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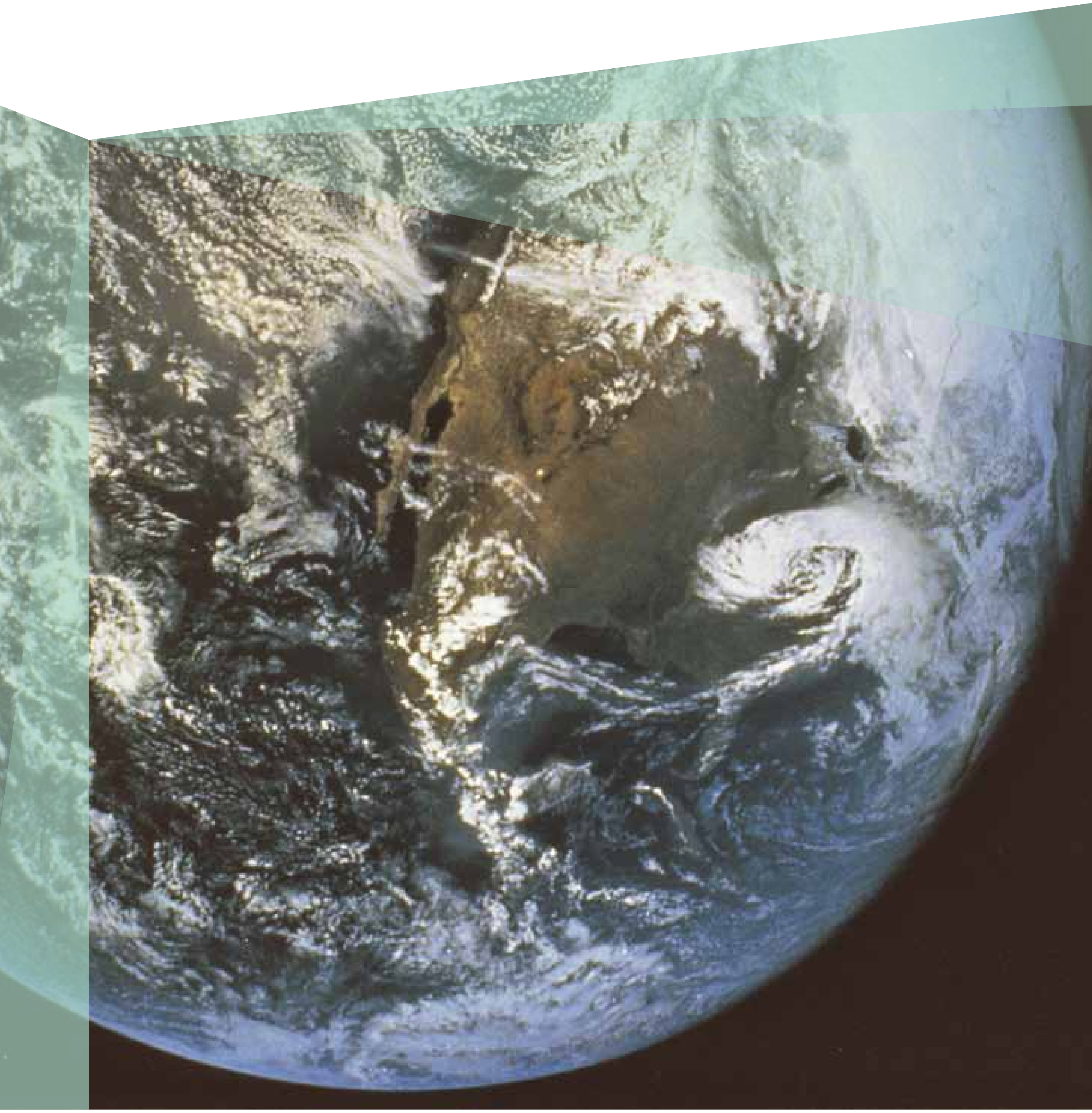
# COMPENSATION AND BENEFIT TRENDS IN THE MIDDLE EAST



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The Middle East is a large and diverse region, making it challenging to generalise descriptions and portray it adequately to those living outside the area. This article therefore aims to take a closer look at the region's Gulf Cooperation Council (GCC) countries, which present some similarities in terms of labour policies and compensation trends.

The GCC is a political and economic union of the countries in the Arabian Peninsula. It is composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE (Yemen is in talks to be included in the group by 2015). All of these countries export oil and thus present a picture that is compellingly different from the budget deficits, rising unemployment and social unrest that are more prevalent in the oil-importing countries of the Middle East, such as Tunisia, Egypt, Syria and Jordan.

Not even the oil-exporting countries are immune from global economic meltdowns, of course, but so far the pressures from the European debt crisis and slowing growth worldwide have been contained. The GCC economies are the most dynamic within the Middle East, with the largest proportion of expatriate workers and serving as the base for many regional multinational head offices. Although some of these countries show a trade deficit, oil revenues remain high, and the non-oil sector of their economies is showing steady growth. This region is also characterised by significant government spending and infrastructure projects, which contribute to economic growth but also apply upward pressure on inflation and salaries. We have summarised our key economic findings for these countries for 2012 in Table 1.

Table 1
Key Economic Information for GCC Countries

| COUNTRY | BACKGROUND | INFLATION |
|---|---|---|
| Saudi Arabia | High oil revenue and government spending on education and housing programmes | Upward trend (shortage of good quality housing) (4.9%) |
| UAE | Non-oil sector (tourism, trade, transportation) growing | Prices stable, inflation under control (1.5%–2%) |
| Qatar | Big hydrocarbon projects and government investment, 2022 World Cup host | Moderate pressure on inflation (2%–3%), adequate housing supply in the short term |
| Kuwait | Oil revenue high, very high public spending | Inflation high (4%), salaries raised following mass demonstrations |
| Oman | Oil accounts for majority of economy; diversification plans are under way | Inflation under control (3%) |
| Bahrain | Most diversified economy, but still dependent on oil; losing talent to others in the region; some social unrest | Inflation under control (1.5%) |

Compensation and benefit trends are unique to this region and are characterised by the following particularities:

- The workforce (particularly in the private sector) is dominated by foreign expats, up to 90% in UAE and Qatar and up to 50% in Saudi Arabia.
- The sponsorship system of employment makes it a challenge for employees to move freely between employers. A foreign expatriate with no sponsorship from a locally based employer has no legal right to reside and work in the country. In Saudi Arabia and Qatar, "no-objection letters" are required from the employer before changing jobs or exiting the country.
- Guaranteed allowances comprise a significant part of guaranteed cash, with housing and transportation being the most common type. Historically, allowances were provided for expatriates to support their accommodation and transportation costs. However, guaranteed allowances have found their way now into local employee contracts, and in addition to housing and transportation, local nationals often enjoy special social or national allowances. In general, the value of guaranteed allowances ranges between 30% and 50% of guaranteed cash. However, many employers distribute cash in favour of allowances in order to reduce their end-of-service liabilities that are linked to the base salary.

- The end-of-service benefit is common across all GCC countries and applies to expat employees as well as national employees in certain countries, such as Saudi Arabia. On average, the end-of-service benefit represents one month's base salary for every year of employment. This service award can be viewed as a proxy for a defined contribution pension plan, given that the benefit calculations are always based on the last salary before termination. Multinationals are increasingly introducing Western-style international pension plans as retention tools for their expatriate employees and as substitutes for the end-of-service benefit; however, the laws surrounding this are often unclear.
- The tax-free environment often makes it a challenge to move people out of the region as they become accustomed to the gross pay income levels.
- The "Local Plus" structure of compensation has expanded to cover even GCC national contracts. The pure form of local contracts hardly exists in the GCC employment market.
- More recently, there has been a drive towards nationalisation of the labour force, with added incentives or regulation to increase the percentage of national employees working in the private sector.

Pay increases in the Middle East follow a pattern that varies greatly from what is seen in the Western world. Usually they are well above the forecasted inflation rates. For example, the predicted annual increase in base salary for UAE is 5%, while inflation is forecast at only 1.5%–2%. However, it raises the question: what other elements factor in the budgeting process? Does the process reflect a lack of credibility in published inflation figures or a need to motivate employees by providing meaningful merit increases? Most often, it appears to be a case of benchmarking with peers and other countries in the GCC, as well as a reflection of perceived growth in the economy and the organisation. While benchmarking is good practice generally, it may lead to spiralling costs. For example, many organisations increase both the housing allowance and the base salary annually, essentially representing a double increase in real terms.

If we look at the Mercer annual quality-of-living rankings, Abu Dhabi and Dubai consistently receive the top ratings across the Middle East, which makes them understandably popular with expatriates. Mercer data also contain information on factors such as political stability, personal safety, medical services and housing. Based on these criteria and significant investments in city infrastructure, UAE cities are an attractive location for expats, and Doha, Qatar, is rising up in the rankings.

Mercer's cost-of-living index has also shown some new trends, with Beirut overtaking Dubai and Abu Dhabi for the first time as the most-expensive city in the Middle East as of March 2012. Mercer's index evaluates housing prices and rents predominantly in areas where expatriate communities exist. Housing carries the largest weight in the cost-of-living index, and any change in the price of accommodation has a high impact on overall rankings.

What this means in practical terms is that employers looking to send employees on regional international assignments out of Dubai or Abu Dhabi will find themselves faced with an increasing expense in terms of cost-of-living allowances and hardship allowances. As an example, an organisation looking to send an employee from Dubai to Beirut on an international assignment will be expected to pay, on average, an additional 5% of base salary as a cost-of-living allowance and 22% as a hardship allowance. With UAE gross salaries being some of the highest globally, this becomes a costly proposition. However, this is not hindering plans for employers in the region to grow the workforce, as hiring projections remain robust within this region, with 70% of respondents looking to increase their headcounts over the next year.

## NEW TRENDS ON THE HORIZON

Multinationals operating in the region need to stay abreast of certain upcoming trends when setting their strategies for attracting and retaining talent. The first trend is the gradual move away from sponsorship systems witnessed in certain GCC countries. Increasing pressure from humanitarian organisations has persuaded regional governments to relax their sponsorship systems. Saudi Arabia announced a move towards establishing third-party employment companies, which will lead to more mobility among expatriate employees. Bahrain has relaxed its sponsorship system, while Qatar is in the early stages of establishing a cross-industry trade union for the protection of interests of private-sector employees.

The second trend is the drive by a number of governments towards nationalisation of the workforce and inclusion of more national employees in private-sector employment. Multinationals operating in Saudi Arabia, for example, under the Nitaqat programme, need to ensure, depending on their sector, that at least 30% of the workforce are Saudi national employees before they can obtain work permits for any other employees. But attracting Saudi nationals to the private sector is notoriously difficult, and 43% of companies are at risk of losing privileges for not meeting minimum quotas.

Historically, the public sector has been the main employer of GCC nationals, while expats have been brought in to fill jobs and talent gaps in the private sector. In the UAE, private-sector employers continue to be challenged by the need to compete with the public sector for national talent attraction in terms of allowances, benefits and working conditions, and attracting national talent will require a premium to be offered – often in the form of a national allowance.

The third trend is related to property markets and housing costs. In the UAE, for example, the government of Abu Dhabi has recently decreed that all employees working within any of the Abu Dhabi government or government-owned institutions should reside in Abu Dhabi rather than in its popular neighbour, Dubai. This creates a captive rental market in Abu Dhabi, causing rising rents.

The fourth trend that is starting to be more prevalent in regional markets is related to longer-term incentives, which are becoming more frequently part of the total remuneration package commonly offered to employees by international and local publicly listed companies. However, short-term incentives are still widely prevalent across most organisations and all career streams.

When it comes to benefits, the most commonly offered benefits in the region are private medical insurance, flight allowances and mobile phones. However, companies are faced with the continuous pressures of rising medical inflation. Typical annual increases for premiums could range from 15% to 20%, even with a good claim history. Companies are advised to be more proactive about creating awareness around claim behaviour and choice of medical facilities among employees. Employers are also looking at ways to reduce the cost of medical policies, such as through the introduction of deductibles.

## CONCLUSION

It is no surprise that when it comes to the global ranking of net salaries, the UAE tops the ranks, ahead of Switzerland. It is not hard to find candidates who can fill expatriate positions in these countries, but companies need to consider carefully whether the costs are sustainable in the long run. The high tax-free salaries and generous allowances make the region an attractive location for many expatriate employees, but once here, very few want to move out – and with allowances becoming the market standard even for local employees, organisations need to adopt more strategic talent-management approaches in this part of the world and carefully consider all of the elements of the compensation and benefits structures.

## ABOUT THE AUTHOR

Zaid Kamhawi is the Middle East Information Solutions Leader within Mercer's Talent business. Based in Dubai, he can be reached at +971 4 327 8700 or zaid.kamhawi@mercer.com.

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