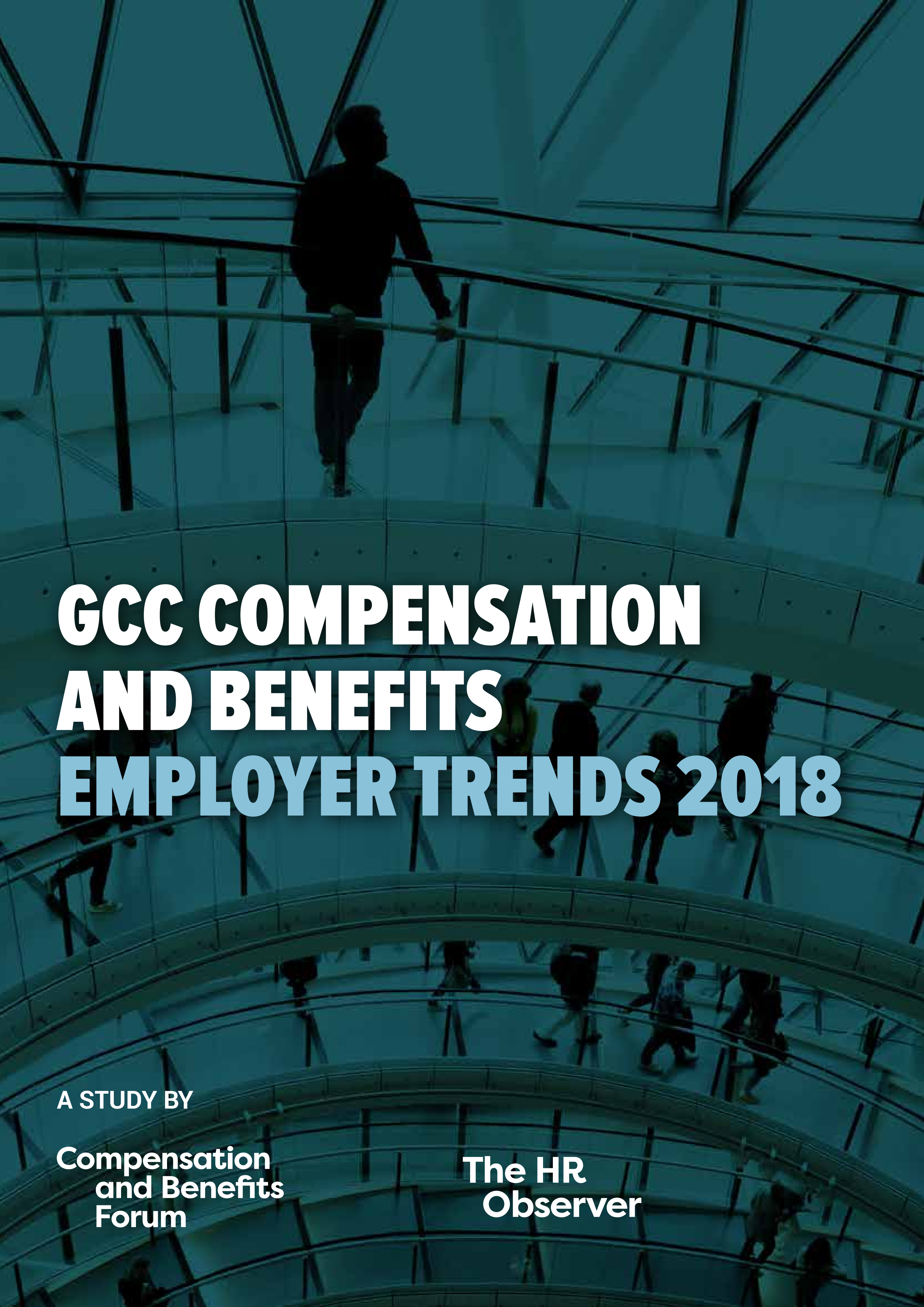


GCC COMPENSATION AND BENEFITS EMPLOYER TRENDS 2018

A STUDY BY

Compensation and Benefits Forum

The HR Observer

GCC compensation and benefits employer trends 2018

“While the economic and fiscal out-turns for the first half of the year are less than anticipated, momentum is building in key parts of the region. These signs suggest that stronger economic growth could return in 2018, so long as oil prices maintain or exceed current price levels.”

– Richard Boxshall, Senior Economist, PwC Middle East

2017 was a year characterised by great economic potential for the GCC that ultimately didn’t pay off as much as expected, due to the continuing oil price crisis and the subsequent fiscal uncertainty associated with sweeping reforms regarding economic diversification. While these factors are still very much in play in 2018, observers like the International Monetary Fund (IMF) project a stronger outlook for this year in terms of oil market performance and overall GDP levels across the region. The latest IMF forecast for 2018 showed the regional GDP growth rebounding to 3.3%, largely driven by the turnaround of key regional economies such as the UAE, Saudi Arabia and Kuwait.

This cautiously optimistic prediction of stronger economic performance has not quite managed to dispel the cloud of uncertainty and elements of pessimism that characterised last year’s C&B trends report. Questions and concerns over VAT implementation, rising healthcare and other allowances costs, rising employee attrition rates and more have all combined to make it a similarly challenging C&B environment in early 2018. However, this negative outlook is also tempered by an increasing amount of dynamism and noticeable change occurring in the GCC C&B function. While many companies are passively awaiting clearer and less confusing economic circumstances, plenty of others are taking this as a chance to fully assess, adjust and revitalise their C&B offering, empowering it with greater technological capabilities and data-driven strategic insights.

A brief overview of our methodology

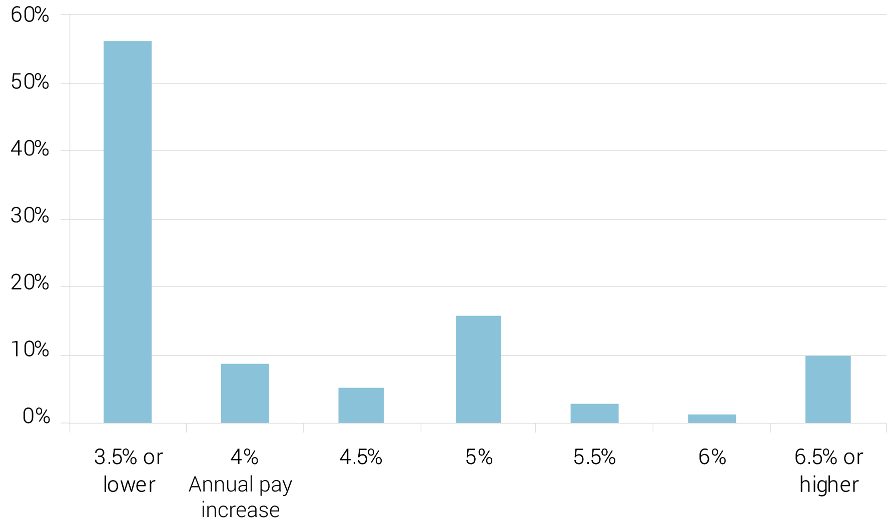
Our sixth annual GCC Compensation and Benefits Trends Report comprises the responses and insights of 513 participants drawn from a wide range of industries and HR roles. This sizeable scale and range of survey participants enables us to gauge the most critical challenges and impactful trends affecting C&B in the GCC with much greater accuracy and surety than previous years. It also allows for the sharing of their proposed responses and strategies in this rapidly changing economic environment. Participants have been drawn from companies located across all GCC member states, with most of them based in the UAE and Saudi Arabia. They represent diverse sectors, including: oil and gas, energy, healthcare, retailing, construction, real estate, banking, manufacturing, education and government institutions. This year’s slightly expanded survey consisted of 20 questions designed to discover the most crucial challenges and emerging trends currently affecting the region’s C&B climate. The conclusions drawn in the following sections of this report are based on the collected answers, clarifications, suggestions, proposed strategies and further insights of our respondents.

(i) Salary increases, bonuses and attrition rates in the GCC: uncertainty and conservative estimates continue

The majority of our 2018 survey participants do not have an optimistic outlook for their prospects of increasing salaries this year. 20.96% of companies expect to give only a 3.5% increase or less. 8.95% are planning to increase salaries by 4% and 8.72% aim to give a 5% increase. These are all markedly lower rates compared to 2017. However, instances of larger pay rises seem to be on the horizon for the GCC, as 17.23% of our survey's participating companies expect to increase salaries of between 5%-6.5% or even higher.

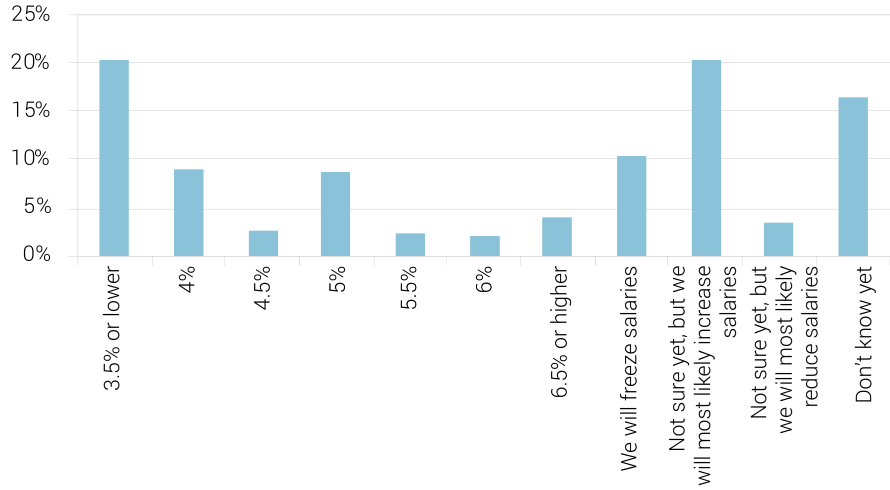
Add to this the 10.51% of respondents who are anticipating having to enact pay freezes, and the 3.36% who believe that they will have to actively reduce salaries, and you have a somewhat pessimistic outlook for the coming year. A sizeable number of participating companies suggested that traditional cost-cutting measures may not be enough to combat the unpredictable nature of current economic circumstances, citing the salary cuts and freezes as necessary corrections.

What was *your* company-wide total annual pay review increase in *2017*?



However, this cautious set of predictions for the lower end of the potential salary increase scale may not end up being entirely representative of 2018. Interestingly enough, the actual state of salary increases in 2017 was significantly rosier than what last year's survey respondents predicted. For example, 56.15% (251 companies) of this year's respondents gave salary increases of 3.5% or lower in 2017, a big improvement from the predicted 31.3%. Similarly, 15.88% of respondents gave a 4% increase; this is almost double the number of companies predicted to do so at the beginning of 2017. Most dramatically of all, almost 10% of the participants gave an increase of 6.5%, more than double the predicted 4.1%.

What *will be* your company-wide total annual pay review increase in *2018*?

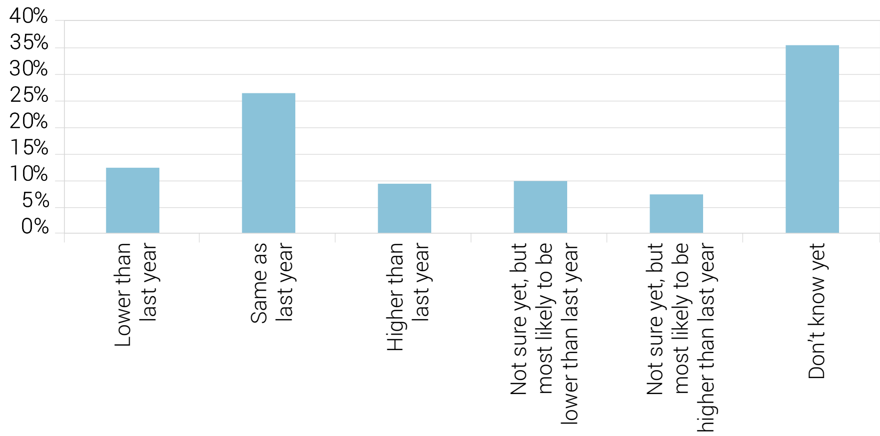


Essentially, this suggests that giving salary increases of various sizes in 2017 turned out to be a much more manageable prospect for most companies than they originally anticipated at the start of the year. If this is indeed the case, then it is worth considering that the 2018 predictions for salary increases may turn out to be overcautious.

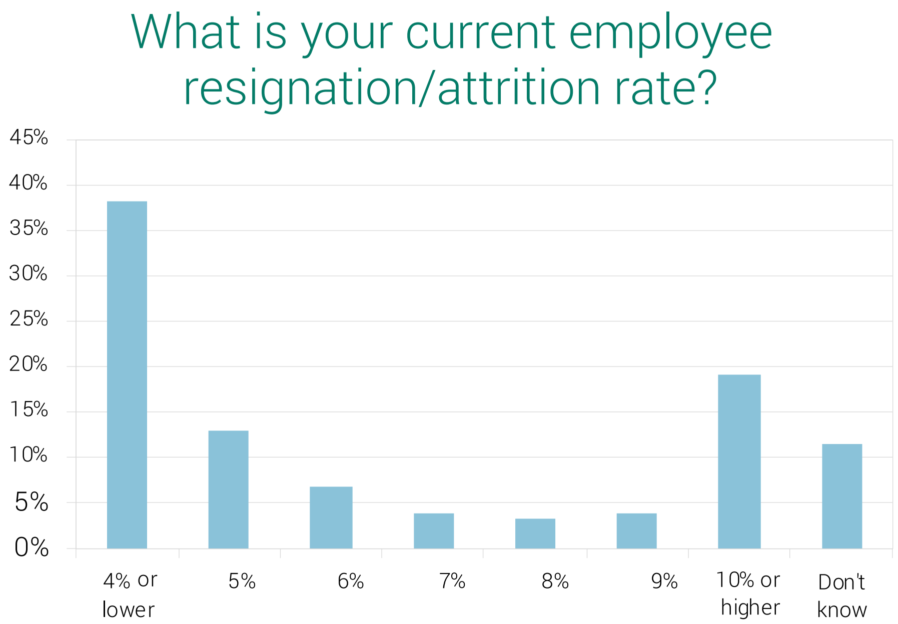
BONUSES AND ATTRITION RATES

When it came to predictions regarding the state of bonuses in 2018, uncertainty remained as much a factor as last year, with well over half of the respondents saying that they weren't sure about their bonus payments outcome and 35.35% stating that they categorically didn't know what would happen. Only 26.4% claimed that they would likely pay out the same level of bonuses as last year, with 12.08% stating that they thought it would be lower and 9.17% that it would be higher.

What will happen to bonus payments in 2018 (potentially paid in 2019) in your organisation?



While the state of salaries and bonuses remains unclear this year, one outcome from our most recent survey is that attrition rates are currently much higher at the beginning of 2018 compared to early 2017. Last year, attrition rates had been steadily moving in the right direction, with 52.2% of respondents experiencing 5% or less attrition and only 15% suffering a rate of 10% or higher. Now, only 38.26% can claim an attrition rate of 4% or less, and companies suffering 10% or higher attrition have shot up to 19.24%, almost doubling in the space of a year. Perhaps most shocking of all is that 11.41% of our survey respondents didn't in fact know their own current rate of attrition.



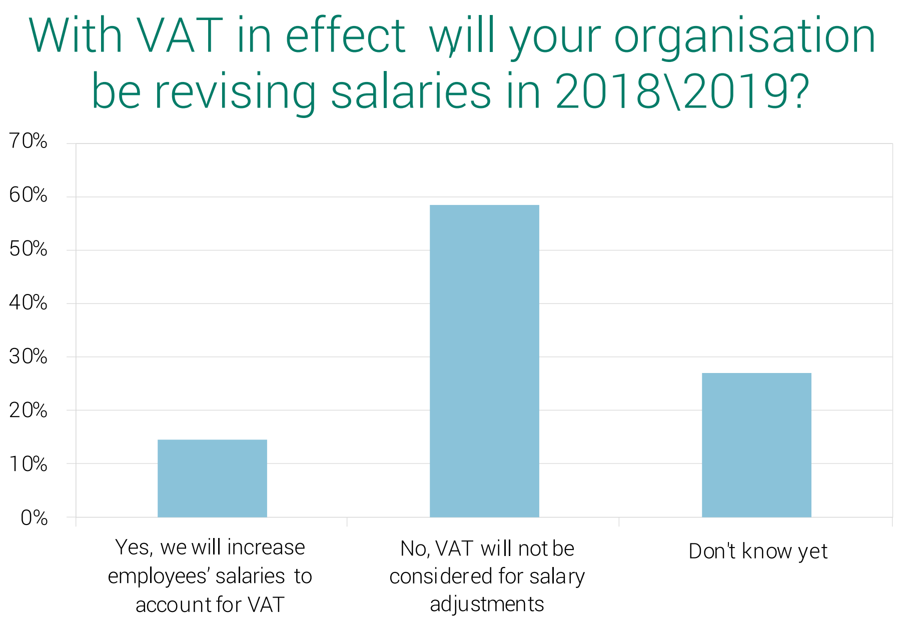
This spike in attrition rates and uncertainty over bonuses is likely to be a by-product of continued economic instability caused by a number of important changes – such as the introduction of VAT – as well as ongoing trends like the low but fluctuating price of oil and the resultant economic diversification efforts of GCC governments. Due to these myriad factors, more employees of all industries are choosing to leave the region. There's heightened movement of professionals in-country as well, as they seek out better opportunities to achieve a pay increase by leaving companies that are unwilling or unable to offer one.

(ii) The question of VAT: The GCC will still "wait and see"

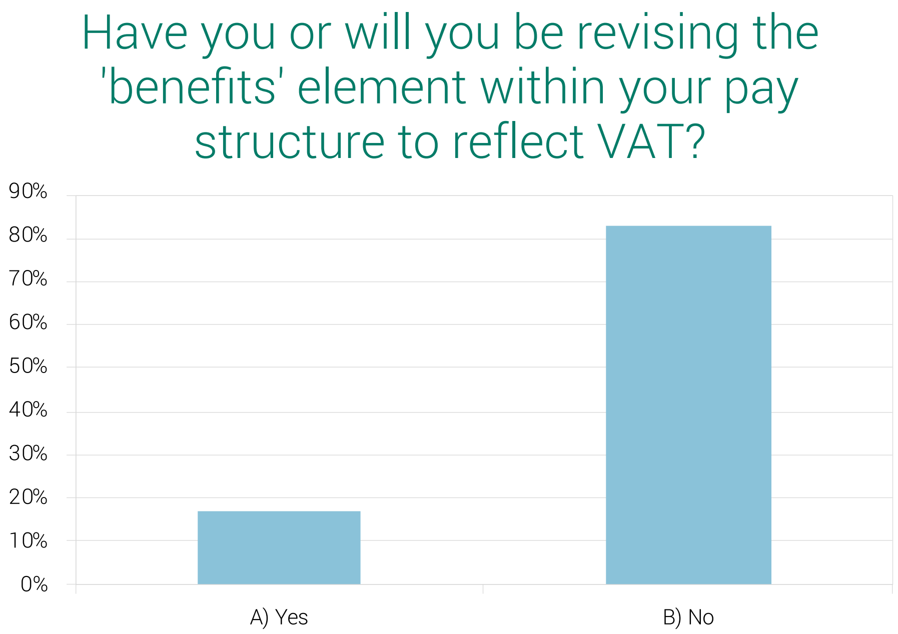
" The fact is that there was political resistance in some countries and they were not ready technically to introduce VAT, so the UAE and Saudi put a lot of resources to get ready for the VAT while the other countries have not. "

– Abdelhak Senhadji, Deputy Director of the Fiscal Affairs Department at the IMF.

The process of VAT implementation in the GCC may have started, but its progress is hardly uniform across the region. Some member states need more time to make the necessary economic, political and technical preparations and adjustments, while the UAE and Saudi Arabia are still considering their options on how best to mitigate the burden of VAT and support vital industries.



Therefore, it's perhaps hardly surprising that the rather cautious "wait and see" approach that we saw in the data of last year's report is still present in early 2018. The majority (58.58%) of participants stated that they will not consider VAT when deciding whether to increasing salaries in 2018/2019, while only 14.48% said that VAT would be an influencing factor. The remainder (26.96%) are still unsure about the impact of VAT on salaries.

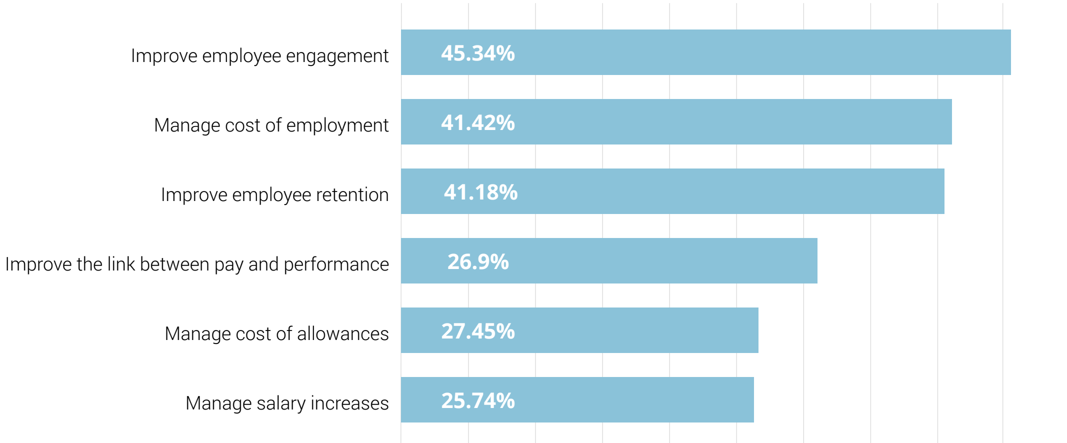


Similarly, more than 83% of companies said that they will not revise the benefits elements of their pay structure to take VAT into account. Some companies among the other 17% are considering offering specific benefits adjustments to offset VAT, such as a temporary living allowance. Others are viewing VAT as an opportunity to benchmark, review or entirely realign their salary, allowances and benefits structures, trying to find the most attractive way to balance total rewards versus individual benefits like housing, utilities, private education, transportation, phone, etc, depending on their VAT status.

This small minority of companies that are taking VAT into account in C&B terms, coupled with the quarter of respondents who simply don't know what to make of VAT yet, is emblematic of a wider trend of continuing uncertainty regarding VAT and its potential impact on the GCC economic landscape.

(iii) Areas of focus for the C&B community in 2018: Looking ahead and doing more with less

TOP 6 FOCUS AREAS



“2017 was the year of planning and 2018 onward is the time for execution. Companies need to focus on a Performance Management Approach and improve the link between pay and performance to retain their best talent. This year we may see some increasing attrition as the big players are eyeing up the best talent.”

– survey respondent

While 5 of the top 6 areas of focus for 2018 are the same as those from 2017, their markedly different order and weighting is indicative of how much has changed in the GCC in a relatively short space of time. The data outlines a clear emerging trend of companies focusing much more on **managing overall costs and efficiencies** while optimising spending as a means of combatting fiscal restrictions while still presenting their employees with attractive overall C&B packages. At the same time, the fact that **improving employee engagement** has jumped from 38.5% in 2017 to become the top area of focus for 2018 at 45.34% also demonstrates that GCC companies are still committed to looking beyond the bottom line and are keen to keep investing in their workforce. Increased engagement leads to higher productivity and sales; this is a lesson that has clearly stuck and taken root in the GCC.

Related to this, is the increased focus on **improving the link between pay and performance**, which rose almost 10%, from 26.9% to 36.76%: a surprising yet heartening outcome given its marked decrease in importance last year as compared to 2016. As 2018 continues, it seems clear that more companies are eager to create working environments where their employees feel engaged, secure and well compensated for their ongoing commitment and performance.

Given the hike in attrition rates that GCC companies are currently experiencing, the increased focus on **improving employee retention** (up to 41.18% from 40% in 2017) is a wholly predictable outcome. The continued uncertainty and volatility of the region’s economic landscape, coupled with the fact that more ambitious companies are looking to use the situation to attract top talent, means that retention will continue to be a key priority in the face of rising attrition.

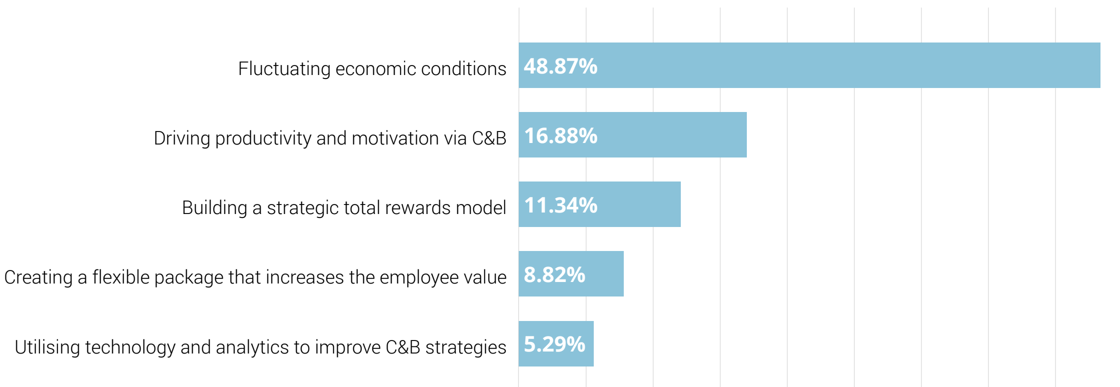
The greater importance of **manging the cost of allowances**, up from 18.9% in 2017 to 27.45%, is similarly unsurprising when the implementation of VAT is causing so many companies to consider the cost of allowances like air fares, phone bills, insurance, car hire and much more. VAT changes will end up either costing or saving companies significant amounts, depending on whether they can successfully anticipate when and where the cost burden will fall on respective allowances and adjust their benefits structures accordingly.

While there's much that's familiar about the C&B focus areas this year, there's also plenty of change to acknowledge and anticipate. While the majority of respondents stated that 2018 is looking similar to 2017 in C&B terms, exactly one third said that they are seeing important differences and new trends emerging. As well as the major areas of focus, some of the other interesting focus trends mentioned by our respondents include:

- Managing employee legal changes effectively (e.g. visas, good behaviour certificates)
- Implementing automation and other emerging AI-based technologies to replace low-level, non-creative HR roles and tasks
- Using the implementation of VAT as an opportunity to fully restructure various compensation elements and systems

(iv) Critical C&B challenges for 2018

TOP 5 CHALLENGES FACING C&B IN 2018



Last year, 41.9% of our survey respondents cited **fluctuating economic conditions** as the biggest challenge that they faced when trying to manage total rewards and effectively determine their C&B strategy. In 2018, this majority has increased to 48.87%, claiming three times more respondents than the next leading challenge. With the major economic changes outlined in previous sections still ongoing, this kind of uncertainty is going to remain the most difficult and persistent C&B challenge for the foreseeable future.

The next biggest challenge is **driving productivity, motivation and employee engagement via C&B,** as chosen by 16.88% of participants. This aligns with companies' increasing desire to make employees feel more engaged and improve the link between performance and pay. **Building a strategic total rewards model** took third place at 11.34%, which also aligns with the current emphasis on redesigning more effective C&B structures in the face of VAT implementation in the GCC.

All of the other leading challenges cited by our survey participants claimed less than 10% of the responses. However, it's interesting to note that the 4th and 5th places involve the drive towards achieving greater operational flexibility and technological capabilities, both of which will be critical for the long-term health of companies operating in the rapidly evolving GCC economic landscape.

TACKLING RISING COSTS: HEALTHCARE PROVISION REMAINS A THORNY ISSUE

We asked participants to name the top three areas of their total reward spend that are becoming more costly. **The main areas of concern for GCC companies in 2018 are:**

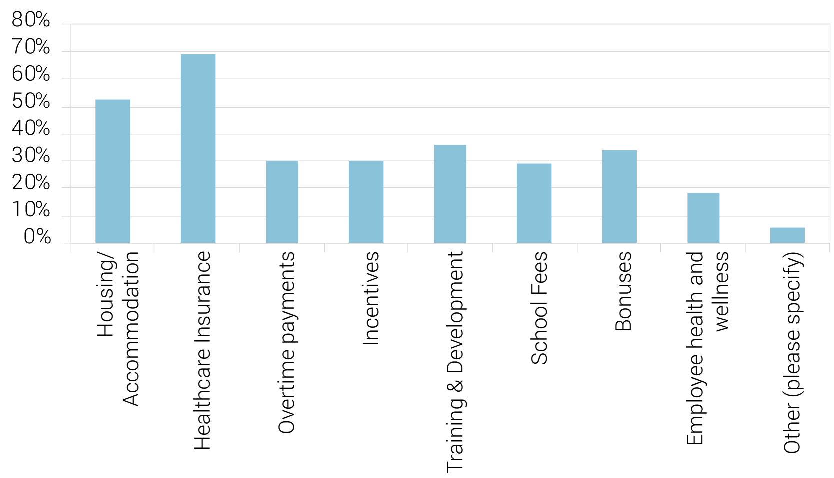
Healthcare provision at **68.55%**

Housing and accommodation at **52.52%**

Training and development at **35.61%**

Healthcare provision was the most significant reward spend difficulty in 2017, identified 144 times by our respondents as the most expensive area of C&B, a far greater number than any other single expense. This year, 231 companies marked it as their most expensive C&B area. This trend seems likely to continue for at least the next 3-5 years, given the strain that the GCC healthcare industry is under while it expands capacity and combats the rising tide of lifestyle-related diseases.

What are the top areas in your total reward spend that are becoming more costly?



Despite acknowledging the scale and severity of the issue, 71.5% of participants said that they have not made any changes to their health insurance provision. This may be an extension of the general "wait and see" approach to C&B espoused by a lot of companies, or it may be due to a lack of palatable alternatives to companies' current healthcare provision plans. Realistically, a combination of both is likely.

For the remaining 28.5% who did make adjustments to their medical plans, most cited the following strategies as being effective at bringing in tangible cost savings and/or better levels of healthcare cover:

- Introducing or increasing the employee's contributions (e.g. co-pay and co-insurance schemes)
- Excluding specific networks or overly expensive health care providers via tailor-made healthcare packages
- Reducing limits for dental, maternity and other forms of under-utilised benefits

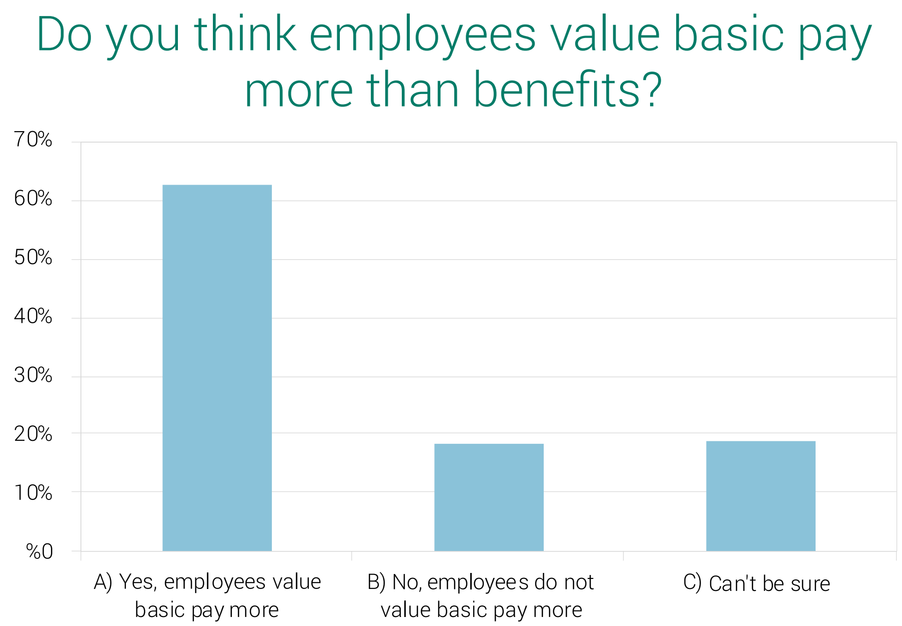
In last year's report, many of our respondents warned that while changing providers often resulted in securing an attractive joining rate, the overall cost reductions tended to be short-lived as the new provider is likely to simply raise their premiums the following year. While changing healthcare providers carries a certain element of financial risk (not to mention the potential to cause significant distress to employees who thought they were medically covered under the old system but suddenly aren't), it can be highly effective if done strategically. This year, one survey participant commented that they change providers every year, as the current climate of economic uncertainty has created the opportunity to secure better terms from healthcare providers, if you carry out sufficient research and negotiate successfully.

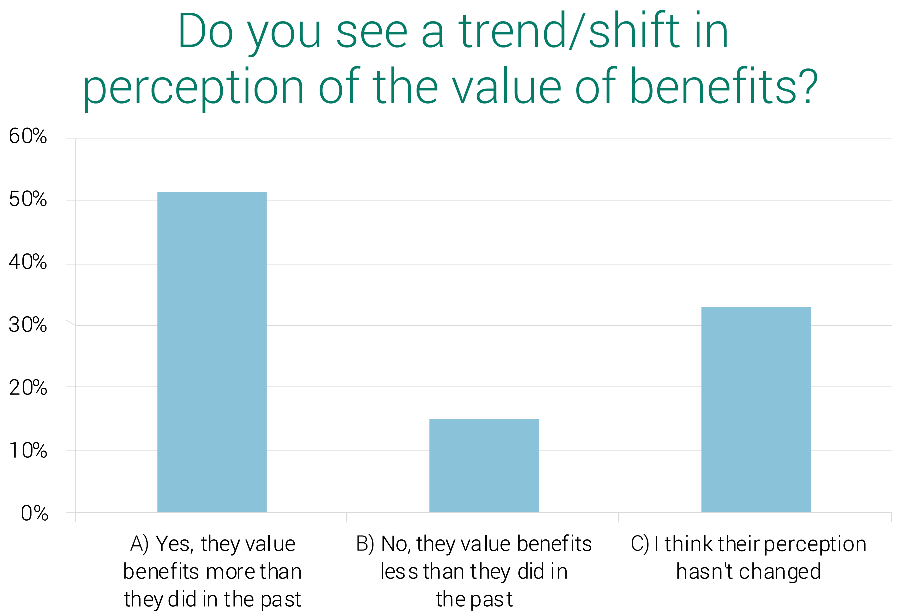
Again, much like last year, very few GCC companies are looking to embrace wellness programmes as a vehicle for improving employees' overall health and subsequently reduce their reliance on healthcare provision. In fact, only one participant made specific mention of their wellness programme, and that was to say they were planning to reduce its scope. This is a highly surprising outcome, given the increased interest companies are showing in developing ways to cut C&B costs while at the same time looking to make employees feel valued. As such, the implementation of employee wellness and healthcare education programmes both merit further consideration and discussion for employers looking to curb healthcare costs without sacrificing coverage.

On a related note, the rise in T&D is further evidence of how GCC companies are willing to make greater investments in their employees. This helps ensure that they're engaged and efficient when performing their role, leading to higher performance and better rates of retention. It's also indicative of a more long-term view of how the C&B element can improve the overall health of the parent company, rather than simply focusing on cost-cutting measures and short-term gains.

EMPLOYEES' CHANGING VIEW ON THE VALUE OF BENEFITS

While most employees still value basic pay more than benefits, according to 62.91% of our respondents, this is a noticeable drop from the 70.5% that was recorded last year. Clearly, attitudes are changing, as 51.63% of companies feel that their employees now value benefits more than they did in the past, while only 15.13% think that employees value them less and 33.23% say that perceptions haven't changed.





Much like 2017, the predicted lack of low level salary increases, combined with companies' heightened desire to improve employee retention, suggests that in 2018 more effort will go into strategies for maximising the overall value of C&B packages through the effective use of benefits. This is a continuation of the trend we saw emerging last year, and it strongly suggests that companies who are designing better benefits offerings are enjoying some success in terms of changing attitudes and making your employees value benefits more than they did previously.

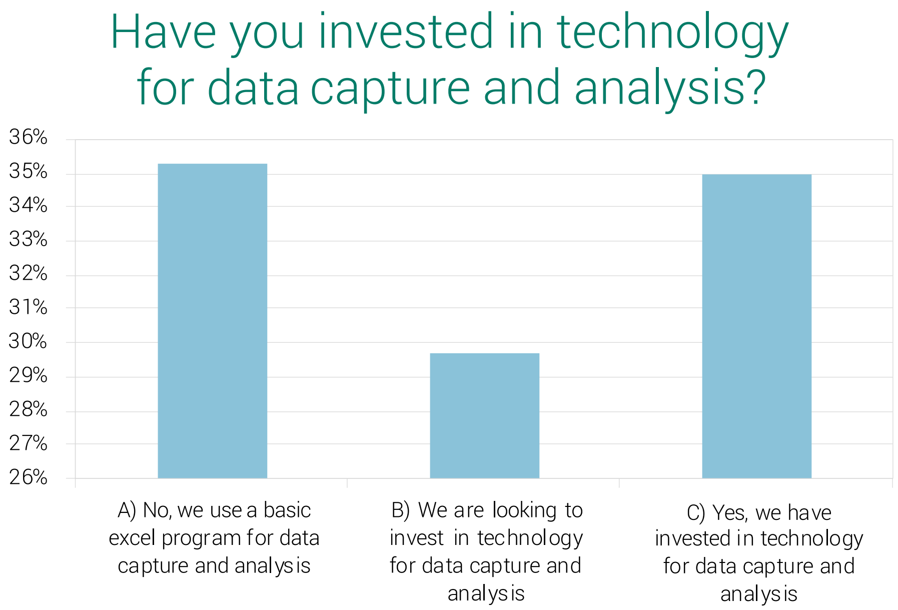
PENSIONS: POTENTIAL GROWTH IN 2018

The vast majority (83.98%) of GCC companies are still not offering their employees any kind of private pension option, while 10.68% are considering the possibility of developing a scheme, leaving only 5.34% of employers who currently offer one.

However, some companies are experimenting with providing a pension scheme instead of EOS benefits, mainly covered by one particular insurance provider. While pensions are clearly low on the priority list, they could gain a much more visible presence in the C&B landscape this year, if a sizeable portion of the 10.68% of companies considering such an option fully develop and implement their plans.

(v) Changes in the C&B technology and solution provider markets for 2018

Emerging technologies and the increased presence of highly responsive professional C&B solution providers are having a significant impact on GCC companies' HR function. Even though more than a third of respondents (35.31%), still only utilise excel programmes to capture and analyse their data in 2018 almost exactly the same number (35.01%) have already invested in technology, with 29.67% looking to follow suit in 2018.



Of those companies who have been applying a more rigorously technological approach to their C&B data process, the majority have experienced more than satisfactory results with solutions from a range of international suppliers such as SAP, Oracle and Google, as well as a growing stable of local providers. This trend of rising investment in technology ties in with companies' overall priority to make their C&B structures much more efficient and effective by building new capabilities and making more strategic and informed decisions by leveraging the data at their disposal.

As for solutions providers, the emergence of more locally-based players seems to be making a dent in the hegemony enjoyed by the two major reward consultancies. In 2017, the number one consultancy was cited 2.5 times more than the number two, with only a handful of respondents mentioning other any other providers. This year, the leading consultancy was only mentioned twice as much as its leading competitor and other providers received far more citations; this is still a sizeable share of the market, but it speaks to a growing trend of diversification as GCC-based providers improve their offerings and start to be noticed.

C&B Trends for 2018: Forging a path through unclear conditions

It's clear that much of the uncertainty that characterised the 2017 C&B report is still in effect for companies operating in the GCC. This has led to much more conservative outlooks from many respondents than could be expected after the surprisingly positive results of 2017 in these areas. VAT remains a question mark, attrition rates are up, projected pay increases are markedly down, pay freezes and reductions are predicted by a sizeable minority of our respondents, and when it comes to bonuses: confusion still reigns. The result of all this uncertainty and volatility is that many companies are choosing to adopt the "wait and see" approach before making significant changes. This is underlined by the large majority of respondents who haven't invested in data capture technologies, or adjusted their healthcare provision policies or pension offerings, or taken VAT into account regarding benefits.

Despite these unfavourable predictions, there are also a number of data-driven outcomes that signify positive changes in the landscape, and point towards more GCC companies making dynamic investments in improving their C&B structures to deliver long-term success. A crucial factor to note is that training and development investments are significantly up, which is emblematic of a growing proportion of companies' desire to combat attrition by assertively driving employee engagement in order to make them feel valued.

Similarly, more companies are actively investing in technologies to improve the efficiency and strategic value of their C&B structures. More companies are also investigating a wider range of C&B solution providers, to help them plug any technical and professional skill gaps that they may have in this area, delivering improved capabilities in both the short and long-term.

More GCC companies are also willing to expend resources to drill down into their whole C&B offering and adjust respective elements or completely redesign it from the ground up. This highlights a growing awareness of the importance of remaining flexible yet pragmatic in the face of the GCC region's continued economic volatility. As employee attitudes towards benefits change, companies will need to have a clearer idea of exactly what their staff want and how best to deliver it to them at an optimal cost. Healthcare provision remains a particularly difficult challenge in this regard, with the majority of companies relying on a far too traditional and static approach. This is one area where there simply isn't enough evidence of dynamic change occurring as of yet.

In all of these critical C&B policy decisions, GCC companies must remain proactive and openminded if they are to take advantage of the region's changing circumstances, rather than fall foul of them. Even though there are many uncertain factors that are yet to play out, what is certain is that companies that choose to do nothing are reducing themselves to the role of observers who cannot influence events; they can only be passively affected by them.

Extra sources:

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https://www.thenational.ae/business/economy/four-gcc-states-need-more-time-on-vat-imf-official-says-1.705369

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