Annual increases: Can employers afford to give raises this year?

The end of the financial year is coming up, and with it, employers will be considering their annual budgets for 2023 and whether or not they'll be able to offer their employees an annual salary increase.

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According to Dr Mark Bussin, master reward specialist and exco member at the South African Reward Association (SARA), economic instability in the country makes this unlikely – unless the government takes drastic action soon.

"Unfortunately, the current state of South Africa means the financial outlook for companies is generally bleak and this will have a direct impact on their ability to offer any kind of meaningful increases to employees," he says.

Bussin provides an overview of the causes of the situation, their impact on employee rewards, and solutions that should be implemented promptly to improve conditions.

How will increase decisions be impacted by the current economic climate?

"First, we need to ascertain what is meant by 'current economic climate'," says Bussin. He highlights the following key factors that define the country's economic situation and impede employers' ability to make favourable increase decisions:

- Pedestrian economic growth;
- Despairing energy supply;
- Zero investment confidence;
- High inflation;
- Dismal service delivery at all levels of government – local, provincial and national; and
- No political will from government.

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What is the impact of these factors on employers' ability to make increase decisions?

These economic failings will inevitably cause employers to:

- Be more cautious and prioritise corporate budget stability over employee rewards;
- Face decreased revenues, causing them to delay or reduce salary increases to mitigate financial strain;
- Give more consideration to the current unemployment rate and market competition for labour when making decisions on salary increases;
- Hold back on incentive and bonus payouts, and strengthen the link between these payouts and company performance;
- Adjust the amount and frequency of payouts based on the company's financial performance; and
- Possibly opt to reduce or eliminate bonus and incentive payouts altogether to reduce costs, save money and maintain financial stability.

What needs to happen for this situation to improve?

"You can ask a thousand economists this question and you will get a thousand different answers," says Bussin. However, from a company perspective, relative to the decisions around making salary increases possible, he believes the following must happen at all levels of government:

- Eliminate corruption;
- Streamline regulations and reduce red tape;
- Overhaul the education system entirely;
- Encourage entrepreneurship;
- Address the inequality gap;
- Promote exports and support SMMEs; and
- Manage government debt and implement fiscal discipline to help restore investor confidence.

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What does this mean for employees?

"Until the government takes decisive and proactive steps to remove these economic barriers, organisations will be unable to respond positively to their employees' cost-of-living requirements," says Bussin.

He encourages companies and concern groups to continue to put pressure on the nation's leaders to make tangible reforms that will help South Africa recover from crippling economic deficiencies.

"We can talk about working together towards a solution all we want. But, if the proper political, legal and socio-economic foundations are not in place, there is no footing to climb out of the hole in which we collectively find ourselves," he says.