

Construction Sector Employment Trends

2006

Saudi Arabia | Kuwait | Qatar | Oman | Bahrain | UAE



Construction Sector Employment Trends

Executive Summary

As the Gulf's construction boom continues, companies in the sector are finding it increasingly challenging to attract the quantity and quality of engineering and managerial talent needed to staff their projects. The massive rise in regional activity as well as the growth in international markets, particularly India's booming construction sector, are largely to blame for the skills shortages.

With growing competition for a limited talent pool, salaries for professionals in the Gulf's construction sector have seen a steep year-on-year rise of 12.8% on average, the highest among all sectors in the Gulf. Companies are resorting to hiring of younger candidates and looking at new markets further a field for qualified expertise to hire. Lifestyle issues are also coming to the fore, with the long-practiced six-day working week coming under scrutiny.

Despite these measures, staff shortages are still hurting the industry, forcing many contractors to turn down projects due to unavailability of the necessary human resources. The shortages look set to continue for the foreseeable future.

Growth of Construction Sector

For the past three years, the Gulf's construction sector has been growing at a tremendous pace. According to industry reports, projects planned or already under development in the region are estimated to be in excess of \$1 trillion in value, making the Gulf the biggest projects market globally on a per capita basis.

The main drivers of this growth have been favourable economic conditions, high oil revenues and excess liquidity, immigration, and the introduction of new property laws. Other factors that have contributed to the trend include high government capital spending, easy availability of credit and the establishment of real estate funds investing in the region.

By far the biggest concentration of construction activity has been in the UAE and Qatar. The Dubai government's audacious growth plans and the favourable regulatory regime put in place have been key drivers of the UAE's construction boom, while in Qatar the 2006 Doha Asian Games have provided much of the impetus for the sector's growth. Kuwait has also seen a significant expansion in the sector, thanks to major oil & gas projects as well as by virtue of its position as a gateway to Iraq. Most notably Saudi Arabia has recently joined the ranks with a number of ambitious developments aimed at stimulating economic growth and creating employment for Saudi nationals – including King Abdullah Economic City off the Red Sea, and Prince Abdul Aziz Bin Mousaed Economic City.

The developments span the full spectrum of construction disciplines, including residential and commercial buildings as well as civil, infrastructure and logistics projects. The sector's growth has attracted large numbers of players – particularly in the contracting segment of the market where barriers to entry are lowest. More and more international firms have started operations in the region, while many regional firms have expanded their activities beyond their home countries; many UAE and Lebanese companies now bid for projects in Qatar. New contractors are also being established every month, sometimes by departing executives and senior managers of incumbent players.

New contractors are being set up every day. There are no barriers to entry. A lot of those at the bottom end are cowboys.

*Director
Construction Group*

Skills Shortages

The regional construction boom has come at a time of rapid growth in the sector worldwide, particularly in India and China. This has led, not only to shortages in commodities and raw material – such as steel, copper and cement – but also a shortage of key professional staff needed to implement large-scale projects.

We have been trying to recruit a structural specialist for the last 12 months.

*HR Advisor
International Construction Group*

Developments in India have had a particularly significant effect on the Gulf. The country which has traditionally been the main source of engineers and mid-level managers is experiencing rapid growth of its own. Property development has surged in India since 2002, helped by an annual doubling of demand for office space as foreign firms continue to invest in the country's IT sector and the growing number of call centres. With growing employment opportunities and increasingly attractive pay packages available to Indian professionals back home, Gulf-based contractors are finding it much harder to attract sufficient numbers of them. Some companies have also reported losing their Western expatriates to China's booming construction sector.

The sector has also been maturing fast, with the standard of projects rising significantly over the last five years. As a result, many players find themselves having to upgrade much of their workforce in order to remain competitive.

Several construction firms interviewed by GulfTalent reported having turned down major contracts because they were already stretched and could not deploy the expertise and human resources necessary to take on additional projects. The trend signals a shifting of power from developers, who have historically had the upper hand, to contractors.

This shifting balance of power has been most visible at the top end, where only a limited number of contractors possess the scale and resources necessary to bid on large-scale projects. In recent months, a number of such mega-projects have failed to receive the minimum number of bids required – including the US\$2 billion Jebel Ali M Station tender by Dubai Electricity & Water Authority (DEWA) and Kuwait's Al-Zour North, both of which only managed to receive one bid.

Skills Shortages

Candidates most in demand

- Structural Specialists
- Quantity Surveyors
- Planning Engineers
- Project Directors
- Design Specialists / Managers
- Contract Administrators
- Urban Designers / Planners

Source: GulfTalent interviews

The limiting factor is not the presence of work, but the availability of human resources.

*Director
UAE-based Contractor*

We turned down Burj Dubai last year because we did not have enough resources.

*Recruitment Manager
International Construction Group*

Power has shifted 180 degrees – most power is now with material suppliers, followed by contractors, then consultants, and finally developers.

*Senior Executive
Regional Construction Group*

Compensation Trends

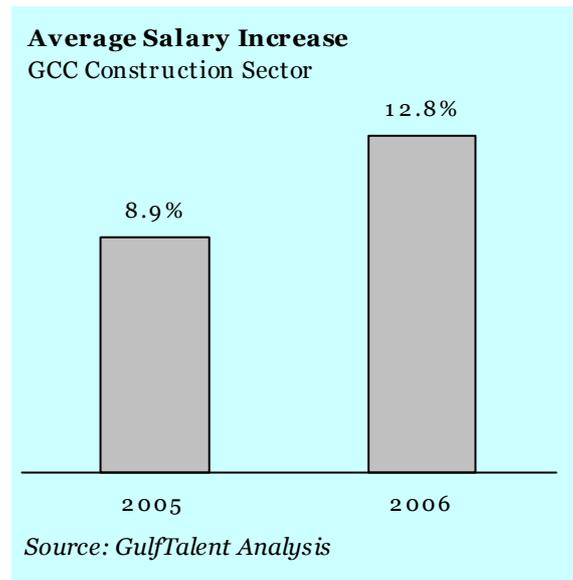
Based on GulfTalent's survey, average salaries in the sector across the Gulf rose 12.8% over the 12 months to August 2006, up from 8.9% for the same period last year. In comparison, average increases across all sectors were 7.9% and 7.0% for the two years respectively.

Within each company, pay rises varied significantly, with rare skills commanding a premium. The increases were greater among regional firms, while international firms present in the region offered below-average rises. Generally, the stronger the company's brand name, career development and overall value proposition offered to employees, the lower was the pressure to increase pay. In absolute terms, however, salaries at international firms still tend to be higher than their regional counterparts, although the gap with local companies appears to be closing.

In addition to shortages of key skills, the recent easing of restrictions on changing jobs within the UAE has increased attrition among mid-level and senior professionals in the construction sector and contributed to increasing pay levels as firms struggle to retain their employees.

The competition for talent in the construction sector has also raised pay levels in overlapping industries. For instance, hotel and hospitality groups which have had modest pay rises, are reporting above-average pay rises for their engineers, after experiencing a high level of attrition of those disciplines to construction firms.

A key obstacle currently facing executives and HR managers in the construction sector is the unavailability of relevant, timely and accurate compensation data. While market rates for junior positions are somewhat stable and fairly well known, salaries at the mid-to-senior level have been less transparent and fast-changing, making objective planning and decision-making extremely difficult.



There is no standard, no benchmark on how much to pay. People are paying crazy money just to fill a position.

*Recruitment Manager
UAE-based Contractor*

Changing Employment Practices

As well as raising pay levels, the acute shortage of experienced staff and the difficulties of attracting expertise from traditional sources, have forced construction firms to look for new talent from hitherto unexplored sources. A growing number of employers are now recruiting from new markets in Asia as well as the Arab world, notably Egypt.

Others have resorted to targeting younger candidates and fresh graduates in the region who only a few years ago would have been passed over in favour of more experienced staff.

The changing composition of the staff intake and particularly the growing presence of fresh graduates in the workforce has made it imperative for companies to invest a greater amount in staff training and development.

A particular challenge facing HR and recruitment managers in the Gulf is the diverse range of job titles, certifications and educational standards prevalent in the source countries. The skill sets of quantity surveyors, for instance, vary significantly depending on the country in which they are trained. Added to that is the problem of fraud in educational certificates which is prevalent in parts of Asia. Employers are therefore having to either limit their search to candidates from particular countries only, or institute elaborate assessment and reference checking procedures to verify the suitability of potential candidates.

Another major issue identified in GulfTalent's interviews was the six-day working week prevalent in the sector across most of the region. Several contractors reported losing engineers, managers and support staff to consultancies, to other sectors or to other parts of the world where they could enjoy a two-day weekend. Many confirmed having studied the feasibility of switching to a 5-day week. However, given the intensity of competition and the pressure to deliver projects on time and within budget, no firm can afford to be the

Three years ago we only hired experienced people, and wouldn't set foot outside the local cities... now we go to Jordan and Lebanon in search of fresh graduates. Obviously we have to train them.

*Senior Manager
Regional Construction Group*

Egypt is a new recruiting market for us. We were surprised by the quality we were able to find there.

*Recruitment Manager
Regional Contracting Company*

Some certificates are easy to buy in Asia... As a recruiter you must do your due diligence.

*HR Director
International Construction Company*

We lose productivity on Saturdays, because the government and some clients are closed... It would be better for the industry as a whole if the government enforced a 5-day week.

*Senior Manager
UAE-based Construction Group*

first to instigate such a move. Several HR managers interviewed expressed a strong desire for the government to impose mandatory five-day weeks to level the playing field.

In the event of such legislation being introduced, project delivery times may become longer and costs increased across the sector. However, as the change would affect all contractors equally, it would not impact any one firm's competitiveness relative to others. While there are reports that some governments, such as the UAE, may introduce mandatory 2-day weekends, the construction sector is likely to be excluded from any such ruling. At present, Qatar is the only country where many construction firms work a 5-day week.

Partly due to the working week, but also other lifestyle considerations, there appears to be a steady flow of talent up the value chain – from contractors to consultancies, and from consultancies to developers. This is further exacerbating the talent shortage experienced by contracting firms.

A growing number of HR and recruitment managers in the sector are attempting to shift away from 'reactive' to 'planned' recruitment. Many are concerned, however, that the way in which projects are being awarded makes it very difficult to plan ahead. Several international firms complained that in Europe they receive early

warnings if they are likely to win a bid. In the Gulf, by contrast, there is no reliable indication of having won a bid until it is finally confirmed. Furthermore, upon confirmation of the award, contractors are given only 30 days to mobilise resources for the project, compared to 60 days which is the norm in Europe. Most recruitment, therefore, continues to be reactive and in a frenzy upon the award of the contract.

Finally, as local construction firms step outside their home territories and into new regional markets, many are having to adjust their employment and recruitment practices to be able to attract and retain staff in the new markets. Dubai-based companies entering the Qatar market, for instance, are finding it harder to attract senior professionals to their Doha offices, to have their visas processed and to arrange housing and schooling for their children.

Developers take their time to make a decision, but then want the work to start tomorrow.

*HR Manager
Construction Group*

In Dubai, if you pay you will find accommodation... In Doha, there is none!

*HR Manager
Regional Construction Group*

Our European employees don't like to move to Kuwait, as it is considered a 'dry' country.

*HR Manager
International Construction Company*

Blue-collar Workers

Although not a focus of this survey, blue-collar workers or 'labourers' form the majority of employees in the construction sector and it is therefore worth noting some of the key issues related to their employment.

Recruitment of labourers, although not as challenging as white-collar professionals, has become more difficult than before – again partly due to growing employment opportunities in India. In addition, recent negative publicity surrounding non-payment of wages to workers and poor living conditions in some labour camps in the Gulf have raised alarm bells in source countries and deterred some workers. The UAE in particular has recently seen a series of strikes, public protests and in some cases street riots by workers, a previously unknown phenomenon in the Gulf.

I am going to India on a weekly basis... Before, we used to see 200 workers per trip; now it has gone down to 60-70.

*Recruitment Manager
Construction Group*

Salaries for blue-collar workers have experienced little or no rise – as there is still no serious shortage. However, as accommodation is provided by the employers, the total cost of employing workers has risen significantly for contractors.

Government regulation has been and will continue to be a major factor affecting the employment of labourers. Many contractors face limits on how many labourers they can bring into the country. Saudi Arabia is particularly strict on the number and nationality of workers. Qatar has placed stringent limits on visas issued to Indian nationals, forcing many employers to look for alternative sources, including Nepal, Vietnam and China among others. Governments are expected to continue tightening the visa rules.

Bahrain is about to undertake a radical overhaul of its localisation programme. Under the new setup, firms will be allowed to hire any number of expatriates that they wish. However, they will have to pay a substantial visa fee equivalent to around \$3,000 per year per expatriate employee. The proceeds from this 'levy' will go into a fund to be used for the training and development of Bahraini nationals. If confirmed, the new setup will dramatically increase the cost base for contractors, as it will virtually double the cost of employing blue-collar workers.

The GCC governments are also under immense pressure from the WTO, the International Labour Organisation (ILO), human rights groups as well as Western governments with whom they are negotiating bilateral free-trade agreements, to improve protections for workers and to bring their labour markets into line with international norms and practices. Several GCC governments have already responded by introducing quality inspections at labour camps, strengthening labour tribunals, setting up employment human rights watchdogs, and floating the possibility of allowing some limited form of union representation. The trend is very much towards increasing protections for workers and this is bound to further increase labour costs for contractors, particularly those operating at well below international standards.

Other proposed labour legislation, including minimum wage and the requirement for expatriate employees to speak English, have the potential to impact the sector. For the foreseeable future, however, these are highly unlikely to be applied to expatriates in construction.

Methodology

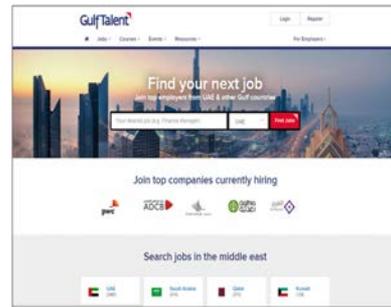
This research report was based on GulfTalent's survey of professionals employed in the Gulf's construction sector, interviews with a number of executives and human resource managers of local and international companies operating in the Gulf, as well as a review of the relevant press literature. The survey focused primarily on employment issues relating to engineering and managerial staff employed in the sector and did not cover blue-collar workers in any significant detail.

Comments and queries regarding this report should be sent to:

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About GulfTalent

GulfTalent is the Middle East’s leading internet recruitment portal for mid-level and senior professionals, serving an active client base across Saudi Arabia, Kuwait, Qatar, Bahrain and the UAE. Headquartered in Dubai and used by leading employers and recruiters in the region, GulfTalent specializes in matching top candidates with attractive career opportunities through its internet site.



Middle East Labour Market Research

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