GCC COMPENSATION AND BENEFITS EMPLOYER TRENDS 2019

A STUDY BY

Compensation and Benefits Forum

The HR Observer

GCC Compensation and Benefits Employer Trends 2019

“The whole digital and technology area is very busy and if you are in those markets there is a better chance that you are going to have an increasing salary over the course of the next year or two.”

– Chris Greaves, Hays Gulf Region

In terms of compensations and benefits, 2018 remained cautiously optimistic following on the year's C&B trends report. This was owing largely to the introduction of the VAT implementation in the GCC states. However, 2019 seems to be following a more decisive stance. The trend for the year appears to have companies preferring to offer attractive packages rather than high salary brackets for expatriates. The focus also remains steadily on hiring nationals. All in all, the GCC states are poised towards a buoyant 2019 - most especially in the digitalisation sector. Therefore, highly-skilled local talent can expect more lucrative salaries in recognition of their worth.

A brief Overview of our Methodology

Our seventh annual GCC Compensation and Benefits (C&B) Trends Report comprises the responses and insights of 564 participants drawn from a wide range of industries and HR roles. This increase in the scale of survey participants provides us with more insight into the most critical challenges and impactful trends affecting C&B in the GCC. It also allows for the sharing of their proposed strategies in this rapidly changing economic environment.

Participants have been drawn from companies located across GCC member states, the majority based in the UAE and Saudi Arabia. They represent diverse sectors, including; oil and gas, energy, healthcare, retail, construction, real estate, banking, manufacturing, education and government institutions. This year's survey consisted of 22 questions designed to discover the most crucial challenges and emerging trends currently affecting the region's C&B climate. The conclusions drawn in this report are based on the collected answers, clarifications, suggestions, proposed strategies and further insights of our respondents.

1 SALARY INCREASES, BONUSES AND ATTRITION RATES IN THE GCC: UNCERTAINTY AND CONSERVATIVE ESTIMATES CONTINUE

The majority of our 2019 survey participants feel that the year ahead is going to be a mixed bag. While 24.5% of companies expect to give only a 3.5% increase or less, 7.5% are planning to increase salaries by 4.0% and 5.7% aim to give a 5.0% increase. These are all markedly lower rates compared to 2018. However, instances of larger pay rises do seem to be on the horizon for the GCC, as 13.8% of our survey's participating companies expect to increase salaries by between 5.0%-6.5% or even higher.

The above findings are reflective of the Recruiter Sentiment Survey conducted by LinkedIn between April-December 2018 of 300 in-house HR professionals and agency recruiters in the UAE (Abu Dhabi, Dubai and Sharjah). The respondents were from 12 sectors, namely aviation, automotive, R&D, staffing agencies, retail, marketing & communications, finance, hospitality, software & IT, manufacturing, hospital & healthcare and banking & finance. More than half of those surveyed (56.0%) stated that candidates have been demanding above-average salaries post the roll-out of VAT in the region.

However, approximately 8.9% are expecting to freeze salaries and not give a pay rise, which gives a somewhat dampened outlook to the year. Although still unconfirmed, at least 5.9% are most likely to reduce salaries, which is almost one per cent point higher than in 2018.

This somewhat prudent forecast for the lower end of the potential salary increase scale may not end up being entirely representative of 2019. For example, 52.7% of this year's respondents gave salary increases of 3.5% or less in 2018, a noticeable improvement from the predicted 20.4% of respondents that were expected to give 3.5% or less as a pay raise. In 2018, 11.9% respondents gave a 4.0% increase; more significantly, 14.4% gave the second biggest increase of 5.0%. The prediction for the year had been 4.0% (9.0% of respondents), followed by 5.0% (8.7% of respondents).

In keeping with that, 10.1% gave a salary increase of 6.5% or more, although the prediction for 2018 was that 4.0% would give 6.5% or higher. Salary increases in 2018 were actually higher than predicted at the beginning of that year. However, the fiscal forecast for 2019 as compared to the previous year is more varied. More companies are predicting increases below 3.5%, at 4.5% or at or above 6.5%, than in 2018. In contrast, fewer companies predicting increases of 4.0% and between 5.0%-6.0% for 2019 compared to 2018. Apparently, some companies are optimistic in face of a higher increase given the pay freeze over the last few years. Some others though, are being cautious due to the economic challenges ahead.

Mercer's Total Remuneration Survey revealed a similar sentiment as it found that salaries are projected to increase by 4.8% in 2019 in the UAE across all industries, particularly in consumer goods and high-tech industries. The energy industry, previously the highest paying, is seeing a downward shift. The survey also noted that the GCC nation's salaries across all sectors increased by 4.5% this year, with the highest rise reflected in the life sciences industries (5.0%).

The Middle East Salary Survey 2019 by global recruitment firm Robert Walters found that Saudi Arabia will see stronger salary growth at 2.0% on average across all fields. Growth in hiring will be highest in Kuwait City, Riyadh and Dubai.

Bonuses and Attrition Rates

Predictions regarding the state of bonuses in 2019 had 24.7% categorically state they will not make a bonus payment for 2018. This is a definite statement compared to the uncertainty witnessed in 2018. It must also be stated that 11.9% said they could not definitely say what would happen. Only 20.4% paid out bonuses at the same level, while a greater number of lower bonus payments than before were mentioned by 17.2%.

One outcome from our survey is that attrition rates are currently much higher at the beginning of 2019 compared to early 2018. This year, 49.1% of respondents experienced 5% or less attrition, while 23.2% suffered a rate of 10% or higher. This is an increase from 2017 to 2018 and again to 2019. Almost identical to 2018, 38.1% can lay claim to an attrition rate of 4% or less this year. Muddying the waters somewhat, it is dismaying to learn that 9.2% are not aware of their rate of attrition.

The increase in attrition figures coupled with the precarious state of bonuses can be laid at the door of a still fluid market facing the implementation of VAT and, even more, artificial intelligence (AI.) Digitalisation is expected to be at the forefront in 2019. As companies increasingly turn to automation, this is expected to impact jobs in the healthcare, transport and finance sectors. The fastest AI growth is predicted in the UAE, followed by Saudi Arabia. The UAE Strategy for Artificial Intelligence forecasts that Dubai will become a world leader in AI by 2031, generating up to US$90 billion in extra growth.

“For countries such as the UAE, Bahrain and Kuwait, the projected proportion of work, and by extension workers, displaced, is higher than the projected global average.”

– Jan Peter Moore, Associate Partner, McKinsey & Company

2 THE QUESTION OF VAT: THE GCC ADOPTS VIGILANT ATTITUDE

“It is interesting to see that despite the introduction of VAT, the UAE job market and workforce appears to remain confident, according to the latest findings of the LinkedIn Recruitment Survey. However, the new tax does appear to be putting added pressure on businesses as candidates demand higher salaries to compensate for the increase.”

– Ghassan Talhouk, Head of LinkedIn – UAE, LinkedIn Talent Solutions

The process of VAT implementation in the GCC has started, but its slow progress across the region means some member states still need time to make the necessary economic, political and technical preparations and adjustments. The UAE and Saudi Arabia implemented VAT in 2018, while Bahrain rolled out its VAT policy with effect from 1 January 2019.

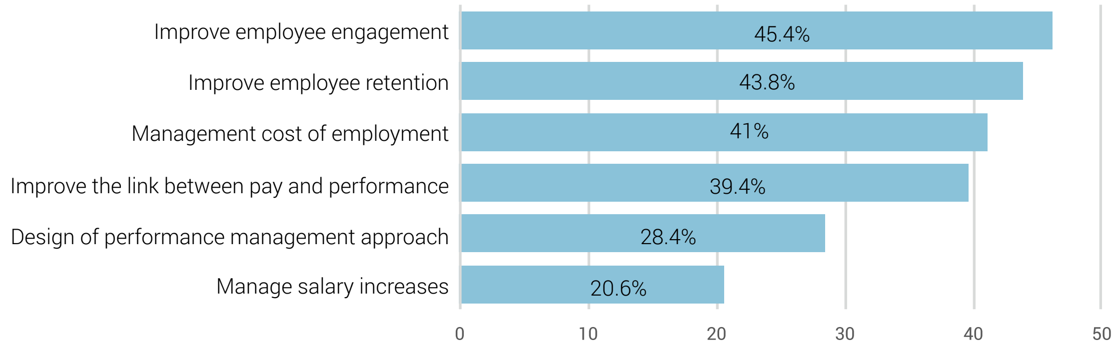
Therefore, it is perhaps not surprising that the rather guarded approach we saw in the data of last year's report is still present in early 2019. As compared to 2018, 80.0% did not make salary adjustments in 2018 to reflect VAT and 8.3% said they didn't know. A further 69.2% will not be revising salaries in 2019 to reflect VAT, while 19.2% are still unsure of what the year holds.

Similarly, 86.0% said that they will not revise the benefits elements of their pay structure to take VAT into account. Some companies among the other 14.0% 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. This is in order to find the most attractive way to balance total rewards versus individual benefits. These include allowances and benefits for housing, utilities, private education, transportation, phone, etcetera, depending on their VAT status.

This trend is symptomatic of the still precarious state regarding VAT and its potential impact on the GCC economic landscape. Interestingly, despite the VAT, recruitment has seen an increase, notably in the hospitality and IT sectors, while positions most in demand from employers are in the tax and finance sectors.

3 AREAS OF FOCUS FOR THE C&B COMMUNITY IN 2019: LOOKING AHEAD AND DOING MORE WITH LESS

Top 6 Focus Areas



" Most companies today start focusing on attracting the best calibres in the market due to the level of competition and quality of people. In fact, today, they want to get as much as they can from the market share to survive in the market due to the dramatic changes in the economy. Therefore, they will review their C&B to be more attractive and increase their employee retention as well. "

– survey respondent

The above data demonstrates that five of the top six areas of focus for 2019 remain relatively unchanged from 2018. This year is more about getting the most out of the employees. In this context, it should be kept in mind that retention is key, as increased turnover increases costs and reduces productivity. Companies need to find concrete methods to keep their employees engaged, as low morale and engagement translates to low productivity. The fact that **improving employee engagement** has improved from to 46.1% in 2019 (from 45.3% in 2018) to remain the top area of focus demonstrates that GCC companies are still committed to looking beyond the bottom line. Increased engagement leads to higher productivity and sales and the GCC is taking cognisance of this fact.

Related to this is the increased focus on **improving the link between pay and performance**, which rose slightly to 39.4% this year from 36.8% in 2018 - a small yet heartening outcome. As 2019 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. Indeed, a Gallup article published in November 2018 indicates that companies are also moving to the "employee experience" - which is the sum total of an employee's life cycle including the manager, role, team, workspace and wellbeing. Employee engagement continues to remain crucial, as engaged employees generate most of the creativity, innovation as well as excellence in any organisation. Engagement is at the centre of the employee life cycle and increasing such engagement is the responsibility of managers. Gallup's analysis showed that a manager accounts for 70.0% of the variance in team engagement.

Given the hike in attrition rates that GCC companies are currently experiencing, the increased focus on **improving employee retention** (up to 43.8% from 41.4% in 2018) is a predictable outcome. The continued volatility of the region's economic landscape is coupled with the fact that more ambitious companies are looking to use the situation to attract top talent. In effect, this means that retention will continue to be a key priority in the face of rising attrition.

The greater importance of managing the cost of allowances, up from 18.9% in 2017 to 27.5% in 2018, is no longer an issue in 2019. The focus now is more on the design of **performance management approach**. However, many respondents still referred to the need to cut costs.

While there is much that is familiar about the C&B focus areas this year, there is also plenty of change to acknowledge and anticipate. Although the majority of respondents stated that 2019 is looking similar to 2018 in general C&B terms, 29.2% see differences/new trends emerging. Some of these interesting trends include:

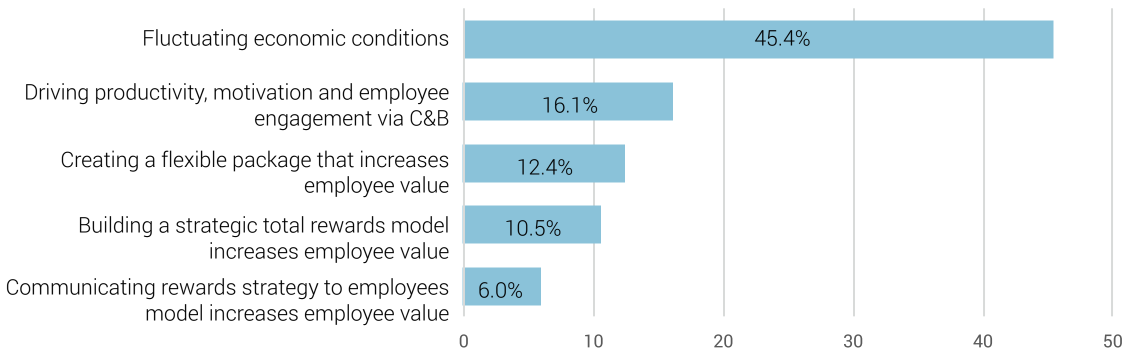
- HR transformation (new operating model)
- Inclusion of non-monetary offerings like learning and development

“For years HR has been saying to employees, that they are responsible for their own development. We have espoused that managers should coach their people. The reality is that we often do not allow time for people’s self-development, and most managers are not capable of coaching their people. Training of employees and in particular management skills, will return. HR has neglected the development of organisational managers for too long. HR teams will get smaller (since) we are increasingly automating our HR processes. The role of HR will change. To be successful for a career in HR, we need to ensure that HR people are not just competent in the traditional things, but are IT literate, that they are comfortable with data analytics and that they understand company politics.”

– Mike Morrison, Consultant and Founder/Director, RapidBI

4 CRITICAL C&B CHALLENGES FOR 2019

Top 5 Challenges Facing C&B In 2019



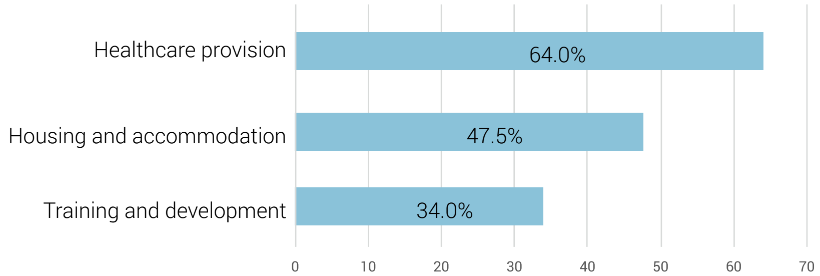
In 2018, 48.9% of our survey respondents cited **fluctuating economic conditions** as the biggest challenge that they faced when trying to manage total rewards to effectively determine their C&B strategy. In 2019, this figure now stands at 45.4%; reduced, but still holding true for the year. With market changes outlined in previous sections still ongoing, this challenge 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 16.1% of participants in our 2019 survey. This aligns with companies’ increasing desire to make employees feel more engaged and improve the link between performance and pay. This is further borne out by the 12.4% companies **willing to create flexible packages that increases employee value**. Although **building a strategic total rewards model** dropped to fourth place for the year, it is still at a substantial 10.5%, aligning with the current emphasis on redesigning more effective C&B structures in the face of VAT implementation.

All of the other leading challenges cited by our survey participants claimed less than 10.0% of the responses. However, it is interesting to note the drive towards strategic total rewards (design and communication). At one of the high spots for 2019, this 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 2019 and which remain similar to 2018 albeit with a slight decrease are:



Healthcare provision was the most significant reward spend difficulty in 2018. Identified by 68.6% as the most expensive area of C&B, it was a far greater number than any other single expense that year. This year, 64.0% marked it as their highest spend in the C&B area. This trend seems likely to continue for the next 3-5 years.

Again, still holding true in 2019, **very few** GCC companies are looking to embrace wellness programmes for improving employees' overall health and subsequently reducing their reliance on healthcare provision. It is possible their focus may be on transportation and travel; governmental fees; and salaries, rather than healthcare for employees. A plausible reason for this could be that local citizens already have free – or almost free – access to healthcare. Since the focus is on nationalisation in terms of recruitment, wellness packages for expatriate employees are not at the high end of the scale for many employers.

Employees' Changing View on the Value of Benefits

Most employees still value basic pay more than benefits in 2019 according to 64.4% of our respondents, which has slightly increased from the 62.9% that was recorded in 2018. Clearly, attitudes in 2018 were a precursor for 2019, with 53.0% of companies feeling their employees now value benefits more than they did in the past. Another 16.0% think that employees value them less and 31.0% say that perceptions haven't changed.

Much like 2018, the predicted lack of low level salary increases is coupled with companies' heightened desire to improve employee retention. This suggests that in 2019, 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. It strongly suggests that companies who are designing better benefits offerings are enjoying some success in terms of changing attitudes. This, in turn, makes their employees value benefits more than they did previously.

Pensions: Potential Growth in 2019

> “Many people are used to having their retirement planning effectively handled ‘automatically’ through workplace pension schemes for example and don’t realise that just isn’t the case in the Middle East.”

– Chris Ball, Managing Partner, Hoxton Capital Management

The vast majority (81.2% as of 2019) of GCC companies are still not offering their employees any kind of private pension option. 10.5% are considering the possibility of developing a scheme, leaving only 8.3% of employers who currently offer one.

Some companies offered a pension plan for local nationals only and are now exploring options to offer a pension (or equivalent) to expatriate employees. While pensions are clearly low on the priority list, they could gain a much more visible presence in the C&B landscape this year. It would be dependent on a sizeable portion of the 10.5% of companies considering such an option, to fully develop and implement their plans.

5 CHANGES IN THE C&B TECHNOLOGY AND SOLUTION PROVIDER MARKETS FOR 2019

Emerging technologies and the increased presence of highly responsive professional C&B solution providers are having a significant impact on GCC companies’ HR function. More than a third of respondents continue to utilise only Microsoft Excel to capture and analyse their data in 2019 (31.9%). However, a good number (44.7%) have already invested in technology, with 23.4% looking to follow suit in 2019.

The majority of companies who have been applying a more rigorously technological approach to their C&B data processes have experienced satisfactory results. Solutions range from international suppliers such as Oracle, SAP/Success Factors to a mix of local or in-house solutions in the majority of cases. No particular clear trend is visible. 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. More strategic and informed decisions are being made by leveraging the data at their disposal.
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. In 2018, the leading consultancy was only mentioned twice as much as its leading competitor, with other providers receiving more citations. In 2019, however, no particular mention was made of the big global consultancies.

C&B Trends for 2019: Cautious but Positive Outlook

The outlook for the year remains slightly guarded, with 51 respondents saying they wished for better – or more – benchmarking in terms of internal HR data. Of those surveyed, 43 respondents were actually looking to improve pay-related issues in terms of giving pay raises. A further 37 respondents openly discussed how they’re ready to advance or change their career and 30 respondents contemplated higher budgets and ways to control costs. 27 respondents looked at implementing specific benefits (either offering more or making them flexible to meet employee needs) while 23 respondents were looking at better systems to manage data. Eleven said they were looking at better ways to do analytics. A further 21 respondents referred to creating a C&B structure, asking for it to be aligned to the market or competitive, while 19 respondents mentioned having a strategy in place. Only one respondent of the survey actually seemed to be satisfied with the current C&B scenario.

In noteworthy development of 2018, employees in the UAE were also allowed to officially work part-time **and** to work for more than one employer at the same time. In terms of pensions, the UAE is advancing in addressing the issue of financial wellness. Dr Abdul Rahman Abdul Manan Al Awar, Director-General, Federal Authority for Government Human Resources, said authorities were conducting studies to improve the end-of-service benefits system, particularly as the age of retirement has increased. The benefits will likely include an enhanced gratuity system and private sector savings scheme. However, he did not provide a timeline for the implementation of such improvements.

In the many C&B policy decisions that need to be taken, GCC companies must remain proactive in spite of the challenges or uncertain factors. If they choose to confine themselves to the role of observers, it will work to their detriment in the long run. Governments are moving to take control of the future – and corporates need do likewise in order to remain relevant in the changing C&B scenario of the Gulf region.

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Agni Skafidas has spent over 18 years in general and specialised HR roles in the Middle East, Europe, the UK, the US and Asia. Her wealth of knowledge in HR, project management and coaching have driven her success and commercial understanding. Being recognised for her achievements, Agni had the opportunity to lead HR teams in operational and strategic roles and served as Director, Total Rewards for APAC and Emerging Markets based in Dubai before founding OLAM.