

Minimum Wage - Destruction Or Opportunity

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Government's decision to increase the minimum wage by 30% has fundamentally affected the business environment in Turkey. The stakes are too high for each player. Employees are looking for better financial and working conditions. Managers are struggling to decrease the costs to meet shareholder expectations. Investors want better returns. Labor unions are trying to find a compromise under new circumstances. Customers are more demanding in terms of quality and price. In short, Turkish private sector is in need of rebalancing to maintain sustainable growth.

Disappointingly, however, business leaders have so far focused on short-term issues, such as how to share the burden of increasing labor costs with the state. It is true that managers are mostly concerned with day-to-day operations. But being successful in this new era requires developing a new type of leadership that combines strategic thinking and transformative skills. Those who can capture the change and adjust their business accordingly today will be ahead of the competition tomorrow. Others will face either diminishing business results or complete failure. Below are three main topics that leaders of Turkey's new business environment will need to put on their agenda.

Strategy Development: New challenges call for new solutions. This is why decision-makers should go back to the core of their business and find out what really creates superior value than their competitors. The most sustainable way to cope with the rising labor costs is to increase productivity at the workplace. What are the main skills and values that your company should possess? The answer may include changing the business model, investing in innovative products, divesting some assets or launching training programs. The key is to study the right questions and involving all stakeholders in the process, such as your employees, customers, and suppliers.

Labor Relations: Turkey is not cheap and skilled labor heaven anymore. Workforce cost makes up approx. 30% of company budget in the manufacturing sector. This means the overall costs of a company will increase by 4-6% as a result of the new minimum wage level, a critical margin for most employers. Furthermore, employee expectations are rising and it is becoming increasingly difficult to engage them to work. Managers should spend a good portion of their effort to ensure fairness and peace at work. They should also build a new type of relationship with labor unions, one that is based on collaboration rather than confrontation. This is especially crucial because the collective bargaining agreement in most sectors will be renewed next year.

Change Management: No change is embraced with open arms. The most difficult part of any idea is implementation. Research shows 70% of change programs fail. Unless new strategies and labor relations lead to behavioral change within the organization, it has no chance of reaching the desired results. Increasing productivity and profitability requires aligning workforce expectations with management's business objectives. Listening to people is the first step.

Even though the anxiety it created in Turkish private sector, the new minimum wage policy has also triggered the debate about some important topics that most managers preferred to ignore until now. Business leaders should think about how to benefit from new conditions and take at least the initial steps. Doing so is not easy. Change is always unsettling. But remaining idle is overpriced.

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