Cost of Living Adjustment in the current environment

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It is a fact that in most sectors salaries and wages have not been adjusted to reflect the upward trend in inflation. The challenge for many organisation right now is on what basis should salaries be adjusted? When adjusted how do we make them affordable and sustainable? It is noble to hear people talk about salary adjustment and how people should be cushioned against the rising cost of living. However, organisations need to exercise extreme caution as there is need to balance salary adjustments with business viability.

The best way to sustain higher wages is to pay people based on productivity gains or improvements. In the current circumstances, likely, most of the reported growth in revenue and profit by companies could largely be a result of price movement and not volumes. The danger of making permanent salary adjustments based on a price-driven growth is that it could turn out to be unsustainable in the long term. It is not possible to keep adjusting your prices upwards for your clients to cover wages which in the case of Zimbabwe are largely fixed and guaranteed whether the company performs or not.

The best way out of the current salary adjustment predicament is to pay once-off payments that are not permanent. You can give for example 50% of the inflation figure as a fixed adjustment and the balance as a once-off cushioning allowance until you are very clear on the direction your business is taking. If you are making a real profit and you are sure of the direction this will take, you can go for a permanent wage adjustment.

What is also worrying though is that in some circumstances companies are increasing the selling prices of their commodities even in cases where input or resource prices have not shifted that much. For example, you may find that resources or input prices have increased by 20% but the company goes on to increase the selling price of its products by 150%. That is bad business practice. In Zimbabwe, very few if any company reduces its prices when input prices have gone done. It is good business practice, to sometimes take profit margin reduction to keep your market share. Recklessly increasing prices could result in you losing your market share. When hard pressed your clients will end up looking for alternatives and once they go you may not be able to bring them back in the future. The challenge seems most companies are focusing on making money at all costs instead of focusing on competitiveness.

The key takeaway point to note here is that companies need to aim for competitiveness in both the local and foreign markets. The OECD defines the country or national competitiveness as "the degree to which a country can, under free and fair market conditions, produce goods and services which meet the rest of the international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term." For Zimbabwe to achieve the level of competitiveness, we need to overhaul the whole approach to how we do business. I am not going to focus on national competitiveness but on the competitiveness of local firms, which contribute to country competitiveness. We can't even talk of national competitiveness because so far it seems we cannot leverage the resources we have to make

Zimbabwe a very competitive country.

The lack of competitiveness for Zimbabwean products can be traced directly to the fact that Zimbabwean organisations are unproductive. Let me dispel a few myths about productivity before going back to competitiveness and its link to productivity. The first myth is that production equal productivity. Productivity has to do with the efficient use of resources to produce products and services that the market is willing to pay for. Some companies have 100% capacity utilisation but very unproductive. Some companies are exceeding their production targets but also highly unproductive.

The second myth is that most people think that every profitable company must be highly productive. While that logically makes sense, in practice it does not follow that a profitable company is highly productive. Profitability in companies can change for reasons that have little to do with productivity. Such factors include price inflation or cost may bear no relationship to the efficient use of resources. In the Zimbabwean situation, most companies are likely being profitable by increasing their prices at a much faster rate than the price of inputs (price over recovery). Zimbabwean companies are over recovering prices but they always blame this on the high cost of labour and other inputs. Instead of reducing the prices of their products when prices of inputs decrease they celebrate the higher margins that make the products very uncompetitive outside our borders.

Which areas will our local industries need to focus on to increase productivity and competitiveness? A business-friendly regulatory environment will help but it is unlikely to be the major source of competitive advantage. The first area that can give us a competitive advantage to look at our capital structure. How modern are the tools we use and are they backed by the latest technology? With a "highly educated" workforce what stops Zimbabwe to leverage on this if this is a true competitive advantage of the country. Automation, modernisation, and ICT are core areas we can leverage on. This must even start with the government. If the government was modernised it would never need the current levels of employees it has which adds to the cost of doing business.

The other factor that can give us a competitive advantage is to improve the quality of labour we have. We have a "highly educated" workforce that is running down companies. The quality of management is appalling and this is the hurdle we have to face as a country. Poor leadership and management lead to misuse of resources thereby impacting negatively on productivity. Poor managers borrow money and instead of financing the business they squander the money on non-core activities. In the areas of skills development, we need to shift the focus to training hands-on people who are going to make things work instead of the current focus where 90% is on training office people who are all aspiring to be managers to manage other managers.

Zimbabwe has no option but to raise the level of productivity so fast so that we can compete with other nations. India produces information technology engineers in abundance and they export to all parts of the globe. Why can't Zimbabwe produce its engineers be they mining engineers, agriculture engineers, data scientist, etc. and export the skills. Currently, we have exported low-level skills that bring some diaspora remittances but we could get more if we export highly skilled individuals. Imagine if we had let's say 50 000 mining engineers all over the world. The benefits would be enormous. Yes, we claim to have a highly educated workforce but if I may ask; which field are we blessed with highly skilled and educated people except for politics? We need to accept that we do not have the skills to raise the level of productivity and develop a strategy to up the levels of skills across key strategic areas.

Zimbabwean companies must go out there and hassle with everyone. That way they develop the right level of managerial skills and technology required to compete on the global stage. Remember the only way to sustain higher wages is to increase productivity.

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