attain several benefits; employees are motivated, their productivity increases, their concern for quality enhances and their proclivity for customer satisfaction is increased. This, in turn, leads to overall organisational effectiveness and growth (Fortunati *et al.*, 2012).

Economic growth and prosperity

Knowledge and intellectual capital are increasingly viewed as the basic engine for economic development (Arab Knowledge Report, 2009). Ultimately, there is a trickle-down effect of the resultant benefits that extends across an entire society. For example, when revenues grow, organisations will increase the number of employees, which reduces the level of unemployment and increases the amount of discretionary income within a society. This creates further growth in consumer markets for other products and services, such as housing, food, and banking. Additionally, as more people gain employment, there are fewer incidences of social ills and deviance (Ramaprasad, and Sridhar, 2011). Successful organisations also retain a percentage of their profits, allocating it toward research and development, which leads to the development of new products that improve quality of life. From the outset, it is evident that individuals, businesses and the government play an interconnected role, and reinforce their mutual accomplishments.

Conclusions and recommendations

After years of successful economic growth and recruitment of expatriates, organisations in the GCC need to implement the right strategies to identify both talented expatriates and nationals to engage them in a partnership to ensure knowledge sharing. Tacit knowledge that is acquired by recruiting experienced expatriates needs to be integrated, diffused and embedded in the organisation. Leaders need to manage the day-to-day interactions between these groups in formal and informal activities and build relationships through engagement and a sense of community. Investments in expatriate talent and national development must be managed to reward reciprocal knowledge transfer that is ultimately linked to business results. When nationals and non-nationals fail to share knowledge and learn from each other, the immediate result is suboptimal accomplishment of immediate tasks, less competency development and, in the end, the organisation is unable to take upgrade its stock of knowledge.

Our results suggest several important implications for research on knowledge transfer in expatriate/national interactions. Drawing from the fields of agency theory and strategic alliances, senior leadership should establish policies that promote a culture of transparency and trust and base incentives on an alignment of organisational objectives with both nationals and expatriates. For effective knowledge exchange and human capital development, the GCC countries need to move away from a rent-based model founded on privilege to a system that ensures fair competition and equal access to opportunities (The Arab World Competitiveness Report, 2013). Organisations need to cultivate a learning culture and develop processes to ensure that knowledge is captured and transferred efficiently and effectively.

The GCC countries face challenges regarding the effective implementation of workforce quotas in a strategic initiative to build a competitively sustainable workforce. It is particularly important that workforce quotas are carefully managed to ensure that they contribute to developing an innovative, stable, prosperous and diversified economy. Leaders must create enabling environments to foster knowledge transfer. While agency theory assumes that the dominant party in a relationship is the principal, and, therefore, an effective contract is one that maximises the best possible outcome for the principal, the premise of this paper is that contracts that optimise the joint utility of both the principal and agent are more likely to result in the long-term benefits that are sought to build the knowledge capital of nationals.

Experienced professional managers may not be able to codify their knowledge and skills, but through a dynamic and iterative process of working together, knowledge will be exchanged and expertise can be developed over time. In the case of tacit and specialised knowledge, performance monitoring may be less effective than incentive mechanisms due to the asymmetry of knowledge that makes performance evaluation difficult.

This paper adds to the understanding of emerging human resource practices in countries that utilise expatriate employees to build knowledge and competitive capabilities. Both recruitment of expatriate talent and the subsequent managing expatriate and national performance to improve business results will generate competitive advantages for years to come. The lack of research in this area hinders our ability to build knowledge about the how to effectively manage in these new employment arrangements. There is no evidence regarding the degree to which organisations in the GCC are effectively integrating and coordinating knowledge management with performance and process improvement. The purpose of this paper is to set forth the premises that need to be tested to optimise the governance of contract professionals in the context of workforce quotas.

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