

PROFESSIONAL PRODUCT

ADVISORY REPORT: DOW CHEMICAL TOTAL REWARDS OFFERING IN TURKEY



Seek Together™

Niro Ichsan Adzkr

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Preface

I hereby deliver my thesis, the outcome of significant research, with tremendous satisfaction and a sense of success. It symbolizes a combination of hard work, intellectual curiosity, and a genuine desire to contribute to the field of Human Resources. The process of writing this thesis has been challenging and satisfying. From the early phases of study planning, to the data collecting, analysis, and suggestion formulation processes.

I have experienced both excitement and self-doubt. However, it is because to the consistent support and advice of my thesis advisor, Mr. Joep van der Schoot, that I have persevered in my quest of academic success. I would like to offer my heartfelt appreciation to my advisor whose knowledge, sharp observations, and patient mentoring - have been crucial throughout this attempt. His continuous commitment to knowledge improvement has changed the course of my study and enhanced the quality of this thesis. I am eternally thankful for his consistent availability, critical input, and support, which have inspired me to push the limits of my knowledge. In addition to my advisor, I would like to thank both of my Dow Chemical supervisors: Pieter Meiboom and Laura Reinecke, who gave continual direction and assistance in carrying out this research, particularly during the data collecting phase.

I would like to thank my senior colleagues at Dow Chemical who were participating in this study: HR Solutions Total Rewards Leader, Compensation Country Focal, and Benefits Country Focal. Their knowledge and opinions have broadened the study process and improved the accuracy of this work. Their intellectual involvement and organizational expertise were critical in molding this thesis into its final shape. Finally, I'd want to express my deepest gratitude to my family and friends for their unfailing support, encouragement, and understanding during this difficult academic path. Their faith in my skills, unconditional love, and patience in my times of seclusion have supported me and reminded me of the value of balance and human relationships in the middle of intellectual endeavor.

I hereby submit my thesis with modesty and a enormous sense of achievement, hoping that it will make a significant contribution to Dow Chemical's HR Total Rewards process and motivate others to explore further into the fascinating area of Human Resources.

Enschede, July 6th 2023



Niro Ichsan Adzikri

Management Summary

This report examines Dow Chemical's Total Rewards offering adequacy for Turkish employees, encompassing its internal processes and capabilities, as well as external factors which encompasses PESL analysis and 6 Dimensions of National Culture for Turkey. This study aims to deliver a report with recommendations, based on internal and external analysis in Turkey. The recommendations are intended for the compensation and benefits offered in Turkey – However, it is hoped that the outcome of this study can be applied to Dow Chemical's Total Rewards offering in other countries as well. The highlighted chapter of this report are: Internal Analysis, External Analysis, Discussion & Conclusion, and Recommendation.

The internal analysis revealed that Dow Chemical has vast internal resources and capabilities to execute a competitive Total Rewards in the market. In result, it enables the company to take appropriate measures and implemented the necessary actions to react to the escalating demands set forward by the labor union and government regulation. However, it is found that the Total Rewards formulation procedure is time-consuming, which impacts the agility and responsiveness of the company towards changes in the external environment.

In respect of external analysis, the PESL analysis revealed that Turkey at present has complicated circumstances for any business operation. The existence of and political instability and the never-ending economic crisis in Turkey have made employees to take action (i.e., strike) for a salary increase. The 6 Dimesions of National Culture for Turkey - revealed that most Turkish people possess a collectivist mindset and a preference for stability and certainty in their lives, which makes the likelihood of a movement from the employee become higher.

Based on the results and analysis, it is recommended that the organisation maintain attentiveness in monitoring external factors, including but not limited to the inflation rate, economic stability, government regulations regarding minimum wage, and union demands. To streamline the procedure and processes, it is highly suggested to apply a decision-making threshold to empower the lower management level making decision and approval. The decision-making threshold will be beneficial for Dow Chemical in managing the situation in Turkey and other countries with similar issue. However, as the decision-making power is delegated to the middle and low management level, the risk of decision-making misconduct may occur, which requires a management control namely action accountability.

List of Terminologies

- APAC : Asia Pacific
- Country Focals : An employee from HR Solutions Total Rewards who is responsible to regularly analyze the sufficiency of Total Rewards offering in a certain country operation.
- Center of Expertise : The top hierarchy of the Global HR in-charge for decision making and approval
- EMEAI : Europe, Middle-East, Africa, India
- HRS/HR Solutions : A part of Global HR that is responsible for execution, implementation, and tracking of HR programs
- HR Partner : The person-in-charge for monitoring HR-related duties in a specific country operation, and to provide insights to HR Solutions in accordance with the real circumstances in the country.
- NATAM : North America and Latin America
- ₺ : Symbol for Turkish currency (Lira)
- Total Rewards : Dow Chemical's department which consists of Compensation team and Benefits team

1.0 Introduction

The Dow Chemical Company is an American multinational corporation headquartered in Midland, Michigan, United States. The company primarily engages in business-to-business activities, specifically as a supplier of chemical materials to diverse industries, including automotive and household appliances. The primary focus of this company lies in the production of chemical commodities such as polyethylene, silicone, and paint additives, as well as the manufacturing of plastic packaging materials. Currently, the company is positioned as one of the leading global chemical producers, operating in around 160 countries and employing over 37,000 individuals (Dow Inc., 2022).

Although Dow's products are mostly chemical substances and plastics that are considered malicious to nature - the company shows a serious commitment towards sustainability, according to their statement "*...to deliver a sustainable future for the world by connecting and collaborating to find new options for materials that make life better for everyone.*", let alone the 2025 Sustainability Goals - one of which is to collaborate with its partners to develop a more eco-friendly product (Dow Inc., 2023). The most recent event of collaboration for a sustainable product is between Dow Chemical and GTEX – a Mexican packaging manufacturer, in which output is a URCA detergent packaging produced with post-consumer recycled resin (PCR) that allows up to 30% of virgin plastic replaced with a top-quality recycled plastic.

The persistent growth of multinational enterprises - including Dow Chemical, certainly generates a wide range of questions regarding the vital role of cross-border human resource management. Over the years, Dow Chemical has adhered to a three-legged model developed by a U.S. academician - David Ulrich in his book titled "Human Resource Champions" (1997) as a system to carry out its activities related to Human Resources worldwide. The company has its naming for this system, known as the "Global HR Model", which consists of three major parts: HR Partners, HR Solutions, and Center of Expertise. Dow Chemical HR Solutions Total Rewards Leader implied that this model has been implemented since September 2019. He continued that the company is favored by this model due to its centralized and efficient system of operation.

Dow Chemical has implemented the Global HR model, which enables centralized management of HR activities across multiple regions worldwide, including EMEAI, NATAM, and APAC. This approach is controlled from the company's central hub located in Michigan, United States. The Center of Expertise, also referred to as the Chief Human Resource Officer, represents the highest level of the HR hierarchy - and is situated at the central hub in Michigan, United States. The responsible course of action involves the development of strategies, program design, and monitoring of program and policy effectiveness. In addition, the Center of Expertise takes responsibility for decision-making with respect to policies, strategies, and programs related to Human Resources.

HR Partners can be characterized as HR consultants who collaborate with HR Solutions and Center of Expertise to offer coaching, support, and influence that empower them to efficiently manage and implement their plans and strategies. In contrast to the centralized nature of the Center of Expertise and HR Solutions - located at their respective headquarters, the HR Partners are present in all country

operations. The HR Geo/Site Partners are widely situated across all operational sites of Dow Chemical and are entrusted with the task of providing precise findings and suggestions based on the occurrences at their respective locations.

HR Solutions, which is a component of Global HR, has the role of executor and bears the responsibility for implementing and executing the policies, strategies, and programs that have been developed. The operational activities of HR Solutions are primarily focused on five distinct Dow Chemical sites, including one situated in Terneuzen (TNZ), Netherlands. This particular site is responsible for the execution of HR-related duties within the EMEAI region. The HR Solutions department comprises several disciplines, each with distinct roles and responsibilities. These disciplines include Total Rewards (which consists of the Compensation team and Benefits team), Talent Acquisition, Employee Relations, Payroll, HR Advisory, Workforce Administration, and Talent Management.

The Total Rewards discipline holds significant importance within HR Solutions, as it is entrusted with the ongoing delivery of competitive compensation and benefits to employees operating within various operating countries. This report will focus on the EMEAI region, with which HR Solutions centered in Terneuzen, Netherlands - is accountable for managing 33 sites, primarily handling operations in European, Middle Eastern, and African countries, with the addition of India. In this study, the author whose position is HR Solutions Total Rewards intern - has been assigned by the HR Solutions Total Rewards Leader to evaluate the adequacy of the current Total Rewards offering for Turkish employees, and also to give suggestions in accordance with the findings. It is expected that the author can formulate sets of recommendations as research output.

2.0 Problem Formulation and Research Objective

2.1 Problem Formulation

At present, Dow Chemical's Total Rewards department is faced with a challenge to remain cost-efficient while also complying with the labor union requirements regarding Total Rewards offerings in Turkey. Recently, there is a swelling employee demand in Turkey regarding compensation and benefits. HR Solutions Total Rewards Leader hinted that Turkey has the highest number of Total Rewards offerings compared to other countries in EMEAI region, which makes the company continuously spend more budget over the last 2 years. Therefore, to support the Total Rewards department in finding the appropriate way of managing the situation for this matter, the following points are the premise for this research:

- To assess the adequacy of the current Total Rewards offering
- To analyze the possible factors which may affect employees' demand for more compensation and benefits.
- To compare with another country's Total Rewards offering as a comparison which has the closest number of Total Rewards offerings.

- To formulate a recommendation that the Total Rewards department could implement based on internal and external analysis.

The author believes that the case of Dow Chemical's Total Rewards offering in Turkey - can be an example to deal with a similar context in the future.

2.2 Research Objective

This study aims to deliver a report with recommendations, based on internal and external analysis in Turkey. The recommendations are intended for the compensation and benefits offered in Turkey – however, it is hoped that the outcome of this study can be applied to Dow Chemical's Total Rewards offering in other countries as well. This report is expected to fulfill the requirements of the author's final thesis (Professional Product). The final version of this report is also expected to be submitted to the company by the end of the author's internship program on July 30th, 2023.

3.0 Research Question and Sub-questions

3.1 Research Question

The central research question can be formed as follows: "To what extent are Dow Chemical Total Rewards offerings adequate to comply with the company budget and the union requirements in Turkey?"

Sub-questions

- To what extent does the current state of the HR Internal environment support Dow Chemical to provide adequate Total Rewards in Turkey?
- What are the details concerning Dow Chemical's operating site in Turkey?
- How are the current negotiation and decision-making processes at Dow Chemical concerning Total Rewards offerings?
- To what extent does Turkey's current state of macro-environment influence Dow Chemical's HR operations in Turkey?
- What can be learned by HR Solutions regarding negotiation and decision-making processes from the case of Turkey?

4.0 Internal Analysis

To begin with, conducting an internal analysis is a crucial procedure for the author to comprehensively analyze and assess Dow Chemical's internal competencies, assets, and current business conduct in respect of employee compensation and benefits in Turkey. It facilitates the collection of useful information regarding the company's current operational efficacy in attaining its objectives. The internal analysis is compiled based on the author's observation and knowledge training during the internship period, such as periodical training sessions titled "*Work as One*". The training provides a theoretical basis for HR employees - especially interns, with which the Global HR framework is the main topic of discussion. Besides, the author also collects data utilizing interviews with several Global HR stakeholders who are actively involved in this matter: HR Solutions Total Rewards Leader, Compensation Country Focal, and Benefits Country Focal. Within this particular context, two instrumental tools that are employed for internal analysis are the McKinsey 7S Model and the evaluation of current Total Rewards offering details.

Developed by Tom Peters and Robert Waterman, both of them served as consultants at McKinsey & Company during the 1970s, The McKinsey 7s Analysis Model offers an extensive way to evaluate and integrate vast internal aspects that impact the efficiency of a company (Channon & Caldart, 2014, p.1). The model comprises seven interconnected components: Strategy, Structure, Systems, Shared Values, Skills, Style, and Staff. Although the model is commonly used for company-wide assessment purposes, the author uses it as an evaluation tool - specifically for Dow Chemical's Global HR operation. Through an in-depth investigation of each component, it is hoped that Dow Chemical may obtain a holistic comprehension of its internal circumstances, thus allowing the company to identify potential areas for enhancement.

Evaluating the present comprehensive compensation and benefits package is a pivotal component of internal examination. The concept of Total Rewards remains the entirety of compensation and benefits which Dow Chemical offers to its employee. The previously mentioned components encompass the base salary, supplementary payments, motivational schemes such as bonuses, merit increases, work-life balance, and prospects for professional growth.

4.1 McKinsey 7S: Dow Chemical Global HR

Table 1: McKinsey 7S Analysis on Total Rewards Offering Processes

Hard Elements	Structure	<p style="text-align: right;">(Appendix 3)</p>
	Strategy	<ul style="list-style-type: none"> • HR Solutions is continuously in contact with the Geo/Site HR Partners for a status update regarding each country operation • Making interventions if necessary <p style="text-align: right;">(Appendix 1)</p>
	Systems	<ul style="list-style-type: none"> • Leveraging third-party platforms: <ol style="list-style-type: none"> 1. Workday 2. ServiceNow 3. Microsoft 365 (Power Apps, Teams, Outlook) • Total Rewards Assessment • Employee Satisfaction Survey <p style="text-align: right;">(Appendix 3)</p>
	Shared Values	<ul style="list-style-type: none"> • Employee as a valuable asset • Inclusive workplace • Employee “Psychological Safety” • Transparency

Soft Elements		<ul style="list-style-type: none"> • Empowerment <p style="text-align: right;">(Appendix 3)</p>
	Skills	<ul style="list-style-type: none"> • Interpersonal communication between HR stakeholders • Bargaining skills (i.e., with labor union) • Expertise in terms of compensation and benefits
	Staff	<ul style="list-style-type: none"> • HR Partner's expertise in labor relations • Country Focals who are expert in data analytics • HR Leadership Team and Center of Expertise who are consistently monitor the current operation, and provide approval for programs
	Style	<ul style="list-style-type: none"> • Hierarchical minded/High power distance • Formal rather than Informal management style <p style="text-align: right;">(Appendix 3)</p>

Through McKinsey 7S analysis, the Global HR processes in the context of Total Rewards formulation are evaluated. The first three elements of the McKinsey 7S namely Structure, Strategy, and Systems - are factors that influence the management process directly. In respect of structure, there are five Global HR stakeholders who are interconnected and directly involved in the Total Rewards formulation process. The process begins with a planning phase which involves HR Partner and HR Solutions Total Rewards Country Focals. Then after it is completed, the HR Solutions Total Rewards Leader takes the plan to the upper management which is the HR Leadership Team and Center of Expertise for approval and decision-making. With both parties' approval, HR Solutions could implement or execute the desired plan.

In regard to Dow Chemical's strategy to respond to the changes in both internal and external environments, the company tries to stay updated and responsive all the time. HR Solutions is continuously in contact with the Geo/Site HR Partners for a status update regarding each country's operation. The company has set the responsibility of HR Partners to monitor the external situation as well as the employee's requirements for their respective country operation. Based on the discussion between both parties, the company could make interventions if necessary.

In terms of infrastructure and systems on which Dow Chemical relies to sustain its HR processes, the company works together with third-party companies such as Workday, ServiceNow, and Microsoft. Dow Chemical leverages a third-party platform (Workday) as an HR administration tool to manage employee compensation & benefits globally. The next platform called ServiceNow - is providing the company with a Knowledge Base site, which is a huge database with which all the HR articles are stored and are used for the whole global base. Next to the third-party platforms,

Dow Chemical also implements a Total Rewards Assessment annually, in order to stay updated concerning the competitiveness of its Total Rewards offering compared to the other companies in the industry. In addition, the employee satisfaction survey also becomes an important driver to assess the satisfaction level among the employees.

The remaining four elements of the McKinsey 7S are Shared values, Skills, Staff, and Style, which can be defined as “soft elements” that affect the business operation indirectly. Dow Chemical recognizes its employees as valuable assets who deserve appreciation and continuous nurturing. Therefore, a collection of common beliefs exists with the aim of fostering a sense of ease and comfort among employees within the workplace. Inclusivity offers a prominent example of shared societal values that push for the elimination of discrimination based on gender, race, and nationality. Psychological safety emerges as a secondary cultural characteristic within the workplace, fostering an environment that encourages transparency, empowerment, and accountability. In addition to the aforementioned shared values, the management style is a crucial factor that has a considerable impact on the efficacy of the business process. It is found that in the case of the Total Rewards formulation process, decision-making or approval remains at the high management level. Meanwhile, the middle and lower management are expected to fully adhere to the HR governance as a formal procedure for any approval, which can be a lengthy process and takes a lot of time to complete (**Appendix 3**).

4.2 Dow Chemical’s Total Rewards Details

From time to time, Dow Chemical has fully committed to offering the best possible compensation and benefits to its employee, specifically for the workers employed in its manufacturing site in Turkey. According to Compensation Country Focal, Dow Chemical prefers to pay extra compensation (i.e., employee salary increase) rather than losing its employee to another company, which results in higher employee turnover rate (**Appendix 1**). In order to ensure that Dow Chemical is offering adequate compensation and benefits, the Total Rewards Assessment (TRA) is executed on a yearly basis. The TRA allows Dow Chemical to compare its Total Rewards offering against the other businesses that operate in the petrochemical industry and oil & gas (**Appendix 3**). The HR Solutions Total Rewards Leader implied that it is crucial to find the “sweet spot” when it comes to Total Rewards offering. Therefore, Dow Chemical can always position itself between the low-offering companies and the high-offering companies - or in the short term, at the median of the market salary.

Table 2: Total Rewards Details

Total Rewards Aspect	Normal Offering	Seasonal/One-off Offering
Compensation	<ul style="list-style-type: none"> ● Base Salary ● Merit Increase On-cycle ● Annual Bonus Program ● Overtime payment ● Service award payment (only in Turkey) ● Union Premiums <p style="text-align: center;">(Appendix 1 & Appendix 2)</p>	<ul style="list-style-type: none"> ● Off-cycle Merit Increase <p style="text-align: center;">(Appendix 1)</p>
Benefits	<ul style="list-style-type: none"> ● 3 Benefits Classifications in Turkey: <ol style="list-style-type: none"> 1. Unionized group (approximately 90 employees) 2. Blue-colored group (65 employees) 3. White-colored group (14 employees) ● Offered Benefits Types: <ol style="list-style-type: none"> 1. Clothing allowance 2. Leave allowance 3. Marriage or birth allowance 4. Death allowance 5. Family allowance 6. Education allowance, 7. Health insurance <p><i>Note: The benefits amount varies depending on which classification the employee is categorized</i></p> <p style="text-align: right;">(Appendix 2)</p>	<ul style="list-style-type: none"> ● Meal allowance ● Religious festivities allowance ● Heating allowance <p style="text-align: right;">(Appendix 2)</p>

Dow Chemical's Total Rewards program goes through regular reassessment and adjustment, dependent upon the current market salary conditions specific to each country operation. The duration of one complete cycle spans a period of 12 months, beginning in April and ending in March of the year that follows. The occurrence of normal Total Rewards changes consistently occurs at the beginning and end of a cycle, referred to as "On-cycle increase/decrease." However, the company also employs an "Off-cycle increase/decrease"

strategy in the event of unexpected events that demand prompt action in the middle of a cycle **(Appendix 1)**. However, it is important to note that any off-cycle increase or decrease can only occur after a series of predetermined processes have been completed.

Currently, the Dow Chemical facility located in Turkey has a workforce consisting of over 160 individuals. Out of the overall workforce comprising approximately 160 individuals, a total of 65 employees signed up to join the labor union, whilst the remaining employees are not affiliated with any labor union. Given their affiliation with labor unions, these individuals are entitled to a special arrangement concerning compensation and benefits, commonly referred to as a Collective Labor Agreement (CLA). It is the agreement between the labor union and Dow Chemical which involves an arrangement of compensation and benefits that go beyond the predetermined scheme. In Turkey, a Collective Labor Agreement has recently been put into place, prompting the company to adopt several approaches in order to address the requirements or demands of the union.

Regarding compensation, the outcomes of this special agreement entail a rise in the base salary and a merit-based increase, both of which are implemented during the initial and subsequent quarters of 2023. This increase is given to both unionized and non-unionized employees following the Turkish government regulation regarding the increase of minimum wage **(Appendix 1)**. Both increases are classified as "off-cycle" as they took place during the midst of the 2022-2023 cycle. In March, the base salary experienced its initial increment of 40% in response to the union's request **(Appendix 1)**. According to the projected data outlined in Appendix 1, it is anticipated that the upcoming salary increase will occur in July 2023, resulting in a 25% increase. This aligns with the overall trend forecasted for the entirety of 2023. Overall, there is a notable 75% rise in employee remuneration in the year 2023. A merit increase is anticipated to be allocated in January 2023, however, the exact amount of this increase remains undisclosed.

Benefits-wise, there are three classifications of employee benefits: Unionized, Blue-collar, and White-collar. The employees in Turkey are grouped into three classifications since there are employees who are part of the labor union, but some are not. Considering the Collective Labor Agreement only affective for the labor union members (or Unionized employees), the non-unionized (or blue-collar and white-collar) employees do not have the same benefits scheme compared to the unionized **(Appendix 2)**,

The unionized group can be defined as the employees who are eligible for the CLA, while the blue-collar and white-collar are non-unionized and are not eligible for the CLA. The unionized group has the privilege to get full support for the normal offering, which means the cost for all mentioned benefits is covered by the company. Meanwhile, the blue-collar and white-collar groups are getting less coverage of benefits amount such as health insurance which is 80% of the cost covered by the company, while the remaining 20% has to be paid from the employees' own pocket **(Appendix 2)**. Moreover, the blue-collar and white-collar groups also do not get some monthly benefits, for instance, child allowance, family allowance, and fasting meal allowance **(Appendix 2)**.

Benefits Country Focal mentioned that the blue-collar and white-collar employees' salary are competitive, but in terms of benefits, the company offer less benefits in accordance to the benefits trend in the market (**Appendix 2**). Aside from the agreement which is completed and agreed upon - the benefits type remains completely the same, but the amounts are updated based on the aforementioned agreement.

Based on the latest employee feedbacks concerning the increases that have been made, the feedback is rather positive than negative for the current compensation and benefits scheme. Most of the employees in Turkey are satisfied with the increase of base salary given by the company during the first quarter of 2023 (**Appendix 1**).

4.3 Procedure for Total Rewards Formulation

Ever since the end of 2022, Dow Chemical has made considerable efforts to ensure the adequacy of its Total Rewards program for its employees (**Appendix 1**). According to Compensation Country Focal, the HR stakeholders - including the HRS Country Focals and the Turkish Geo/Site HR Partner, have maintained regular communication to determine the optimal Total Rewards program for employees in Turkey, prior to the decision-making process by the Center of Expertise (**Appendix 1**). In addition to the compensation side, the benefits side has been on a continuous market study in order to produce over-the-top benefits offering in the market (**Appendix 2**). Within the Total Rewards formulation procedure, the HR Partner and HRS Country Focals possess their own impactful role.

The first step of the formulation procedure begins with the HR Partner's report to the Country Focals, concerning the latest employee feedback on its country operation. The HR Partner can be deemed as the "*...eyes and ears on the ground.*", also it is one of the HR stakeholders that have the responsibility to pick up feedback from the employees within a certain country operation for any labor-related matters (**Appendix 1**). The role of the HR Partner is crucial, as it holds the privilege to connect directly to the employees within its country operation, enabling it to compile a reliable and up-to-date report to the HR Solutions Country Focals. The report is then sent to the HR Solutions side which is the HRS Country Focals for further action.

In the context of compensation budgeting, the Compensation Country Focals occupies the responsibility to study the feedback given by the HR Partner, as well as to analyze the data which is given by the providers (**Appendix 1**). The providers are the third-party companies that offer a survey platform for giant multinational corporations - including Dow Chemical, at which the survey outcome is new insights and recommendations to Dow Chemical. As for the benefits side, the benefits formulation requires a market study and benchmarking with similar businesses' offerings, with the help of a consultancy company that partnered with Dow (**Appendix 2**). Thus, based on the received feedback from the HR Partner, the acquired data from the providers, and the market study - Country Focals could proceed with the formulation of the required action (**Appendix 1**).

After a certain action has been chosen (i.e., merit budget increase for country A), Country Focals have to take it to the HR Solutions Total Rewards Leader for further approval procedures. Next, the HR Solutions Total Rewards Leader escalate the decision-making process to the HR Leadership Team and also the Global HR in the U.S. (Center of Expertise) for approval (**Appendix 3**). The process still continues, as the Center of Expertise need to consult with the Financial Officer, regarding the possibility of the action itself (**Appendix 3**). Only with the approval from the Global HR in the US, the Country Focals from HR Solutions could implement the action, which can be time-consuming to complete (Appendix 3).

Chapter 4 Summary

In summary, Dow Chemical has vast internal resources and capabilities to execute a competitive Total Rewards in the market. The company has done appropriate measures and implemented the necessary procedures to properly react to the escalating demands set forward by the labor union, resulting in employee satisfaction to the current scheme. However, since the Total Rewards formulation approval remains at the high management level so that the middle and lower management are expected to fully adhere to the HR governance, it can be a lengthy process and takes a lot of time to complete. Thus, the decision-making and approval processes are the key areas that require improvements concerning its efficiency.

5.0 External Analysis

The external analysis is created by utilizing two models: PESL analysis and Hofstede's 6D Model. PESL Analysis is a strategic analysis tool derived from PESTLE with which the intention is to gain information regarding the external environment of the company that may affect its business operation in a particular area. Referring to Kotler (2008), PESTLE analysis is a useful strategic tool for understanding market growth or decline, business position, potential, and direction for operations. The author prefers to apply only four elements (PESL) instead of the whole PESTLE analysis - due to the relevance of each component to the research. Thus, the following points will elaborate on Dow Chemical's external environment in Turkey, encompassing Political, Economics, Social, and Legal.

The other model invented by Hofstede named 6D model - is utilized to give a perspective on a nation's culture and social behavior. Geert Hofstede, an internationally recognized academician, in collaboration with his colleagues, identified six fundamental societal concerns that must be addressed for effective organization and governance. These elements are commonly referred to as "cultural dimensions". Each of those factors has been calculated on a numerical range - ranging approximately from 0 to 100. Throughout time, it has been utilized to enhance intercultural communication and collaboration within organizations (Geert Hofstede, 2023). Whilst acknowledging the limits of the model to define real circumstances, due to the usage of big data to generate the country's marks, it is possible to employ them

as a means of making generalizations about the cultural conditions of a given nation (Geert Hofstede, 2023). The model presents a valuable framework for comprehending the impact of cultural disparities on business operations (Hofstede, 2023).

5.1 PESL Analysis Turkey

Political

The Political Stability Index is a metric that evaluates attitudes regarding the probability of the government being disrupted or dissolved through illegal or violent ways, which encompasses politically-motivated acts of terrorism and violence (The World Bank, 2023). It can determine the stability of a country's political environment based on the index figure. A certain country by which the figure is above 1.0 (maximum 2.5) can be considered highly stable, whilst a score below 1.0 (minimum -2.5) can be deemed unstable or turbulent. According to The Global Economy (2023), the latest record of the Turkish Political Stability Index shows -1.1 in 2021, putting Turkey in 169th place on the Global Political Stability Index. Based on the figure, Turkey stands on the list of unstable and turbulent countries around the world. There are a set of events that have been the cause of the unstable political condition in Turkey.

One of the most prominent cause is the fact that terrorist organization activity namely Kurdistan Workers' Party (PKK) still haunt the country nowadays. In July 2015, the Kurdistan Worker's Party (PKK), an organization that has been defined as a terrorist group, terminated its two-year period of refraining from hostilities (UK Government, 2021). The Kurdistan Workers' Party (PKK) persists in initiating assaults within the borders of Turkey, typically in the southeastern region of the nation. According to the report published by the International Crisis Group (2023), The event on February 2016 which involved an attempted coup, resulted in the loss of 276 lives in total. As a consequence, the government declared a state of emergency. The earlier occurrence became outdated in July 2018, following the implementation of the newly established presidential framework. Nevertheless, a significant number of restrictions enacted during that period were established as permanent regulations. The implementation of the New legislation in Turkey has been criticized by some for its perceived impact on democratic rights and freedoms.

The second pivotal event that contributed to Turkey's political stability was the shift of the government system which occurred in 2017. Turkey went through a transition from a parliamentary system of governance to an executive presidential system, as a result of a referendum. The executive authority in Turkey is primarily vested in the office of the president, which holds a significant degree of decision-making authority. In addition to further priorities, the government is currently directing its attention toward implementing economic and regulatory changes (UK Government, 2021).

Economy

Due to the previously mentioned political instability - let alone the emergence of the COVID-19 pandemic, Turkey's economic growth had been hampered. Referring to The World Bank (2023), Turkish economic growth had been on a decline since 2017 until 2020. Turkish GDP hit rock bottom in 2020, with which the amount of GDP recorded at \$720.29 billion. Moreover, the nation was also experiencing a high inflation rate with the unemployment rate on the rise throughout the year (O'Neill, 2023). However, the country's economic growth steeply recovered in 2021 by 11.35% to \$814.04 billion and continuously went up for the next year to \$905.53 billion (IMF, 2023). According to the reports published by IMF on April 7th, 2023 - the GDP rate is forecasted to be on an uptrend for the following years (2023-2028).

Figure 1: Inflation Rate in Turkey by Months (Trading Economics, 2023)



Figure 1 illustrates the inflation rate trends in Turkey from the previous year which is calculated based on CPI. Ever since the end of 2021, the inflation rate in Turkey has become one of the most detrimental national issues. As of October 2022, the inflation rate had reached its second-highest figure of all time at 85.51%. Nevertheless, the figure was gradually decreasing in the next following months, owing to the President of Turkey - Recep Tayyip Erdogan, who implemented an unconventional policy of reducing interest rates in an attempt to stimulate the economy (Thomas, 2022). The latest inflation rate figure as of May 2023 was 39.59%, which shows a remarkable drop compared to October 2022.

Although the inflation rate is constantly recovering from a terrible form, the Turkish currency (Lira) exchange rate (per USD) is experiencing the opposite. Ever since December 2021, the Turkish Lira exchange rate has weakened over time. As of June 12th, the Turkish Lira exchange rate per USD was recorded at ₺23.6 per USD - which decreased by 25% compared to May 12th at ₺19.5 per USD (Trading Economics, 2023).

Social

According to the book titled "TRADE UNIONS IN TURKEY 2022" written by Birelma (p.13 - p.15, 2022), Turkey has three labor union centers that are still operating - namely Türk-İş (The Turkish Confederation of Workers' Unions), Hak-İş (The Confederation of Real Workers' Unions), and DİSK (The Confederation of Progressive Trade Unions). As the oldest labor union, Türk-İş adheres to a stance of political neutrality and attempts to maintain a cooperative approach towards the government. Despite a downgrade of its power over time, a significant proportion of unionized employees in Turkey remain affiliated with Türk-İş. Another labor union which is the second-largest - the Hak-İş, utilizes a peaceful and diplomatic approach emphasizing the importance of mutual respect among employers and employees. Both labor unions share similarities in terms of their cooperative attitude toward the government which creates a bargaining power boost. The last and the youngest labor union with which the proportion of members is the slightest - DİSK, maintains a highly radical stance about government policies and labor laws, making it stand out as the harshest compared to the other unions.

Regarding the unionization rate in Turkey, it is noteworthy that only a small proportion of Turkish employees choose to join any trade unions. According to a report by Anadolu news agency on January 19th, 2023, the number of employees documented in Turkey's social security system is 16,163,054, of which merely 2,330,098 are affiliated with a labor union (Turkish Minute, 2023). However, the small percentage of unionized employees does not mean that the unions' power is weakened. In December 2022, a labor strike occurred at the Bekaert factory, where 400 employees protested for a justifiable pay raise to compensate for the surging rate of inflation in Turkey (IndustriAll Union, 2023). The event ended up successful for the striking employees, as the employer consented to provide its employees with an average raise in their wages of 84.83% for six months period (IndustriAll Union, 2023).

Legal

In terms of legal requirements regarding the employment code of conduct in Turkey, Turkish Labor Law No. 4857 (May 22, 2003) regulates the terms and conditions of employment, including employee compensation as well as the associated rights and responsibilities of both employers and employees who are bound by a contractual agreement.

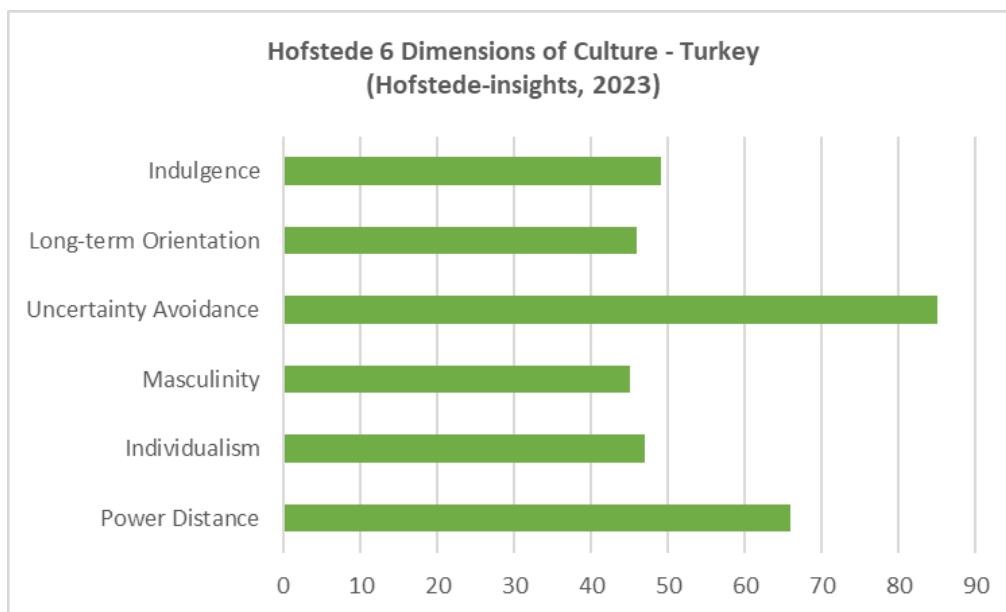
Referring to Article 32 of the Labor Law, it is mandatory to distribute employee compensation in Turkish Lira, either at the actual location of the organization - or via transfer to a designated bank account. As for the employee salary - Labor Law Article 39 stated, "... *the minimum limits of wages shall be determined every two years at the latest by the Ministry of Labour and Social Security through the Minimum Wage Fixing Board.*" According to the report published by Trading Economics (2023) which is based on the Ministry of Labor and Social Security, the gross minimum salary in Turkey for the year of 2023 stands at ₺10,008 per month (\$535.98/month), whilst net minimum salary is at ₺8,500 per month (\$455/month). The minimum salary data shows exactly

a two-fold increase from last year, as an effort from Turkish President Tayyip Erdogan to counterbalance the soaring inflation rate and living costs within the nation.

As for the employee side, the Turkish government has a set of regulations and requirements for any collective protest activity (i.e., strike) to take place. Without fulfilling the stated requirements, any strike activity will be concluded as illegal. The Turkish Constitution which was agreed upon on December 27th, 1947 - stated the right of both employees and employers to form labor unions, with the aim of safeguarding and advancing their economic and social liberties. In reference to Turkish legislation, non-union entities as well as (solely) the employees themselves - are typically prohibited from initiating and executing a strike, the exclusive authority to initiate a strike lies with the labor unions with the objective of reaching a collective agreement (Delgado, 2018, p.4).

5.2 Hofstede 6 Dimensions of National Culture

Figure 2: Turkey 6 Dimensions of Culture



Referring to the chart derived from Hofstede-insights (2023), a fairly high level of Power Distance is shown in Turkey, which suggests a social structure that values and acknowledges power and authority in a hierarchical way. It means that power is not distributed equally in the perception of most Turkish people. Thus, individuals mostly possess the ability to recognize and respect societal gaps, including age, social standing, or occupation. In terms of managerial context, individuals in positions of authority - are commonly perceived as having more power in decision-making processes, and there exists a tendency towards centered decision-making and solid management (Hofstede Insights, 2023). In the context of employee behavior, Khatri (p.7, 2009) stated that in a context that features high power distance, employees tend to adopt a passive mindset towards decision-making, in which they show a reluctance to actively participate

in the process. This results in a situation where they are generally satisfied with their managers assuming the responsibility of making decisions and providing them with instructions, which they tend to comply with in a passive manner (Khatri, 2009, p.7).

The Uncertainty Avoidance dimension, which reflects a preference for stability, certainty, and predictability, gives Turkey the highest score compared to the other dimensions. The figure indicates that Turkish society displays some degree of concern around uncertainty. Therefore, most individuals prefer regulations, standards, and clearly defined things as a result (Geert Hofstede, 2023). This is in line with the statement in regard to uncertainty avoidance behavior amongst Turkish individuals by Michael (2019) “*Any rules are better than no rules, more rules are better than less rules and loopholes are patched with additional rules, exceptions, approvals and controls.*” In many parts of life, people may want to cut down on chances and unknowns, thus people may feel better at ease with established guidelines and traditions.

On the Indulgence dimension, Turkey exhibits a tendency towards indulgence rather than restraint. This implies a societal behavior that is more flexible regarding the fulfillment of human needs and wants. Individuals might display an easygoing manner in life, prioritizing their pursuits of leisure and happiness. Research indicates that indulgent societies such as Turkey - showcase a higher number of individuals expressing positive emotions compared to restraint societies (Minkov, 2009). The occurrence could potentially be attributed to the correlation between feelings of joy and feelings of need for each other (Lennon & Eisenberg, 1987).

Individualism-wise, Turkey is more inclined towards collectivism as opposed to individualism. It shows that most Turkish people place considerable emphasis on the significance of relatives, extended networks, and solid community ties - by which individuals generally put the needs and objectives of the community over their own (Hofstede, 2001). The cultural values of loyalty and support towards one's group and community are held high, with an emphasis on upholding social harmony rather than individual autonomy. Hofstede (2001) argued that people who hold principles of collectivism perceive themselves as integral members of a larger community, give priority to the success of a community over one's own accomplishments, and demonstrate concern for the welfare of the entire community.

The cultural orientation of Turkey is defined by a tendency towards masculinity, with a focus on values that are traditionally associated with masculinity, such as rivalry, and accomplishment. Turkish society displays a tendency towards conventional gender perception, characterized by distinctive responsibilities between males and females, which is often recognized as a patriarchal society (Hofstede, 2023). As for the long-term orientation, Turkish individuals score 48 which tends to be short-term minded rather than long-term minded. In this case, there may be a greater focus on the present and immediate results. This dimension also suggests a preference for quick results and gratification over long-term planning and perseverance (Hofstede, 2001).

Chapter 5 Summary

In summary, Turkey at present has complicated circumstances for any business operation - considering its political instability, government regulations that change abruptly, soaring inflation rate, and low currency exchange rate. This complexity has made employees in Turkey to take action, such as the strike event that occurred back in December 2022. Although there is only small portion of Turkish unionized employees, it is found that the labor union's bargaining power remains the same. The strike event makes more sense, since it is found that most Turkish individuals strongly possess a collectivist mindset and high uncertainty avoidance level, which means they value togetherness - also a preference for stability and certainty in their lives.

6.0 Discussion & Conclusion

Based on the external environment analysis, Turkey at present has complicated circumstances for any business operation. It is found that Turkey is sensitive to political conflict. The existence of terrorist organization activity in several areas of the nation has become a detrimental factor that requires extra attention for Dow Chemical in terms of their business conduct to secure their assets and employee from any unexpected disaster. In addition to the security risk, Turkey had undergone a transition of the parliamentary system of governance by which the government is keen on implementing economic and regulation shifts, thus making the chance of law and regulation alteration become certain. This implies that Dow Chemical has to monitor the law and regulation regularly, in order to always comply with the recent regulation. To be specific, Dow Chemical needs to put attention to the Turkish minimum wage which has been updated recently towards a higher figure by President Tayyip Erdogan, following a labor strike that occurred back in December 2022. It is likely that the minimum wage would be continuously modified going forward, had the economic complexity required the government to do so.

The labor strike that happened last year was an outcome of the continuous economic crisis that took place in Turkey over the past three years. In line with the basic economic law, a high inflation rate combined with a low currency exchange rate (per USD) has made the cost of living in Turkey skyrocket. This situation ignited a movement from the labor union to express their frustration and hardship to fulfill their daily necessities nowadays. Taking the dimensions of Turkish culture into consideration, where most people strongly possess a collectivist mindset who values togetherness - also a preference for stability and certainty in their lives, it is likely that a movement from the people (specifically unionized employees) would occur sooner or later, given that the situation is less beneficial to them. Fully within employees' rights, the government would allow the strike event to take place, as long as it fulfills the legal terms beforehand. Nevertheless, if any union strike activity is proven illegal by the court, the government would enable the company to have a fair trial if any type of interruption - such as labor union concerns emerged that would cause the firm substantial difficulty.

Based on the internal analysis, Dow Chemical has vast internal resources and capabilities to execute a competitive Total Rewards in the market. It is found that the hard elements and soft elements

are supporting each other. For instance, the involved employees in the Total Rewards formulation have their respective abilities (e.g., expertise in data analytics for HR Solutions, expertise in labor relations for HR Partner) that support Dow Chemical's current strategy to continuously monitor the external changes and make spontaneous intervention if needed, such as off-scheduled or off-cycle increase. Not to mention, the positive shared values among the employees (e.g., transparency, empowerment, psychological safety) However, looking at the structure and management style in the context of Total Rewards formulation, Dow Chemical exhibits a nature of high power distance and formal management style. Considering that the decision-making authority is held only by the top hierarchy (Center of Expertise), it means there are a lot of processes and consultations to take place prior to an implementation of a certain program or action, which has a negative impact on the agility and time efficiency of the company - in terms of reacting to external changes such as increasing Total Rewards demand. Aside from less agility and time efficiency, the high level of power distance makes a big question mark on one of the company's cultural attributes namely empowerment.

Fortunately, Dow Chemical has taken appropriate measures and implemented the necessary procedures to properly react to the escalating demands set forward by the labor union. The effective collaboration between the HR Partner and HR Solution Total Rewards Country Focals plays a pivotal role in determining the appropriate approach for managing the situation in Turkey. Both parties engage in ongoing monitoring of external factors, such as government regulations pertaining to base salary, in order to uphold the satisfaction of Turkish employees with regard to compensation and benefits. The presence of the Collective Labour Agreement is a significant factor in providing satisfactory remuneration and benefits. Aside from the lengthy processes, the upper management facilitated approval and decision-making, enabling the execution of the action on time. One of the most significant strategies implemented involves the off-cycle increase of base salary, which demonstrates a high degree of responsiveness and attentiveness to the current situation. At the end of the day, all of the aforementioned approaches yielded a favorable reaction from the workforce in Turkey.

In conclusion, the fluctuating politics, economic crisis, and strong collectivist and uncertainty avoidance beliefs in Turkey are the main drivers which contribute to the increase of Total Rewards offering from the labor union. Nonetheless, Dow Chemical has taken appropriate measures to react to the escalated demands set forward by the labor union. The current evaluation of the Dow Chemical Total Rewards offering in Turkey indicated that it is currently deemed adequate, as it has achieved employee satisfaction. Owing to the remarkable collaboration among HR stakeholders in response to external circumstances requiring prompt intervention, both the employees and the company ultimately benefit. It is found that Dow Chemical's strategy to implement off-scheduled interventions, such as merit increases and salary increases in case of external changes - has been pivotal in this case. However, there remain certain areas for enhancement in relation to the internal processes of the Total Rewards formulation procedures.

7.0 Recommendation

This section of the report presents suggestions as well as recommendations for Dow Chemical to enhance its Total Rewards offering process in later periods. While the focus of this report is specifically on evaluating the Total Rewards offering process in Turkey, the recommendation provided can be applied to operations in other countries. This is due to the comprehensive assessment of internal variables and the thorough examination of the country's macroenvironment, which contributes to the complexity of the study.

Based on the results and previous analysis, it is recommended that the organization maintain attentiveness in monitoring external factors, including but not limited to the inflation rate, economic stability, government regulations regarding minimum wage, and union demands. Additionally, it is important to acknowledge that Dow Chemical gets a favorable position when it meets the demands put forward by the labor union. This is because doing so effectively mitigates any potential dissatisfaction among employees, which in turn helps to reduce the rate of employee turnover. Therefore, aside from the rising labor cost, implementing regular adjustments in compensation and benefits - in response to union demands and government regulation change can yield mostly favorable outcomes rather than unfavorable ones. The regular adjustment refers to the off-cycle intervention that occurs regularly in the shape of an increase or decrease of the Total Rewards amount offered to the employee. Considering the likelihood of external changes is high in Turkey, it is suggested to consider as many as four off-cycle Total Rewards adjustments annually. Again, this adjustment is not necessarily to be an increase, it can also be a decrease - dependent on what is needed at that period.

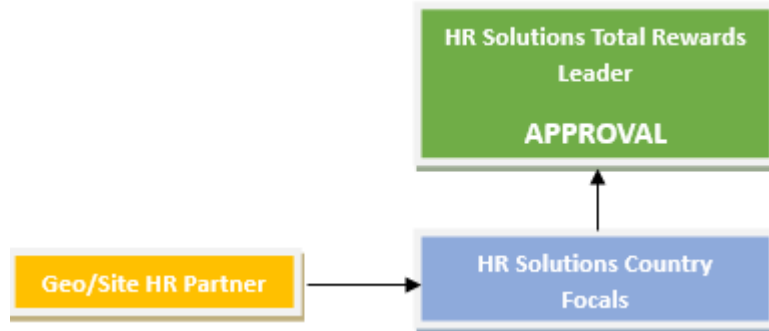
The next advice targets the decision-making and approval procedures within the framework of Total Rewards changes or proposed increases. The existing procedure is considered inefficient due to the many steps and consultations required before reaching a decision or obtaining approval, which compromises the company's agility and reactive ability. As a large multinational corporation, Dow Chemical adheres to a specific governance framework indeed, to ensure the implementation of appropriate procedures prior to making significant decisions. Nevertheless, it is crucial to possess agility and responsiveness in order to quickly adjust to both internal and external changes. Considering this perspective, it is important for Dow Chemical to streamline its decision-making and approval processes and procedures. The following points outline the specific recommendations related to the formulation processes of Total Rewards:

- **Implementation of Decision-making Threshold**

Previously, to obtain the approval for a certain action (i.e., off-cycle salary increase in March by 40%), the Country Focals has to go through a decision escalation to the HR Solutions Total Rewards Leader, HR Leadership Team, and Center of Expertise - which is a lengthy process and takes a lot of time to complete. It is hoped that this threshold will alter the lengthy procedures into a more streamlined and leaner process. The implementation of a decision-making threshold will enormously help the company to streamline the process of decision-making. The threshold will be beneficial for managing the situation in Turkey and other countries with similar issues. To be specific, the threshold scheme is as follows:

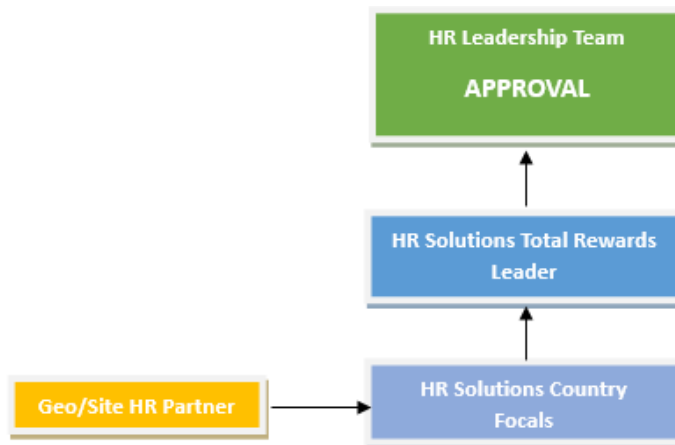
- Low-level Intervention:** An off-cycle increase of base salary under 40% for a specific country operation, can be decided and approved by the HR Solutions Total Rewards Leader with the approval from Financial Officer.

Changes to the previous system: This specific threshold will streamline the decision-making pattern for non-significant interventions because only **one escalation** occurs in the process, which is to the HR Solutions Total Rewards Leader - instead of three escalations to the Center of Expertise.



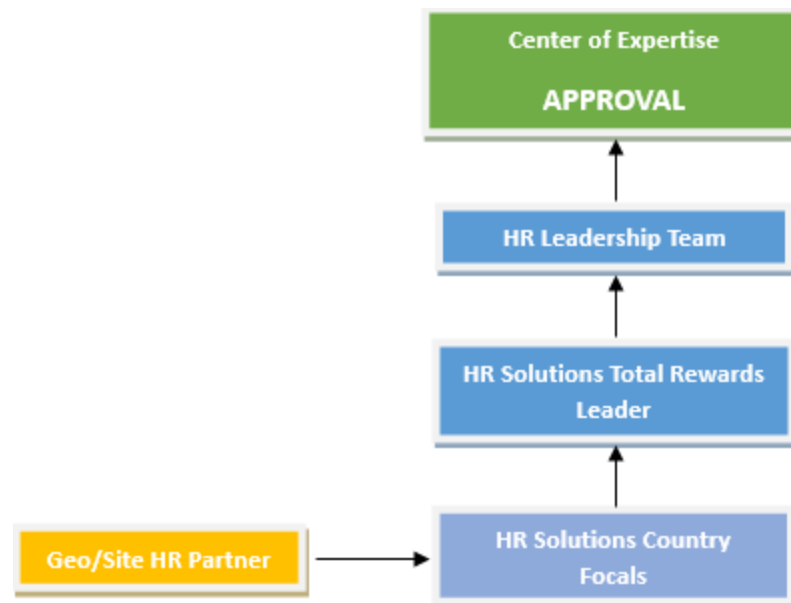
- Intermediate-level Intervention:** An off-cycle increase of base salary that exceeds 40% but below 80% for a specific country operation, the HR Leadership Team can make the decision with the approval from the Financial Officer.

Changes to the previous system: This specific threshold will streamline the decision-making pattern for intermediate significance interventions - with solely **two escalations** occurring in the process, which is to the HR Solutions Total Rewards Leader instead of three escalations to the Center of Expertise.



- High-level Intervention:** An off-cycle increase of base salary that exceeds 80% has to go through all HR governance procedures and processes. Decision-making remains at the hands of the Center of Expertise.

Changes to the previous system: This specific threshold does not give any impact or change, given the amount of increase is high, so it requires more stakeholders involved to obtain approval.



The aforementioned threshold surely gives the company boost of agility, as it could respond to small changes in the market salary in a swift manner. Typically for countries like Turkey, where market salary and government regulation may change abruptly, due to the complexity of politics and economics, let alone the demand from labor union. In addition to more agile and streamlined processes, this approach allows the authorization for the mid-low management level to make decisions, which supports Dow Chemical’s shared value namely empowerment. As for the downsides, this approach requires attention in regard to action accountability. As the decision-making power is delegated to the middle and low management levels, the risk of decision-making misconduct may occur. Not to mention, less involvement from the top management means less control over the decisions made by the lower management.

7.1 Role & Impact of International Business Domains

Financial & Accounting

As an effect of the recommendation to consider four times off-cycle adjustments, it means that Financial Officer - together with the HR Center of Expertise, has to set a budget for those adjustments. Furthermore, it is imperative for the financial division of the organization to establish a close working relationship with the human resources department in order to enhance communication and coordination.

Organization & People

The previous recommendation highlights the potential occurrence of issues such as decision-making misconduct and reduced oversight of decisions made by lower-level management.

Hence, the implementation of management control is crucial in this particular context. It is important to establish a comprehensive action accountability policy prior to implementing this advice. The individuals responsible for making decisions, aside from the Center of Expertise, must assume complete accountability, including potential penalties, in the event that their inaccurate decisions result in significant challenges for the company. In addition, it is necessary for the Center of Expertise to develop explicit decision-making protocols for lower-level management. For instance, a comprehensive document outlining the required steps that must be undertaken prior to granting approval for specific programs or actions. The delivery of decision-making training is crucial in order to mitigate the occurrence of mistakes and errors within the decision-making processes of lower-level management.

Environmental & Cultural Readiness

The HR Partner in Turkey serves as a mediator between the company and its employees, which requires an in-depth knowledge and appreciation of cultural attributes of the aforementioned country. In order to ensure the communication is executed politely and respectfully, it is crucial to consider the (indirect) communication style exhibited by Turkish individuals, especially during negotiation processes with Turkish workforce. Furthermore, it has been observed that individuals from Turkey tend to avoid uncertain situations. Consequently, it is imperative for the HR Partner to collaborate effectively with HR Solutions in order to provide clear information or make decisive decisions regarding any inquiries related to Human Resources. In this particular scenario, this entails reaching a conclusive agreement between the employer and employee regarding an increase in compensation and benefits. In addition to awareness of cultural attributes, the awareness towards external environment (e.g., political, economics, legal) dynamics is a skill for which HR Partner should have. In short, the stakeholder's cultural and environmental awareness can significantly contribute to the achievement of a successful agreement, employee satisfaction, and overall effectiveness of Dow Chemical's country operation.

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Appendices

Appendix 1: Interview with Compensation Country Focal for Turkey

There is a demand for higher compensation and benefits in Turkey. Could you please explain what happened, what is happening in Turkey at the moment?

Turkey Compensation Country Focal: Well, in Turkey, there is a combination of factors at the moment. So you see that politically there is dynamic instability or there are things going on. That also has an effect on the economy in the region. There are things going on. So it's we have seen a material large earthquake earlier this year, unfortunately, as well, with many casualties and a lot of damage. There is a relative high inflation at the moment. I think currency devaluation also. So it's a combination of factors which makes that we do need to look at the salaries of our employees in Turkey.

Could you please describe the total we were offering seem at that period of time?

Turkey Compensation Country Focal: Oh, that's a good question, because I'm a compensation person, so my focus is compensation. And for benefits, I know a little bit about, so I'll try. So the total rewards - well, we offer a base salary. Of course we offer an annual bonus program. Depends. We have two groups. So we have staff in Turkey under a collective under a collective labor agreement, and we have staff outside of that. So the collective labor agreement was negotiated and then a certain increase rate is agreed and other allowances and new levels are agreed. On the benefits side, I have to refer it to a colleague because I am not 100% sure and otherwise it's inaccurate. And so I want to avoid inaccurate info.

Is there any increase significantly in terms of sort of TR offering, specifically compensation and budget from last year compared to this year?

Turkey Compensation Country Focal: Yes, definitely. Um, last year it was really started. So normally we have an annual cycle where we do a merit increase. So we compare with the external market and then we see how much the salary increase, the merit percentage needs to be. So last year I think we did a merit and we did two, three or even four off cycle interventions salary increases in total, something between 80% and 100% increase of salary, because I think inflation was close to 100% last year. So that was last year. This year we budgeted for a increase of around slightly below 60% (six-zero) but it was end of last year. From November last year, we predicted an increase for this calendar year of of of almost 60%. So we applied an increase of 40% for zero in March and another 12 then later in the year.

And what we now see for Turkey is that the actual trend of increase is for the whole year. (inaudible)... that's the prediction, that's what we see happening in the market in salary. So employees on average are receiving 75% salary increase this year, 2023. So we've increased for the 12% to 25%, and that

is now applied in July. So staff in Turkey receive two increases this year, 40% in March and 25% in July. We'll continue to monitor the situation. We will continue to follow what happens through all surveys quarterly if needed, we'll do something extra. But this is what we expect to happen for this year.

To this extent, is there any protest delivered by the employee or even labor union in terms of total offering that happened during the last two years in Turkey?

Turkey Compensation Country Focal: We have had some feedback, but that was locally managed. So the local HR partners are aware. Yes, sometimes we hear that (inaudible) Dow has a policy of we want to see what the market is doing and then we'll also. And basically, when you follow that means that it takes time. Some not always staff are happy with that.

So yes, sometimes people indicate inflation is high. And my my salary is not keeping up. When will you apply to increase? Yeah, that is always done at. We're following the market, but now we're applying 25. So and that should be for the remainder of the year. So yes, we're receiving some signals. The unions are of course during the union negotiations, there's always a feedback.

So there is a common and normal part of the process. But we have reached an agreement. So it's yeah, we receive signals. I think we have responded. I also hear positive signals that people are happy with in total now 75% this year.

Is there any pressure from the Turkish government law or regulation in terms of employee wage, minimum wage?

Turkey Compensation Country Focal: Well, at the minimum, wages have been increased. So that is just that is a legal increase. So that is something we follow and that we also apply. So pressure, we follow what is legally required. As for any other companies, so coincidentally, last week or this week, I saw that the minimum wages are increased for Turkey 30 or 40%. Yet that is something which which we have to follow, but nothing extraordinary, nothing specific for Dow or nothing where pressure is put on us specifically - No. we operate in Turkey - We follow the legislation and the rules of the country as any other company.

How's the HR Partner point of view and suggestions for you in the case of increasing demand from labor union in Turkey?

Turkey Compensation Country Focal: I'll see there is the local HR partner in Turkey. She is our eyes and ears on the ground, so she is talking to employees. She is talking to the leadership, the senior leadership in the country. So, She picks up the signals. She tells us what is happening, vice versa, We look at the data, we look at what providers tell us.

We participate in every possible survey for Turkey. We share those results amongst HR community and together we exchange signals and information. And based on that, we try to act. But sometimes

on the CLA particularly for Turkey, it's a Corporate Legal Administration, that we have to do is quite complex and labor intensive. We would really appreciate we share the simplifications. We've talked to them about this. That's difficult to achieve.

So we're making small steps. And on the increases, we've kept a close communication for increasing from 12 to 25%, we could - based on data. So she said something needs to happen and rather earlier than later, we looked at the available data and then together we decided to increase from 12 to 25, and we had to that we had to get approval from Global HR in the US, most importantly from the COE. So this was not our decision in region.

The regional director does support this action, but global HR in the US needs to approve this. So we issued an exceptional request which got approved.

As of now, is there an official decision that have been made to overcome the problems that occurred in turkey?

Turkey Compensation Country Focal: We will continue to monitor the situation. We look at it now not only a yearly basis, but on a quarterly basis at the moment. So we we have data. We, we we we look at what is happening. We exchange that data and based on that, we take our actions. So we try to manage as normal as possible where needed.

We will do special interventions. We will have the off cycle increase. It's a cost of labor approach and not a cost of living. So not an inflation approach, although with extreme inflation like in Turkey at the moment you have to do something. But if inflation decreases and we are going back to a relatively normal situation, then also we will continue to follow what is happening.

But at some point we will go back to the annual the normal cycle. So the short answer is we continue to monitor on a quarterly basis.

All right. Since we still have time for the interview, I would like to ask additional questions for you. Okay. So I'm just curious about how is the current employee turnover rate in Turkey, if you have any information about that?

Turkey Compensation Country Focal: Oh, that's a great question. I don't have the number top of my head. So I don't know. Honestly, I can look it up and then please continue. So but I'll I'm happy to look it up in the meantime.

All right. That would be nice. Next question. In your thoughts, which one is more costly a high employee turnover rate - or higher employee salary or wage?

Turkey Compensation Country Focal: Oh, that's a good question. I think I would choose the high attrition because then we really invest in people and that investment is gone when someone leaves. So when someone goes to another company, yeah, he or she is gone. So yeah, it's tough, a tough decision.

So I would say between attrition and high salaries. I mean the high salaries, we will pay what is needed in the market and sometimes you have to pay a premium or an extra or some of that is fine. So attrition for me is more expensive.

You've worked for Dow for a relatively long period until now, how do you think Dow is maintaining their employee in terms of their wages, their well-being at the office?

Turkey Compensation Country Focal: It's a good question. It's a difficult question. And as well, we we try to look at the employee experience. That's a broad term. I mean, I am a compensation professional. So, yes, salary, performance, awards, that is important. But personally, I believe it's not the only thing. So other factors, the culture of the company, what type of company, maybe the location, maybe the international or the career opportunities there.

There are many things which determine whether you want to work for a company or not. A salary is one of those factors. I don't think it's the most important factor. Well, you have to you have to provide a good salary. But then if you if you are a good player, then other factors become more important. And I think Dow is doing doing a reasonably good job of paying attention to what employees need or what they feel and how they at the wellbeing is is looked after.

The physical health, the psychological safety is looked is looked at. So I think overall, yeah, it's something which you which you maintain and you have your compensation programs, your benefits programs, your wellbeing from adults you normally maintain and also through feedback, for example, the yearly survey, the voice results, you can see if suddenly people, if something is happening or if there isn't, if people leave and they say, well, fantastic company.

But yeah, we're not happy with, with one aspect. So it also those signals you have to take into consideration. Um, yeah. Overall I think Dow is doing a good job on that, but that's not the full stop that, that's my answer.

Appendix 2: Interview with Benefits Country Focal for Turkey

To what extent is the importance of maintaining competitive benefits offering for Dow?

Benefits Country Focal: Well due to lack of talent on the labor market, you really need to stay competitive. There is already a higher turnover with the new generation, which is just a normal evolution we shouldn't ignore. I think the market situation doesn't give us another choice - than to stay competitive and attractive to what kind of packages we offer and the benefits we offer to the employees whether they are internal current employees or future possible employees or the talents in the market.

Alright. In terms of benefits in general, how is the process of benefits package formulation for respective country operations?

Benefits Country Focal: Well, benchmarking is very important during market studies. It is very important and luckily Dow as a global company has partners to do the market studies for itself. We work with consultancy companies who provides us all the insights we need in the market benchmarking. Similar businesses, big companies, always to remain competitive and it is our goal to be above the median.

How does Dow maintain or monitor its benefits offering in regular basis?

Benefits Country Focal: Yeah definitely. Before I joined Dow, it already made a Total Rewards Assessment for all countries Dow is active in. Of course countries like Turkey, we have data from two years ago which is not up to date, but still we are doing track in terms of monitoring the market because we regularly participate in surveys, we input our data then we get out of those service. Also market related data and country related data from which we can analyse our situation or position in the market and from which we can decide to take action. For instance off cycle increases in any of the benefits or the compensation packages. Where we can say - okay we're on the line we're still competitive, we leave it as it is.

What does the current benefits package offered by Dow at the moment?

Benefits Country Focal: Let me just take my list. Well, in Turkey which Dow is currently active, we have the unionized, blue color, and white color division, which is really remarkable and new to me. But the best benefits are for the unionized. They have the CLA, collective labor agreement of which they get good packages for themselves.

So they get allowance for the clothing twice a year, allowance to go on vacation (leave allowance), also for religious festivities Ramadhan and Qurban, they get allowances also. If they would participate in fasting for the Ramadhan, they get meal allowance to compensate. In August before the winter breaks they get heating allowance. If they get married or they get a child, they get marriage or birth allowance. If there is a disease over first degree family member they get death allowance, even for themselves - if life insurance would not cover the situation. For married employees they get family

allowance, and also child support allowance if they have children. Also, education allowance is what they get if their children goes to school. These are the benefits, there are also some extra elements which are more compensation-related, such as overtime payment which is already defined. Union premiums are completely sponsored by Dow, so as they are union member their premium is paid by Dow. There is also service award payment which is quite different than the global plan that Dow's offering, and it is quite in their advantage. Besides, they also have private health insurance coverage. The blue color division employees are quite similar in terms of benefits, but the amount is a bit lower and there are some monthly benefits that they don't get, such as child allowance, family allowance, and fasting meal allowance.

As for the rest which is the white color division, I think it's around 90 employees out of 165 in total. Their salary is competitive but in terms of benefits we offer much less benefits because that's the market. We offer lunch allowance fixed amount per day and transportation allowance fixed amount per day. And next to that - also we offer health insurance, which is something we offer for all employees. But still the unionized are far best as they don't pay anything from their pocket, whereas the blue color and white color do participate 20% of the cost involved.

Is there any difference between benefits offering from last year compared to this year in Turkey?

Benefits Country Focal: Um, the benefits on itself is completely the same but amounts are of course updated due to the hyperinflation that Turkey struggles with. Recently the new CLA negotiation took place, so the new CLA for which period is 2023-2024 means that in accordance with the cost of living increase and of course the new negotiations all of the amounts are updated. So the package is the same, but the values are not the same. They are 30-40% higher.

Appendix 3: Interview with HR Solutions Total Rewards Leader

Could you please elaborate how Dow remains competitive in terms of total rewards offering?

HR Solutions Total Rewards Leader:

Very good first question Niro. Since a couple of years and we did the Total Rewards Assessment and where and that is based upon our strategy and our philosophy. And as you said we would like to and we are striving for and being competitive with our peers or the markets and depending on the size of a particular legal entity in a country. We said – Okay, how do we compare ourselves against general industry so that the whole market or do we compare against ourselves against peers. So peers for us means and a competitive company for example in the oil and gas industry or in the petrochemical industry so yes and we are performing and we are conducting total rewards assessment.

Not only on salary but actually we do it on all our total rewards and offerings - so we do include salary we are looking to our variable pay programs we are looking to our long term and short term and incentive programs including as well the benefit program so we are looking to how competitive are our insured benefits, all our insurances including our pensions. Depending on do we compare to general industry or do we compare to peers. if we compare to general industry, we would like to be at the 75% of the market. That means 25% of the market is paying more, but we are paying more than 75% of the market and if we do compare ourselves with peers then we would like to be at the median of the market.

Second question how is the process of total rewards formulation at Dow?

HR Solutions Total Rewards Leader:

So actually, for answering that question you first of all need to understand a bit how are we organized.

I think a couple of weeks ago we were in the other meeting area and I explained that. So actually we if you look from a holistic point to the HR organization, we have the HR Solutions organization who are responsible for head design but also responsible for the execution on programs and managing those programs. Next to that we have the HR Partner organization and they are managing the leader relations, the people agenda with the functions and the businesses. And then as the third pillar in organization we have the COE - the center of excellence we are responsible for the external-internal perspective the outside-in perspective as well and they are really helping us let's say in the design of plan of the programs. Once it comes up to design, and at the same time the question will arise - what would it cost? So the COE together with the HRLT the HR leadership team, they will set the budget and they will go for a budget agreement. So once let's say there is a new program or

they would like to implement a new program, the COE together with the program manager in HR solutions are sending a request to the chief HR so in our case that that is Mrs. X, then she ultimately agrees or disagrees on the on the budget. She connects on collaborates with the CFO, because yeah somebody needs to pay and needs to fund for it.

In terms of decision making pattern, how do you think about its effectiveness? Since you have mentioned about many steps and many person involved within the TR formation process.

HR Solutions Total Rewards Leader:

Um, there are a lot of ways how to look at it and we are a big company um and to manage a big country like like us it is important that we have a certain framework a certain governance structure making sure that the right steps have been taken before certain decision is made. The counter side of that is that the decision process that it can be very slow, because I need to consult Mr. A, I need to consult Ms. B, I need to consult Mr. D etcetera. And that is time consuming, it can be time consuming. In order to make sure that the correct decisions are made, because if you implement a global program it's not for 100 employees - it's not for 1000 employees - it is for most of the time and when it's a global program it's for 40,000 plus employees. So you need to be very sure and you need to be very confident that you are making the right decision.

Yes it can be a very lengthy process. From time to time it can be seen as a very cumbersome process especially when the decision needs to be taken in a very and fast way in a very quick way. Then what I would like to prefer is - if the company could set certain thresholds, so for example for decisions below a million then you only need to consult with these people. For decisions above a certain threshold above a million for example then you need to add more people to the decision process. from now from time to time not always, the decision process seems to be sometimes there is also a perception, it seems to be slow.

Let's talk about the internal HR, how do you think Dow's infrastructure sustained the HR operation?

HR Solutions Total Rewards Leader:

Good question Niro, and I'm very proud and very happy that I have been part of that journey. Quite unique journey as I have to say. Maybe I told you that before 2019, we had a very decentralized HR organization. Meaning and most of the countries where we had people and where we had employees, they had their own "HR Organization", they had their own payroll organization. As of 2019, we have been in yeah we call that HR next generation where we have been centralizing our HR organization in four hubs. Meaning, we have hub in North America, hub in Latin America, we have a hub over here in Terneuzen servicing the whole EMEA region, and we have a hub in Shanghai servicing the APEC region.

With the HR next generation or decentralization with four hubs, fortunately and we also got the budget to implement a new global HR and administration system. The decision was made that we that would implement Workday and I know we have been looking also to into other systems like from SAP SuccessFactors and also other companies. But we made the deal with Workday and this will be used on a global base, so we have one Global HR administration platform workday, at the same time we got approval and to work with ServiceNow. We are using service now as a ticketing system, so at times let's say employees' leaders do have a question they can raise a question in a ticketing system and it will make sure that the answer is been properly answered. Next to a ticketing system, ServiceNow is providing us and the facility of having a knowledge base, a huge database where we do a store all our HR articles and which also are in use for the whole global base. So it doesn't matter whether you are you working from Latin America or North America or EMEA or APAC, in case I have a question on a particular benefit program or compensation program or even talent acquisition program in the US, I can just visit the knowledge base and look for the respective article. So, with Global organization is being managed centrally, the systems have gained a lot of efficiency and effectiveness for our organization.

In terms of the total rewards offering in Turkey umm let's talk about it now umm apart from Turkey is there any other country that have similar problems similar complexity

HR Solutions Total Rewards Leader:

Sure I'm I'm so fortunate had to work for and and having certain responsibility for them I region because I have a lot of countries and which you can say hey they are quote UN quote complex I think you are referring to K and Turkey we we do have a a different populations and here we have the we have the blue colors the white collars or the the unionized versus the non unionized employees as another country where which is by far even more complex than Turkey and I can refer you to Germany Germany and we have a very scattered landscape we have different legal entities we have different labor conditions then we have tariff we have more tariffs so meaning unionized non unionized and Germany is also a very complex country Belgium to give you another country same we have different legal entities with different labor conditions where we also have unionized non unionized and have workers we have a a countries like and Italy and where we also have humanized and unknown unionized employees um yeah there are a lot of complex countries and next to Turkey yeah OK you know but in terms of budget hmm which one which does a country operation is the highest what what made Turkey a bit different than than other countries the last couple the last year and is the whole situation around inflation as you may know Turkey is suffering I have to say under hyperinflation last year they had an inflation of 80 so 80 plus percent which of course is and has a very it's very impact for to to our employees and so maybe that has made Turkey a bit more special compared to to other countries and and we were required and and actually we also saw the needs that we needed to ask for additional budget additional salary budget a couple of

times in the US because yeah our employees including pay their their their loans they couldn't pay their mortgages anymore and and therefore let's say we proposed to have and next to their annual salary increase in March to have other increases during the year just making sure that they could yeah again they pay their staff and for their financial obligations

OK does the company apply a fixed compensation and benefits or is it flexible - based on the project?

HR Solutions Total Rewards Leader:

No, I'm very clear and No. Of course if you have work on a particular project with very important project and you can be and you will be recognized and you will be appreciated for that but maybe to start and actually we we are working with a global again a global HR framework which means that depending on hey your knowledge your experience what the impact is of your role and your have been classified in in a certain grade and in Dow we have 14 grades where the majority of the people are residing in rows between yeah great tree up to and including grade six and there you will find hidden majority of of the people and then of course hey for middle management and senior management you will find them in in grades as of 789 ten and then really telling above that are really let's say the the global the global leaders in each grade or let's say for every country based upon market competitiveness market competitiveness we have certain banned salary bandwidths so depending on the role but also depending again on your experience your knowledge how impactful and euro areas you are at a certain percentage on that salary grades so and we are applying that global career framework on a global base so it doesn't matter if you're working on a particular project how important it can be and your role does matter hey because your role is is part of the global career framework and if you are an an engineer or you are an accountant and or you're working for the medical department each role does have a certain grade does have a certain salary band and and and yeah and everybody is is put on that particular grade whenever let's say again hey back on your question OK if you're working on a very important project and your results are good next to your salary you can receive a certain recognition or an appreciation in terms of of an maybe an A project bonus or a special Recognition Award on top of your normal salary

Still talking about compensation and benefits. Is there any sort of employee compensation and benefits satisfaction survey in Turkey?

HR Solutions Total Rewards Leader:

Yes actually we are conducting on a global basis once a year at least. But we also have quarterly poll surveys on an annual basis. Dow Chemical is conducting amongst its employees - an employee satisfaction survey, where a lot of questions are being asked in that survey. there's a category or a section on total rewards, about how do you feel? how you are awarded? do you feel appreciated

and recognized? and do you understand how you are awarded? and do you feel that you are being paid on a competitive basis?

So those questions indeed are part of the annual employee survey and this one is so indeed as well conducted in Turkey. By the way, I can provide you the results of last year's survey. If you want Paul has the the results of the report.

Last but not least, as you have worked for Dow for a long time, I would like to know your opinion about the most general yet influential shared value within the company?


HR Solutions Total Rewards Leader:

Umm, what I like is it is a couple of things. So first of all what I like is that that was a very inclusive company. We don't make any difference based upon gender race and nationality so no difference at all. Very inclusive company - like if you're talking about cultural attributes which are very important for us, and we embrace empowerment and accountability. Means we can give a lot of freedom to our employees to act, we do trusted each other and that of course has a a close correlation with empowerment, because he cannot give somebody the freedom to act if you don't trust him and vice versa. Last but not least, we do have a cultural attribute called transparency so actually let's say we would like to be transparent for a purpose, of course you were yesterday in the communication meeting, where the question has been raised to Mr. E - "hey can you tell a bit more about that (crucial project)? where are we?" he said yeah no I cannot say more, next question. Then you can debate is this transparent? yes it's transparent. He cannot tell more, because certain things still needs to happen. so but yeah the cultural attributes accountability empowerment trust and transparency that is also about alike and and and look at it and we are working with a very international group quite a diverse group of people come coming from all parts of the world um every time let's say challenges that provides a lot of opportunities if you're open for it and love to work for for this company.

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