

# Regional Human Resource Overview

January, 2008

## A Stakeholder's Reference



## Executive Summary

The Middle East region is developing at a rapid pace outstripping growth in most developed nations. One of the key challenges faced by businesses in the face of competition is not only maintaining but engaging and developing their most vital asset – their personnel.

As businesses struggle to maintain profitability and employees struggle to cope with cost of living increases, the falling dollar has added fresh stress on already strained regional economies.

It is against this backdrop that Bayt.com and YouGovSiraj conducted their second Regional Human Resource Overview, with a view to helping employees and businesses better understand the ever changing market dynamics.

The research sets out to measure the following:

- An indication of the average salaries across the region
- The composition of the talent pool at the disposal of employers (from a number of years of experience perspective)
- The cost of living challenges that are perceived to be in place by employees and their action plan if any, to combat inflation.
- Job and career cycles

It is reassuring to know that whilst people do perceive their cost of living to outpace their earnings or earning potential, there is a general perception by most who are employed that they are doing at least slightly better than their peers in their country of residence. However, unrest is apparent by the large number of people who sift the job market either in search of new companies in their industry or even consider a change in industry or country of residence in an attempt to bridge the gap.

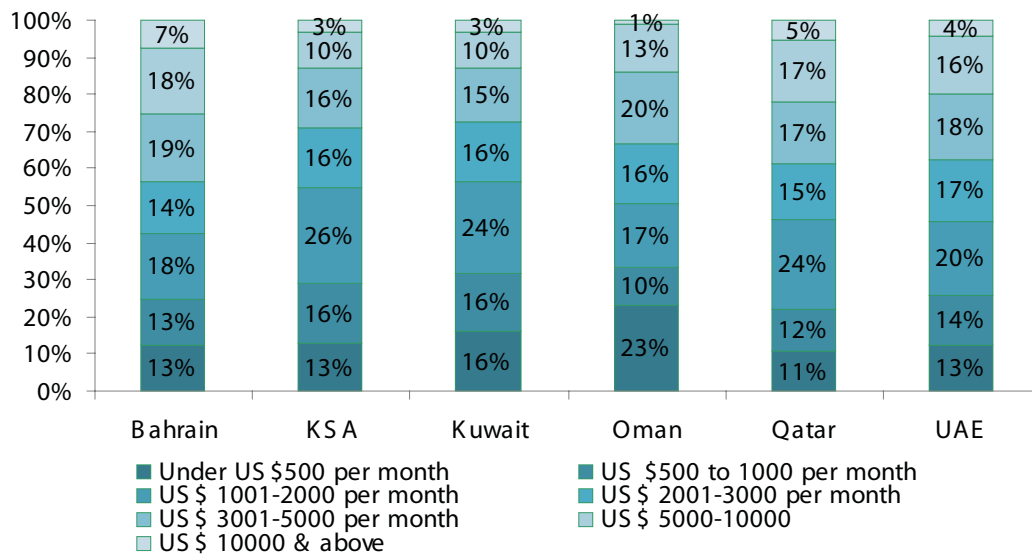
It comes as no surprise that Western nationals are commanding significantly higher salaries than most other nationalities in the region. However, the markets seem to be observing positive corrections with all other nationalities reporting better raises and with anticipation of further improvements in salaries over the next 12 months as compared to Western nationals.

It is easy to get lost in the stream of macro and micro economic indicators continuously released by various bodies internationally and across the region, but when we are talking about people, perception is reality. This essentially means that employers not only need to manage their employees, but there is also a need to manage their perceptions. This is especially true against the backdrop of general consternation in the face of ever increasing demands on people's purses.

## The State of Salaries

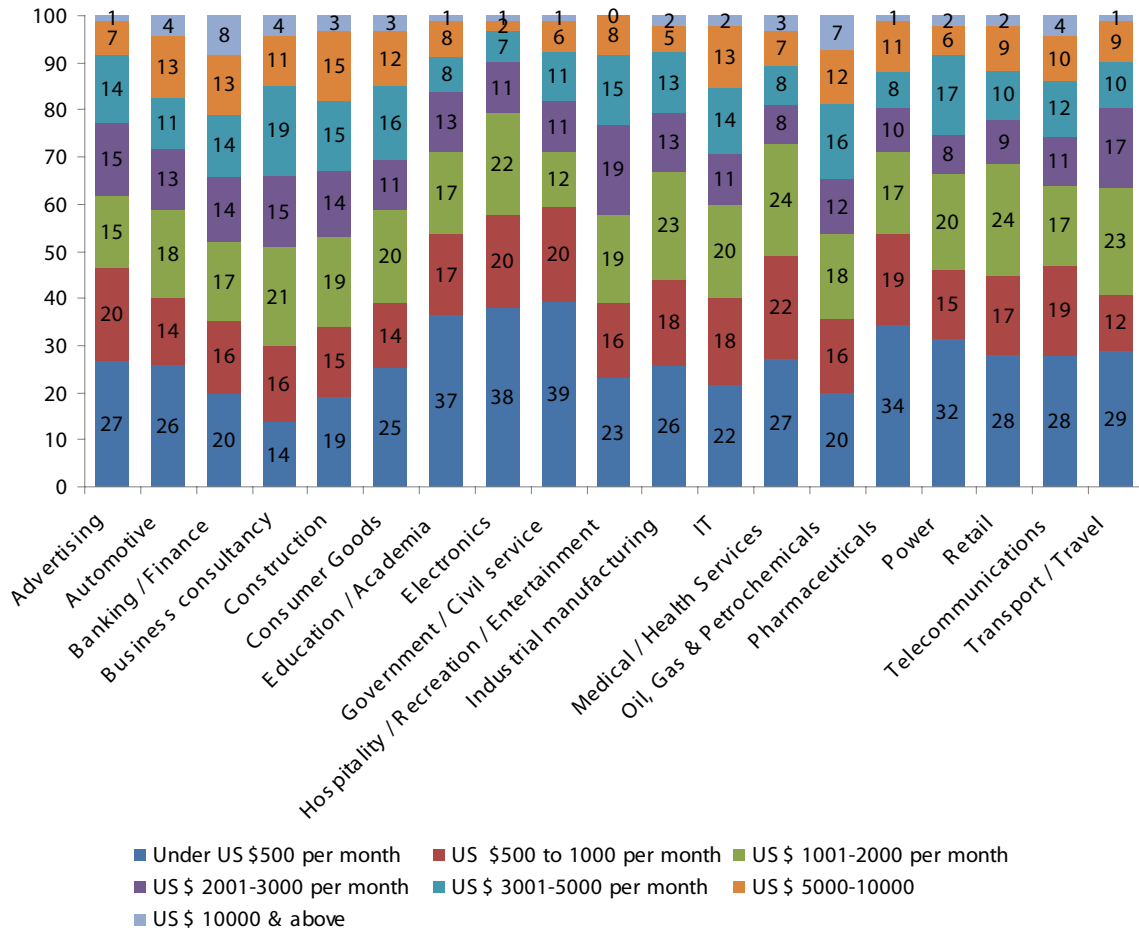
On average salaries in the GCC region are generally comparable. The distribution of salaries is also similar, apart from Bahrain, which seems to have a higher percentage of high earners. This is probably driven by a higher proportion of national employees as a percentage of the overall workforce.

Salaries by Country

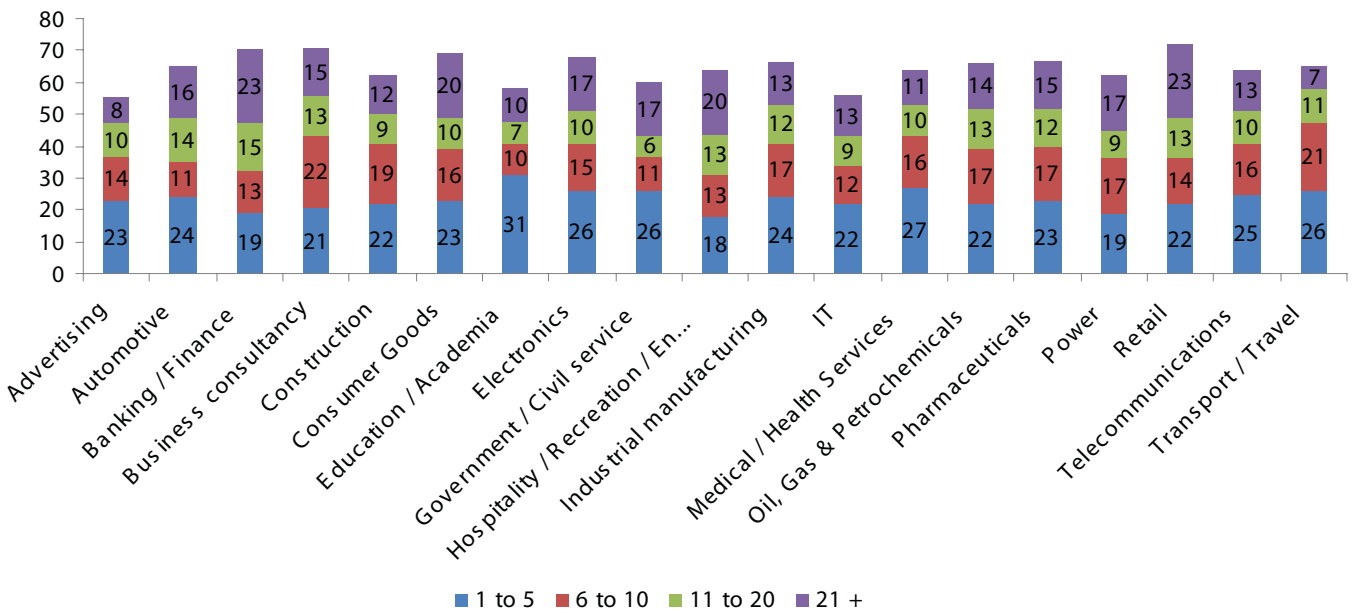


That said, not all industries are created equal. No surprise that bankers emerged at the top of the salary scale particularly as this industry increases in importance, maturity and competitiveness on a global scale across the region. Education & Academia came out close to the bottom putting paid to an age old discussion about this very vital stratum of society being grossly underpaid and in turn the industry not necessarily always attracting the best or most qualified talent over the long run. Benchmarking your company's average against your industry will give you a good idea of how competitive you are. This may very well give you bragging rights with your employees, an important tool in the perception management toolbox.

Salaries by Industry



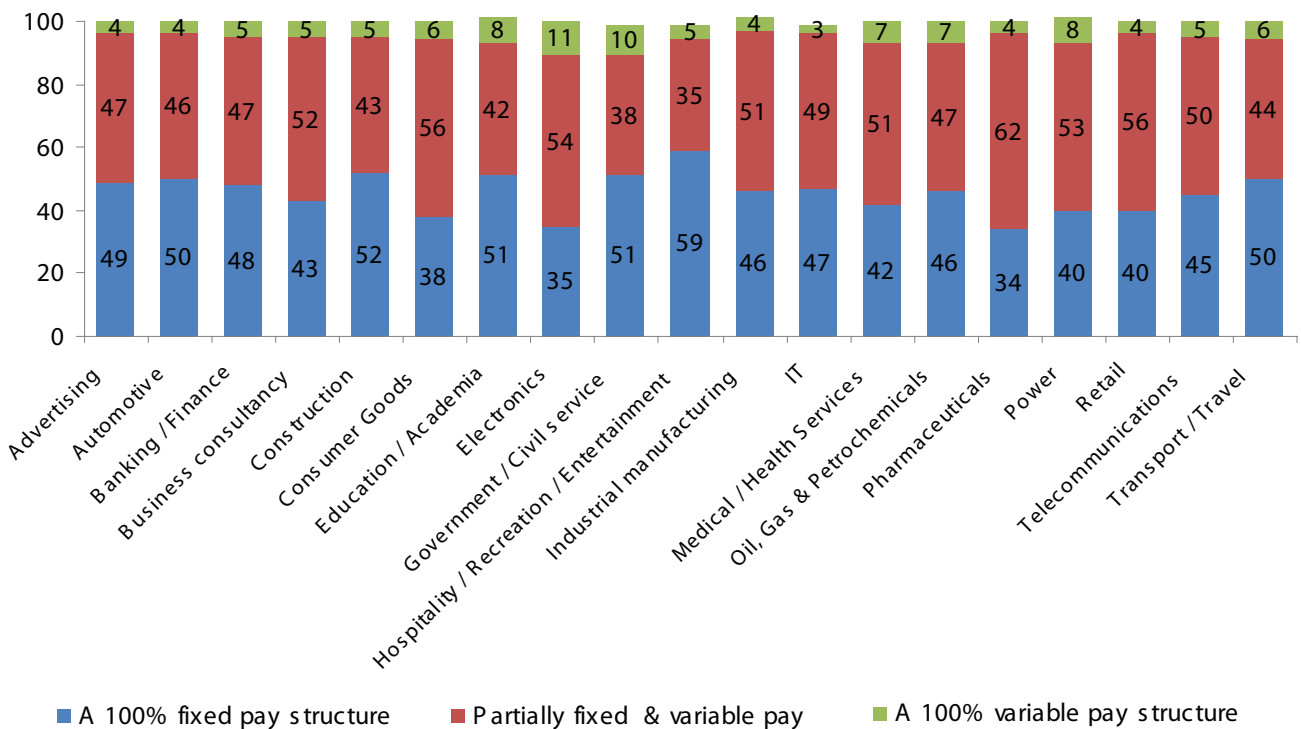
Proportion of total annual household income received in bonus, commissions, incentives



In terms of the structuring of total compensation, The Banking and Finance and Retail industries received the highest proportion of variable income in the form of bonus, commissions and incentives with 23% of respondents in both industries asserting that this portion of income accounts for over 21% of total income. Business consultancy and consumer goods also registered relatively larger proportions of income in the form of variable pay.

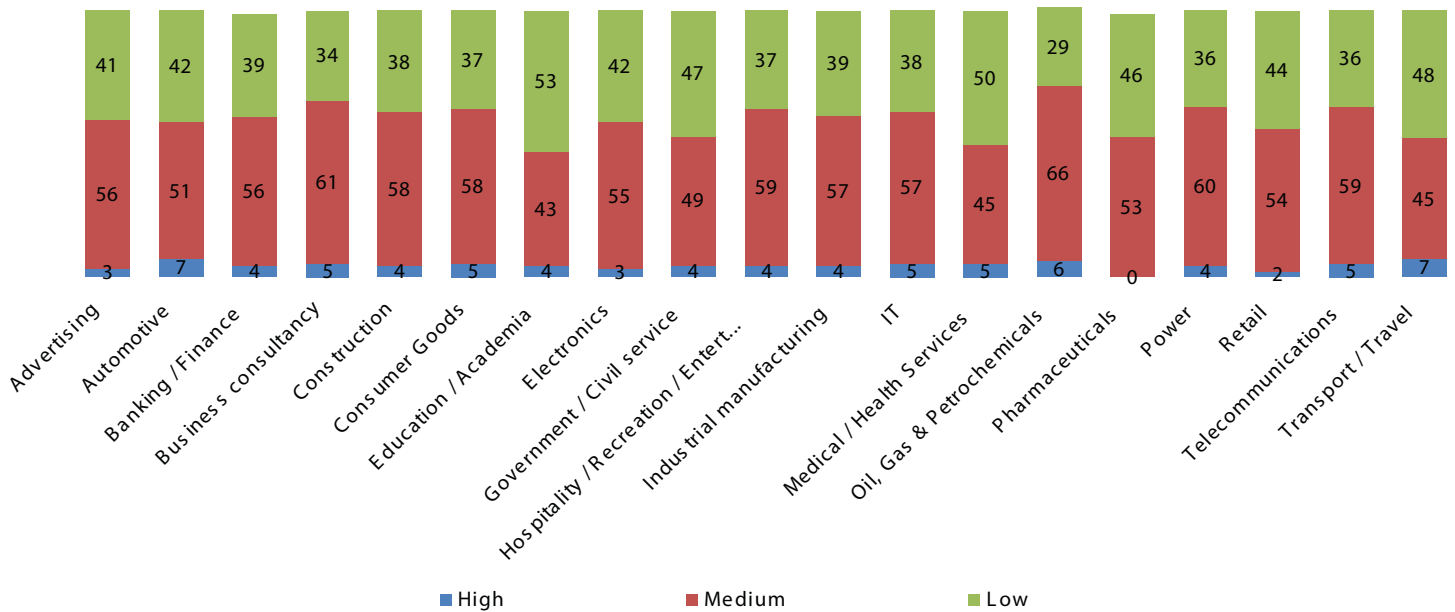
When asked about preferred pay structure however the split was pretty even between those preferring a 100% fixed versus a part fixed/part variable pay structure with 46% of total respondents favoring the former and 48% favoring the latter. Performance based incentives and the provision of professional training and development courses were substantially more popular than stock options, commissions for business and revenue generated and holiday allowances or foreign trips as potential incentives to be included in compensation package in lieu of pay. 55% and 43% respectively expressed favor for performance based incentives and the provision of professional training and development courses whereas stock options, commissions for business and revenue generated and holiday allowances or foreign trips received 19%, 20% ad 23% responses in favor respectively. Gulf nationals were the most prone to favoring professional training and development courses with 51% of all Gulf nationals (versus 45% of Levant nationals , 42% of Western nationals, 41% of North African nationals and 38% of Asian nationals) citing these as a positive inclusion in their total compensation package in lieu of a proportion of salary.

Preferred Pay Structure

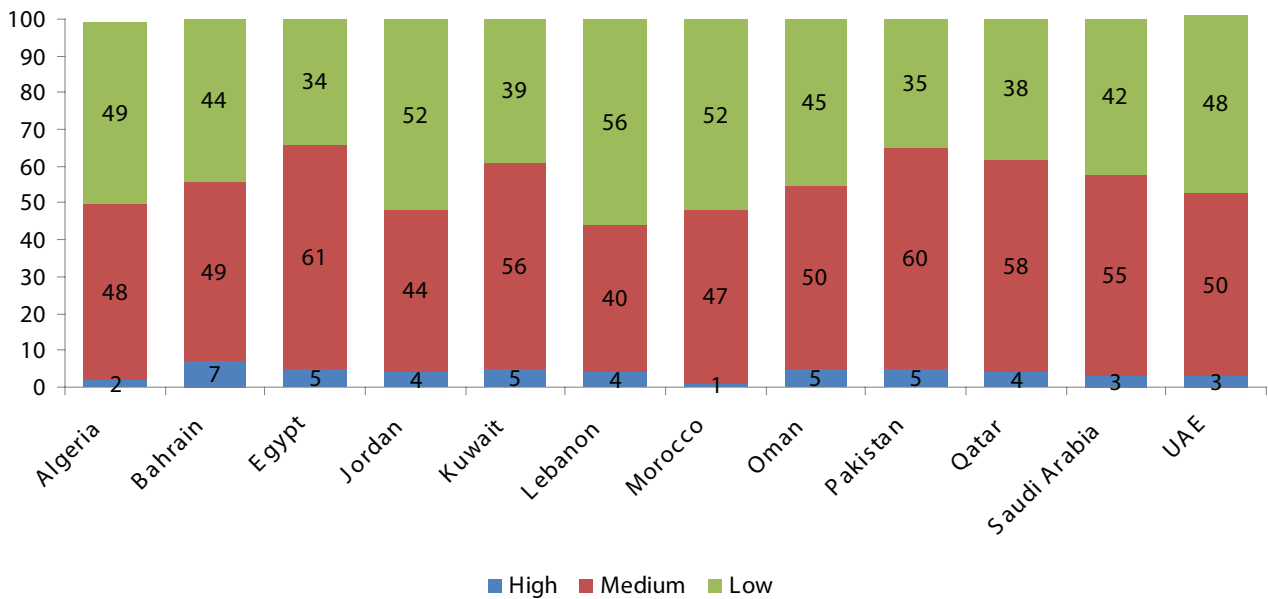


At current salary levels, across countries and industries, people still feel there is room for improvement with a negligible proportion of respondents claiming they are highly satisfied (4%) and the number of moderately satisfied professionals only moderately higher at 55% than the number of unsatisfied professionals at 41%. The highest satisfaction levels were registered in the Oil, Gas and Petrochemicals industry and the highest disgruntlement levels were seen in the Education/Academia and Medical/Health Services industries.

Current Salary Satisfaction: by Industry



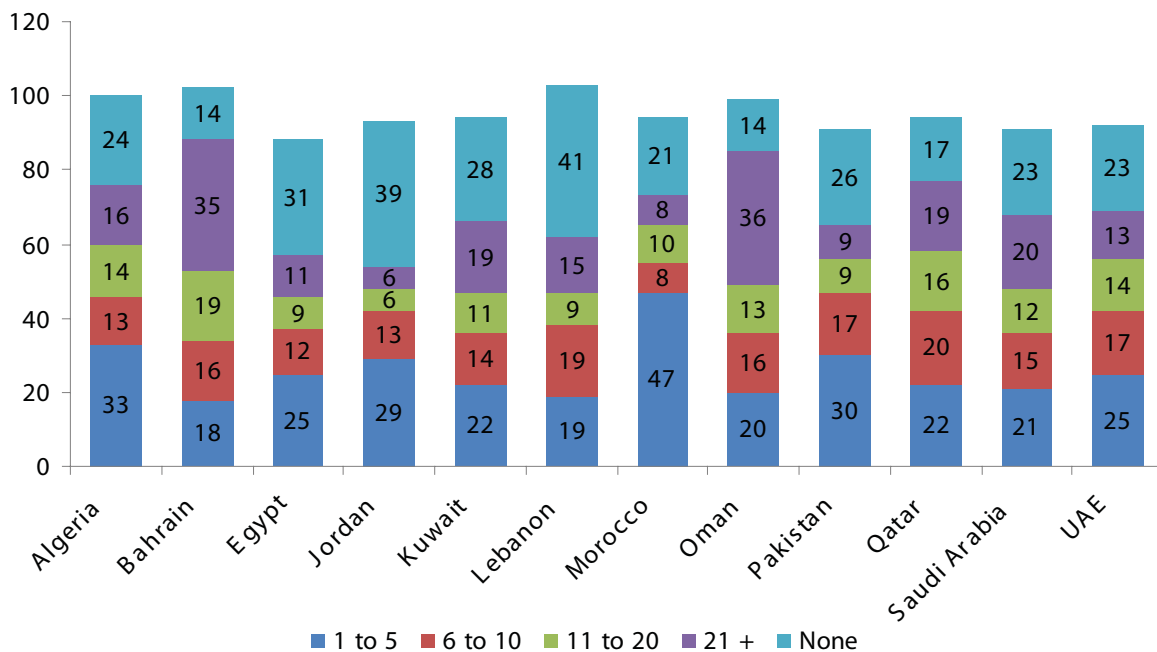
Current Salary Satisfaction: by country



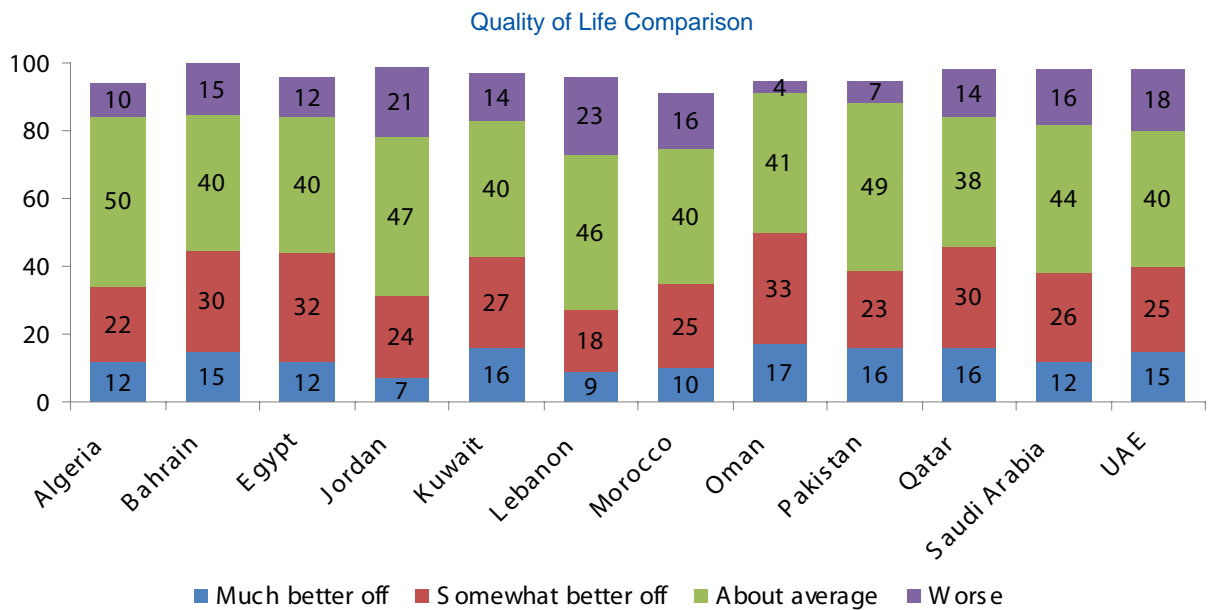
Residents of the Levant Algeria and Morocco registered the lowest salary satisfaction levels but UAE did not lag far behind with a substantial 48% of residents indicating their satisfaction with their current salary is low. In the GCC, residents of Kuwait and Qatar were least likely to indicate low levels of salary satisfaction with 39% and 38% of residents of these countries respectively registering low satisfaction levels. In the GCC as a whole only 3% of total residents indicated a high satisfaction level with current salary levels, 53% indicated medium satisfaction and 44% registered low satisfaction. Gulf nationals registered the highest incidence of low salary satisfaction at 49% of total Gulf nationals surveyed, and Western nationals registered the highest incidence of high salary satisfaction at 11% of the talent pool. In terms of gender split, 40% of men indicated low salary satisfaction levels versus 51% of women, suggestive perhaps of earnings disparities between them.

The sources of the disgruntlement can perhaps be understood by studying savings levels across the region. 24% of total respondents are unable to save any income at all. Oman, Bahrain, KSA, Qatar and Kuwait registered the highest incidence of savings rates above 21% of total income with 36%, 35%, 20%, 19% and 19% of total respondents registering savings in that bracket. The UAE registered a 13% savings rate in that bracket but a 23% incidence of people unable to save at all. Lebanon, Jordan and Egypt registered the highest incidence of a 0% savings rate and Bahrain and Oman registered the lowest. In terms of nationality groups, Gulf and Levant nationals registered the highest incidence of zero savings at 32% respectively and Western nationals registered the lowest incidence of zero savings at 12% of total respondents. 17% of Asian professionals surveyed indicated a zero savings rate.

Percentage of Income Saved



When asked how they perceive they are faring relative to peers in their country of residence. most people consider their situation to be about average vis-à-vis their peers. Oman, Bahrain, Egypt, Kuwait & Qatar reflected the highest satisfaction levels with current salary vis-a-vis their peers. The UAE & KSA recorded the lowest satisfaction levels in the GCC on a comparative basis. Generally, again, this question showed that there was room for improvement in salaries across countries. Needless to say steps need to be taken to avoid a further slip in perception.

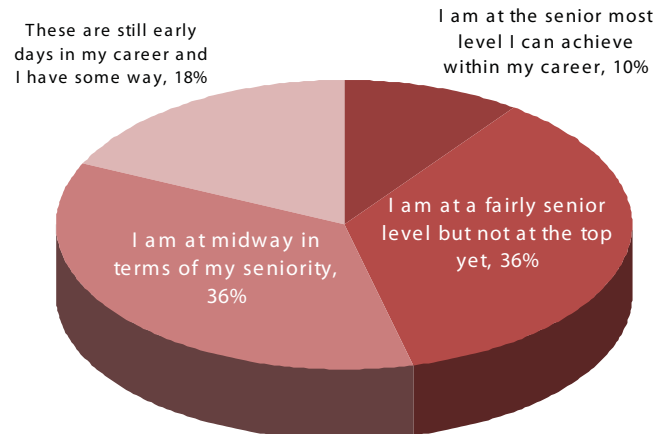


## The Talent Pool: Composition and Loyalty

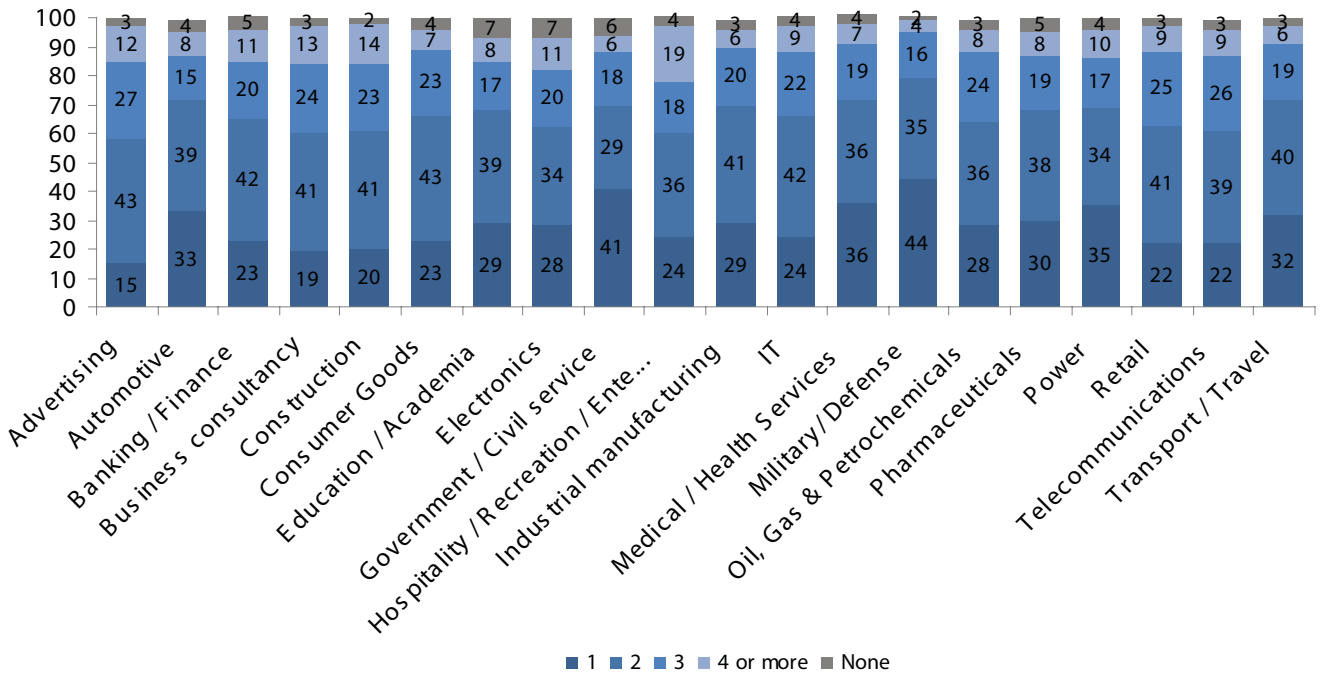
Like all other facets of one's business, human asset resourcing requires a certain amount of detailed planning. Not surprisingly, the more senior the requirements, the smaller the talent pool available.

That said, the average amount of time spent in one career path in the region is 8.78 years, and those that deem themselves "fairly senior" average 11.3 years, not far behind the average of those that deem themselves at the top of their career which is 11.88 years. Those who have spent 7.8 years on average consider themselves to be midway through their current career path. The experience pool varies by country & industry but the highest proportion of people find themselves midway to fairly senior in their respective professions.

Level of Professional Seniority

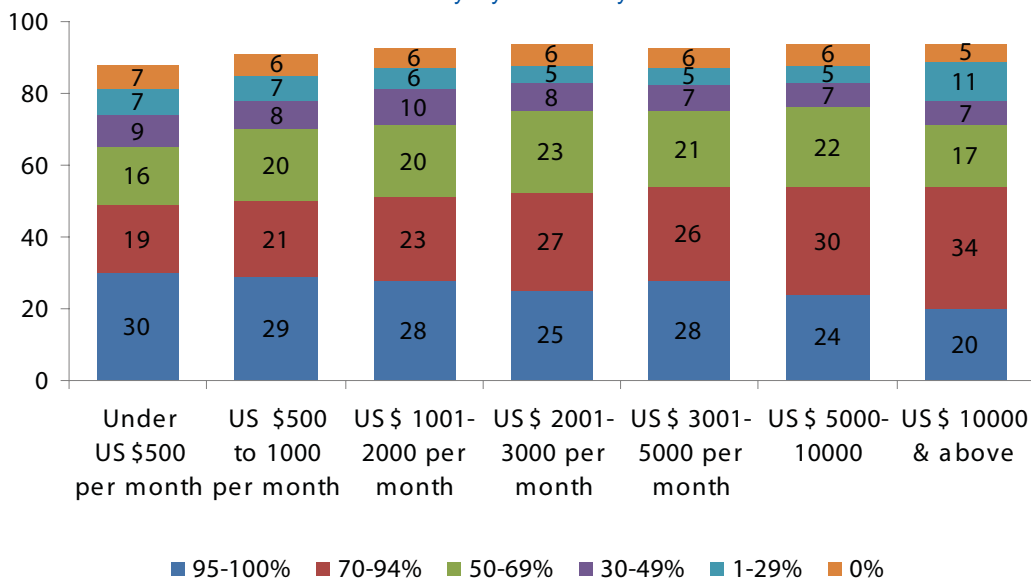


Number of Jobs Held in the Past 5 Years



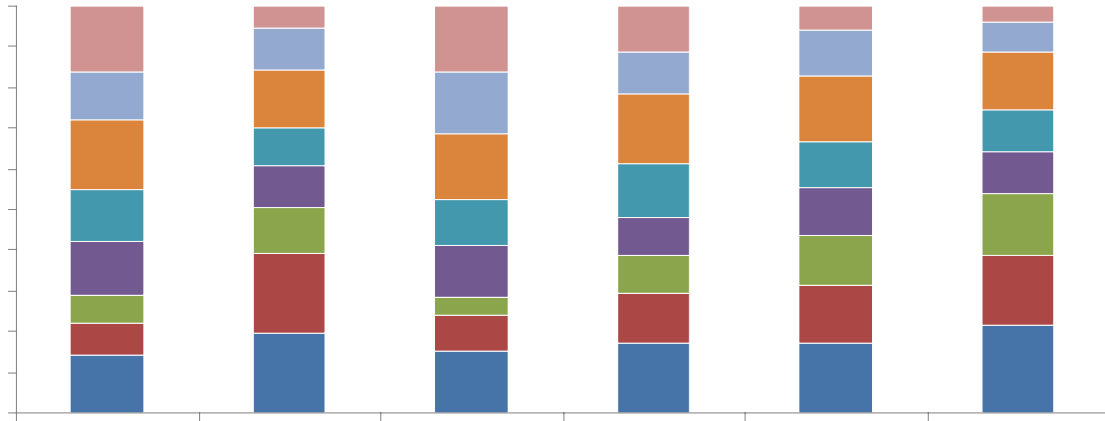
Fairly large levels of churn are however apparent with 71% of respondents saying they have held 2 or more jobs within the past 5 years. This level of churn means that whilst there is an influx of talent available in the market, employers face a challenge in retaining staff. Loyalty however improved visibly with income. 28% of respondents indicated that their loyalty was 95-100% linked to pay; 23% indicated that their salary was 70-94% linked to pay and 19% indicated that their salary was 50-69% linked to pay. Only 6% of respondents asserted that their loyalty was definitively not linked to pay. This is of particular interest when looking for new talent, and identifying potential sources. Asian nationals comprised the group with the highest incidence of loyalty linked to pay in the 95-100% bracket, and Gulf nationals represented the lowest levels of loyalty linked to pay with 8% indicating that loyalty was NOT linked to pay.

Loyalty versus Pay





Number of years of service in the present Career path



Industry specific data shows the challenges for the various industries. Industries with lower entry levels are ones that need to concern themselves with development at that end, due to the longer term implications.

Level of Professional Seniority

Regardless of the presence of other factors beside pay driving loyalty towards jobs and companies, cost of living pressures are affecting the talent pool quite considerably. When asked on their plans to improve their situation, a significant number of people in the region (UAE included) said they would consider relocating (in the next 12 months), but more surprising was the fact that quite a high percentage of people were even considering career switches. Whilst those in higher income groups favored starting their own businesses or changing jobs in the same industry, it was those on the lower end of the income spectrum who were re-evaluating their industry as a whole. On a long term basis this cannot bode well for low paying industries in the region.

There are two ways to view this:

- Opportunity: Broadening talent search to other industries and locations is likely to yield positive results
- Threat: Does your industry suffer from lower than average pay scales or have more difficult working conditions? If the answer to either is yes, then better strategies need to be in place to hire, retain and motivate top talent.

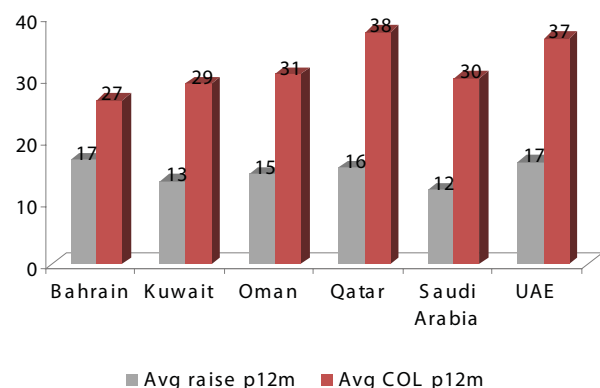
## The Cost of Success

Everyone everywhere is talking about this, whether it is soaring rents, high education costs, or the price of a drink or dinner at your local beach cafe. Speculation on whether regional currencies will unpeg with relation to the dollar are also rife and together, they've replaced the weather as a conversational opener. Interestingly enough, there is little consistency in terms of real data as to how much inflation in the countries across the region is.

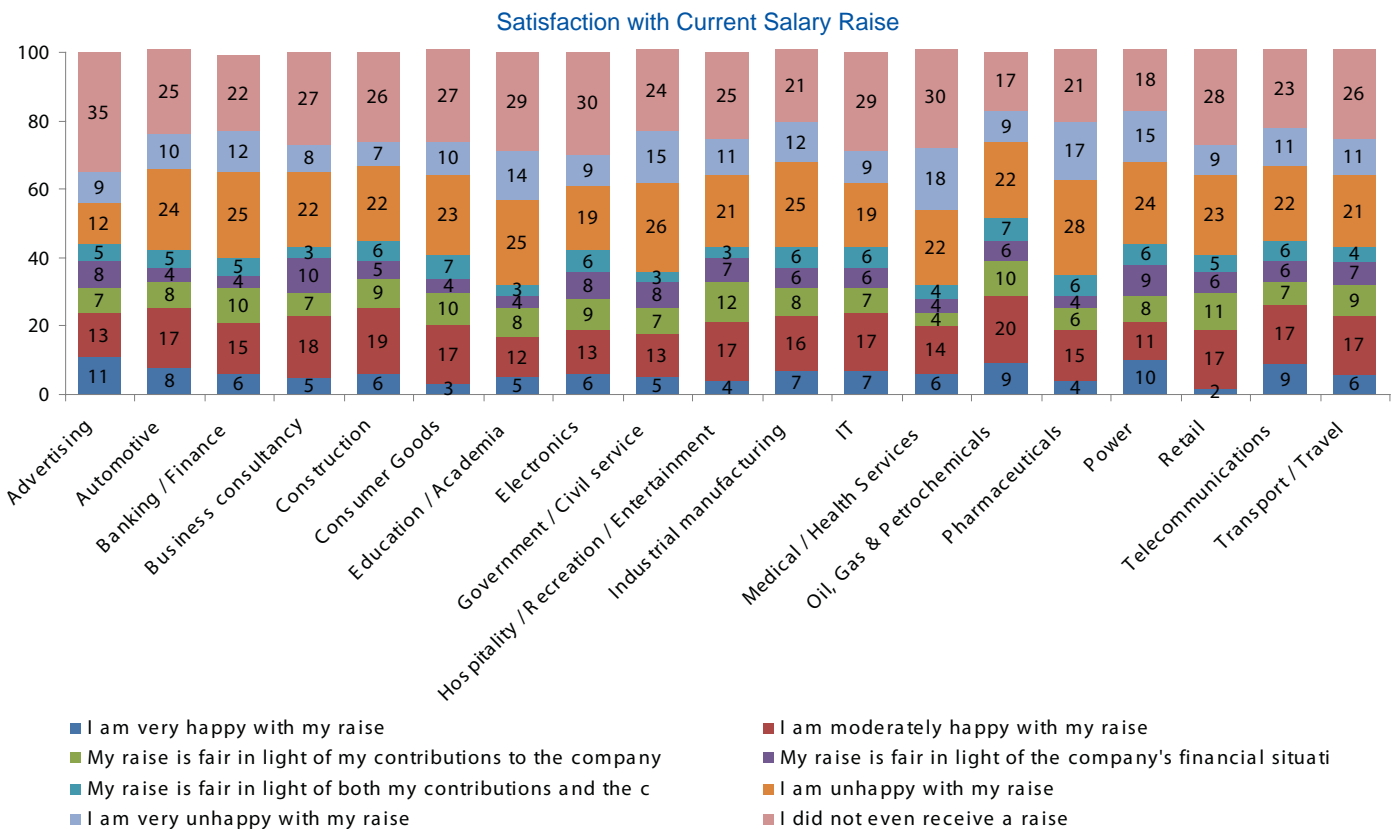
The survey showed a stronger than expected level of rise in wages across the region. However, these are wiped out across the region by perceived increases in the cost of living.

Qatar succumbed to the highest inflation rate as indicated by the survey with raises at an average of 16% not matching the perceived cost of living rise of 38%. The UAE, Oman and then Saudi Arabia closely followed suit at 37%, 31% and 30% respectively. Our data suggests that the rising cost of living is everyone's issue to varying degrees especially to the extent that it is offset by lower salary rises in all the countries surveyed. The differential between cost of living increases and raises over calendar year 2007 range from 22% in Qatar to 10% in Bahrain with UAE, KSA, and Kuwait registering 20%, 18% and 16% respectively. Average salaries rose in the 12-17% range for the countries surveyed across the region while average cost of living increases registered in a range of 27% – 38%.

Raises Versus Cost of Living Increases 2007



Quite a large number of people across the countries surveyed are either unhappy with their raises or didn't receive a raise at all. 26% of total respondents in the GCC region indicated they did not get a raise in the past 12 months compared to 25 in the Levant and 17% in North Africa. Among nationality groups 26% of Gulf nationals indicated they did not get a raise over this time period as compared to 27% of Levant nationals, 22% of North Africans 21% of Western nationals and 18% of Asians. Females were less likely to get a raise over this period with 27% of total respondents getting no raise versus 27% of all male respondents. Entry level professionals were also significantly less likely to get a raise, with 32% of those indicating they are in the early stages of their career receiving no raise at all over the 2007 calendar year.

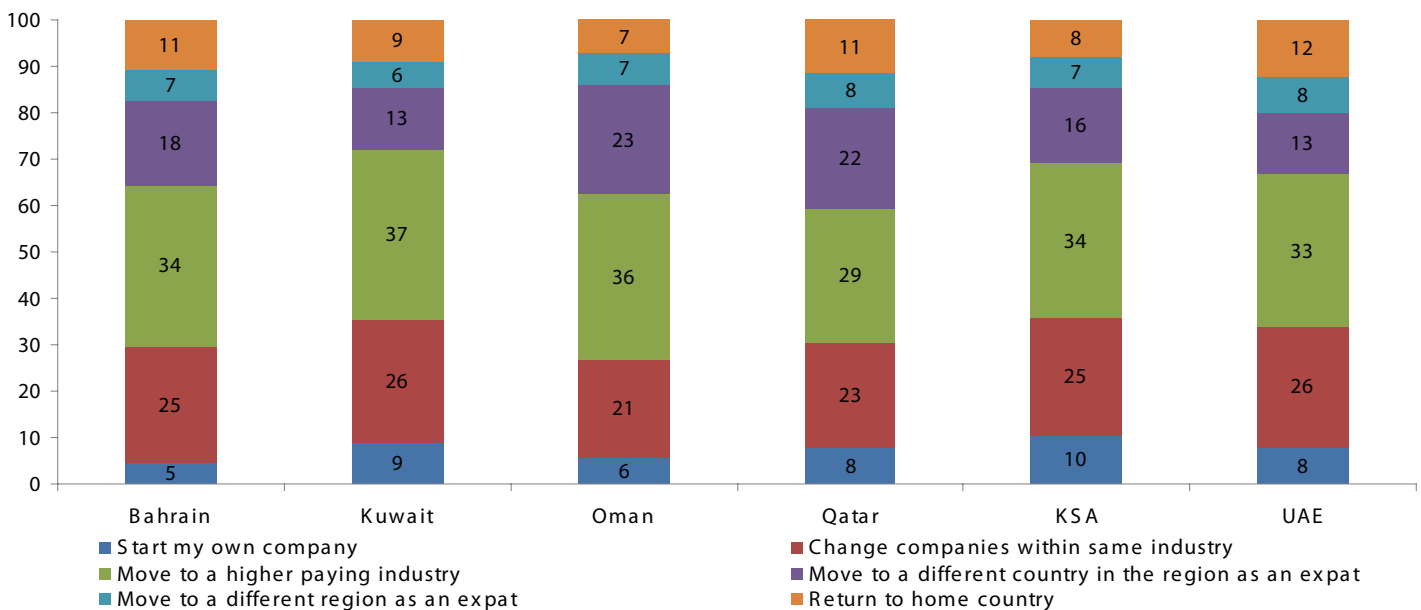


Of total respondents, only 16% indicated they were moderately happy with their raise and 6% indicated they were very happy. Another 8% and 6% of total respondents indicated their raise was 'fair in light of their contributions to the company' and 'fair in light of the company's financial situation' respectively. Of all respondents who received a raise, 22% were 'unhappy with their raise' and a further 11% were 'very unhappy with their raise'. The highest incidence of unhappiness with raises was seen among Gulf nationals and the lowest was seen among Western nationals at 36% and 26% of total respondents respectively.

The impact of the quality of life and career prospects can be seen more clearly when we look at how people react to the changes in the cost of living. 32% of total respondents indicated they intend to change companies within same companies and an overwhelming 44% of respondents indicated they intend to move to a higher paying industry. The option of moving to a different country in the region as an expat was a very viable one with 32% of respondents considering this option and was far more popular than moving to a different region as an expat which 12% of respondents indicated they were considering. Despite the regional inflationary pressures only 9% of total surveyed professionals indicated they wish to return to their home country and 12% asserted they aim to start their own company.

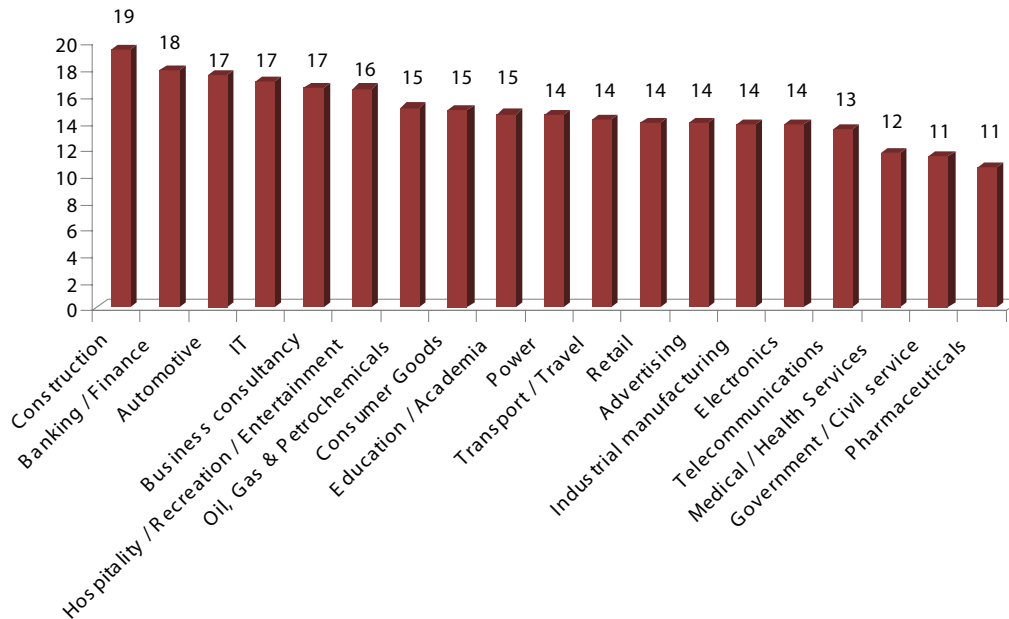
Even though the UAE is seen to have one of the highest cost of living increases in the GCC, it is one of the least likely countries to see people leave to other countries in the region, whereas Qatar that has witnessed similar increases is seen to be more likely to see people migrate to another country in the region or beyond with 41% of Qatar residents indicating quality of life considerations would induce them to leave Qatar in the next 12 months. Bahrain which had a relatively lower increase in the cost of living has among the highest propensities for losing people to other countries with 36% of Bahrain residents indicating quality of life considerations would induce them to leave Bahrain in the next 12 months. Kuwait is seen to enjoy the highest loyalty levels with only 28% of respondents indicating they intend to leave the country, followed closely by KSA at 31%. Kuwait professionals indicated the highest willingness to move to a higher paying industry at 37% of total surveyed and professionals in the KSA were most motivated to start their own company in the next 12 months with 10% considering this.

Will quality of life considerations induce you to do any of the following in the next 12 months?



Of all Gulf residents, 22% indicated they intend to move to a different country in the region as expats, 10% indicated they intend to move to a different region as expats and 14% indicated they intend to return to their home country. In terms of nationality groupings, Western nationals were more likely than other groups to choose to move to another region as an expat in the next 12 months with 22% favoring this option versus the 12% who favored returning to their home country. Asian nationals also showed a higher propensity to return to home countries over the next 12 months with 12% indicating this as their intention. Gulf nationals were by far the most likely to change industries to improve their standard of living with a substantial 61% majority favoring this option over the next 12 months. By contrast 27% of Gulf nationals intend to shift jobs within the same industry. 18% of Gulf nationals intend to start their own company. Men are more likely to relocate geographically than women with 55% of men indicating they intend to relocate geographically either within the region or abroad within the next 12 months versus 37% of women. Men are also more likely to start their own businesses with 13% of men selecting this option versus 9% of women.

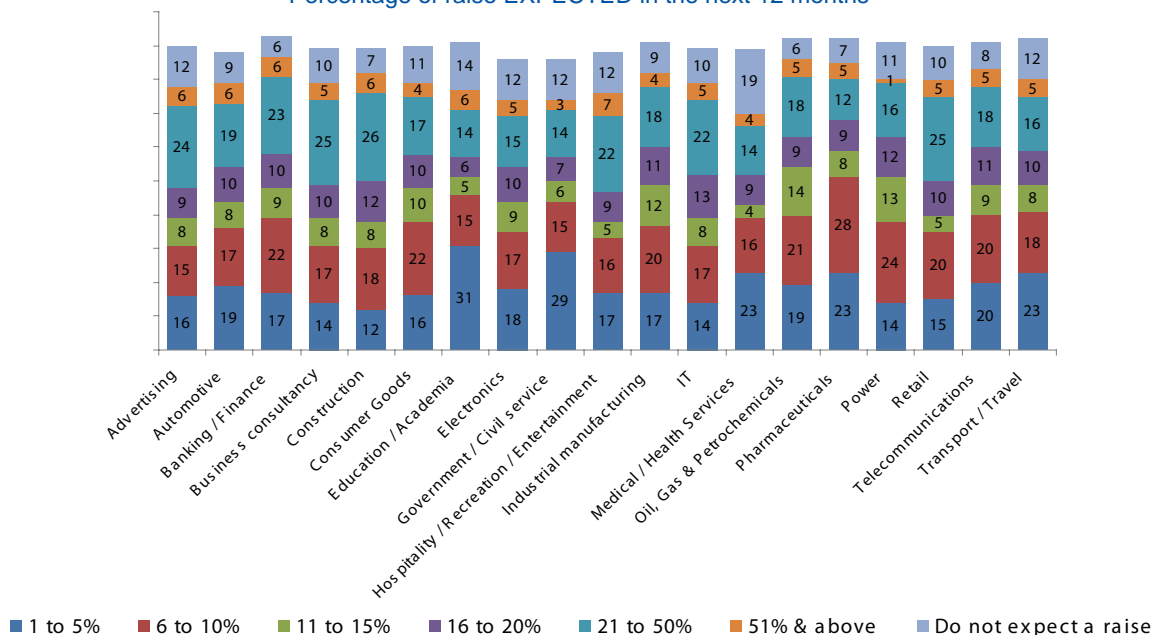
Average Raise 2007 by Industry



Raises vary quite significantly by industry and income levels and do not necessarily reflect raise potential. Banking & Finance had the highest income levels, and the second highest average raise after the Construction industry. However, it is to be borne in mind that this industry is usually to a significant extent made up of locals in the GCC due to government localization drives. The lowest raises for the 2007 calendar year were reported in the Medical/Health Services at 12% followed by Government/Civil Service and the pharmaceutical industry.

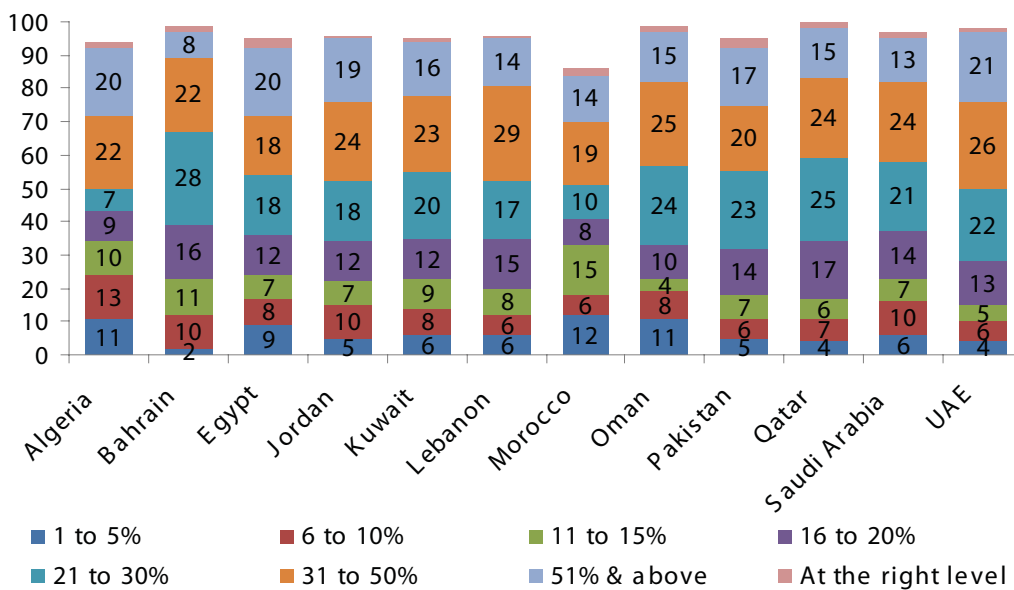
In terms of expected salary increases over the next 12 months, 10% of total respondents indicated they do not expect a raise with 35% expecting a raise of upto 10%. Asian nationals were seen to be most optimistic with respect to raises in the next 12 months and Gulf nationals least optimistic. The Education / Academia sector look on pessimistically to their situation not only with regards to not being paid well currently but also in terms of not anticipating any change in the next 12 months.

Percentage of raise EXPECTED in the next 12 months

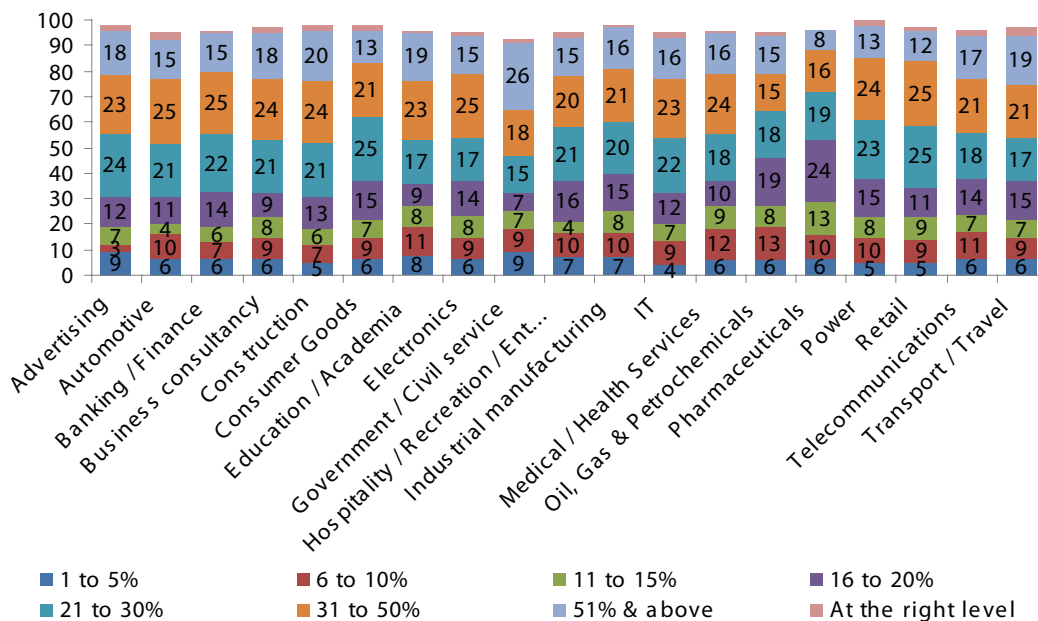


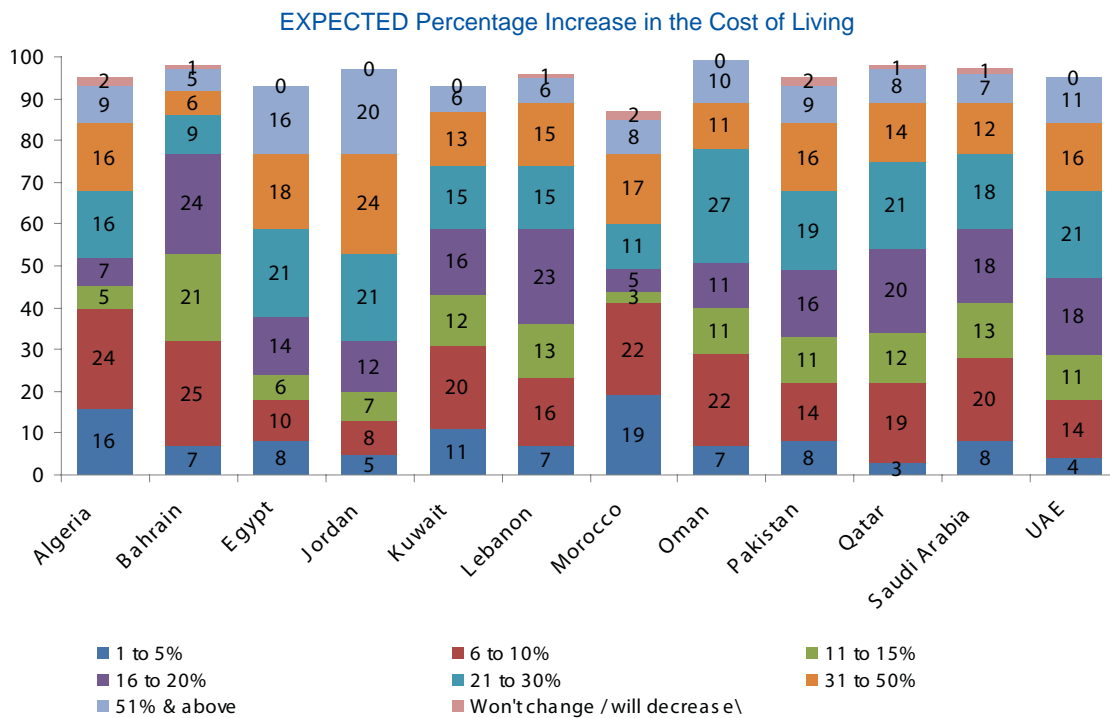
When it comes to percentage raise professionals felt they actually 'deserved' a very different picture emerged from percentage of raise received in 2007 and raise expected in 2008. A key finding of the research was that since the 2007 Human Resource Overview, the gulf between the raises received and what people believe they deserve has widened even further to stand at a whopping 25% more than their last raise received. The current survey revealed that 17% of Gulf residents feel they deserved a raise of 51% or more; 24% feel they deserve a raise of 31-50% and 22% feel they deserve a raise of 21%-30%. Only 1% felt their raise was 'at the right level'. In the Levant, 20% of Gulf residents feel they deserved a raise of 51% or more; 25% feel they deserve a raise of 31-50% and 17% feel they deserve a raise of 21%-30%.

Percentage of raise professionals feel they DESERVE: by Country



Percentage of raise Professionals feel they DESERVE: by Industry





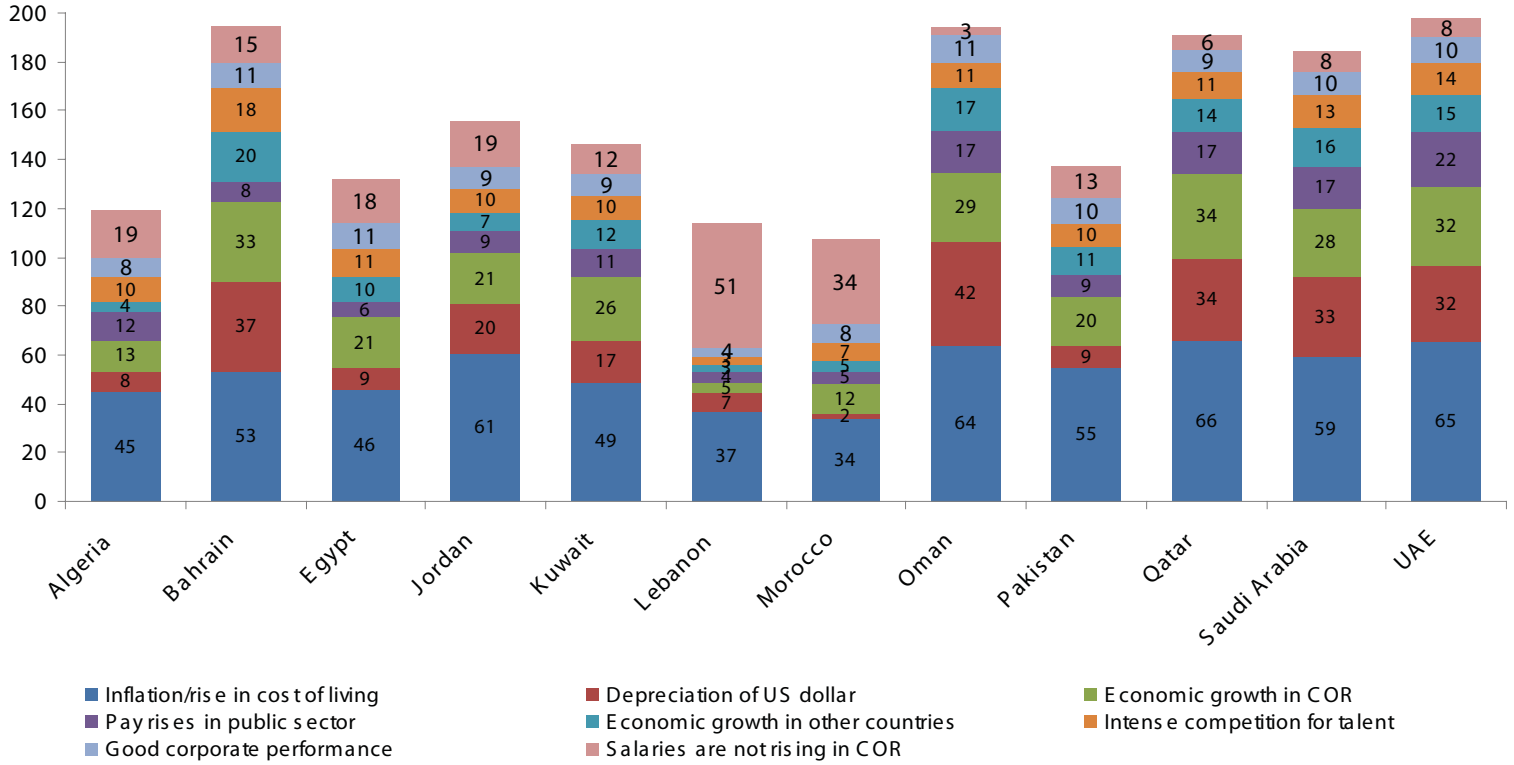
Ambitious raise expectations may be attributed to the fact that the cost of living is expected to increase dramatically across countries in the next 12 months. Possibly people are less optimistic given the kind of increases they've seen in recent years. 9% of Gulf residents anticipate the cost of living will rise by over 50% in the next 12 months and 33% think it will rise in the neighborhood of 20-50%. 30% of Gulf residents think the cost of living will rise between 10% and 20% and 25% think the cost of living will rise less than 10%. 15% of Gulf nationals expect the cost of living to increase by over 50%.

Inflation, depreciation of the US dollar & economic growth were cited as the main reasons in most countries for an increase in salaries if there was one. 65% of UAE residents cited inflation as being a main factor behind salary increases compared to 32% citing depreciation of the US Dollar and 32% citing economic growth. Recent pay hikes in the public sector in the UAE have not gone unnoticed and 22% of surveyed professionals have indicated that these hikes are a main factor behind recent pay rises. In the KSA 59% of residents cited inflation as being a main factor behind salary increases compared to 33% citing depreciation of the US Dollar, 28% citing economic growth and 17% citing pay rises in the public sector. Meanwhile in Qatar, these numbers stood at 66%, 34% and 34% and 17% respectively.

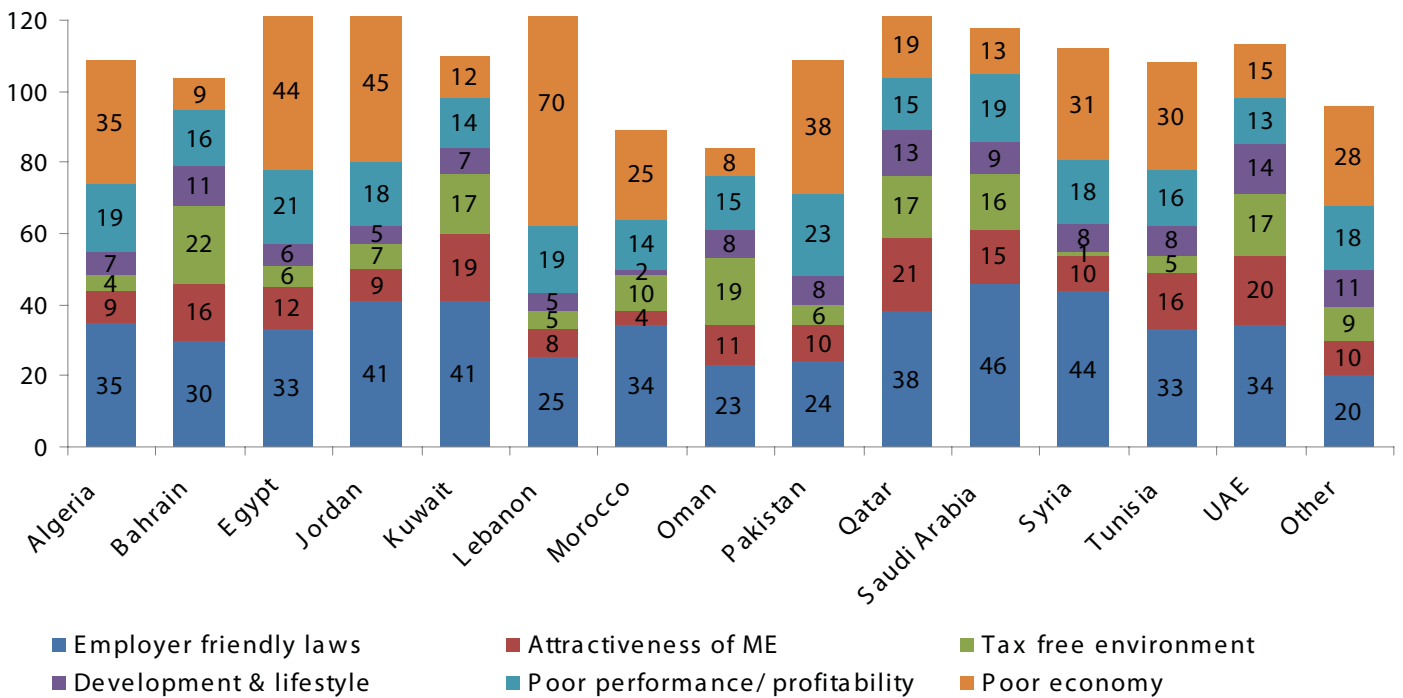
Across the GCC meanwhile, employer friendly laws, the attractiveness of the GCC as a place of work and the tax free environment were seen as the main reasons salary raises did not keep up with inflation levels. In the Levant and North Africa, poor economies were seen as largely to blame along with employer friendly laws.

Interestingly, 46% of GCC residents think there is a skills shortage in their country of residence and 19% think there is an excess supply of talent with only 16% thinking the labor supply is optimal. KSA, Qatar and Oman were most likely to cite a skills shortage at 55%, 54% and 53% of total respondents respectively, compared to 37% of residents believing there was a skills shortage in the UAE. North Africa and Levant residents by contrast reported they believed there was an excess supply of talent in their country of residency.

Factors perceived to be Causing Salaries to Increase



Factors Perceived to be causing Salaries NOT to Increase



## Some insights to keep in mind

Various factors have made the region a region in flux when it comes to labour markets and professional career, company and geographic stability. Professional loyalties are being severely strained with the substantial recent increases in the cost of living and the regional labour force is overwhelmingly looking to make a move to better-paying jobs, industries, countries within the region and even different regions to capitalize on disparities and improve their standard of living. Mobility is on the up and the ensuing volatility, bottlenecks and relocation, training and replacement costs employers are facing and will continue to face as a consequence of this is one of the most pressing topics of the day.

On average people are changing jobs once in around two and a quarter years these days and from a salary perspective this appears to be optimal as those doing so are earning the highest average salaries. Employers need to keep an eye out on professionals in that term range, and plan ways to retain and engage them, bearing in mind they can potentially obtain a raise by moving elsewhere.

While the level of earnings has a high and direct implication on perception of longevity of career in any one place, employers need to realize that a host of other factors influence loyalty primary among them opportunities for long term career progression, professionalism and experience of management, physical work environment, diversity of workplace and training and development opportunities. Moreover, professionals have indicated a willingness to be flexible in terms of receiving components of total compensation in forms other than fixed salary with many indicating they are willing to accept professional training and development courses instead of pay and others indicating a preference for performance based incentives, stock options or holiday allowances. Industries that cannot easily match salary expectations need to make a more concerted effort to engage people using more than just pay as a strategy for retaining professionals engaging them and maximizing their productivity.