

Navigating in Turkey's Difficult Times

Labor Movements Position Paper *Is a new labor model possible? Engagement Matters!* 28 August, 2015



As you have read in “Turkey’s Political Conundrum” report, 2015 will be remembered with political instability, elections and vain attempts to form a coalition. However, 2015 is not only the year of political deadlock, it will also be remembered as the year of labor movements. Turkey witnessed a rather important labor struggle in the automotive industry.

Starting with Renault workers in Bursa, thousands of workers in several contract manufacturers to major international automotive companies had joined the strike in hopes for better wages. The wage dispute spread from Bursa to other cities and dozens of companies have been affected by these events. The strikes are over and the companies and the labor union have relieved the labor tension with extra material incentives provided. But is it really over? Why did we witness these serious labor disputes? Did it start suddenly? What will be the next?

These questions are now on the table and all companies from different industries that have a labor-intensive business model should ask and seek for the answers.

An Expected Dispute

First of all, these labor struggles did not start overnight. Turkey has been witnessing labor movements in the last few years. If we took the automotive industry as an example, metal workers’ struggle for better conditions and higher wages goes back to 2012, when thousands of workers of the German Bosch factory resigned from their union Türk Metal (a member of Confederation of Turkish Trade Unions, TÜRK-İŞ) claiming that the union failed to fight for the workers’ rights in negotiations with the employers. This followed several protests and eventually led to the formation of an “inner council” among workers from various factories in order to take autonomous action to claim their rights. Similarly, in 2014, Şişecam workers went on strike for higher wages; however, the strike has been postponed by a decision from the Turkish government, on the basis that the strike creates national security risks. On a related note, recently, the Turkish Constitutional Court ruled that strike postponement decision is an abuse of employee rights and, consequently, against the Constitution.

Root Causes of Discontent

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First of all, the labor force in Turkey is no longer cheap. Traditionally, Turkish industry positions itself as a low cost, labor-intensive sub-contractor production country. This has been the main competitive advantage of Turkish industry up until now. However, with the growth of eastern markets and the entrance of transitional countries to the global market, Turkey started to lose this competitive advantage since these countries offer a relatively cheaper

workforce. In addition to this, domestic factors also play a role in the increasing costs. In the last 3 years, minimum wage increased above inflation (minimum wage increased 10%, while the inflation increased 7.5% on three years average). GDP per capita has reached above 10,000 USD. However, this increase in the GDP per capita is not reflected in the wages of blue-collar workforce. While the (Gen Y) young workers' expectations of living standards are increasing, wages fall short in meeting these expectations. The situation eventually leads to increasing tensions in the work environment.

Secondly, companies in Turkey are struggling to secure their market share and stay competitive in the global market. The increasing labor cost is putting pressure on companies as investors search for a cheaper workforce in other markets. In addition, profitability of the companies has been decreasing due to the low price premium and low value-added production model of the industry. For example, the CEO of one of the major automotive producers (and exporters) declared that their profit is only 1,000 USD per car they produce because they only produce low value-added parts of the car and the value added parts (ie. Engines) are imported from Europe. Due to this low level of profit, it is almost impossible to match material expectations without changing Turkey's economic and business model and focus on high value added products.

These two factors increase the tension in the production sector. While workers are not happy with their working conditions and the material benefits they receive, companies are putting pressure on production to decrease their cost (per production) to survive in the competitive global market. This pressure is the root cause of the labor movements. While companies try to increase production for higher profits, workers do not see personal benefits out of this productivity pressure. Turkey's outdated Collective Bargaining Agreement structure does not include performance-based premium systems and companies are more used to managing labor relations with sticks, and not with carrots.



Apart from these economic developments, the political developments in Turkey also create a suitable environment for these labor movements. With the Gezi events of 2013, Turkey is experiencing a new era of protests. Labor disputes are not new, but since Gezi, the public's perception of these social and political movements is much more positive. As you may see in "StratejiCo. Position Paper on Community Engagement," it is quite possible that this attitude will continue to intensify in 2015 and 2016 amidst a rather tense political environment. In this political and social environment, the reactions related to the two main reasons of the labor disputes mentioned above would increase exponentially.

Possible Solutions

It is obvious that Turkey needs a structural reform on its industry. However, as discussed in "Turkey's Political Conundrum" report, the political instability that Turkey is currently facing is likely to continue for a while. Under these circumstances, expecting a structural reform in Turkish industry is not realistic. But there is still a way out of this maze.

StratejiCo.'s engagement surveys show that non-material expectations of the workers are more important than their material expectations. Workers ask for fair and humane treatment; they want to be respected and be a part of the improvements in the business, in addition to wanting to feel that they are more important than the machines. The StratejiCo. Engagement research shows that non-material improvements have even more impact on increasing engagement, loyalty, and satisfaction levels of employees.

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Our engagement surveys also show that workers want their share from the benefits that companies receive out of productivity increases. The shared benefits should include both material and non-material aspects. Recognition and celebrating success are quite crucial to secure peace in the workplace.

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Bottom-line

Crises are unexpected events. But we forecast that even a tenses period (in terms of labor relations) is also within sight. So, companies should take necessary actions to prevent possible risks, secure their competitive advantage and obtain sustainability of their business. In order to be protected from this turbulent period and political instability, these points are critical;

- 1- Increasing Engagement Level:** Employing a highly engaged labor force is one of the key factors that lead to increasing productivity, quality, loyalty, and a decreasing turnover rate. A highly engaged labor force tends to go the extra mile for their companies' success. During the turbulent times, this extra effort is priceless. Highly engaged employees are proud to be a part of their company and more welcoming towards production improvements, while also being less prone to leaving their company in hard times. Therefore, it should be the priority of all managers to take responsibility for increasing the engagement level of their employees.
- 2- Fairness, Equality and Performance:** Workers want to be treated in an equal and fair manner. They also want to get benefits when they work hard and when their company achieves business success. Fair and equal treatment has material and non-material dimensions and companies should take both into consideration. One aspect is vital: employees feel equal when they are involved in the improvement processes and decision-making mechanisms. Participation is the key for engagement.

- 3- **Relations with the Labor Unions:** Labor unions have always been regarded as the opponents by company managers. However, it does not have to be this way. Unions are as concerned as business executives in terms of maintaining the peace and productivity in workplace. It may sound counter-intuitive to cooperate with union leaders, but this is exactly what managers should do in turbulent times.
- 4- **Transforming for Value-Added Products:** There is a sustainable solution for companies that are squeezed by market competition and increasing labor costs. They should find the ways to transform into high-value manufacturers. It is clear that labor costs in low income countries will always be more attractive for other products; thus, businesses in Turkey should focus on increasing innovation in the workplace.
- 5- **Crisis Mitigation Plans:** Taking the necessary actions to increase engagement and become a better workplace are a process. In order to not be caught in the action unprepared, companies should develop a well-designed crisis mitigation strategy.

Labor movements have always been among the most transformative factors throughout the history. Whether the outcome will be constructive depends on the decisions by business leaders. If they can correctly analyze the situation in Turkey and take the necessary actions, this can be a period for increasing employee engagement, improving productivity, building relations with labor unions, as well as transforming into more valuable and innovative producers.

About StratejiCo.

StratejiCo. is a strategic consultancy company headquartered in Istanbul. Since 1987, StratejiCo. serves multinational companies that operate in Turkey and in the region by providing knowledge, relations and communication. We use an engagement-based approach to develop and execute corporate and public affairs strategies.

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