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The (missing) link between wages and productivity in the Philippines: What role for collective bargaining and the new two-tier wage system?

Melisa R. Serrano

CONDITIONS OF WORK AND EMPLOYMENT SERIES No. 59

INWORK

Inclusive Labour Markets, Labour Relations
and Working Conditions Branch

***The (missing) link between wages and
productivity in the Philippines: What role for
collective bargaining and the new two-tier wage
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Melisa R. Serrano¹

INTERNATIONAL LABOUR OFFICE - GENEVA

¹ Melisa R. Serrano is Associate Professor at the School of Labor and Industrial Relations of the University of the Philippines (U.P. SOLAIR), Diliman, Quezon City, Philippines. She thanks Ramon A. Certeza, Senior Lecturer at U.P. SOLAIR, for his assistance in the field research. She also thanks the two anonymous reviewers for their valuable comments on a draft version of the paper.

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ILO Cataloguing in Publication Data

Serrano, Melisa R.

The (missing) link between wages and productivity in the Philippines : what role for collective bargaining and the new two-tier wage system? / Melisa R. Serrano ; International Labour Office, Inclusive Labour Markets, Labour Relations and Working Conditions Branch. - Geneva: ILO, 2016.

(Conditions of work and employment series ; No. 59, ISSN: 2226-8944 ; 2226-8952 (web pdf))

International Labour Office. Inclusive Labour Markets, Labour Relations and Working Conditions Branch.

wages / labour productivity / economic growth / wage structure / trade unionization / collective bargaining / Philippines

13.07

First published 2016

Cover: DTP/Design Unit, ILO

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Printed by the International Labour Office, Geneva, Switzerland

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Introduction

On 28 March 2012, the Philippine Government, through the Regional Tripartite Wages and Productivity Board of Region IV-A, issued Wage Order IVA-15. Its purpose was to further strengthen the policy framework to encourage improvements in productivity, including by enhancing the link between wages and productivity at the enterprise level. This wage order has piloted the implementation of a two-tier wage system in Region IV-A (CALABARZON), which is home to many export-processing and industrial zones. On 1 May 2014, another wage order was issued – Wage Order IVA-16 – clarifying some confusing provisions of the earlier order.

This paper explores how the wage order is being implemented two years (2013 to 2014) after its issuance in Region IV-A by examining the various schemes and processes involved in devising various productivity-based pay schemes through case studies of selected companies in the region. It also examines the extent of coverage of the productivity-based pay tier in terms of the number of participating establishments as of 2014. The issues and concerns about the productivity-based pay tier raised by both employers and trade unions are identified. Through the case studies, the paper attempts to establish how companies try to link wages and productivity and how the wage order on the two-tier system has influenced such initiatives, if it has done so at all. Finally, the paper analyses what impact enterprise-based collective bargaining might have on establishing and strengthening the link between wages and productivity in organized establishments.

The paper consists of seven sections. The first provides the economic and social context in the Philippines. The second discusses and analyses trends and issues relating to the growth of wages and productivity in the country, while section three charts the growth (or decline) of unionization and collective bargaining. In section four, an earlier law on productivity is analysed, and general insights gained from two studies on linking wages and productivity are briefly mentioned. Section five discusses the new two-tier wage system now being implemented in Region IV-A. Section six presents the findings of the case studies conducted by the author. These case studies examine the potential impact of the two-tier wage system linking wages and productivity in the selected companies. Section seven concludes the report and provides some policy considerations related to the implementation of the wage order, especially in terms of strengthening the link between wages and productivity at enterprise level and national level.

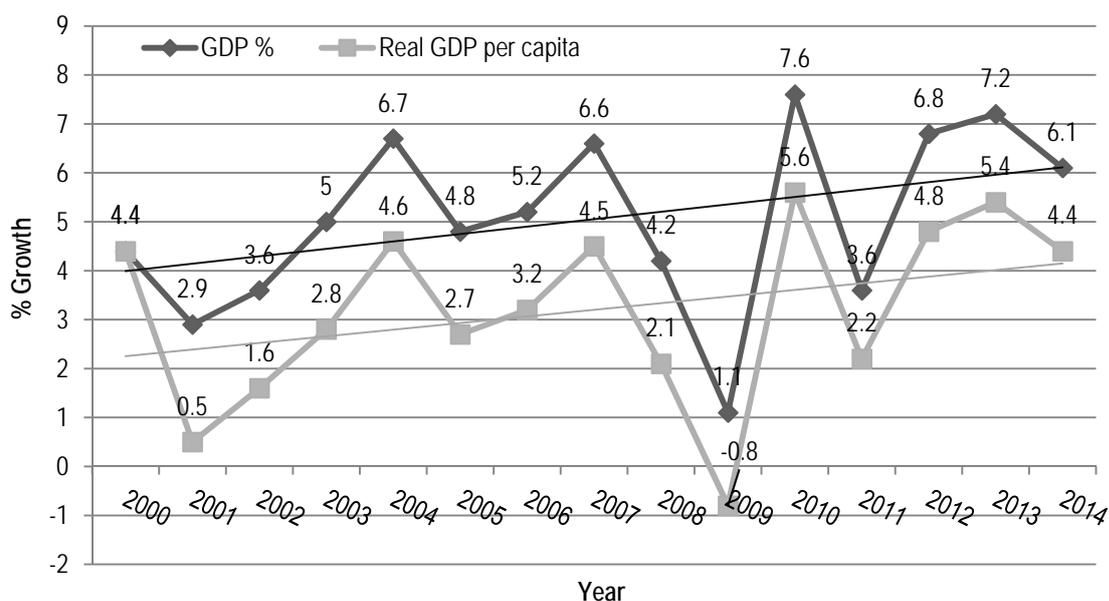
1. The economic and social context

In the last four decades, growth in the Philippines has not been smooth. Llanto (2012, pp. 4-5) lists various factors that have contributed to the anaemic growth of the economy: macroeconomic instability, policy incoherence, very low total factor productivity, sustained decline in domestic investments, lack of congruence between political structures and the needs of economic development, institutional uncertainty, a chronic productivity growth deficit, and cultural issues.

Between 2000 and 2014, however, there was a general upward trend in growth of gross domestic product (GDP)² averaging 5.1 per cent, accompanied by an overall increase in real GDP per capita, averaging 3.3 per cent (figure 1).

² At constant 2000 prices.

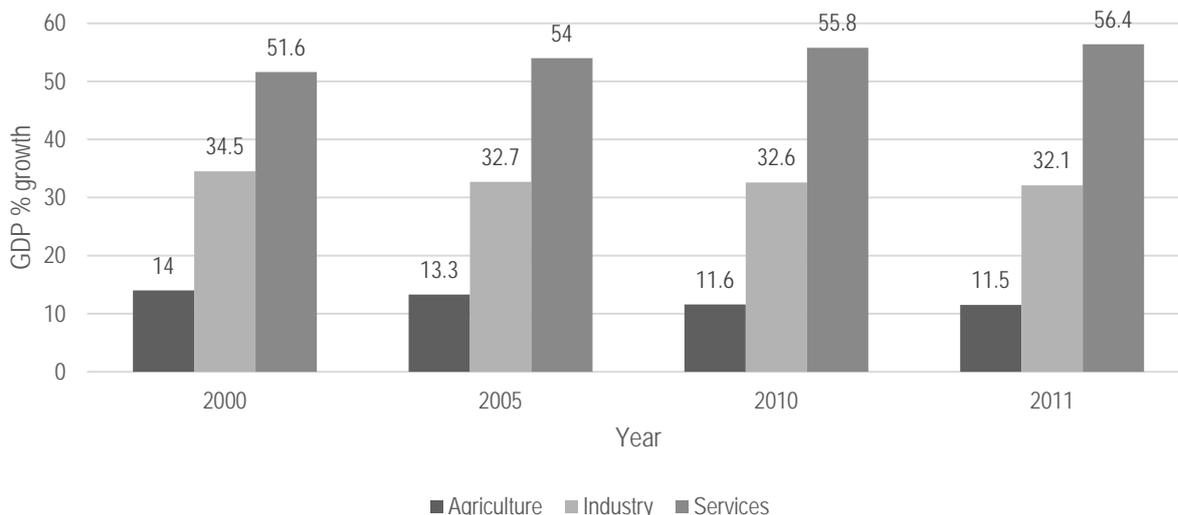
Figure 1. GDP & real GDP per capita growth, at constant 2000 prices (%)



Source: Graph constructed by the author using Philippine Statistics Authority (PSA) data.

The services sector remains the main driver of growth. More than half of the country’s GDP growth came from this sector between 2000 and 2011 (figure 2). Meanwhile, the contributions of industry and agriculture to GDP have been declining. This implies that the structural shift of the economy from agriculture to industry has not taken place. Instead, the shift has been from agriculture to services. In the second quarter of 2013, the services sector grew by 7.4 per cent, while industry grew by 10.3 per cent.

Figure 2. GDP % distribution by branch of economic activity

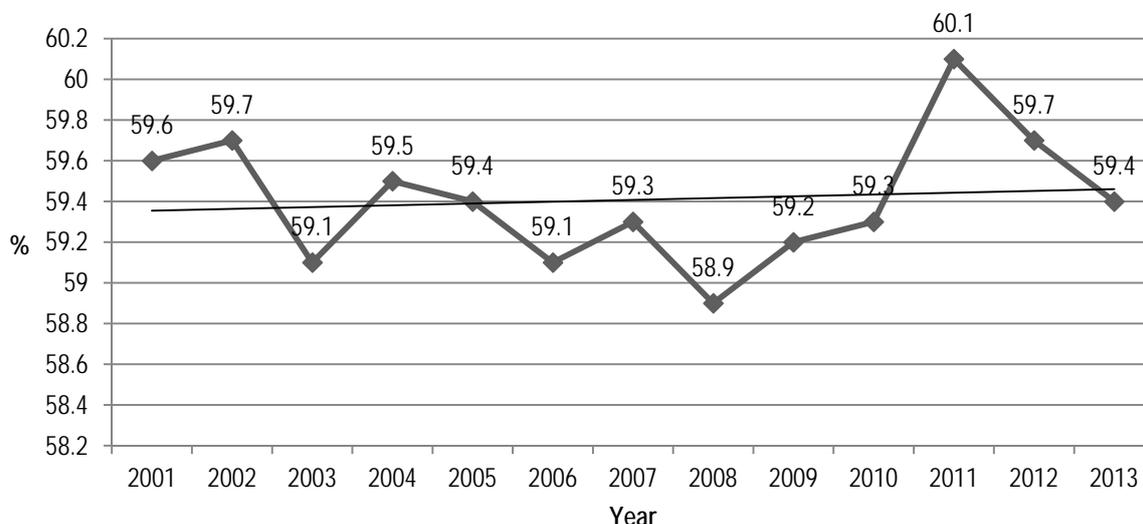


Source: Graph constructed by the author using PSA data.

The overall modest growth of the Philippine economy did not translate into sufficient employment opportunities, however. The employment-to-population ratio remained static at around 59 per cent between 2001 and 2013 (figure 3). According to ILO (2012, p. 11), between 1995 and 2010, an average

of 792,000 jobs were generated per year, while the working-age population (people aged 15 years and over) grew by 1.252 million annually.

Figure 3. Employment to population ratio (%)



Source: Graph constructed by the author using PSA data.

Moreover, although the unemployment rate gradually declined between 2005 and 2013, it was still high, averaging 7.4 per cent during this period. In October 2014, the unemployment rate was 6 per cent, compared to 6.4 per cent in October 2013.

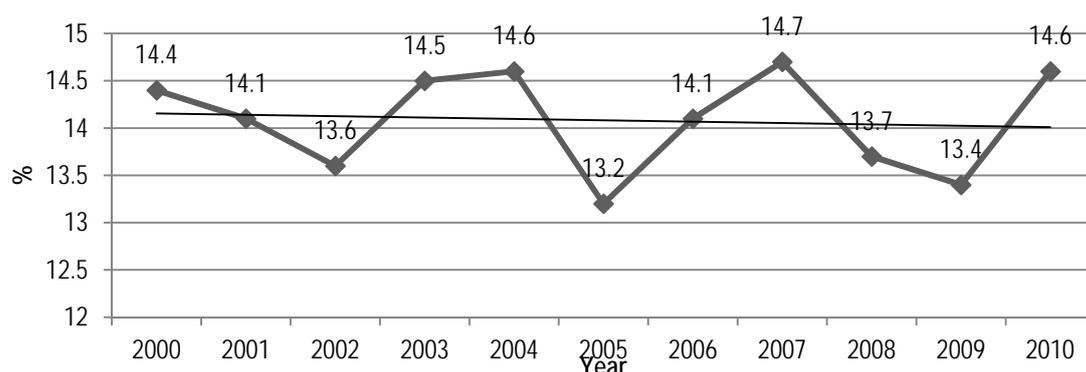
Underemployment³ also remains high. According to data from the Philippine Statistics Authority, although there was an incremental decline in underemployment rates between 2012 and 2014, about one in five employed persons was still underemployed. In 2012, the underemployment rate was 20 per cent. In 2014, it was 18.7 per cent.

Meanwhile, there was an increase in the number of precarious workers (short-term/seasonal/casual workers and those who worked for different employers on a day-to-day or week-to-week basis). According to ILO (2012), the proportion of total employment represented by employees in precarious work increased from 13.9 per cent in 1995 to 14.6 per cent in 2010 (according to the household survey data of the National Statistics Office⁴), averaging 14.1 per cent (figure 4). Of the three major sectors, industry had the highest share of precarious paid employment in 2010: more than 1 in 4 (26.5 per cent) of all workers in the sector.

³ Officially defined as the desire of workers to have additional hours of work in their present job or an additional job, or to have a new job with longer working hours (see <http://www.bles.dole.gov.ph/Glossary/definition.asp>).

⁴ Note that the Philippine Statistical Act of 2013 reorganized structurally and functionally the Philippine Statistical System. Accordingly, the Philippine Statistics Authority was created in 2013 comprising the following offices: National Statistics Office (NSO); National Statistical Coordination Board (NSCB); Bureau of Agricultural Statistics (BAS); and Bureau of Labor and Employment Statistics (BLES).

Figure 4. Employees in precarious work, % of employed, total



Source: Graph constructed by the author using PSA data.

2. Wages and productivity growth

In the Philippines, wages are fixed in several ways: regionally through minimum wage orders by regional tripartite wages and productivity boards; at the enterprise level by decision of the employer; and through collective bargaining in unionized enterprises.

Since 1989, the Wage Rationalization Act (Republic Act 6727), has delegated the determination of minimum wages to regional tripartite wages and productivity boards. The Act aims mainly “to rationalize the fixing of minimum wages and to promote productivity-improvement and gain-sharing measures to ensure a decent standard of living for the workers and their families”.

The Act prescribes the standards and criteria for minimum wage fixing: demand for living wages; wage adjustment vis-à-vis the consumer price index; cost of living and changes or increases therein; the needs of workers and their families; the need to induce industries to invest in the countryside; improvements in standard of living; prevailing wage levels; fair return on the capital invested and employers’ capacity to pay; effects on employment generation and family income; and equitable distribution of income and wealth according to the imperatives of economic and social development (Bersales, 2009, p. 1). Nonetheless, Bersales’ (2009) analysis of indicators used for the different criteria currently used in minimum wage determination in three regions of the Philippines (National Capital Region, Region VII, and Region XI) highlights the potentially positive correlation of the minimum wage with each of the following indicators: labour productivity, the consumer price index, the stock market index representing investments, and gross regional domestic product/gross domestic product.

The findings of a Bureau of Labor and Employment Statistics (BLES) survey⁵ (2008, p. 1) indicate that more than half of establishments without a union relied on minimum wage orders of a regional tripartite wages and productivity board to revise the wages of regular and non-regular rank-and-file employees. In unionized enterprises, collective bargaining agreements primarily served as the basis for wage-setting for regular rank-and-file workers (79.4 per cent), while tripartite board orders were widely used to fix the wages of non-regular rank-and-file workers (71.4 per cent).

It is noteworthy from the Bureau of Labor and Employment Statistics survey that unionized enterprises were more likely to provide workers with leave benefits (table 1), health care benefits (table 2), and social security schemes (table 3).

⁵ The survey covered 7,630 non-agricultural establishments nationwide employing 20 or more workers. In 2006, while unionized establishments accounted for 12.1 per cent (3,067) of the total 25,349 non-agricultural establishments with at least 20 workers. Establishments covered by a collective bargaining agreement accounted for 11.7 per cent of the total. The BLES is now part of the Philippine Statistics Authority.

Table 1. Share of unionized and non-unionized establishments employing 20 or more workers with paid leave benefits, by type of benefit, Philippines: June 2006

Paid leave benefit	With union	Without union
<i>Total establishments</i>	<i>3,067</i>	<i>21,771</i>
Sick leave	98.0	84.6
Vacation leave	97.0	86.8
Paternity leave	90.5	68.5
Maternity leave	85.9	78.0
Union leave	48.7	<i>NAP</i>
Bereavement leave	45.6	16.8
Birthday leave	24.9	13.2
Calamity leave	10.0	3.1
Marriage leave	7.6	6.6
Study leave	6.3	2.7
Solo parent leave	1.7	0.7
Special privilege leave	1.7	0.5
Service incentive leave	1.4	4.8
Rehabilitation leave	0.9	0.1

Source: Table reproduced from BLES (2008, p. 2), Table 2.

Table 2. Share of unionized and non-unionized establishments employing 20 or more workers with health care benefits, by type of benefit and occupational category, Philippines: June 2006

Health care benefit	Total estabs.	Managers	Supervisors	Rank & file
With union				
Physical check-up	2,116	78.1	77.5	76.7
First aid treatment	2,132	78.0	78.3	77.3
Medical care	2,063	76.1	73.9	74.7
Dental care	1,878	68.9	67.6	68.0
Hospitalization	1,913	68.6	67.9	69.7
Medicine allowance	1,375	50.6	49.9	49.7
Laboratory exam	1,094	40.3	40.0	39.8
Sight care	994	36.4	36.3	36.2
Optical assistance	904	32.8	32.1	33.0
Without union				
Medical care	11,806	70.5	68.6	68.4
Physical check-up	9,928	60.2	59.4	58.0
First aid treatment	10,245	60.1	60.9	60.3
Hospitalization	8,901	52.6	52.4	52.2
Dental care	6,463	39.4	37.7	37.8
Medical allowance	4,746	28.2	28.6	27.9
Laboratory exam	4,177	25.4	25.5	24.4
Sight care	3,936	23.8	23.8	22.9
Optical assistance	2,917	18.0	17.8	17.0

Source: Table reproduced from BLES (2008, p. 2), Table 3.

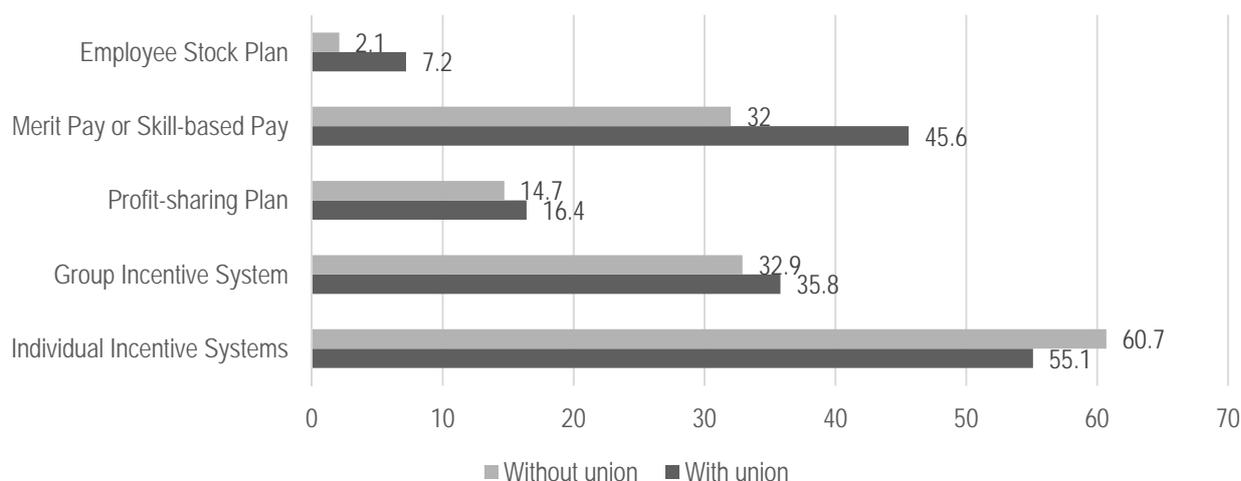
Table 3. Share of unionized and non-unionized establishments employing 20 or more workers with social security schemes, by type of scheme, Philippines: June 2006

Social security schemes	With union		Without union	
	No.	percentage	No.	percentage
Total				
Compulsory social security scheme	3,067	100.0	22,209	100.0
Separation pay	3,037	99.0	21,735	97.9
Retirement plan	2,271	74.0	11,373	51.2
Medical and health insurance	1,547	50.4	8,380	37.7
Accident insurance	1,405	45.8	7,286	32.8
Hospitalization plan	1,267	41.3	4,128	18.6
Life insurance	1,105	36.0	4,180	18.8
Pension plan	216	7.2	1,510	6.8

Source: Table reproduced from BLES (2008, p. 3), Table 4.

Moreover, except for individual incentive schemes, unionized establishments are more likely to provide incentive schemes, such as group incentives, and profit-sharing plans (figure 5). The same survey found that merit pay or skill-based pay was more often adopted by establishments with a union (one in two establishments) than those without a union (two in five establishments).

Figure 5. Share of unionized and non-unionized establishments employing 20 or more workers with incentive schemes, by type of incentive scheme, Philippines: June 2006

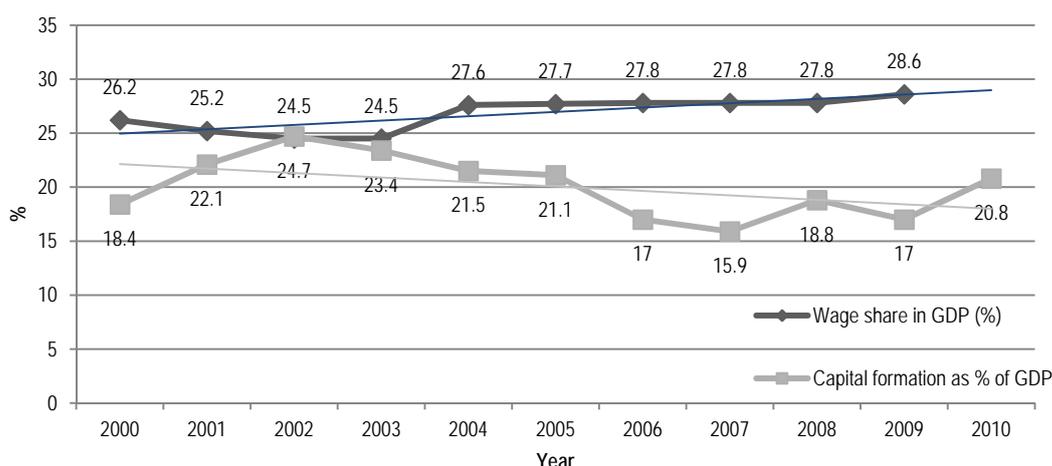


Source: Table reproduced from BLES (2008, p. 3), Figure 1.

Declining real wages

Between 2000 and 2009, the share of nominal wages in GDP increased from 26.2 per cent to 28.6 per cent, averaging 26.8 per cent. In contrast, the share of capital formation in GDP was declining during the same period, averaging 20 per cent (figure 6).

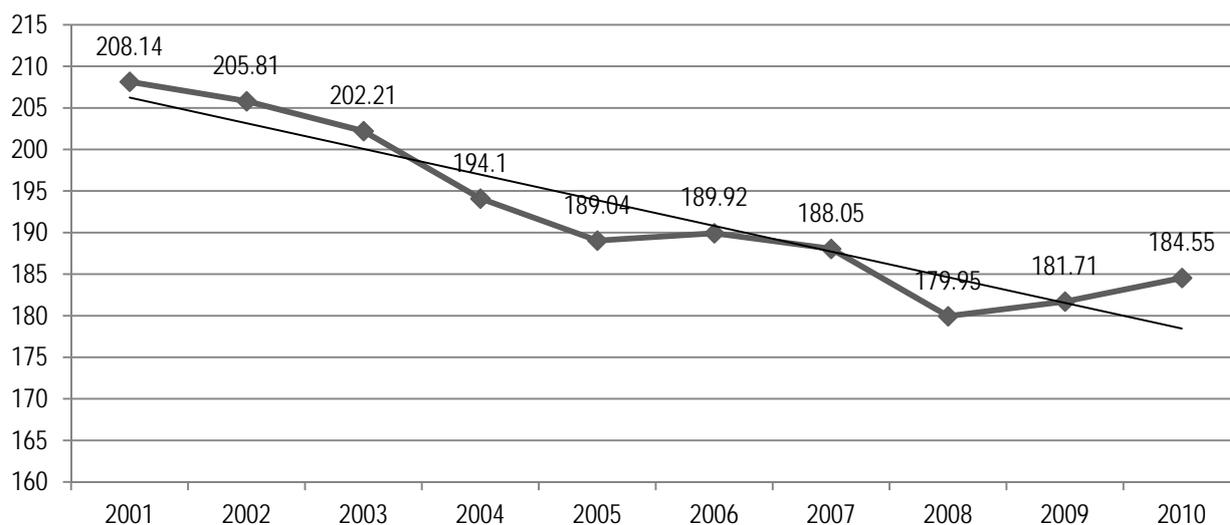
Figure 6. Nominal wage growth & capital formation as % of GDP



Source: Graph constructed by the author using PSA data.

Average real daily basic pay has been declining, however (figure 7). In 2001, average real daily basic pay⁶ (Philippine pesos (PHP) at 2000 values) was PHP208.14. By 2010, this had fallen to PHP184.55.

Figure 7. Average real daily basic pay (at 2000 PhP)



Source: Graph constructed by the author using PSA data.

Low and stagnant productivity growth

There are different definitions and measures of productivity and different approaches to estimating it to suit different purposes and in view of data limitations. Two widely used productivity measures are labour productivity and total factor productivity.

⁶ Average real daily basic pay is average daily basic pay of wage and salary workers in nominal terms deflated by the Consumer Price Index. Basic pay is pay for normal time, prior to deductions of social security contributions, withholding taxes, etc. It excludes allowances, bonuses, commissions, overtime pay, benefits in kind, etc. Basic pay per day may be in cash or in kind (imputed value) from workers' primary jobs, not their total earnings. Collection of data on basic pay started in the January 2001 survey round of the Philippines' Labor Force Survey (LFS).

Labour productivity can be measured in several ways. The preferred measure is basic-price GDP⁷ per actual hours worked. This measure allows for different work patterns across countries and across time. Not all countries collect data on total actual hours worked, however, so GDP per worker is often used. Using different data sources, both measures of labour productivity are used in this section.

Trends in labour productivity growth

According to data in Asian Productivity Organization (APO) (2013), the country lags behind in terms of labour productivity growth. Compared to other ASEAN countries, the growth of labour productivity (in terms of GDP at constant basic prices per worker) has been erratic and slow, as indicated in table 4. Between 2000 and 2011, the average productivity growth of the Philippines was 1.9 per cent, lower than Myanmar (9.9 per cent), Lao People's Democratic Republic (4.6 per cent), Vietnam (4.5 per cent), Cambodia (4.1 per cent), Indonesia (3.2 per cent), Thailand (2.5 per cent) and Malaysia (2 per cent). In recent years however, there has been an improvement in labour productivity gains, averaging 2.7 per cent in the period 2005-2011.

Table 4. Labour productivity* growth of the Philippines

<i>Period</i>	<i>Average (per cent)</i>
1990-1995	-0.4
1995-2000	1.9
2000-2005	1.1
2005-2011	2.7
1990-2000	0.8
2000-2011	1.9

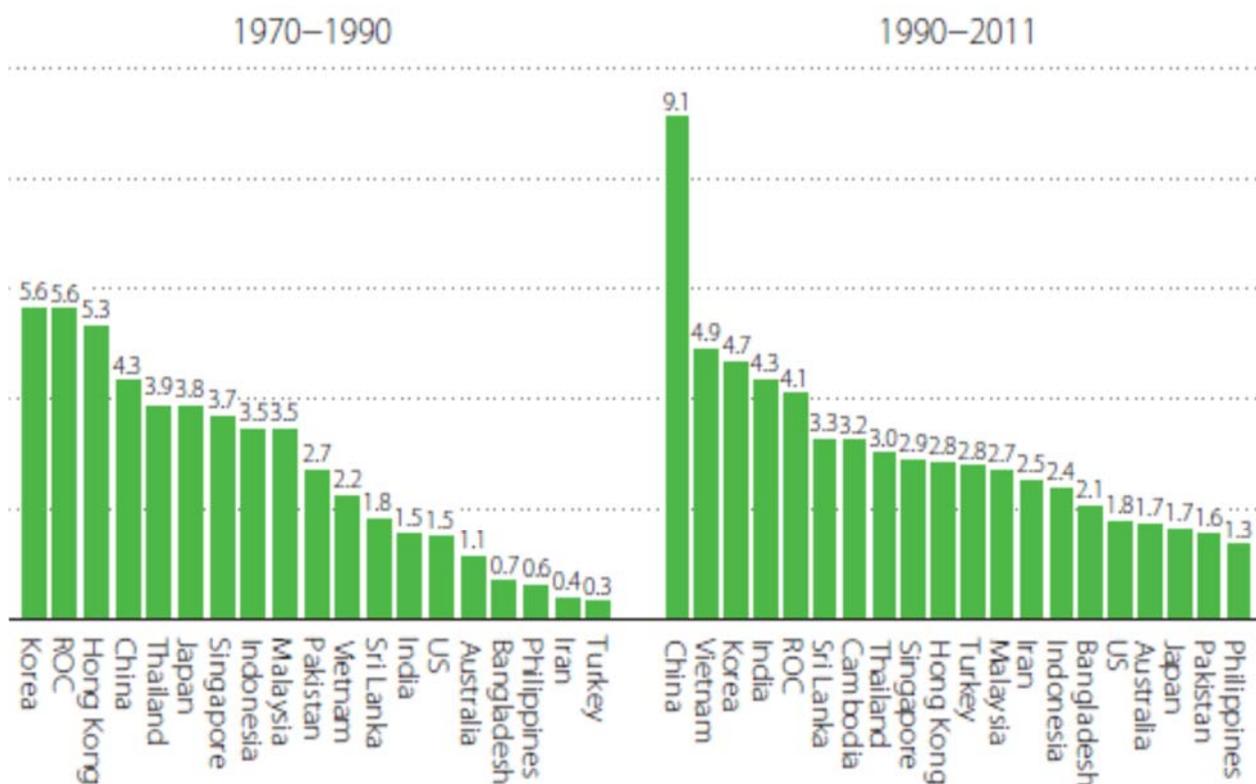
Note: *Average annual growth rate of GDP at constant basic prices per worker, using 2005 PPP

Source: Data extracted from APO (2013, p. 61), Table 9.

Average hourly labour productivity growth in the Philippines was 1.3 per cent (figure 8) between 1990 and 2011, less than Vietnam (4.9 per cent), Cambodia (3.2 per cent), Thailand (3.0 per cent), Singapore (2.9 per cent), Malaysia (2.7 per cent), and Indonesia (2.4 per cent). According to APO (2013), over the past four decades, hourly labour productivity growth in the Philippines averaged 1 per cent, while in China it was 6.8 per cent.

⁷ GDP at basic prices is defined as GDP at market prices minus net indirect taxes on products.

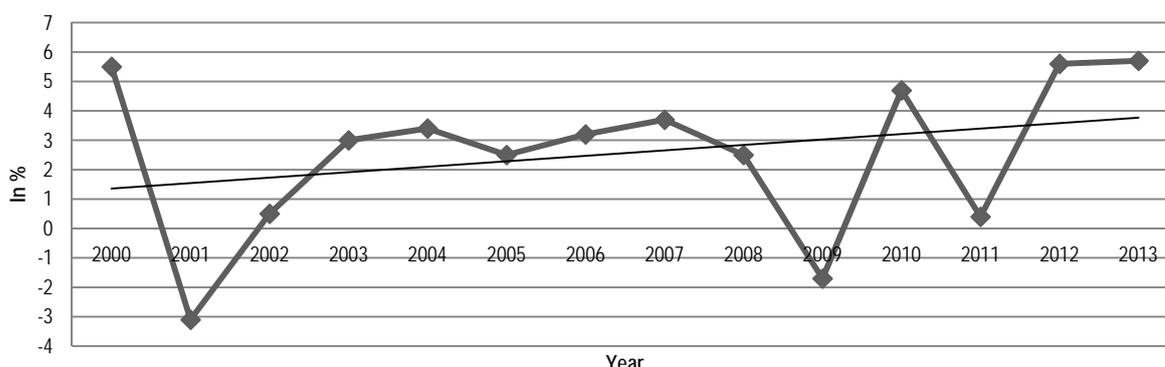
Figure 8. Labour productivity growth, average annual growth rate of GDP, at constant basic prices per hour



Source: Figure reproduced from APO (2013, p. 65), Figure 44.

Since GDP grew 6.7 per cent on average between 2012 and 2014, this boosted average labour productivity growth (measured in terms of GDP per worker) between 2000 and 2014 to 2.6 per cent. In fact, the labour productivity growth rate of 5.7 per cent in 2013 surpassed the peak rate of 5.5 per cent recorded in 2000 (figure 9). Between 2010 and 2013, a marked increase in labour productivity was observed, averaging 4.1 per cent.

Figure 9. Labor productivity growth rate (GDP per worker)



Note: GDP per worker at constant 2000 prices
 Source: Graph constructed using PSA data.

With regard to labour productivity growth by industry for the period 2000-2010, mining posted the highest average at 4.5 per cent, followed by transport, storage, and communications (3.8 per cent) and community, social, and personal services (3.4 per cent). Negative average productivity growth rates were

observed in finance, real estate and business activities, and in wholesale and retail trade, hotels and restaurants (table 5). Nonetheless, the positive labour productivity growth rates in some service industries (transport, storage, and communications, and community, social, and personal services), which were even higher than the manufacturing labour productivity growth rate, show that *service industries no longer hinder an economy's productivity performance but are as capable as manufacturing of achieving productivity growth*. As data from APO (2013, p. 108) reveal, the service sector contributed 56 per cent to aggregate labour productivity in the period 2000-2010, while the share of manufacturing was only 40 per cent.

Table 5. Average annual growth rate of labour productivity by industry, 2000-2010

Industry	Growth (%)
Agriculture	1.2
Mining	4.5
Manufacturing	2.8
Electricity, gas, and water supply	1.0
Construction	1.6
Wholesale and retail trade, hotels and restaurants	-0.7
Transport, storage, and communications	3.8
Finance, real estate, and business activities	-2.7
Community, social, and personal services	3.4

Source: Data extracted from APO (2013, p. 106), Table 16.

According to PSA data, the labour productivity⁸ growth rate in 2012 was highest in the services sector (5.6 per cent), followed by agriculture, hunting, forestry and fishing (4.3 per cent). At 2.9 per cent, industry registered the lowest growth in labour productivity.

Trends in total factor productivity growth

Total factor productivity (TFP), also called multi-factor productivity, is a residual variable⁹ or factor that accounts for those effects in output growth that are not caused by labour input or capital input. Sometimes called the Solow residual, it is often regarded as a representation of technology change but in reality also includes other factors, such as improved management structures or practices.

Low productivity may not be the result of production inefficiency alone, but also of low capital intensity in the chosen production method. In the Philippines where there is an abundance of low-skilled labour, the dominant production method is (low-skilled) labour-intensive, requiring little capital. This results in low labour productivity. This means that it is important to analyse total factor productivity¹⁰ to have a clearer picture of the country's production efficiency.

While total factor productivity has played a significant role in the fast-growing economies of Asia in recent decades, it has had no long-term impact on economic growth in the Philippines. According to data from APO (2013), the country's growth in total factor productivity in the last four decades has been even lower than its labour productivity growth: it was -0.5 per cent in the period 1970-1990 and 0.5 per cent in 1990-2011. Thus, between 1970 and 2011, there was no growth in total factor productivity. For the period 1970-2011, non-information technology capital input and labour input¹¹ contributed 54 per cent

⁸ Labour productivity by industry is measured as the ratio of the gross value added (GVA) of the industry to corresponding employment.

⁹ Total factor productivity cannot be measured realistically, which is why it is considered a residual variable in aggregate growth accounting. Thus, when all the contributions from increases in capital, labour and other factors have been accounted for, what remains is the total factor productivity. In theory, if all the factors contributing towards productivity were identified and measured correctly, this residual would be zero.

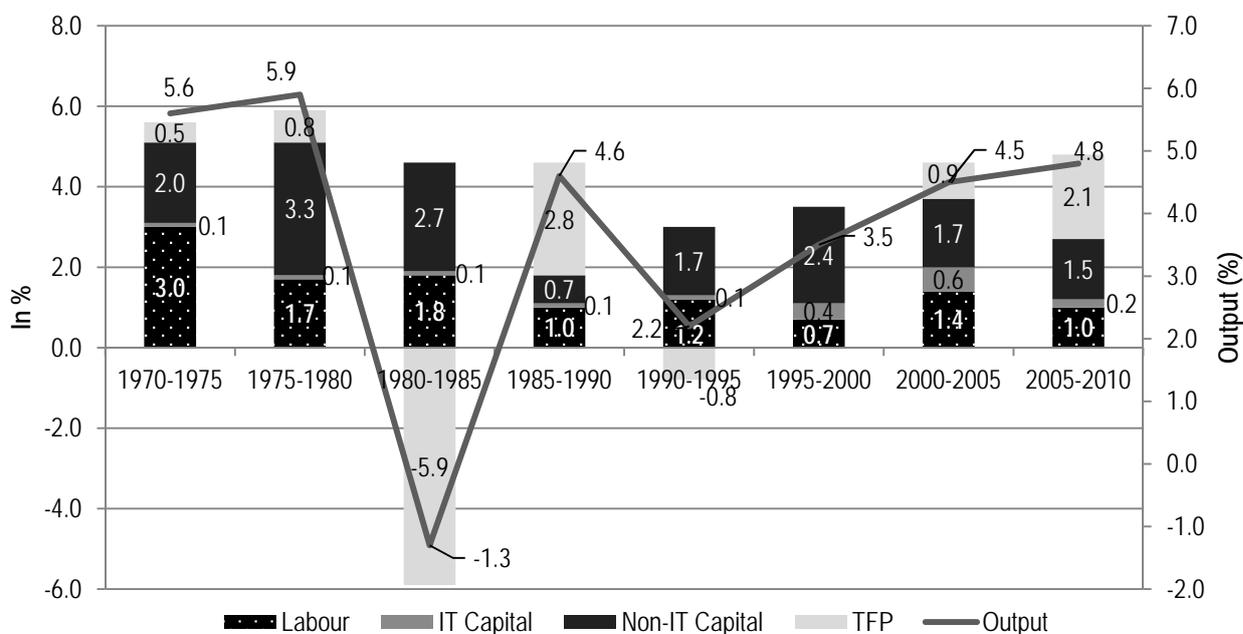
¹⁰ Total factor productivity data in this subsection is derived from APO (2013). Capital input is a key factor in measuring total factor productivity, and is defined by capital services – the flow of services from productive capital stock (APO, 2013, p. 68).

¹¹ Labour input is defined as total hours worked.

and 40 per cent of economic growth respectively (APO, 2013, p. 71), while information technology-capital input¹² and total factor productivity contributed 6 per cent and 1 per cent, respectively.

Negative total factor productivity growth can be caused by a number of factors, such as a rapid, temporary decline in demand or the inefficient use of resources as a result of political interventions in the economy (APO, 2013). As shown in figure 10, the total factor productivity of the Philippines fell severely in the first half of the 1980s, when the economy shrank by 15.2 per cent from 1983 to 1985 under the regime of the deposed former President Ferdinand Marcos when the country was wracked by political and economic crisis.

Figure 10. Growth accounting decomposition, 1970-2011



Source: Graph constructed using data from APO (2013: 76), Table 12.

According to APO (2013), historically, capital accumulation has played a much more significant role in Asian countries. As shown in Table 6, (non-information technology) capital input explained more than three-quarters of economic growth in the Philippines in the period 1970-1985. In subsequent periods, the contribution of (non-information technology) capital input became progressively smaller, falling to below 50 per cent. While labour input accounted for nearly two-thirds of economic growth in the period 1970-1985, its share also fell and stagnated in subsequent periods. Meanwhile, the contribution of total factor productivity, though severely negative in 1970-1985, became progressively more pronounced, rising to an average of 28 per cent in the 2000s. The rise of the contribution of information technology capital is also evident.

Table 6. Contribution shares of economic growth (per cent)

Period	TFP	Non-IT capital	IT-capital	Labour
1970-1985	-45	78	4	63
1985-2000	20	47	6	28
2000-2011	28	35	8	28

Source: Data extracted from APO (2013, p. 72), Figure 52.

¹² Information technology-capital input is defined as a composite asset of information technology hardware (computers and copying machines), communications equipment, and computer software (APO, 2013, p.69).

Information technology can bring about significant production gains in the services sector, such as in wholesale and retail, banking and finance, and transportation and communications, where productivity growth is slow. In an economy dominated by the service sector information technology can have an immense impact on economic development and productivity.

Declining (non-information technology) capital deepening and increasing total factor productivity in recent years

Capital deepening (as measured by capital input per hour worked) and total factor productivity are the key factors in enhancing labour productivity. Nonetheless, capital deepening remains the prime motor of labour productivity growth (APO, 2013, p. 82). The rapid economic development experienced by the developed countries in Asia (Japan and the Asian tigers) was accompanied by capital deepening. In the Philippines, the growth rate of capital intensity fell from 2.6 per cent in 1970-1990 to 1.6 per cent in 1990-2011. While labour productivity posted positive growth, albeit low at 1 per cent, during 1970-2011, the growth rate of capital productivity remained negative (-1.1 per cent) during the same period (APO, 2013, p. 80). Canlas (2003) observes that with low investment, capital per worker suffers, and that has adverse effects on labour productivity.

Between 1970 and 2011, the composition of labour productivity growth saw substantial shifts. In 1970-1985, total factor productivity growth was a significant drag on labour productivity growth in the Philippines. In 2000-2011, however, it contributed 78 per cent to labour productivity growth (APO, 2012, p. 82).

Llanto (2012) made an empirical estimation of the determinants of total factor productivity in the Philippines. His study highlighted the following:

- Higher educational levels of the working population increased the ability of an economy to innovate and take advantage of technological progress.
- A stable macroeconomic framework (as measured by the inflation rate), healthy fiscal balance and strong fiscal position.
- Increases in foreign direct investment as a channel for transferring technology, introducing innovations and good business practices.
- Openness of the economy in terms of strengthening and diversifying export markets.
- Human capital investment in terms of increasing health and education expenditures.

The greater contribution of total factor productivity to overall economic growth is an encouraging development, especially in the context of a highly competitive global marketplace. Llanto (2012, p. 24) is optimistic that future economic growth in the Philippines will be driven by growth in total factor productivity and labour productivity.

3. Unionization and collective bargaining in the Philippines

In the Philippines, unionization and collective bargaining are decentralized, that is enterprise-based. However, enterprise unions are free to join federations and other larger labour organizations.¹³ To the extent that union membership and collective bargaining are premised on the existence of an employment relationship, the norm has been that most (if not all) unions are organized among regular or permanent workers.

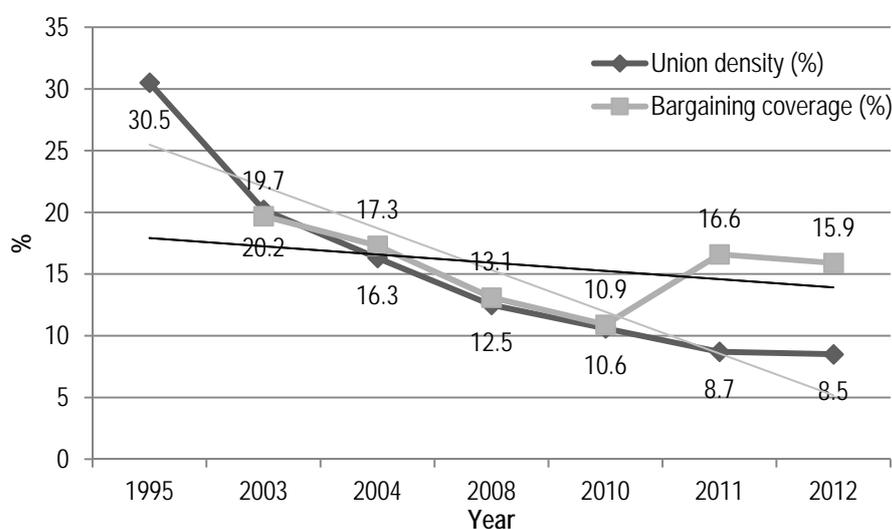
¹³ A federation is a union with at least 10 independent unions or enterprise-based unions (called locals) as members. A trade union centre is composed of two or more federations.

Since 1953, the locus of collective bargaining has been the enterprise. Under the present implementing rules of the Labor Code, there are opportunities for multi-employer bargaining (industry-level bargaining or national bargaining),¹⁴ but this type of bargaining does not take place.

Declining union density and collective bargaining coverage

As in most parts of the world, the union density rate (the share of union members to total paid employees) and collective bargaining coverage (the proportion of union members covered by a collective bargaining agreement) in the Philippines are low and declining (figure 11). From a high of 30.5 per cent in 1995, union density dramatically declined to 8.5 per cent in 2012. At the same time, collective bargaining coverage fell from 20.2 per cent in 2003 to 15.9 per cent in 2012. In 2013, union density remained at 8.5 per cent.

Figure 11. Union density & collective bargaining coverage (%)



Source: Graph constructed using data from BLES and PSA - Labor Force Survey (LFS).

ILO (2012) identifies the increasing number of non-standard forms of employment, the dominance of small enterprises, and the expansion of the informal economy as the main reasons for the decline in union density.

The decline in union density may be attributable to the growing number of short-term, seasonal or casual employees in private establishments, which at 2.056 million in 1995 almost doubled to 3.707 million in 2010 (PSA, LFS). The large share of small establishments (employing less than ten workers) and the large proportion of workers in self-employment and unpaid family work also restrict union formation efforts. In 2010, around 90 per cent of some 778,000 establishments were small-sized but accounted for only 30 per cent of the 5.669 million employed (PSA, List of Establishments). In addition, more than two-fifths of total employed were self-employed and unpaid family workers during the same year (PSA, LFS). (ILO, 2012, p. 77).

In 1995, the industry sector was the bulwark of unionism, accounting for 57.8 per cent of all union membership but, by 2010, its share had fallen to 51.9 per cent. Conversely, services sector's contribution

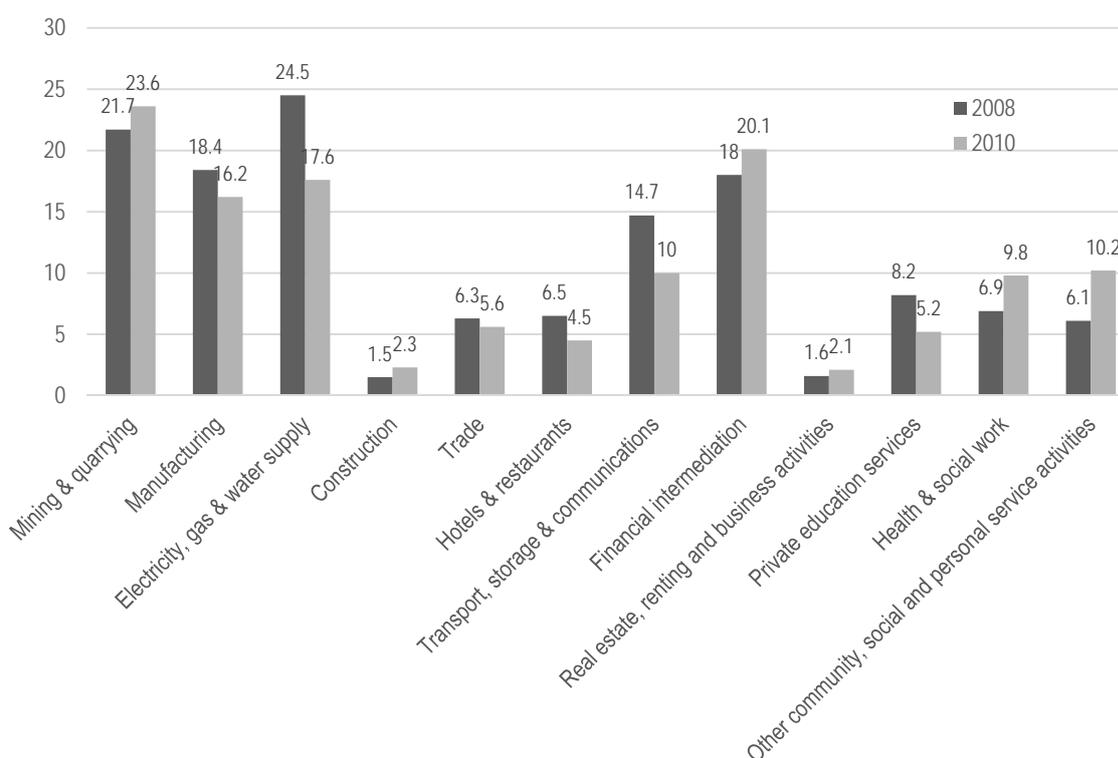
¹⁴ See Department Order 40-03, Series of 2003.

to union membership increased from 42.2 per cent in 1995 to nearly half (48.1 per cent) in 2010 (ILO, 2012: 80).

Bargaining coverage was greatest in the industrial sector in 1999 (at 60.1 per cent), but by 2010 it had shrunk to a little over half (50.9 per cent). Meanwhile, there was a notable increase in bargaining coverage in the services sector, from 39.9 per cent in 1999 to 49.1 per cent in 2010.

According to BLES (2011), mining and quarrying had the highest proportion of establishments with unions in 2010, at 23.6 per cent, followed by financial intermediation (20.1 per cent), electricity, gas and water supply (17.6 per cent), and manufacturing (16.2 per cent) (figure 12). Unions are more likely to be found in larger enterprises. In 2010, one in four (24.9 per cent) of establishments employing 200 or more workers had unions. Only about 14.6 per cent of establishments with 100-199 workers had unions, while those employing 20-99 workers were the least organized, a puny 5.2 per cent having unions.

Figure 12. Percentage of unionized establishments by major industry, Philippines



Source: Figure reproduced from BLES (2011, p. 1), Figure 1.

It can be seen in figure 12 that, between 2008 and 2010, the number of establishments with unions declined in the following sectors: electricity, gas, and water; transport, storage, and communications; manufacturing; private education services; hotels and restaurants; and trade. Conversely, the number of unionized enterprises increased in the following sectors: mining and quarrying; financial intermediation; health and social work; other community, social and personal services activities; construction; and real estate, renting, and business activities.

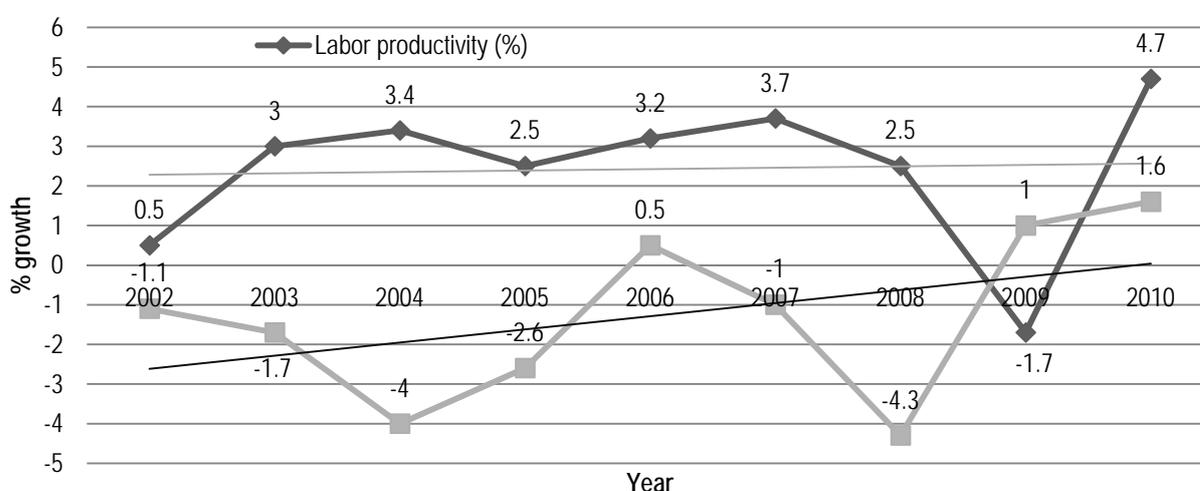
4. Linking wages and productivity: law and (rare) practice

The Philippine Government has made attempts to link wages and productivity. On 23 July 1990, the Philippine Congress passed Republic Act No. 6971, also known as the Productivity Incentives Act of 1990. It aimed to encourage higher levels of productivity by providing incentives to both labour and capital to undertake voluntary productivity incentives programmes, such as productivity improvement

programmes (to increase the productivity of various factor inputs such as materials, labour, capital and energy) and productivity gain-sharing programmes (whereby employees receive an equitable share of gains brought about by improved productivity), and manpower training and special studies (aimed at worker skills development). The Act encouraged the formation of a labour management committee at the enterprise level. The committee draws equal representation from management and rank-and-file employees and is tasked with establishing a productivity incentives programme. It also provides methods and formulas for measuring productivity.

Despite the Act, the disconnect between wages and labour productivity growth remains. Between 2002 and 2010, despite a gradual increase in labour productivity (figure 13) the growth rate in average real daily basic pay (at 2000 prices) remained negative. Between 2002 and 2010, the average real wage fell by 1.3 per cent, while labour productivity grew by 2.4 per cent.

Figure 13. Growth in labour productivity & real basic pay (at 2000 PhP) (%), 2002-2010



Note: Labour productivity growth is GDP at constant 2000 prices divided by total employed.
 Real wage growth is growth in average real daily basic pay at 2000 Philippine pesos.
 Source: Graph constructed by the author using PSA and LFS data.

Confesor (1999) argues that in order for wages to increase, productivity must be increasing and unemployment must be low. When unemployment is high, there is no pressure on companies to raise wages as a means of redistributing productivity gains. The absence of strong unions makes it difficult for workers and their families to benefit from productivity gains (in terms of higher wages, benefits, and non-wage goods).

Despite the existence of a policy framework for productivity gain-sharing, bargaining for productivity is an exception rather than the norm in Philippine industrial relations. As Bitonio (2012, p. 32) stresses, there is no history of productivity-based collective bargaining in the Philippines. Although a number of collective bargaining agreements may include general provisions on promoting productivity within the enterprise, these provisions “are mostly hortatory statements of principles or intentions, and would need some other venue of negotiations before these can be implemented”. Bitonio further emphasizes that both employers and trade unions are cautious about placing productivity issues on the bargaining agenda. For many employers, productivity is a purely management concern that they want to control themselves. They therefore prefer to address productivity outside collective bargaining agreements. For unions, productivity provisions in such agreements may result in “differentiated levels of actual pay among employees performing the same functions (which is opposed to the core union value of standardized pay among employees performing the same functions), pay equity and pay administration problems, and job or workforce reduction”.

According to Bitonio (2012, p. 33), the periodic survey of collective bargaining agreements by the Employers' Confederation of the Philippines (ECOP) indicates that productivity-related programmes are not included in agreements as they are usually initiated by management. He cites several reasons why productivity does not appear to be a core bargaining issue (2012, p. 35):

First, employers tend to reserve the determination of productivity gain-sharing schemes as an exclusive management prerogative. Agreeing to place it in the CBA will allow the union to participate in the decision-making process, thereby diluting the prerogative. Second, productivity gain-sharing arrangements require transparency and openness vis-à-vis significant amounts of information which employers are unwilling to share with workers. Third, productivity gain-sharing arrangements are essentially cooperative and integrative arrangements. In the Philippines, the attitude of the parties is to focus collective bargaining on conflictual and distributive issues. Once a productivity arrangement is incorporated as an economic provision in a CBA, it assumes a conflictual character. It can then also be invoked as a valid ground for a strike or lockout. The fourth and arguably the most significant reason is the design of the legal framework. The Productivity Incentives Act itself, while not precluding the inclusion of productivity gainsharing arrangements in CBAs, may have actually discouraged it by specifying an LMC as the proper mechanism through which a productivity incentive programme may be formulated. Conceptually, the formulation of such a programme is a process separate and distinct from collective bargaining. The intended output – the programme itself – is also distinct, as this is to be embodied in a formal, separate agreement, not through a CBA.

Many unions in the Philippines are wary of labour management committees (LMC) as they see them as management schemes to supplant unionism and collective bargaining. Thus, in the 2005 ECOP survey of collective bargaining agreements, only 45 per cent of the 214 agreements covered had such a committee. Moreover, only 15 (7 per cent) agreements had committees that actually discussed productivity and efficiency at their meetings (ECOP, 2005, p. 197).

There is very little literature examining how wages and productivity are linked at the enterprise level in the Philippines, but key insights can be drawn from Ofreneo, Serrano and Marasigan (2002) and Bitonio (2012). First, given certain conditions (see section on *Lessons and insights from the case studies*), wages and productivity can be successfully linked at the firm level. Second, linking wages and productivity can have outcomes that are favourable for both employers and workers. Third, a productivity-based pay scheme that is a product of genuine social dialogue at the workplace does not necessarily supplant collective bargaining. In fact, in the case studies presented below, such schemes were embedded in collective bargaining agreements.

The potential for gains by both companies and workers from linking wages and productivity was one of the premises underlying the issuance of Wage Order No. IVA-15, which introduced a two-tier wage system in Region IV-A (CALABARZON).

5. *The new two-tier wage system in Region IV-A*

In the World Economic Forum *Global Competitiveness Report*, the Philippines has consistently ranked low in terms of linkage between wages and productivity. In the 2010-2011 report, it ranked 82nd out of 139 countries. In late 2010, the Secretary of the country's Department of Labor and Employment (DOLE), Rosalinda Baldoz, initiated a study on linking pay and productivity. The results of the study were presented in a national tripartite forum organized by the DOLE.

Why did the DOLE choose Region IV-A¹⁵ to pilot a two-tier wage system?

¹⁵ Region IV-A or CALABARZON is comprised of five provinces: Cavite, Laguna, Batangas, Rizal and Quezon. The region is divided into three areas: the Growth Corridor Area (GCA) consisting of the rapidly urbanizing and industrial parts of the region;

The industrial sector remains dominant in Region IV-A or CALABARZON, contributing 61.3 per cent of the Gross Regional Domestic Product (GRDP) in 2012. CALABARZON is also the second largest regional economy in the country. Its share of the country's total domestic output in 2012 was 17.4 per cent. In 2012, the region exhibited an impressive growth rate of 7 per cent, a great leap from a paltry 1.7 per cent growth rate in 2011. Its per capita GRDP stands at PHP82,393, higher than the country's per capita GDP of PHP65,904.¹⁶

Between 2011 and 2012, the region's labour productivity grew by 5.3 per cent but by only 4.8 per cent between 2012 and 2013.¹⁷ The growth in labour productivity in 2012 was led by agriculture (5.5 per cent), followed closely by services (5.4 per cent), while industry generated 3.1 per cent growth.

Most large companies in the region are exporters located in export zones. There are 32 economic zones in Region IV-A. More than 50 per cent of the country's total exports come from this region. The majority of the estimated 18,000 private establishments in the region are micro and small. About 4,000 are medium (employing 100-199 workers) and large (employing 200 or more workers) enterprises. Medium and large enterprises are seen as potential candidates for the implementation of productivity-based pay schemes.

It is easy to measure productivity in manufacturing establishments and the region is home to many. Before Wage Order IVA-15 was issued there was already an existing policy framework on productivity-based pay in the region. Wage Orders 13 and 14 set some guidelines on productivity-based pay schemes for companies in Region IV-A.

According to Rovelinda dela Rosa, who was Secretary of the Regional Tripartite Wages and Productivity Board of Region IV-A when she was interviewed, these conditions make CALABARZON suitable for piloting the productivity-based pay tier. According to her, there are many companies in the region ready for such a scheme. In fact, a survey conducted by the Board in 2012 found that about 700 companies already had a productivity-based pay or productivity improvement scheme in place.

Thus on 28 March 2012, after a series of public consultations with stakeholders in the region, the Board of Region IV-A issued Wage Order IVA-15. The implementing rules of the wage order became effective on 15 May 2012. The wage order introduced a two-tier wage system in the region by setting the new minimum wage rates and prescribing percentage levels for productivity and/or performance-based pay for workers in private establishments. The floor wage is the mandatory component of this proposed two-pronged wage structure and the productivity-based pay the voluntary component.

On 1 May 2014, Wage Order IVA-15 was superseded by Wage Order IVA-16, which introduced some amendments to the previous Order.

Tier 1: Setting the regional floor wage

Section 1(q) of the implementing rules of Wage Order IVA-15 defines the floor wage as the lower limit wage level established by the Regional Tripartite Wages and Productivity Board. The first tier set a floor wage of PHP255.00 pesos (about US\$ 5.26) per day. This was based on the region's poverty threshold, the average wage, and region-specific adjustments. The wage order required workers with a minimum wage rate below PHP255.00 to receive an increase of between PHP2.00 and PHP90.00 per day in tranches within five years (or until 2016). This adjustment to the wage floor particularly affected retail and service establishments employing 10 workers or less, some agricultural plantations (with an area of more than 24

the Emerging Growth Area (EGA), consisting of parts of the region with rural and agricultural resource potential located near GCA; and the Resource-Based Area (RBA), composed of predominantly rural areas with agricultural resource potential far from the regional and Metro Manila markets.

¹⁶ All the data used in this paragraph were drawn from National Wages and Productivity Commission "Advisory Guideline in the Implementation of Productivity-Based Pay under Wage Order No. IVA-16, for Private Enterprises in Region IVA" issued on 8 April 2014.

¹⁷ See [http://www.bles.dole.gov.ph/PUBLICATIONS/Current per cent20Labor per cent20Statistics/STATISTICAL per cent20TABLES/PDF/Tab32.pdf](http://www.bles.dole.gov.ph/PUBLICATIONS/Current%20Labor%20Statistics/STATISTICAL%20per%20TABLES/PDF/Tab32.pdf).

hectares or employing at least 20 workers) and non-plantations, and non-agricultural establishments (establishments and industries other than agriculture, retail or services, regardless of the number of employees). Thus by 2016, it is expected that the floor wage in all establishments in the region will be PHP255.00 per day.

In addition, Wage Order IVA-15 required that workers and employees with a minimum wage above the wage floor receive a conditional temporary productivity allowance of PHP12.50 per day. This amount is considered part of the minimum wage rates in the region.

These provisions were modified in May 2014 by Wage Order IVA-16, which increased minimum wages in the region to between PHP267.00 and PHP362.50 a day. The floor wage was thus raised from PHP255.00 to PHP267.00. According to the 2014 wage order, the adjusted amount was determined on the basis of the region's poverty threshold, median wage and some region-specific indicators. It should be noted that in this most recent wage order, the floor wage acquired a modified definition, that is, "the lowest wage rate in a specific area classification, industry" (Rule I, Section 2[o] of Rules Implementing Wage Order No. IVA-16).

Apart from a modified definition of floor wage, the new wage order introduced another term – Socio-Economic Allowance – amounting to PHP13.00 per day to which workers receiving more than the floor wage of PHP267.00 per day are entitled. However, workers receiving less than the floor wage are entitled to only PHP12.00 per day and on a staggered basis between 1 May 2014 and 1 December 2016. The socio-economic allowance is considered an adjustment of the minimum wage rates and is therefore integrated in the payment of holiday pay, government-mandated benefits, service incentive leave and severance pay. However, it is not included in the determination of overtime pay, premium pay, night shift differential, 13th month pay and retirement pay.

According to the implementing rules of Wage Order IVA-16, the amount of socio-economic allowance was based on the following factors: gross regional domestic product (GRDP) growth rate, net employment and poverty incidence, adjustments in the prices of basic and prime commodities, and purchasing power of the peso. The socio-economic allowance is additional to the conditional temporary productivity allowance.

Both wage orders require the minimum wage increase to apply to all workers and employees in private establishments in the region, regardless of their position, designation or employment status and the method by which their wages are paid, except household or domestic helpers, persons employed in the personal service of another, including family drivers and workers of Barangay Micro Business Enterprises¹⁸ (BMBEs) with Certificates of Authority.

Tier 2: Productivity-based pay

Rule IV, Section 1 of the implementing rules of Wage Order IVA-16 defines productivity-based pay (PBP) as:

...an incentive given to workers and employees, on top of the minimum wage increase, in the form of the productivity bonus or incentive in recognition of the worker's productivity and/or performance, value of the job, contribution to business competitiveness and profitability, among others. All workers and employees in private establishments in the region may be entitled to PBP... (Underscoring by the author)

¹⁸ According to the BMBE Act of 2002, a BMBE is any business enterprise engaged in production, processing, or manufacturing of products, including agro-processing, as well as trading and services, with total assets not exceeding Php3 million. Once a Certificate of Authority is secured, a BMBE may be entitled to the following: income tax exemption; exemption from coverage by the minimum wage law; priority at a special credit window; technology transfer; production and management training; and marketing assistance programmes.

In Wage Order IVA-15, the voluntary nature of the second-tier was not clear and was therefore contested by both trade unions and employers. Wage Order IVA-16 clarified the voluntary and enterprise-based nature of productivity-based pay and the productivity improvement and incentives committee (PIIC). The committee is tasked with developing company policy on productivity-based pay, establishing performance evaluation criteria and standards, and implementing and monitoring productivity improvement programmes, among others.

The wage order requires equal representation of labour and management on the productivity improvement and incentives committee, which is headed by top-level management. Existing labour-management structures (such as the labour-management council, total quality management system, work improvement team, Kaizen team, 5S committee, safety committee and quality circle) may be enhanced to function as a productivity improvement and incentives committee. In organized establishments, the recognized union represents labour on the committee.

While productivity improvement and incentives committees are being set up, both wage orders require that workers and employees with a minimum wage above the wage floor receive a conditional temporary productivity allowance of PHP12.50 per day, which is considered part of the minimum wage rates in the region.

As productivity-based pay is applied throughout companies, workers of legitimate contractors or subcontractors in the principal or user enterprise are also covered by the principal's system. Where there is an existing productivity- or performance-related pay scheme in a company, it is recognized as complying with the productivity-based pay tier, unless the collective bargaining agreement states otherwise. The supplementary guidelines also stress that pay increases such as merit increases or increases arising from promotion and/or regularization of a worker are not part of productivity-based pay.

The implementing rules of both wage orders set some basic parameters and formulae for productivity-based pay. These are: average growth rate in labour productivity (for waged and salaried workers), labour market conditions, business expectations/economic forecasts, and industry-specific recommendations. Thus:

$$\text{Productivity-based pay (percentage increase)} = X (\text{labour productivity growth rate of waged and salaried workers}) + Y (\text{changes in labour market conditions}) + Z (\text{industry's actual and predicted growth})$$

The suggested productivity-based pay increases by major industry classification have ranged from 5.6 per cent to 10.9 per cent for wage order IVA-15, and from 6.1 per cent to 15.8 per cent for wage order IVA-16 (table 7).

Table 7. Suggested range of adjustments of productivity-based pay increases

Industry classification	Percentage range (WO IVA-15)	Percentage range (WO IVA-16)
Agriculture	6.3 to 10.9	8.5 to 13.1
Industry	5.6 to 10.2	6.1 to 12.9
Service	5.9 to 10.5	8.4 to 15.8

The implementing rules of both wage orders offer examples of productivity-based pay schemes: attendance and performance-based; profit and performance-based; based on multiple criteria; profit, cost and efficiency savings and performance-based; and productivity-based pay increase for piece rate workers.

Implementation of productivity-based pay: an update

It is noteworthy that as part of its strategy to review and assess the productivity-based pay tier of Wage Order IVA-15, the board put an Impact Evaluation Survey on the Implementation of the Productivity

Based Pay at the Enterprise Level on the National Wages and Productivity Commission website. All establishments in the region were encouraged to participate in the online survey, which started in April 2013. The Commission and the regional board provided a summary of the preliminary results of the survey (with 359 respondent establishments) as of December 2013 (table 8).

Table 8. Impact of productivity-based pay policy

Labour sector perspective	Management sector perspective	Suggestions on policy changes and improvements
<ul style="list-style-type: none"> • Significant impact on teamwork and cooperation among workers and functional units • Significant impact on participation of workers in the determination of productivity-based pay criteria and metrics • Significant impact on the provision of fair and reasonable productivity-based pay to deserving employees • Moderate impact on the improvement of worker' remuneration and standard of living • Moderate impact on the enhancement of workers' problem-solving and decision-making skills in the workplace 	<ul style="list-style-type: none"> • Significant impact on improvement in company policy/system on pay and incentives • Significant impact on enhancement of existing performance evaluation system as a metric in determining productivity-based pay • Significant impact on deliberate implementation of productivity incentive schemes that will support the provision of productivity-based pay • Significant impact on clarification of the relationship between meeting company goals and targets and the distribution of productivity-based pay 	<ul style="list-style-type: none"> • Exemption from taxes of productivity-based pay higher than PHP30,000 • Communication and sharing of productivity-based pay best practices • Revival and implementation of labour management committee programmes • Continued provision of technical assistance by the regional board and Department of Labor and Employment in rolling out productivity-based pay

Source: NWPC-RTWPB IVA: Advisory guideline in the implementation of productivity-based pay under Wage Order No. IVA-16, for Private Establishments in Region IV-A, page 2, 8 April 2014.

The preliminary results of the online survey also revealed that attendance and performance are the criteria most commonly used in granting productivity-based pay. Overall, 49 per cent of respondents said that Wage Order IVA-15 had a major influence in improving employee and company productivity.

While the preliminary results of the survey are promising, the fact that only 359 companies had completed it (as of December 2013) serves as a note of caution, as they represent only 9 per cent of the 4,000 medium and large establishments that may be covered by the productivity-based pay tier of the Wage Order. Moreover, many of the respondent establishments already had productivity-based pay schemes before the Wage Order was issued. The effects of pre-existing schemes may make the impact of the wage order less clear.

Under the implementing rules of Wage Order 16, complaints for non-compliance can be filed with Department of Labor and Employment regional office IVA or any of the Department's field offices in the region, and are subject to enforcement proceedings without prejudice to any criminal prosecution of those who fail to comply. Companies in Region IVA do not have a good record of compliance with labour standards, however. According to BLES (2015), while the region's compliance rate on the minimum wage was high, at 83.2 per cent, in 2013, its overall compliance with labour standards was a dismal 16.7 per cent (among the 2,596 establishments inspected in the region). In fact, Region IV-A had the second lowest overall compliance rate of the 16 regions of the country. The lowest compliance rate, 9.7 per cent, was recorded in Region IVB. This region's overall poor record on labour standards compliance is accompanied by very low, indeed almost insignificant, union density. According to data in BLES (2012a), in 2011 total union membership in Region IV-A was a mere 1.2 per cent of all paid employees in private establishments. When union membership in both private and public establishments is considered, union density drops even further to 0.94 per cent of all paid employees in the region.

Labour and employer objections to the two-tier wage system

It is not surprising therefore that organized labour is wary of the two-tier wage system piloted in Region IV-A. According to Jesus B. Villamor, workers' representative on the IVA regional tripartite board, labour rejected the two-tier proposal initially. Its acceptance of the productivity-based pay tier was conditional upon workers with wages above the set floor wage receiving the PHP12.50 per day temporary productivity allowance. Conversely, the employers' original position was performance-based pay without any wage increase.

For many trade unions, the floor wage of PHP267.00 per day is lower than the regional minimum wage rate of PHP367.50 set by Wage Order 16. The unions also lamented the fact that the previous wage order did not grant wage increases to workers in the region receiving more than the set floor wage. They also stress that the voluntary nature of the performance-based pay tier leads companies not to take it seriously.

Other objections and views of unions and employers on the two-tier wage system are presented in the case studies in the next section.

6. The potential impact of the two-tier wage system in linking wages and productivity in Region IV-A: findings from selected case studies

As mentioned earlier, the wage order requiring a two-tier wage system came into force in Region IVA on 15 May 2012. It may, therefore, be too early to attempt to make an accurate assessment of its impact in terms of linking wage growth and productivity growth in the region. Nonetheless, selected enterprise-based case studies can give some idea of: how the second tier has further improved existing productivity-based pay schemes at the enterprise level; how it has facilitated the setting up of productivity improvement and incentives committees and/or productivity-based pay schemes where they did not exist before; and whether the productivity-based pay tier has enhanced social dialogue (including bargaining) at the enterprise level. Moreover, lessons and insights on how to further improve the tier may be drawn from the good practices of productivity-based pay schemes identified in the case studies, as well as from the views of employers and trade unions.

Two of the companies selected (Company A and Company B) were suggested to the researcher by the Region IV-A Regional Tripartite Wages and Productivity Board. The Board had identified these companies as having good productivity-based pay programmes. The third company (Company C) was selected mainly because of its willingness to participate in the study. The author contacted some other companies with the help of the Board, but they were unwilling to cooperate. Nonetheless, the company case studies represent three of the four categories of companies originally identified by the study: a unionized company with a productivity-based pay scheme prior to the wage order; a unionized company without a scheme prior to the wage order; and a non-unionized company with an existing scheme prior to the wage order.

The respondents from the selected companies requested that their names and the names of their companies be withheld in this report due to what they see as the sensitivity of some of the information they have given.

Case 1: Company A

Company A is a manufacturer of baseball and hockey gloves for foreign markets, such as Japan, Canada, the United States, South Korea, Australia, Hong Kong, and Taiwan. It is majority Filipino-owned with 23.37 per cent foreign (Taiwanese) ownership. It has 99 regular rank-and-file workers, but the workforce can rise as high as 600 to 650 during the peak production period (October to February), and between 300

and 350 during the off-season period (end of February to September). The company has been unionized since 2008. All the 99 regular rank-and-file workers are members of the union. There are no union members among the non-regular workers.

In 2008, an individual-based productivity incentive programme and a perfect attendance incentive scheme were introduced, so in Company A there were existing productivity-based pay schemes prior to the two-tier wage order. These schemes were initiated by the management, although the incentive programme was subject to negotiation with the union in 2008.

How the existing productivity incentive scheme works

Company A’s productivity incentive programme covers all daily-paid employees. Under the programme, workers are divided into two groups on the basis of their efficiency rating (table 9).

Table 9. Company A productivity incentive programme (quarterly)

Performance Criteria	Efficiency Rating	Incentive
Group A	93 per cent & above	1.0 point: one day’s basic pay
Group B	90 to 92.9 per cent	0.5 point: half-day’s basic pay

Assessment and performance rating is carried out quarterly. As table 9 shows, if a worker obtains an “A” for performance, s/he earns one point for the quarter and is thus entitled to one day’s basic pay on top of his/her daily wage. A “B” performance meanwhile entitles a worker 0.5 points, which is equivalent to half a day’s basic pay. If in a given quarter a worker fails to obtain either “A” or “B”, s/he does not earn any points for that quarter and is therefore not eligible for incentive pay.

According to the company’s human resources manager, the efficiency rating should have been adjusted higher by the management although the findings of the study conducted by management suggest that such an adjustment would be difficult, a view shared by workers and the union. The efficiency rating indicated in table 10 therefore remained.

Apart from the productivity incentive programme, Company A also gives a monthly perfect attendance bonus equivalent to 50 per cent of the daily basic rate. Perfect attendance means no absences, no late arrivals, and no undertime within one calendar month. The bonus is paid every six months, so that bonuses for April to September are paid in October and those for October to March in April.

At Company A, there is a labour management committee comprised of six representatives of management and six union representatives. According to the company’s human resources manager, the committee aims to: encourage employees to work to improve productivity/efficiency, quality, relationships and communication in the company; discuss employee welfare and benefits; support company programmes; plan company activities; and disseminate information.

Union involvement and collective bargaining agreement coverage of the productivity incentive programme

As pointed out earlier, the attempt of Company A’s management to adjust the efficiency rating upward did not succeed because of the view of the union, among others, that the adjustment would be difficult to meet. Adjustments to the efficiency rating had been made in previous years, but they were negotiated with the union and formed part of the collective bargaining agreement. Table 10 shows the original efficiency rating set in 2008, the year the programme was introduced, and its adjustment in the two following years.

Table 10. Adjustments to Company A's productivity incentive programme efficiency rating, 2008-2010

Performance Criteria	1 st Year (2008)	2 nd Year (2009)	3 rd Year (2010)
Group A	88 per cent & above	91 per cent & above	93 per cent & above
Group B	Below 88 per cent	85 to 90.9 per cent	88 to 92.9 per cent

As mentioned earlier, the efficiency rating scale was subject to the first round of collective negotiation between the management and union in 2008, thus becoming part of the collective bargaining agreement for the period 2008-2013. The company's current performance criteria are part of the latest agreement (2013-2018).

The union at Company A was given access to critical information concerning the productivity incentive programme, such as the computation of their daily individual productivity report and the productivity/efficiency performance of the company on a daily, weekly, monthly, and quarterly basis. The union is involved in monitoring the productivity/efficiency results of employees, especially of those who received a rating of less than 75 per cent. Union representatives on the productivity committee, together with the human resources department, give counselling and guidance to poor performers. Moreover, the committee coordinates with the production department to assess which jobs or tasks will enable workers to perform better. It should be noted that the production department and the engineering department jointly determine the parameters used in the efficiency rating scheme. These parameters are quantifiable as they are based on a set quota of output per operation.

It should be noted that the 2008-2013 collective bargaining agreement also provided for yearly salary adjustments. The quarterly productivity incentive is additional to salary adjustments and is not integrated into employees' basic pay. A moratorium on wage increases for three years has been agreed in the latest round of collective bargaining covering 2013-2018. Instead, a one-shot bonus of PHP55,000 per employee was granted. The new agreement included the quarterly productivity incentive and the perfect attendance bonus.

In September 2013, management and union began to study the introduction of a plant-wide group productivity incentive programme which would complement the existing incentive programme. Implementation of this programme started in 2014. It includes savings in materials and consumption of utilities, and meeting target production quotas, among others, to determine the productivity of a particular job operation in each of the sections (finger, palm, binding, and lacing) of the company's production. It, too, is given quarterly.

Outcomes of the incentive scheme and perfect attendance bonus

According to the human resources manager, Company A's incentive programme has strengthened the link between wage growth and productivity growth in the company. As a result, productivity has risen yearly, averaging about 86 per cent in the fiscal years¹⁹ 2012 and 2013. Between April 2013 and September 2014, average productivity growth was estimated at about 87 per cent.

In the fiscal year 2013, the majority (52.6 per cent) of Company A's employees received cash incentives under the incentive programme (20.4 per cent of all employees earned one day's basic pay and 32.1 per cent earned half a day's basic pay, on average). For the first half of the fiscal year 2014 (April to September 2013), the number of employees qualifying for incentives rose to two in three employees or 66.4 per cent (25.9 per cent of all employees earned one day's basic pay and 40.5 per cent earned half a day's basic pay, on average). As a result of the perfect attendance bonus, the rate of absenteeism went down. The company's target for absenteeism of not more than 3 per cent has been met. For the fiscal year 2013, the average absenteeism rate was 2.5 per cent.

¹⁹ At Company A, the fiscal year runs from April until March the following year.

Changes in productivity-based pay scheme in view of Wage Order IVA-15

The existing productivity incentive scheme and perfect attendance bonus are considered equivalent to the productivity-based pay tier under the second tier of the wage orders. This means that Company A has complied with the wage order. According to the human resources manager, the wage order has facilitated the re-introduction in the company of another incentive programme – the group productivity incentive programme. Moreover, in compliance with the wage order, minimum wage earners, most of whom are contractual workers, receive the conditional temporary productivity allowance of PHP12.50 a day.

In May 2014, the company and the union asked the IV-A Regional Tripartite Wages and Productivity Board to undertake a work improvement and measurement study to determine the fair and reasonable product standard for each job operation in the company. The adjusted standards have a bearing on the standards and metrics followed in the company's productivity incentive and group productivity incentive programmes. The Board's findings and recommendation were presented to the management and workers' representatives in September 2014 and later accepted by both parties.

Views on the two-tier wage system

For Company A, linking wages and productivity enables an exporter to be more competitive, as a productivity incentive programme can boost productivity. The implementation of a productivity incentive programme benefits management in terms of higher productivity and workers in terms of higher income.

Nonetheless, one disadvantage identified by the human resources manager is that the two-tier wage system covered only Region IVA. To the extent that the wage order did not grant wage increases to workers in the region receiving more than the set floor wage, this has left Region IVA far behind the minimum wages of nearby cities and municipalities. Antipolo City, where Company A's factory is located, is about 10 minutes from Marikina City and 20 minutes from Quezon City, both of which are part of the National Capital Region, where the minimum wage is higher, at PHP466 a day, than the minimum wage in Antipolo, which is PHP340.50 a day. This puts Company A at a disadvantage in terms of attracting and recruiting workers, as potential workers living in Antipolo City will opt to find work either in Quezon City or Marikina City. The company is already having difficulty finding and recruiting stitchers, and most of those it employs and those to be found locally are aging.

In order to address this problem, Company A has established its own training system for stitchers so that they can recruit workers with no knowledge of sewing baseball and hockey gloves. The company is accredited by the Technical Education and Skills Development Authority to provide such training.

The union welcomes the company's productivity-based pay programmes as they supplement workers' wages. The downside of the company's eagerness to boost productivity is felt strongly during the peak season of production in long and extended hours of work. According to the union president, overtime then averages 12 hours per week. Moreover, the productivity incentive programme penalizes workers who continuously (over a year) 'underperform' by receiving a performance rating of less than 75 per cent. Sanctions are imposed that may end in dismissal. This policy adversely affects the company's aging workers. In the next round of bargaining the union intends to negotiate changes to this aspect of the programme. An immediate solution proposed by the union would be to transfer 'underperforming' workers to other positions that are not subject to productivity measurements (e.g. helper). The transfer should not in any way reduce the wages and benefits already enjoyed by the worker.

The union president of Company A also brought up the issue of wage stagnation among the regular workers who have been with the company for many years. The company provides annual wage increments to its regular workers, but only for the first seven years. This has resulted in a very narrow difference between the wages of regular workers who have been working for the company for more than seven years and the wages of newly-hired casual workers. The average wage of regular workers is PHP365 per day, a few pesos above the daily minimum wage of PHP340.50. The union president, who has been with the company for 14 years, receives PHP372.00 a day. Wage stagnation has resulted in many regular workers leaving the company. The union intends to discuss this issue in the next bargaining round.

With regard to the region's two-tier policy initiative, the union president said that, although he and other union officers had attended the orientation the Regional Board had held, they still needed more information about this aspect of the wage order, particularly its advantages to workers. They perceive productivity-based pay schemes as favouring employers more in terms of labour cost savings as the incentives are not integrated into basic wages. They consider the floor wage of PHP267 very low.

Case 2: Company B

Located in Rizal, Company B is a wholly Filipino-owned manufacturer of paints, varnishes, and thinners. All its products are for the local market. It has a total workforce of 81. The company is not unionized and had a productivity-based pay scheme prior to the two-tier wage order.

Company B's productivity programmes began in the late 1990s when the company started to apply for International Organization for Standardization (ISO) 9000 certification. According to the human resources manager, the main motivation for introducing the productivity programmes was the company's concern for human capital, that is, how to develop the full potential of its employees. Productivity improvement circles were organized to focus on cost effectiveness and work simplification to make the company more competitive and at the same time improve the workshop. In 2000, the introduction of ISO 9000 was accompanied by company-wide implementation of productivity improvement circles. In 2003, a memo was issued that encouraged the maximization of problem-solving activities in the company. Later, these activities were incorporated in departmental goals and objectives.

How Company B's productivity programmes work

In 2006, the company management introduced a productivity measurement programme to measure productivity in the plant and determine the relationship between productivity and profitability. Productivity measurement is implemented in all the transformative functions involved in the production of paints, varnishes, thinners and stains, such as raw materials/packaging materials, warehousing, production batching, quality assurance, and production filling. In addition to productivity measurement, Company B continuously implements productivity improvement circles and a 5S programme²⁰ to encourage the involvement, commitment and participation of workers (called "associates" by the company).

Each functional department has its own productivity and quality improvement programme: there is one each for the production, technical, purchasing and logistics departments, and for the raw materials and packaging materials warehouse. In each department the programme identifies issues related to the 'big 3' problems, irrationality, inconsistency and wastage. Employees then suggest means of improvement using the 'Big 3 Memo' (figure 14).

Company B's productivity programmes cover all workers, from key officials to the rank-and-file. There is no standard formula for determining productivity-based pay but the following factors are considered in the yearly performance appraisal: intelligence (initiative, originality), leadership and versatility, personal qualities (attendance, health, loyalty and sincerity, personality, and so on), and performance (quality of work, industriousness and dependability).

Employees are involved in the design of productivity programmes. They are encouraged to make suggestions on how to manage the programme through quality circles and the 'Big 3 Memos'. For example, the company's 'Big 3 Memos' enable all employees to suggest to management ways of improving processes and procedures (figure 14). Use of the 'Big 3 Memos' is a recognition by top and middle management of the rich potential for constructive ideas of employees based on their work experience.

²⁰ A workplace organization method first devised in Japan that uses a list of words to describe how to organize a work space for efficiency by identifying and storing the items used, maintaining the area and items and sustaining the new order. In English the words are: sort, straighten, shine, standardize, sustain.

Outcomes of the productivity programmes prior to the wage order

After productivity programmes were introduced, wages at Company B increased by an average of 2 per cent per year. The company estimates the value of its productivity increases per year at about PHP1.4 million. Other indicators of enhanced productivity levels are: absence of non-conforming products, zero customer complaints, increasing number of proposed improvements resulting in cost savings from materials recovery, and savings in reprocessing (i.e. total number of products reprocessed or converted from slow moving to non-moving to finished goods).

It should be noted, however, that prior to the introduction of the productivity programmes, wage increases averaged 7 per cent annually. The drop in the rate of wage increases was a result of the streamlining of operations undertaken by the company which led, in turn, to the reduction of its workforce from over 100 employees to 75. With production reduced, sales also fell.

How did Company B's productivity programmes strengthen the link between wages and productivity?

As mentioned above, the increases in productivity as a result of the various programmes resulted in an average 2 per cent wage increase per year. According to the human resources manager, the productivity programmes improved operational efficiency. The productivity measurement programme made it easy to measure gains achieved by the plant. With the cost-saving programmes, proper management of costs, and the introduction of productivity programmes, the company has been able to improve its financial ratios.

Changes in productivity-based pay scheme in view of Wage Order IVA-15

With the issuance of the two-tier wage order, Company B employees on the minimum wage were included in the productivity-based pay scheme. The company also started to devise a more precise formula for its scheme by using as a guide the examples provided in the wage order implementing rules and regulations. The company is also considering productivity improvements as bases for revising or updating its scheme.

Outcomes of productivity-based pay scheme with Wage Order IVA-15

The majority of the workers in Company B received wage adjustments as a result of the wage order. Acceptable levels of productivity have also been achieved in relation to zero defects, zero wastage, and zero absenteeism. Moreover, employee morale, motivation and job satisfaction has been maintained in terms of their continued participation in the company's cost-saving programme and through the continued implementation of a number of programmes, such as the quality bonus, loyalty bonus, model employee, retirement programmes, group insurance, health care coverage, school supplies grant, gasoline allowance, and car maintenance.

Views on the two-tier wage system

For Company B, productivity-based pay programmes are excellent if there is a real and steady increase in productivity. However, during periods of declining or negative productivity, there will be a backlash from employees should management abruptly end the programme.

According to the human resources manager of Company B, the conditional temporary productivity allowance created confusion among employers. She argues that employers should be given a free hand to choose which of the two – minimum wage or incentive pay – is applicable to their business and that consideration should be given to enabling companies to apply either or both.

Case 3: Company C

Company C is a manufacturer of steel gratings and other steel products. The plant is located in the First Cavite Industrial Estate in Dasmariñas City, Cavite. The company is 60 per cent foreign-owned (Japanese) and 40 per cent Filipino-owned. About 80 per cent of the company's products go to Japan. The rest goes to the local market. There are between 60 and 70 employees, including top management. The company is not unionized but has had a labour management council since 2000.

There was a productivity-based pay scheme at Company C prior to the wage order. Employees and management initiated the scheme through the labour management council. The council meets once a month and the minutes of meetings are posted on the council bulletin board. According to Company C's human resources manager, the workers are involved in the scheme because they are more familiar with ways of cutting costs and are aware of their co-workers' expectations. Involving workers in the implementation of the scheme also reduces the possibility of conflicts arising concerning it.

Mechanics of the productivity-based pay scheme prior to the wage order

All regular employees, and to a lesser extent agency employees, are covered by the scheme.

Under Company C's old productivity scheme, there was an output target per individual and an output target per group. For example:

For regular employees: Target of 700 kilograms per day x 0.50 cents = PHP350 (overtime output can be included)

For agency employees: Target of 700 kilograms per day x 0.25 cents = PHP175

The estimated output incentive for 15 days may range between PHP1,000 and 2,500.

In addition, a perfect attendance incentive is given on a monthly basis. Employees with no absences, undertime or tardiness in a given month are given a cash bonus of PHP300 plus 25 kilograms of rice. They also receive a transportation allowance of PHP1,080 or 1,040 per month. For those who do not have perfect attendance, rice entitlement is 2 kilograms less for every day with an instance of absence, undertime or tardiness. For example, if an employee was absent for one day in a given month, his rice entitlement would be 23 kilograms for that month.

Outcomes of the old productivity-based pay scheme

Although no data was provided to the researcher, the human resources manager of Company C claimed that the old productivity-based pay scheme to a large extent strengthened the link between wage growth and productivity growth in the company. Increases in productivity levels had gone hand-in-hand with increases in wages. Other indicators of enhanced productivity levels included: adoption of zero reject; reduction in water, electricity and some factory supply costs; employees encouraged to suggest innovative ideas (making push carts instead of purchasing hand truck pallets, for example); sale of waste; conversion of product rejects and excess products into steel furniture.

She mentioned some challenges to the scheme in the form of reduced orders from major customers and the introduction of new products and product development.

Changes in productivity-based pay scheme in view of the wage order

Company C sought to redesign its productivity-based pay scheme with the help of the Regional Tripartite Wages and Productivity Board. It formed a productivity committee with the same structure as its labour management committee, that is, two management representatives, five representatives of rank-and-file workers, two advisers (from human resources), and one ex officio member who is a worker. As before, workers are involved in the design of the new scheme through the productivity committee.

The push to further enhance Company C's existing scheme in the light of the wage order may be attributed to the company's commitment to excel in productivity programmes. In 2008, Company C was the regional winner of the Productivity Olympics and was shortlisted at the national level. Another push factor is the company's desire to promote its products and the effectiveness of its labour management committee.

Views on the two-tier wage system

The human resources manager of Company C considers some provisions of the wage order confusing. She points out that it is mandatory to form a productivity improvement and incentives committee, although productivity-based pay is voluntary. She believes the wage order needs to be revised in this regard. She also suggests that the Department of Labor and Employment should first provide an actual example of a company that has successfully and effectively implemented a productivity-based pay tier. This is important as many human resources personnel of companies on the industrial estate where Company C is located do not know how to proceed with the second tier. She suggests training and orientation on the second tier, not only for management and human resources personnel, but also for production leaders, so that they fully understand and appreciate the purpose and benefits of the two-tier wage system.

Lessons and insights from the case studies

The case studies highlight many of the critical factors that may influence effective linkage of wages and productivity at the enterprise level that were identified in an earlier study by Ofreneo et al. (2002).

First, the criteria or guidelines of the existing productivity-based pay schemes are simple and easily understood by workers.

Second, in unionized enterprises with existing schemes, the earlier case studies and the case of Company A show that some aspects of the scheme (the amount of the incentive, the criteria for eligibility in terms of performance rating) can be negotiated and can form part of a collective bargaining agreement. In these companies, subjecting some aspects of the productivity scheme to negotiation facilitated its acceptance by union and workers.

Third, the scheme should be studied and planned jointly by management and workers (or their union or productivity-related structures), as shown in the earlier case studies and in Company A, Company B and Company C.

Fourth, the case studies underscore the importance of determining measurable criteria for workers to be eligible for incentive pay. This means that performance criteria should be realistic (and achievable) in order to motivate workers to keep participating in the scheme. However, as highlighted by the union in Company A, account should be taken of the fact that aging workers may no longer be physically able to meet the company's productivity demands. A productivity scheme is an incentive on top of the basic wage. It should not result in workers who do not meet targets being subject to disciplinary measures.

Fifth, a productivity-based pay scheme, while it complements the basic wage, should not be a substitute for increases in the basic wage, particularly when bargaining for wage increases and/or service-related wage adjustments are lacking in the company. This may result in wage stagnation among the more senior (and skilled) workers, which, in turn, might compel these workers to leave the company. Here, the productivity scheme becomes counterproductive as the company may lose its skilled workforce.

Sixth, and a corollary of the previous point, a productivity-based pay scheme should not be used as a company strategy to scrimp on hiring additional workers or regularizing contractual and casual workers. In the case of Company A, the regular workers complained of very long hours of work, especially during the peak production season. This may result in physical stress, burn-out, illness and other health problems that may directly affect productivity. Again, this may also lead the affected workers to leave the company.

Lastly, periodic evaluation is a critical factor in the success of a productivity scheme. This is highlighted in the earlier case studies and in Company A, Company B, and, to a lesser extent, Company C.

With regard to the impact to date of the wage order productivity-based pay tier, the case studies show how the wage order motivated the companies to improve and/or redesign their existing schemes and other productivity programmes.

The productivity-based pay tier of the wage order has also to some extent extended the coverage of existing schemes to non-regular workers. The wage order requires companies covered to extend productivity schemes to all workers in the enterprise, regardless of employment status. This means that even non-regular workers directly hired or hired through a third party (agency and subcontracted workers) should be eligible to receive the scheme incentives.

In Company B, employees receiving the minimum wage have been included in the productivity-based pay scheme as a result of the wage order. In Company C, the company has continued to include agency-hired workers in its productivity programme, although under the former scheme such workers received a lower incentive than regular workers. In Company A, the wage order made it possible to grant the conditional temporary productivity allowance to contractual workers.

The productivity-based pay tier of the wage order has, in a sense, enhanced social dialogue at the enterprise level in the cases presented above. The wage order led the companies to improve, redesign or set up their productivity programmes and this resulted in the conduct of joint studies, consultations and negotiations by management and workers (or the union or labour management committee). Moreover, the setting up of a productivity improvement and incentives committee or the restructuring or activation of similar structures involved workers and their organizations.

7. Conclusions and policy considerations

Over the last four decades, the Philippines has lagged behind other countries in South-East Asia in terms of labour productivity growth. The slow or even stagnant growth in labour productivity has been accompanied by a disturbing trend of declining basic real wages. It is only in recent years that a modest improvement in labour productivity has been observed, averaging 4.1 per cent in the period 2010-2013.

There is no clear link between growth in wages and productivity in the Philippines. Nonetheless, a few initiatives at the enterprise level have successfully linked wages and productivity through institutional mechanisms such as collective bargaining and productivity-related legislation and regulations.

The case studies provide some empirical support to the idea that, given certain conditions, wages and productivity can be linked successfully at the enterprise level. While most of the companies studied already had productivity-based pay or incentive programmes prior to the wage order, the wage order has arguably been influential in motivating companies to improve or redesign their existing programmes to strengthen the link between pay and productivity and extend programmes to non-regular workers. Proper enforcement, combined with incentives for compliance (such as tax credits for employers covering the productivity incentives), would give the wage order the potential to generalize such schemes among companies in the region.

The case of unionized Company A demonstrates that collective bargaining can play an important role in linking wages and productivity. Indeed, it can be argued that successful linkage in terms of more acceptable, more achievable and more inclusive productivity-based pay schemes, is more likely when such schemes are discussed at the bargaining table. However, this potential of collective bargaining is significantly limited by the very low union density in Region IV-A.

The literature reviewed and the views of employers and unions (and workers) drawn from the case studies provide useful inputs for improving the two-tier wage system. The author of this paper suggests the following policy considerations:

1. The very low wage floor of PHP267 per day needs to be reviewed. The two-tier wage system defines the policy space for minimum wages as an amount slightly higher than the poverty threshold but no higher than average wages in order to allow bipartite approaches in the setting of better terms and conditions of work. The ILO recommends that minimum wages be set at a level that takes into account the needs of workers and their families, as well as economic factors. However, it is highly questionable whether setting the floor wage slightly above the poverty threshold enables workers to meet their basic needs, especially when this threshold is 'downgraded' by reducing the quantity and/or quality of the basket of goods.

In addition, not all the minimum wage rates in the country are above the poverty threshold. As the National Wages and Productivity Commission reports, in 2012, 19 minimum wage rates out of a total of 110 were found to be below the regional poverty threshold (National Wages and Productivity Commission website). The gaps between minimum wage and poverty threshold were observed mainly in micro enterprises (enterprises employing fewer than 10 workers) in the agriculture and retail/service sectors.

The role of bipartite approaches in setting a minimum wage is also limited in a situation where unionization is very low and bargaining coverage even lower. As pointed out elsewhere in this paper, the union density rate in Region IV-A is a tiny 1 per cent.

2. Policy improvements could also be considered in two other areas: the inclusion of other regions in the implementation of the two-tier wage system, and the determination of the floor wage. As underscored in the case of Company A, the fact that only Region IVA is covered has left that region far behind the minimum wages of nearby cities and municipalities. This has put the company at a disadvantage in terms of attracting and recruiting hard-to-find workers who may opt to find work in nearby cities offering higher minimum wage rates. By focusing on one particular region the wage order may discourage employers from introducing productivity-based pay schemes.
3. To the extent that productivity levels may fluctuate with fluctuating product demand, it is important to determine the appropriate periodic coverage of productivity gains that is subject to a productivity incentive scheme. In the companies studied, incentives were tied to workers' daily, monthly or quarterly performance, meaning that productivity incentives varied. The variability of productivity levels may argue for the non-integration of incentives in the basic wage or pay of workers. Nonetheless, a scheme could be arrived at (possibly as a result of negotiations between company and workers) whereby a certain proportion of the wage was fixed (and should be no less than the wages already received by the worker) and the remainder subject to productivity gains (or fluctuations). Moreover, setting a floor to the wage share that is subject to productivity gains may prevent the negative outcomes of an abrupt decline in productivity or fluctuating productivity levels. The proportion of the wage subject to productivity levels can be adjusted on the basis of medium-term productivity performance. Of course, the capacity of companies to accommodate this arrangement needs to be taken into consideration.
4. While the wage order includes information and technical support for companies in setting up their schemes, many companies in the region still require orientation and training on setting up and implementing the second tier of the wage order. The suggestion of the Company C human resources manager may be instructive here. She suggests that the Department of Labor and Employment should include in training actual examples of companies that have successfully and effectively implemented a productivity-based pay or incentive scheme. This was indeed one of the suggestions taken from the online survey of the Regional Tripartite Wages and Productivity Board. Moreover, the training and orientation should not only involve management and human resources personnel but production leaders as well.

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5. Related to the foregoing is the provision of training to improve workers' skills to enable them to contribute more to productivity gains and at the same time gain more from productivity schemes. Skills training can be provided by the company itself, as in the case of Company A, which has its own training system for stitchers accredited by the Technical Education and Skills Development Authority, or by the Authority, or both.
 6. It is crucial to monitor compliance with the wage order, especially the mandatory provisions, particularly since the record of labour standards compliance of companies in Region IVA is not good. The proposal of the labour representative on the Regional Tripartite Wages and Productivity Board to give unions authority to monitor and enforce productivity-based pay provisions has some merit in theory, but the 1 per cent union density in the region makes it impractical. Moreover, trade unions also have to be trained in the technicalities of the wage order and productivity incentive schemes.
 7. Improving total factor productivity, in particular labour productivity, offers more promise for a sustained growth path for the Philippines. Its key determinants include the educational quality of the workforce (their ability to innovate and take advantage of technological progress) and government expenditure on health and education. This suggests that increasing government expenditure on health and education has a positive impact on total factor productivity in the long term. The skills training component and good management systems and practices that go with productivity-based pay schemes may, to some extent and when generalized across industries, contribute to the overall improvement of the country's total factor productivity.
 8. Finally, while this paper has focused on enterprise-based productivity-related wage schemes, there may be limits to such schemes if increases in productivity are to be sustained over the long term, both at the enterprise level and in the economy as a whole. If productive enterprises have to share productivity gains in terms of higher wages when others do not, this creates disincentive to raise productivity (as productivity gains will be eaten up by wage increases). This may partly explain why enterprise-based schemes are unattractive to many, if not most, employers, not only in Region IV-A, but in other regions of the country as well. The reluctant acceptance of the productivity-based pay tier by the companies studied supports this, as does the point made by the human resources manager of Company A that the coverage of Region IVA alone has left the region at a disadvantage to companies in other regions. Moreover, tying wages to a company's fluctuating business performance creates wage chaos and uncertainty among workers that may result in high turnover, as pointed out by the union president of Company A. This, in turn, adversely affects the productivity of a company, especially when it is the highly skilled workers who leave.

A more efficient and sustainable way of enhancing productivity economy-wide might be through wage policies that set wages at national or sector level and that consider the overall productivity growth of an economy. Herr and Kazandziska (2011, p. 4) suggest the use of a 'wage norm', that is, wage adjustments that consider a country's "medium-term productivity development and the target inflation rate of the central bank". With this wage norm, both the inflationary impact and productivity basis of wage increases are considered. The use of the wage norm in setting wages at the national or sector level would ensure that productivity gains were shared across sectors and that productive enterprises were rewarded.

The wage norm may be set by the Government through a national minimum wage policy, for example. However, statutory minimum wages are not a substitute for wage bargaining. As Herr and Kazandziska (2011) emphasize, the main purpose of a minimum wage is to set a floor for wages in the whole economy. Nonetheless, the same authors suggest that in countries where the trade union movement is weak and does not cover all industries sufficiently, as in the case of the Philippines, "statutory minimum wages are highly desirable and urgently needed to control wage dispersion" (p. 13).

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Human resources manager, Company A (name withheld at interviewee's request)

Alvin R. Matematico, Union President, Company A

Human resources manager, Company B (name withheld at interviewee's request)

Human resources manager, Company C (name withheld at interviewee's request)

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**For information on the Inclusive Labour Markets, Labour Relations
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inwork@ilo.org

International Labour Office,
Inclusive Labour Markets, Labour Relations and Working Conditions Branch
4, route des Morillons
CH-1211 Geneva 22
Switzerland

www.ilo.org/inwork