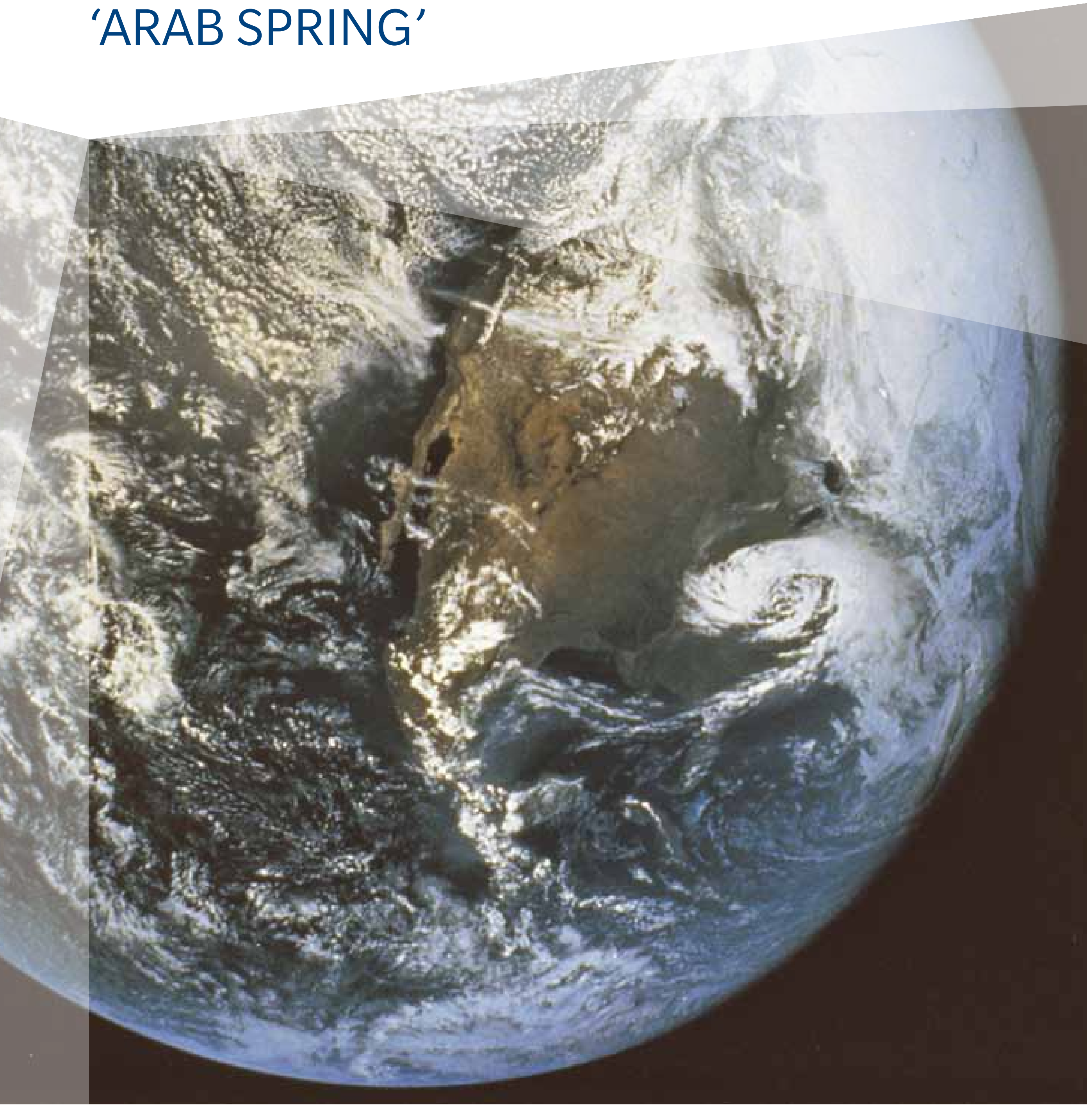
PEOPLE MANAGEMENT IN THE MIDDLE EAST AND NORTH AFRICA: WHAT HAS CHANGED AFTER THE CRISIS AND THE 'ARAB SPRING'



CONSULTING. OUTSOURCING. INVESTMENTS.

PEOPLE MANAGEMENT IN THE MIDDLE EAST AND NORTH AFRICA: WHAT HAS CHANGED AFTER THE CRISIS AND THE 'ARAB SPRING'

AN INTERVIEW WITH MERCER EXPERTS IN DUBAI

In this interview, Larisa Muravska, Mercer Partner and Human Capital Business Leader in the Middle East, and Tom O'Byrne, Mercer Principal Head of Market Development efforts in this region, share their views on people management developments in the Middle East and North Africa (MENA).

Q: Generally speaking, what was the impact of the global economic downturn and of the "Arab Spring"[1] on economies in MENA? What do you expect to see with respect to the economy in 2012?

Larisa Muravska: Broadly, economic activity across the MENA region has been solid in some areas, but confidence and optimism have been buffeted by pockets of social unrest in Libya, Tunisia, Yemen, Jordan, Bahrain, Kuwait, Syria and beyond. This has been a unique period in the Middle East in the modern era. Each country has had its own experience. Some have changed leaders and political structures, some are still experiencing periods of intense civil unrest, and others have used the events to reinforce or introduce a range of economic, political, social and/or fiscal reforms. As a result, the past year's turmoil has introduced an element of uncertainty and caution across the region.

Tom O'Byrne: In some areas, such as the Arabian Gulf, we have seen continually high prices for oil and gas, which have contributed to the economies of oil exporters, and we have also seen continued strong public-sector spending programmes. In terms of 2011 economic performance, a recent report from the International Monetary Fund[2] differentiates between oil exporters (whose economies grew by 5%–7%) and oil importers (whose economies grew by closer to 2%).

---

[1] The "Arab Spring" refers to the series of demonstrations and protests occurring in the Arab world that commenced on 18 December 2010 and developed throughout 2011. Revolutions occurred in Tunisia and Egypt; a civil war erupted in Libya, resulting in the fall of its regime; civil uprisings occurred in Bahrain, Syria and Yemen; major protests were held in Algeria, Iraq, Jordan, Morocco and Oman; and minor protests were held in Kuwait, Lebanon, Mauritania, Saudi Arabia, Sudan and Western Sahara.

[2] International Monetary Fund. *Middle East and Central Asia Regional Economic Outlook*, October 2011.

Looking forward, the MENA market uncertainty continues to be affected by outward-facing firms watching – or, in some cases, feeling – the impact of the European crisis and economic activity in the United States. This is particularly relevant for multinational firms headquartered in Europe or the US with operations in the MENA region, or local and regional firms whose business models depend on European or US-specific trade or services.

It is unlikely that 2012 will bring about any short-term turnaround in mood or economic performance in this region in general, although, as always, there will be pockets of prosperity. For example, Mercer's latest *Total Remuneration Survey (TRS)* results for Saudi Arabia, the United Arab Emirates and Qatar (three of the largest oil- and gas-exporting economies) predict 2012 salary increases of between 5% and 6% for workers in these regions, although this will most likely be an exception.

Q: What are some of the key human capital challenges facing organisations in the MENA region today? Were any of these challenges affected – either positively or negatively – by the economic downturn?

LM: It is important to understand that the MENA region is a kaleidoscope of more than two dozen countries, economies and organizations – all with equally diverse business strategies, growth opportunities and human capital challenges. At its broadest, the region's biggest human capital challenge has economic, social and political components: creating the necessary conditions and opportunities to create sustainable employment for a vast population ages 15 to 30. Hence, for some countries, the issue is job creation and economic growth and development. For others (like the Gulf economies), the challenge involves improving human capital engagement and productivity within an organisational framework.

TOB: At a practical level, this means having the right organisational structures and processes in place to maximise efficiency and business performance; having the right mix of talent in the right roles and performing the right tasks to help organisations grow or compete; and having the right mix of talent and reward mechanisms in place to attract, develop, engage and retain the highest calibre of talent possible. The downturn has heightened the focus on performance and reward. The uncertainty has produced a huge new regional talent pool of individuals looking for opportunity, stability and certainty. And organisations are grappling with the challenge of keeping their existing best employees engaged at a time when competition for talent is beginning to re-emerge.

Q: How do human capital challenges compare for companies in the Middle East versus foreign companies with operations in the region? What should international organisations that are expanding into or operating in the Middle East be aware of?

LM: While talent challenges are broadly similar for local and multinational firms alike, each group has its own unique challenges. Results of Mercer's *TRS* across a number of Gulf markets show that the compensation gap between the two groups can be significant. For example, in remuneration practices amongst local and regional firms, guaranteed cash allowances can outstrip those paid by multinational firms by 20%–40% at times, even though in some markets base salary components might not be too far apart. This can be explained by the fact that local companies employ a higher proportion of nationals who usually receive more generous allowances and benefits.

TOB: At the same time, increasing national employee engagement and skills and helping workers grow in their careers is a priority for many companies.

At a wider level, human capital challenges amongst regional and local firms tend to be in line with organisations that are in growth, start-up or transitional stages – that is, nascent organisational structures, with business shifts and priorities being dominant and HR still being somewhat transactional and reactionary in nature. Even though the pendulum has moved considerably in the past decade, HR still struggles to have a consistent seat at the leadership table, although the more progressive organisations are showing considerable change and agility in this area.

Q: What trends have you seen regarding the global or regional expansion of companies from the Middle East? How does this affect their human capital challenges?

LM: Middle East companies wanting to expand beyond their local or regional borders have historically adopted a range of practices broadly in line with their counterparts elsewhere. In some sectors (for example, oil and gas, telecommunications and financial services, amongst others), there is a tendency to make strategic mergers and acquisitions (M&A) to ensure rapid positioning in a new market with the talent, market share and business potential to expand rapidly. For others (for example, transport, logistics and resource exploration), the opportunity lies more in first-mover advantage, making strategic bets on the opportunities of an emerging – or even frontier – market to buttress or balance business performance. Especially in these times of global uncertainty, organisations that are underpinned by resource-rich economies and with access to capital and solid cash flows are not averse to moving into mature markets in Europe, North America and Asia and are buying assets that can rapidly add to economies of scale or market presence (such as real estate, construction and manufacturing).

TOB: The human capital challenges this acquisitive approach can present are the same for all: understanding and then maximising the value of the deal at all levels, ensuring knowledge retention and transfer where most appropriate, and marshalling talent in every way possible in the new, expanded organisation. At the other end, Middle East firms keen on expansion are looking to answer questions around formalising and enhancing their policies, competency frameworks and career paths that facilitate talent mobility, especially if the firms are local and there is reluctance amongst some employees to move away from the headquarters.

Q: How are Middle Eastern companies addressing today's human capital challenges? What actions are they taking? What are the obvious trends in the Gulf Cooperation Council (GCC)? Are their HR functions up to the task?

LM: At a government level, debate around one distinct human capital trend in the GCC continues, and is worth noting. At a structural and national policy level, each of the GCC states (Oman, Saudi Arabia, Kuwait, Bahrain, United Arab Emirates and Qatar) has in place a clear strategic vision that, in part, places great emphasis on the development of its national (that is, local) human capital. The dilemma is that historically, much of the local national workforces in each of these countries has opted to work in the government or semi-government sector – for a range of cultural, work/life balance and compensation reasons.

TOB: The challenge, in time, will be to entice those in – or attracted to – the public sector to join the private sector, where job opportunities, employment growth, and professional and personal development opportunities will be far more prevalent. In part, this is being tackled by requirements for all employers to employ local nationals (some using quotas and others using preferred sectors or roles) in their workforces. At a broader level, however, it has spawned efforts around workforce planning, career path development, succession planning, leadership assessment and development, and graduate intake and graduate development programmes targeted specifically at this pool of talent.

In the private sector, the challenge continues to be ensuring that HR is equipped with the requisite skills, structural authority and business responsibility to become an effective partner and enabler towards improved business performance. Mercer studies in 2010 show that while the level of acceptance and professionalism towards and shown by HR has shifted considerably, impediments remain. These are dominated by concerns from the business side that HR lacks sufficient business knowledge to be an effective partner. Increasingly, however, some progressive organisations are using HR to drive transformation (for example, strategy reviews, M&A, realignment and business repositioning). In 2011, the key issues have been around engagement and performance effectiveness, and these are likely to energise HR departments well into 2012.

Q: What should organisations in the Middle East do differently if they want to be successful in managing human capital over the next few years?

LM: Organisations can take three steps to better ensure that their people and business strategies are aligned.

First, identify what drives employees to want to come to work and want to continue to stay at work and contribute effectively to business goals. Only when business and HR leaders know what engages their employees to outperform can the right structures, processes, programmes and people be put in place to maximise the return on the heavy investment that companies make on talent.

Second, understand the extent to which the various elements of their "people strategy" are aligned with the business strategy, how to right the things that are wrong, and what to do to ensure that the right things continue to be the right things. This involves a deep investment of time and effort to see the people dimensions – present and future – of an organisation's business strategy and planning. It also requires a systematic approach to designing and developing a roadmap of the elements that are needed to fill in the gaps, as well as an execution strategy and review programme to make sure the work needed gets done correctly.

Third, develop a better sense of how to see, value and measure the ROI from people. This means a more sophisticated approach – with clear performance metrics – is needed for every step in the employee lifecycle, from competency-based recruitment and professional development through to clear roles and responsibilities with transparent performance objectives and reward mechanisms, and to consistency around leadership styles, expectations and behaviours. Only when HR has the tools and skills to help the business understand how to see, value and measure the employment ROI can the true value to an organisation of its human capital be realised.

ABOUT THE AUTHORS

Larisa Muravska is a Mercer Partner and Leader of the Human Capital business in the Middle East. Based in Dubai, she can be contacted at +971 4 327 8700 or larisa.muravska@mercer.com.

Tom O'Byrne is a Mercer Principal and Head of Market Development in the Middle East. Based in Dubai, he can be reached at +971 4 327 8700 or tom.o'byrne@mercer.com.

MERCER

For further information, please contact
your local Mercer office or visit our website at:
www.mercer.com

Argentina
Australia
Austria
Belgium
Brazil
Canada
Chile
China
Colombia
Czech Republic
Denmark
Finland
France
Germany
Hong Kong
India
Indonesia
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Norway
Peru
Philippines
Poland
Portugal
Saudi Arabia
Singapore
South Korea
Spain
Sweden
Switzerland
Taiwan
Thailand
Turkey
United Arab Emirates
United Kingdom
United States
Venezuela

04304M-HC 201211