

Expatriate pay and compensation: fair or not fair?

David Desplaces and Steven W. Congden

David Desplaces is an Associate Professor at the Department of Management and Entrepreneurship, College of Charleston, Charleston, South Carolina, USA.

Steven W. Congden is an Associate Professor at the Department of Management, Marketing, and Entrepreneurship, Barney School of Business, University of Hartford, West Hartford, Connecticut, USA.

Mike Collins[1], Manager of Human Resources at Palm Oasis Engineering in Dubai, had an unexpected meeting with Francois Mallon, the Engineering Manager. Francois Mallon revealed discontent with his situation at Palm Oasis. In a tone that Collins judged as threatening, Mallon asserted that his pay and compensation package was low: "Why should I work hard when I am not getting fairly compensated and rewarded, plus I get calls from head hunters all the time."

Concerned by this revelation, Collins informed Olivier Thierry, the company CEO, of his conversation with Mallon. Mr Thierry was initially taken aback but later admitted to Collins that he was not surprised in hindsight considering Mallon's recent withdrawn demeanor. Thierry asked Collins to prepare a thorough review and analysis of the compensation packages of the management team and to brief him on a negotiation strategy.

The company

Palm Oasis Engineering Ltd was an industrial engineering company specializing in cooling systems consulting for commercial complexes and buildings in the United Arab Emirates (UAE). Olivier Thierry, who served as an Owner and the CEO, founded the business in November of 2003 at the time of a major construction boom in Dubai. The business had grown to 23 full-time employees.

The company was located in Jebel Ali Free Zone in Dubai, one of the seven emirates that made up the UAE. Palm Oasis Engineering was a specialty service engineering company that provided expertise, coordination, and support for engineering cooling systems for mid-size to large-scale building projects. The majority of its clients had been construction companies in the Emirates of Abu Dhabi and Dubai that specialized in both public and private sector construction. Operating in the free trade zone allowed Thierry to operate as a single owner without a local majority partner as was required outside of the free trade zone. To preserve this status, Palm Oasis could only provide consulting to other construction companies acting as the primary contractors.

Despite the 2009 real estate crash in Dubai, the business environment for the company appeared bright. In November 2013, Dubai won the rights to host Expo 2020. A major real estate expansion was expected (Steele, 2014).

At the moment, the company was part of a major and very complex engineering project that was behind schedule by a few months but due to be completed in the next seven months. Palm Oasis Engineering had generated a profit every year since its inception but currently suffered from significant cash flow problems because Thierry had agreed to commit 100 percent of his company's resources, including the company's financial reserves, to the current project. The business would get paid only upon completion of the project. Any further delays and personnel changes could negatively affect the company's fragile financial health.

Thierry believed that Mallon's current compensation package was fair, yet losing Francois Mallon was something the company could not risk. Mallon's expertise and niche skills meant that his abrupt departure would further delay the current project since it would take months to find and train a replacement. In addition, agreeing to improve Mallon's compensation package might

This case was discussed at the CASE association 2014 annual meeting, May 9, 2014.



Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making. The author/s may have disguised names; financial and other recognizable information to protect confidentiality.

trigger other employees wanting to renegotiate their packages, something that would further jeopardize the company financially. Aside from the more immediate financial issue, the longer-term reputation of the company would also be at risk if deadlines were missed.

Key management personnel

The company was organized around four functional areas: marketing, finance, human resources, and engineering. Each area was headed by a manager as shown in Exhibit 1. The managers were all professionals with college degrees in their field.

Olivier Thierry, CEO and Owner, a 62-year-old French citizen, was a mechanical engineer by training and had experience engineering and managing large, complex construction projects in France, the USA, and throughout the Middle East for over 40 years. His previous employer had been a large, global engineering company that specialized in large building construction projects. He relocated to Dubai with his family in 2003 to start Palm Oasis Engineering. He was the sole owner of the business.

Francois Mallon, a 33-year-old French citizen, had been an expatriate in the UAE since 2003. He worked in large commercial construction projects after completing an architecture engineering program in his native country of France. He started at Palm Oasis in 2007 and had successfully worked through the ranks of project leader to manager. He managed ten employees: one professional, one assistant, and eight technical specialists who oversaw particular parts of the projects that Palm Oasis consulted on. Mallon's job was central to the company's success since he was responsible for the coordination of all specialty engineering and field work. He was married with no children.

Ethan Fray was a 35-year-old French national with 11 years of experience as a Financial Manager at Palm Oasis. His job was to manage the treasury and financial transactions of the company including the auditing process. He was married and expecting his first child. He managed a chief accountant and two clerical personnel, all from India.

Angela Ogua was a 34-year-old Filipino national who had experience working in various large-scale marketing projects for western companies in the Philippines, and seven years' experience at Palm Oasis. She managed current and future customer relationships. She oversaw a public relations officer who was a UAE national, and two clerical employees from India. She was not married.

Mike Collins, a 44-year-old American citizen, was the Human Resources Manager. He had managed a large engineering staffing agency in his native city of Boston, Massachusetts, before being convinced by Thierry to move to Dubai three years earlier. He was responsible for the hiring, training, and evaluation of all company personnel, along with quality assurance and compliance elements of the business. He also served as a strategic advisor to the CEO. He was recently divorced with four children who lived in Boston with their mother. He was directly responsible for one employee, Charlene, who served as his assistant.

Dubai

Dubai had risen as a key commercial hub in the Middle East and a major trading point between east and west. Located in the Persian Gulf with the largest man-made and fourth largest port in the world, it had enjoyed a major economic boom over the last few decades. Much of this success owed thanks to the vision of its rulers, Sheikh Mohammed bin Rashid Al Maktoum and his predecessor and father Sheikh Rashid Al Maktoum, who foresaw the need to diversify its economy in light of diminishing oil and gas reserves (United Arab Emirates Market Overview, 2012). Dubai was one of seven emirates that made up the United Arab Emirates' federal system with distributed federal responsibilities across all Emirates. Although the UAE was the world's sixth largest producer of oil (UAE Year Book, 2013), the Emirate of Abu Dhabi owned the majority of the oil and controlled the country's wealth. With very little oil of its own (2.1 percent of GDP in 2008) (DiPaola, 2010), Dubai focused on developing a global, integrated transportation hub with two major airports, Emirates Airlines, DP World (ports), and free trade zones. In addition to having

a large financial services sector, Dubai developed its tourism and real estate sectors with many development projects, Palm Jumeira and Burj Khalifa being among the most notable. These and many other factors such as free trade zones, few taxes, location, stability and freedom relative to the region, quality of life, etc., made Dubai a favorite location for multinational operations. Dubai had become a very modern, cosmopolitan, and materially well-off place to live, albeit without the history and culture of most countries.

Jebel Ali Free Trade Zone was managed by Jafza International and benefited from a diversified tenant base (S&P Summary: Jebel Ali Free Zone, 2012). Positioned as the world's most dynamic commercial crossroad (Jafza, 2014), it was an industrial zone with over 7,400 companies where goods traversed a seamless logistics infrastructure, where member companies had access to the top commercial companies in the world, and where companies benefited from 100 percent foreign ownership, 0 percent corporate tax for 50 years (a renewable concession), and no currency restrictions. The UAE also had no personal income tax, but this did not automatically relieve an expatriate's responsibility to pay personal income tax to his or her home country if required. However, all company personnel were exempt from personal tax obligation by treaty or by country laws except Mike Collins, an American. Although he benefited from a Foreign Earned Income Exclusion on the first \$92,000/year (US Taxes While Living Abroad, 2014), he was the only one in the company required to pay taxes on a portion of his salary.

Benefits at Palm Oasis Engineering

The UAE was a mosaic of nationalities. Fewer than 20 percent were reported to be Emirati citizens; the rest were foreign nationals or expatriates (United Arab Emirates, 2014). Furthermore, the UAE had long suffered from limited professional upbringing, especially in very technical and professional fields. The young and developing education system of the UAE had yet to produce a pipeline of qualified Emiratis in many sectors including engineering (Hamdan, 2013). Consequently, western trained individuals were highly sought after to fill the ranks of experts, notably in the engineering and architectural sectors. Additionally, western trained expatriates provided a foreign image associated with higher quality that yielded a premium from clients in the UAE. Consequently, companies worked hard to incentivize expatriate employees to join their ranks through perks and benefits.

Palm Oasis Engineering provided a generous array of benefits including health insurance, a fully maintained car with insurance and gas card, all utilities (electricity, water, heating/cooling), furnished apartment – which varied in size depending on an individual's marital status, apartment maintenance fees – particularly high in Dubai due to the high standard of living, professional training, home phone, home cable/internet, company cellular phone, all visas/permits/driver's license fees, and a plane ticket for yearly visits by an employee to his or her home country. The company also offered free lunches every day in the building cafeteria. More typically in the UAE, expat middle managers received company-provided accommodation with basic utilities or a housing stipend, and a personal mode of transportation with limited business-related expenses covered.

Labor laws in the UAE, which also applied to all free trade zones in the UAE, mandated some benefits but also tended to limit expatriates from switching jobs freely. Laws required all expatriate employees to receive a plane ticket to return home every year if they so desired, along with medical coverage. Most employment contracts were either two years, or unlimited in nature. However, an existing employer was required to agree in writing (No Objection Certificate) for a new visa to be issued by a new employer for a person seeking to change jobs. This law had been designed as a security control measure but in effect was used to prevent individuals from easily joining the competition or other companies in the UAE.

Preparation for the meeting

Still troubled by recent developments, Collins was preparing his notes for tomorrow's meeting with Thierry. He knew he must present an analysis of the compensation packages offered by the company and suggest a negotiation strategy to diffuse the situation. Exhibits 2 and 3 provide basic

information Collins's assistant Charlene had prepared for him. He had also asked for information on cost of living indices, consumer price indexes, and currency fluctuations (Exhibits 4-6). He double checked the salary equivalent for a finance manager in France and found it was for a CFO position of over 25 years of experience in companies with over 100 employees. Ethan Fray clearly did not meet those criteria, but Collins felt the equivalent for Mallon was reasonable.

Collins found compensation hard to judge in Dubai. There were no public data on salaries from the government or from trade associations as was the case in the USA. From Collin's experience, Dubai had high variation in compensation and comparisons were avoided. Most companies did not disclose potential salaries in ads, not even a range. Expatriates were most often targeted when recruiting for professional positions. Headhunters he knew used a premium over salaries in an expatriate's home country as a basis for salary offers. Benefits were even more variable and ambiguous, although Collins could think of little that was not already a part of Mallon's compensation. A three-bedroom apartment was more than what most expats were offered. He recalled Mallon acknowledging this: "We are actually over-housed for our situation [no children], and with more luxury than we really need."

Judging Mallon's frame of mind was also difficult. Mallon had said: "My wife and I love Dubai. It is the best place for expats." But was this just relative to other expatriate possibilities? Would returning to his home country of France be a viable option for Mallon? Mallon's Korean born wife spoke English as did most expat professionals in Dubai. Would she want to live in France and have to learn French? Collins was disturbed by the tone of Mallon's outburst about compensation as this uncertainty came at a bad time for the company. Collins believed that Mallon had likely been contacted by headhunters but took some comfort in Mallon saying that he was not actively seeking other employment at this point and had not actually responded to headhunters: "If I was at the point of investigating other offers, I would already be gone."

Note

1. This case has disguised the industry and the names of the company and its personnel to protect their privacy.

References

DiPaola, A. (2010), "Dubai gets 2% GDP from oil after diversifying revenue, prospectus shows", Bloomberg News, September 28, available at: www.bloomberg.com/news/2010-09-28/dubai-gets-2-gdp-from-oil-after-diversifying-revenue-prospectus-shows.html

Hamdan, S. (2013), "United Arab Emirates looks to vocational education", *The New York Times*, November 25, available at: www.nytimes.com/2013/11/25/world/middleeast/united-arab-emirates-looks-to-vocational-education.html?_r=0

Jafza (2014), "Why Jafza?", available at: www.jafza.ae/explore/why-jafza/ (accessed January 11, 2014).

S&P Summary: Jebel Ali Free Zone (2012), *Reuters*, May 29, available at: www.reuters.com/article/2012/05/29/idUSWLB044120120529 (accessed January 11, 2014).

Steele, F. (2014), "Dubai property: Expo 2020 expected to boost the emirate's recovery", *Financial Times*, January 31, available at: www.ft.com/cms/s/2/6d8d1f8c-7e05-11e3-95dd-00144feabdc0.html#axzz31tCPkMky (accessed January 31, 2014).

UAE Year Book (2013), available at: www.uaeyearbook.com/Yearbooks/2013/ENG/ (accessed January 12, 2014).

United Arab Emirates (2014), "CIA World Fact Book", available at: www.cia.gov/library/publications/the-world-factbook/geos/ae.html (accessed January 12, 2014).

United Arab Emirates Market Overview (2012), "United Arab Emirates Country Commercial Guide", *United States Department of Commerce*, available at: www.export.gov/article?id=United-Arab-Emirates-market-overview (accessed January 10, 2014).

US Taxes While Living Abroad (2014), "American citizens abroad", available at: <http://americansabroad.org/issues/taxation/us-taxes-while-living-abroad-faq/> (accessed January 12, 2014).

Exhibit 1

Figure A1 Company structure

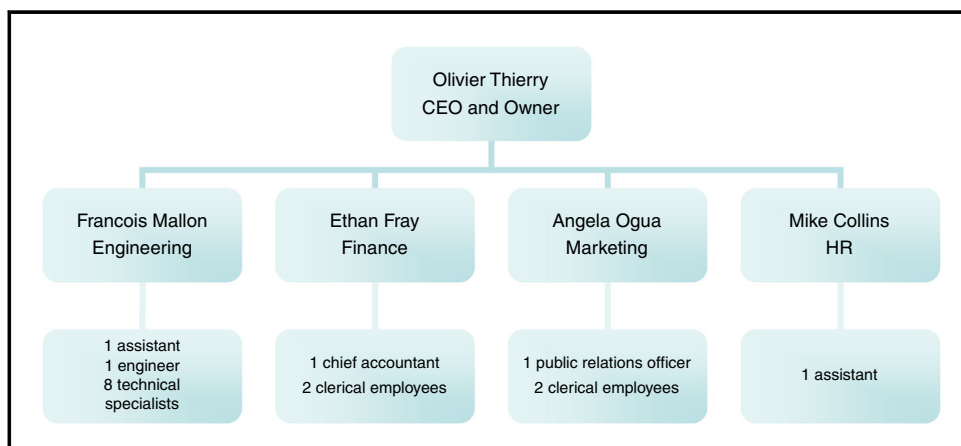


Exhibit 2

Table A1 Salaries of management

	<i>Job title</i>	<i>Home country</i>	<i>Tax free equivalent</i>	<i>Actual salary</i>
Francois Mallon	Engineering Manager	France	358,560	397,003
Ethan Fray	Financial Manager	France	896,400	401,861
Angela Ogua	Marketing Manager	Philippines	40,800	368,645
Mike Collins	HR Manager	USA	358,560	397,003

Notes: Actual salary lists each manager's current company salary. Tax free equivalent indicates an average salary reported for an equivalent position for each manager in his/her home country after taxes, and adjusted to UAE currency (AED). AED3.67 = US\$1

Source: www.salaryexplorer.com (accessed January 2, 2014)

Exhibit 3

Table A1 Total value of company-provided benefits in AED

	<i>Job title</i>	<i>Total benefits</i>
Francois Mallon	Engineering Manager	428,569
Ethan Fray	Financial Manager	333,586
Angela Ogua	Marketing Manager	135,657
Mike Collins	HR Manager	321,570

Exhibit 4

Table AIII Cost of living indices by country						
Country	Consumer price index	Rent index	Consumer price index+rent index	Groceries price index	Restaurant price index	Local purchasing power ^a
France	103.24	37.89	71.92	97.75	100.45	98.11
USA	100	100	100	100	100	100
India	30.92	7.36	19.61	32.51	18.09	61.92
Philippines	48.01	10.91	30.2	51.23	26.89	25.66
UAE	75.48	63.29	69.63	64.99	69.9	121.24

Notes: ^aLocal purchasing power shows relative purchasing power in buying goods and services in a given city for the average wage in that city. If domestic purchasing power is 40, this means that the inhabitants of that city with the average salary can afford to buy 60 percent less typical goods and services than New York City residents with an average salary.

Source: 2013, www.numbeo.com/cost-of-living/rankings_by_country.jsp

Exhibit 5

Table AIV France-UAE CPI by year		
	Consumer price index France	Consumer price index UAE
2013	103.24	75.48
2012	98.19	81.96
2011	101.17	80.10
2010	123.49	83.77
2009	120.92	na

Source: www.numbeo.com/cost-of-living/rankings_by_country.jsp

Figure A2 Euro to US dollar five-year history



Corresponding author

Steven W. Congden can be contacted at: congden@hartford.edu