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### DETERMINANT OF THE COMPENSATION POLICIES FOR EXPATRIATES WORKING IN SAUDI ARABIA

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#### ABSTRACT

Compensation policies are an important element for employees working in any organization. It determines the benefits received in terms of monetary and non-monetary value. This work was done to analyze the determinants of compensation policies for expatriates working in Saudi Arabia. The objectives were to understand the different policies of compensation in the different companies and the factors they consider in determining the remuneration of their employees. The methodologies used in this study were qualitative research methodology, focusing on interviews as the first primary source of data collection by interviewing six different companies as sample size, each with a number of employees of one hundred and more, with the exception of two companies with employees of less than one hundred. The result that was found for this issue was that the majority of companies base their compensation on a specific factor, i.e., Experience. Experience. However, there are some other factors that are considered but not applied in all companies, such as specialized training, degrees, marital status and the organization from which the applicant originates. It is recommended that this study be carried out on a larger sample size in order to collect more data and to understand a different aspect of the determinants of compensation policies for expatriates working in Saudi Arabia.

#### INTRODUCTION

Compensation is the monetary and non-monetary value that the employee receives from the employer for his or her service. It is based on many factors, but the main factor on which the requirements are based and followed is labor law [1]. On the other hand, any employer may negotiate with his or her employee any other compensation benefits that may apply.

This decision is based on factors such as market research on the value of similar jobs in the marketplace, employee contributions and achievements, the availability of employees with the skills required in the marketplace, the desire of the employer to attract and retain a particular employee for the value they are perceived to add to the employment relationship [2]. Furthermore, compensation is also determined by the profitability of the company, the funds available in a non-profit or public sector setting, and finally, the ability of the employer to pay market rate compensation.

Budd [3] stated that the importance and advantage of having a well-structured compensation plan includes many reasons to help attract, retain and motivate talent in any organization. In addition, Masum et al. [4] found that a good system of compensation contributes to the satisfaction of employees when, as they are assured of a fair exchange of rewards for their services, there is an increased motivation, low absenteeism and low turnover among the employees. These are all other advantages for the employer when it has a well-designed compensation structure [4]. Furthermore, Hassan [5] found that employers could have peace of mind by offering a number of types of insurance to their employees, which could revive them from certain fears and help them to work with a more relaxed mind.

According to Jian and Lee [6], every organization has a dream to expand both domestically and internationally. But when a corporation begins to expand and diversify internationally, it results in a more complex and dynamic management decision-making process [6]. Furthermore, the management environment is affected by the different approaches that need to be adapted and modified due to the different laws and regulations, culture, labor and employee compensation strategies [6]. Bolton et al. [7] found that executive compensation is a strong factor in the reward compensation strategy and plays a key role in the development and profitability of the company. Bettis et al. [8] stated that organization as to how large or small a company is, will always face a problem with organizational performance, whether the employer pays less or more, employees will always find a way to ask for more and be less satisfied. A clear and fair compositional structure will therefore find a way to reduce these struggles [8].

One of the main attractions of working in Saudi Arabia is the lack of personal taxation, which leads to a much higher net income [9]. In the past, compensation has been divided into different elements, such as basic salary, transport allowance or housing allowance, medical insurance and education allowance for employees of children, in some cases [9]. But now employers are paying the salary that covers all of these expenses [9]. In addition to their salary, employees shall be compensated for the termination of the service pay at the end of the contract period [10]. Saudi Arabia established that the indemnity is based on the significance of the full reward set, including achievement bonuses, where appropriate [10]. Nevertheless, sometimes distinct laws are laid down, based on the company, by an arrangement between the employer and its staff [10].

Saudi Arabia has a large number of expatriates who are part of the labor force sector, most of whom are in the private sector [11]. Many expatriates work in different sectors and have different compensation structures from one another. Saudi employees are complying with the laws and regulations of Saudi labor law in their compensation policies by their employers. Compensation policies for Saudi employees are clear and well known [12]. However, the structure of the compensation police for expatriates working in Saudi Arabia is unclear. And the number of expatriates working in different positions in Saudi Arabia has increased. For this reason, understanding and studying the determinants of compensation policies for expatriates working in Saudi Arabia is particularly important for human resource managers and employees in order to have satisfied and motivated employees. Therefore, this work was done to analyze determinants of the compensation policies for expatriates working in Saudi Arabia.

## METHODOLOGY

In this study, the methods used were qualitative research method. The sample population for this work was 6 managers from different organization in Saudi Arabia. The organization that participated in this work were Effat University, Rawee Almakbat, Siraj Medhar Meat Corporation, Aice, Women 's welfare society, and Abou Seoud Furniture Factories. Data collection was done based on interview. All the collected data were presented in descriptive form.

## RESULT AND DISCUSSION

### *Demographic Characteristic*

Table 1 shows the details of the organization that participated in this study. Based on Table 1, managers of each organization have participated in this interview-based study. Based on Table 1, the first organization is Effat University and their business nature is related to academic field. The second organization is Rawee Almakbat, which is a stationary business. The third organization is Siraj Medhar Meat Corporation which is a meat company. The fourth organization is Aice, which is involved with architecture and engineering. The fifth organization is Women's welfare society, which is a NGO. The final organization is Abou Seoud Furniture Factories, which is involved in furniture manufacturing. The comprehensive details on the number of employees and the number of expat employees are shown in Table 1.

**Table 1.** Company Details

Company	Effat University	Rawee Almakbat	Siraj Medhar Meat Corporation	Aice	Women 's welfare society	Abou Seoud Furniture Factories
Nature	Academics	Stationary Business	Meat company	Architecturaland Engineering	NGO	Furniture company

Number of employees	419	229	220	14	70	405
Number of expats employees	278	117	131	10	30	240

### *Interview Analysis*

In this section, the 6 managers were asked several questions related to compensation policies for expatriates' employees. The feedback of each manager for each question is presented in this section accordingly.

The respondents were asked "What are the factors considered when determining the compensation for expatriate". The reply to this question is presented in Table 2. Based on Table 2, majority of the respondents have collectively agreed that experience is the major factor considered when determining the compensation for the expatriate. Furthermore, based on Table 2, the other stated factors were research, degrees held, specialized training, and marital status

**Table 2.** Factors Considered When Determining the Compensation for Expatriate

Question: What are the factors considered when determining the compensation for expatriate?	
Organization	Feedback
Effat University	Experience, research, degrees held, specialized training
Rawee Almakbat	Experience
Siraj Medhar Meat Corporation	Experience, marital status
Aice	Experience, last salary and other benefits, marital status
Women 's welfare society	Experience, degree held, organization applicants originating coming from, specialized training
About Seoud Furniture Factories	Experience

The respondents were asked "What are the factor considered when determining the compensation for other employees (managers, seniors, etc.)?".

Based on Table 3, majority of the respondents stated experience and qualification as the main factor to be considered when determining the compensation for other employees. Additionally, the respondents have stated that training, last salary, and other benefits as factors too.

**Table 3.** Factor Considered When Determining The Compensation For Other Employees

Question: What are the factors considered when determining the compensation for other employees (managers, seniors, etc.)?	
Organization	Feedback
Effat University	Experience, qualifications, training
Rawee Almakbat	Experience, qualification
Siraj Medhar Meat Corporation	Experience, last salary and other benefits
Aice	Experience, qualifications, last salary and other benefits
Women 's welfare society	Experience
About Seoud Furniture Factories	Experience, qualification, last salary and other benefits

The respondents were asked “What is the role of the compensation policy on the performance of an employee?”. Based on Table 4, majority of the respondents stated that it increases loyalty and motivation. Likewise, the other stated factors were team spirit and efficiency. All these factors are influenced by the compensation policies.

**Table 4.** Role of The Compensation Policy on The Performance of An Employee

Question: What is the role of the compensation policy on the performance of an employee?	
Organization	Feedback
Effat University	Increases loyalty, motivation, team spirit and efficiency
Rawee Almakbat	Increase loyalty, and motivation
Siraj Medhar Meat Corporation	Increases loyalty, motivation, team spirit, and efficiency

Aice	Increases loyalty, motivation, team spirit, and efficiency
Women 's welfare society	Increases loyalty, motivation, team spirit
About Seoud Furniture Factories	Increases loyalty, motivation, and efficiency

The respondents were asked “What is the main differences between the compensation for a Saudi and non-Saudi?”. Based on Table 5, each respondent had a different view. Some of the respondents have stated no difference. On the other hand, some of the respondents have stated that Saudi national must follow Saudi labor law, whereas non-Saudi are based on company salary structure, and have housing allowance. Furthermore, the results have shown that non-Saudi national commit more to the job and accept changes.

**Table 5.** The Main Differences Between The Compensation For A Saudi And Non Saudi

Question: What is the role of the compensation policy on the performance of an employee?	
Organization	Feedback
Effat University	No difference
Rawee Almakbat	Saudi: must follow Saudi labor law. Non Saudi: based on company salary structure and must consider housing allowance,etc.
Siraj Medhar Meat Corporation	Non-Saudi commit more to the job for longer periods and accept changes
Aice	No difference
Women 's welfare society	Saudi: get retirement benefits Non-Saudi: housing, transportation allowance, etc.
About Seoud Furniture Factories	Non-Saudi: will have housing,etc allowance included

The respondents were asked “How often do you increase the compensation for a Saudi and non-Saudi employee?” Based on Table 6, majority of the respondents have stated that it depends on the performances of the employee.

Other reasons given where the compensation is increase if the employee is promoted.

**Table 6.** How Often Is The Increase In Compensation For A Saudi And Non-Saudi Employee

Question: How often do you increase the compensation for a Saudi and non-Saudi employee?	
Organization	Feedback
Effat University	Depending on performance
Rawee Almakbat	If an employee is promoted.
Siraj Medhar Meat Corporation	Depending on performance
Aice	Depending on the performance, and the years with the company
Women 's welfare society	Depends on the income of the company
Abou Seoud Furniture Factories	Performance and years with the company

## OVERALL DISCUSSION

In order to understand the policies on compensation for expatriates in different companies and to present a detailed understanding and implications of these policies, the findings are discussed below. These discussions are based on the detailed responses of the interviewees to each question.

The first question was asked to understand the factors that companies consider when they wish to determine the remuneration of expatriates in their organizations. It has been noted that, regardless of the size of the company, its business activity or the proportion of Saudi and non-Saudi employees, prior experience has been considered to be of primary importance. According to the respondents, this experience could have been in the Kingdom, the Gulf Cooperation Council (GCC), the Middle East or elsewhere. However, most of them prefer international exposure rather than local exposure.

The second factor considered by some of the organizations interviewed in the determination of compensation for expatriates was specialized training. Because some positions need specialized training in order to be employed in a position. Organizations find that training is very expensive and may not have enough budgets to provide their employees with the amount of training they need. Degrees held are the third factor considered by one of the organizations to be the determinant. Because the respondent was an academic institution, this is considered to be one of the most important factors. Compensation structured for their employees for this factor depends on the degree the employee holds, as well as the number of degrees. Because it shows the number of qualifications employees must be able to hold positions in

academia, which has a role to play in the quality of the institution and the standard of the institution on the market. The final factors considered that were not considered by the majority of the organizations interviewed were last salary and other benefits, marital status, and the applicant's organization.

The second question was asked to understand the factors that companies consider when they wish to determine the remuneration of expatriates for managers in their organizations. The respondent considered experience to be the main and most important factor to be considered in the remuneration of employees. This is because of their level of position and the amount of responsibility they have, and the decisions they have to make. The second factor considered in the determination of compensation for managers was qualifications and training. According to the respondents, having an employee in a management position, he/she should be fully equipped with the necessary qualifications and training that he/she has gained over the years of experience. The third question was asked to understand the role of compensation and how it affects the performance of employees. Loyalty and motivation were the most responded to the response shared by the companies. They found that one of the main ways to have a motivated employee and to remain at the level of motivation is to have a staff member satisfied by their compensation structure. Another response on the role of compensation policy in the performance of employees was the increase in efficiency and team spirit.

The fourth question was asked to understand the main difference between compensation for Saudi employees and compensation for non-Saudi employees in different companies. It has been observed that most companies have the same structure of compensation. Saudi employees, in particular, abide by the laws and regulations of Saudi labor law. Moreover, non-Saudi employees have housing, transport, education for their children in some companies, etc.

The last question was asked to understand and to know when the employers would increase the compensation for Saudi and non-Saudi employees. It has been noted that the main factor for increasing the compensation, regardless of the size and activity of the company, depends on the performance of the company. The second response to the increase in compensation for Saudi and non-Saudi employees was the years in which the employee was employed by the company.

The outcome of this work is in line with the work of Berber et al. [13] where it was found that job experience, education level, and previous salary is an important factor for structuring compensation policies for employees. Furthermore, the work of Jain and Bhatt [14] found that a good compensation policy enhances the characteristics of the employees in terms of work motivation, loyalty and team spirit. This leads to an overall enhancement in work performances, which contributes to the positive outcome for an organization.



## CONCLUSION

In this study, the determinants of the compensation policies for expatriates working in Saudi Arabia were examined. The result has shown that the majority of companies base their compensation strategies and structure on similar factors. The most common factor that was observed was the employee's experience. This was based on the companies as their main factor in the determination of the compensation policy for expatriates working in their company. On the other hand, there were other factors, such as last salary, marital status, applicant organization and specialized training, in which companies based their decisions on the determination of their compensation policies which differ from company to company. For future studies, the author recommends the continuation of a larger sample size and the assessment of all other aspects of the compensation policy determinants applied to expatriates working in Saudi Arabia.

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