

# Our Views

## Productivity enhancement to offset wage inflation

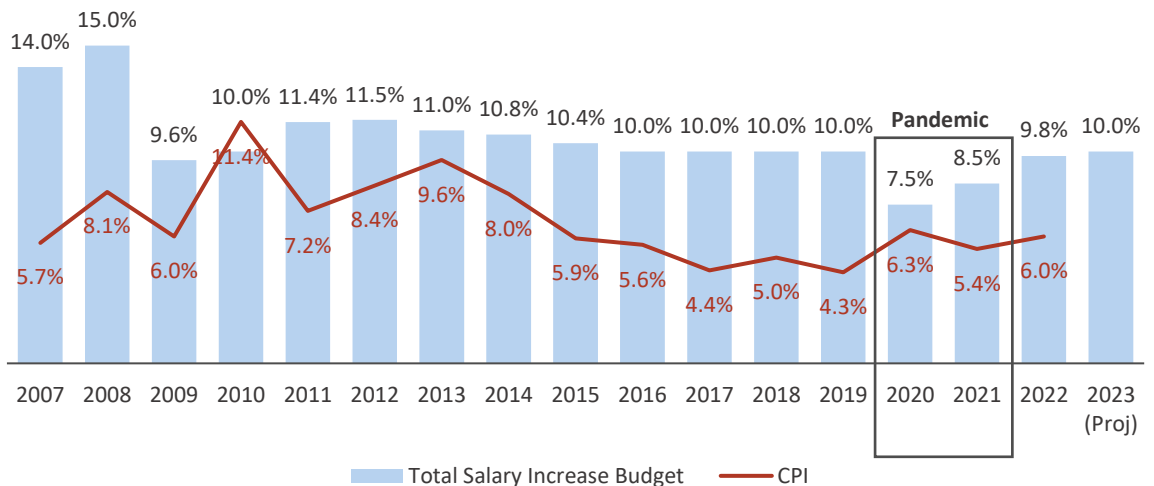
Recently, I came across a survey of 650 MSMEs about their financial situation over the last couple of years. There were two trends that I discerned from it. First, the revenue of MSMEs has been rising. However, the second interesting observation was that their margins are coming under pressure. A further analysis of this indicated that a large part of the pressure on the margin was because of two costs – financing and wages. While financing cost is largely linked to the interest cost which may start to come down now, the wage cost once gone up is very difficult to bring down. Improved productivity of the workforce is the solution to offset wage costs in the long run.

2022 was volatile for the global economy due to geopolitical tensions, recessionary indicators and growing inflation. Global growth is expected to have fallen from 5.9% in 2021 to 3.1% in 2022 and further to 2.2% in 2023. This is the weakest global growth profile since 2001, except for the period of global financial crisis and the most severe phase of the COVID-19 pandemic.

While the world was going through a slow growth period in 2022, a strong Indian economic growth in the first quarter of FY 2022-23 helped India become the fifth-largest economy in the world ahead of the UK. India's GDP growth has been among the highest in the world, averaging 6% to 7% per year. This massive growth is supported by the talent pool available in India. The current talent market in India is dynamic and evolving rapidly, shaped by a combination of global economic trends, technological advancements and changing workforce expectations both in terms of compensation and working conditions.

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This is mainly due to the following factors:

**Skilled talent shortage:** There is a high demand for skilled workforce in India, particularly in sectors such as technology, healthcare, and manufacturing. This has led to a shortage of skilled talent in certain industries, which is driving up salaries and creating more opportunities for job seekers.

**Increasing competition for top talent:** As the Indian economy continues to grow, competition for top talent is intensifying across various industries. Companies are increasingly focusing on employer branding, benefits, and retention strategies to attract and retain high-quality talent. Top talent with critical skills and high-performance history command compensation premiums ranging from 1.7 to 2x of average talent.

The median salary increases in India is forecasted to rise by 10% in 2023 (translating to an average salary increase of 10%), up from an actual increase of 9.8% in 2022. This is the highest amongst the other Asia Pacific countries. Vietnam has the second highest salary hike projections in the APAC region, followed by Indonesia at 7% and China at 6%.

To actively solve the problem of wage inflation our government and industry should focus on the following.

- a) Improve the productivity of existing employee base by continuous upskilling and training. Technology can play an important role in upskilling our workforce. This is equally applicable for both white and blue collared jobs.
- b) Encourage performance-based pay systems to link salary increases with individual or team performance. This would motivate employees to enhance their productivity and contribute more to the organization to earn higher wages.
- c) Offer a comprehensive benefits package that includes non-monetary perks such as healthcare benefits, retirement plans, flexible work arrangements, professional development opportunities, and work-life balance initiatives. This will help workers to focus on the job at hand rather than worrying about their other requirements.

In order to maintain our cost competitiveness around the world, we need to keep the factors of production under control. Wages being one of the significant influencers for most of the industries/ areas, we do need to keep this under check. Therefore, a continuous focus on the productivity of our workforce is of paramount importance.

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