

# Emoluments headed south

The economic downturn has not only led to redundancies regionally in the GCC, but is also forcing compensation levels south, including in banking and finance. **Manjula Menon** investigates.

**A**t the onset of the financial crisis last year, companies resorted to massive layoffs in order to quickly adapt to slowing business. Now, the focus of cost containment has shifted to careful, selective hiring and staffing processes, with package offerings more in line with current market conditions. In light of reduced profit expectations for the year, HR departments are also taking a more differentiated view of cost sources, with such sources as international travel budgets, hiring freezes, reduction of salaries, increased budgets and performance-based rewards taking the top spots on the cost-cutting target list, according to a survey by Watson Wyatt Middle East in June 2009.

## Gulf macroeconomics

A July report by regional recruitment portal GulfTalent.com states that economic growth in the GCC has taken an extraordinary plunge from about 6.2 per cent GDP growth in 2008 to a forecast of 0.2 per cent this year, largely owing to a reversal in the oil price. This in turn has had severe consequences for the region's recruitment landscape. With expat bankers being among the top earners in the region, as Bayt stated in its January salary survey, they have also been hardest hit by job cuts, increased work pressure and compensation adjustments.

In some countries of the GCC, as GulfTalent.com observes, governments took measures to minimise the effect of redundancies on nationals by urging companies to focus on expatriates first when it came to cost-cutting measures. On the other side, there is rising unemployment in the domestic markets of expatriates in the financial services sector, which attracts more professionals to the Gulf as a preferred location to work and thus adds to the current oversupply of talent in the regional labour market. The

report concludes that the slowdown in the regional economy coupled with lower levels of inflation and the steady supply of talent will keep salary increases to a minimum until summer 2010.

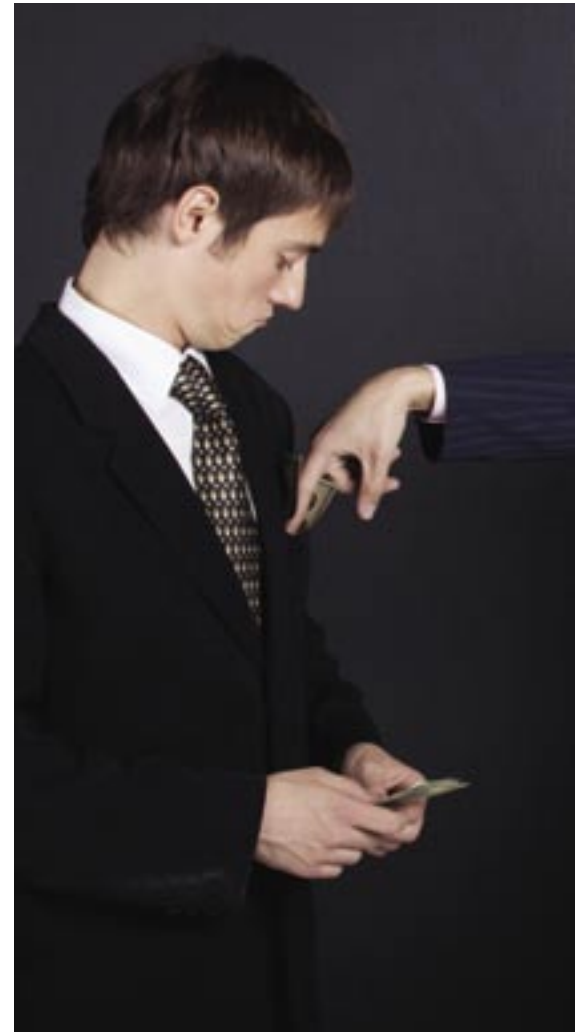
Jonathan Gould, a consultant on the financial services team at Gulf recruitment agency IQ Selection, thinks that there have been cutbacks on the compensation front, with some candidates taking salary cuts. The Middle East used to be characterised by employees frequently changing companies for higher packages. According to Gould, this trait of job-hopping seems to have disappeared from the market. Salaries will remain at similar levels in 2010 with little increases, while candidate supply will outstrip demand.

Gould expects the post-Ramadan season to usher in some tentative hiring for the rest of 2009, with significantly more rigorous due diligence on the qualification of the candidates. Companies burnt by the financial crisis will still shy away from any massive recruitment activity. In 2010, hiring will be steady with a careful rather than aggressive approach, he says. There is also a good supply of high-profile candidates with experiences in blue-chip companies in the market. These candidates stand a better chance to be re-hired in the short-term, according to Gould.

## Current salary levels

It is interesting that the same positions have different packages coming from different agencies. However, there are high similarities in the salary ranges. While Robert Half's UAE Salary Guide 2009-2010 indicates the base plus housing allowance package for chief financial officers with around 15 years of experience at around US\$250,000-400,000 per annum, a job advertisement for a comparable role through recruitment agency Charterhouse Partnership offers

US\$300-350,000 per annum base salary, plus benefits and allowances. Similarly, for a managing director's role in investment banking in the UAE, Robert Half estimates between US\$300,000 and US\$350,000 plus for the compensation package (base plus housing allowance), while Charterhouse Partnership advertises a comparable role in Doha for US\$250,000-350,000 per annum base salary. Overall, there seems to be only slight variations in the range, which might be traced back to the job locations.



Typically, expat pay structures in financial services are split into a base salary, bonus and various types of allowances, of which the housing allowance makes up the major part. Now, with inflation and rent levels receding in particular, the accommodation component of total compensation packages is being subsequently adjusted downwards.

Peter Greaves, head of financial markets at McArthur Murray Executive Search, expects that salary reductions in local companies are imminent partly because their pay structures were inflated due to expensive hires and supply and demand imbalances, which is typical of any bull market. He says that the current base salary for a CEO is at about US\$350,000-500,000 per annum and that of a managing director is US\$300,000-350,000. For a director,

it is US\$250,000-300,000. Greaves says that in general, bonus expectations are subdued across all sectors. Those in asset gathering roles such as asset management, placement and private wealth management have had a tough year so far.

Greaves believes that the market will remain weak for the rest of the year, while the fourth quarter might bring some clarity about the direction of 2010. However, in the first quarter of next year, companies will continue to cautiously monitor profitability. Many are expecting further damage from global markets. Greaves is convinced that banks will be conspicuous in their drive to reduce costs further. Of course, this is not the best approach, as it would mean losing highly skilled personnel to competition. Select companies with winning strategies will use this time to upgrade the quality of their staff.

### Ray of hope

Not all is doom and gloom, as there is a silver lining in the horizon. The latest World Bank report (2009 Economic Development & Prospects) predicts the GCC countries to have a real GDP growth of 4.2 per cent in 2010. In such an economic scenario, recruitment activity is likely to pick up starting next year, as reflected by studies of various recruitment agencies. As early as July, Mercer's GCC Snapshot Survey predicted that 42 per cent of companies were planning an increase in headcount in 2009, while 60 per cent of organisations were looking at hiring in 2010. The September report by Robert Half holds a similarly optimistic view on the stabilisation of salary levels in the financial services sector, in particular for finance and accounting roles. They argue that particularly in light of excessive consolidation and streamlining at the start of the year, companies will start to catch up again. However, salary increases are not set to follow subsequently, and especially not to pre-crisis levels, when expat compensation in the financial sector was highly inflated. Hence, expectations are that salary levels will finally be corrected to adequately reflect a new market environment and be sustainable for businesses.

The prevailing view is that salary levels will be tightly linked to overall economic outlook in general, the oil price for Gulf countries in particular and the financial health of the company, eventually leading to renewed re-hiring and gradual review of compensation packages.

With Gulf and overseas companies currently setting up and intending to expand their operations in the main regional hubs of Dubai and Doha, recruitment activity, not just as a result of internal reshuffling or replacement hires, will eventually pick up the pace, say industry sources.

Some industry analysts and consultants forecast a 20 per cent surge in employment in the financial sector in the current quarter compared to the third quarter of 2009. They also expect international companies in particular to allocate higher budgets for recruitment and training in their 2010 budgets. According to NaukriGulf.com, 60 per cent of respondents in their survey have already started hiring. In any case, compensation and recruitment will be more strictly aligned to revenue-generating employees and their performance, as well as candidates who have long tenures with previous employers and regional experience.

### Greed or fear?

Despite the encouraging early indicators and a recent increase in business confidence in London, which could point to stronger commitment in existing overseas operations as well, there is still a strong sense of hesitation and an urge to keep an eye on a prolonged market recovery. Once the financial sector rebounds sustainably, employment activity and compensation levels alike are likely to herald a shift in the balance of power towards the employee.

For the time being, despite the departure of a number of qualified expatriates, there still is an oversupply of talent from which employers can cherry pick. The mood continues to be dominated by a risk-averse atmosphere. Greed, both at corporate and individual levels, will thus be kept at bay for a little longer, while fear will continue to dictate expectations.

