

KEYNOTE MESSAGE

HON. ROSALINDA DIMAPILIS-BALDOZ

Secretary, Department of Labor and Employment

2014 National Productivity Convention

The Heritage Hotel, October 16, 2014, 8:30 am – 4:00 pm

Theme:

**Productivity, Innovation & Enterprise Development:
Empowering Workers and Sustaining Enterprises**

Hon. NWPC Commissioners;

DOLE Senior Officials headed by Undersecretary Reydeluz Conferido;

Hon. Congressman Karlo Alexei Nograles;

President Ernesto Herrera (TUCP);

President Edgardo Lacson (ECOP);

Deputy Director General Emmanuel Esguerra (NEDA);

Undersecretary Nora Terrado (DTI);

Undersecretary Fortunato dela Pena (DOST);

Undersecretary Rafaelita Aldaba (DTI);

Mr. Jeff Lawrence Johnson (ILO);

Our esteemed resource persons from national and international organizations;

Delegates from various industry, professional, and quality management associations;

Our friends from the academe, management, labor and other government agencies, and non-government organizations;

Partners from the media;

And to all participants present here today:

Magandangumagapo.

SUSTAINING GAINS: LINKING PRODUCTIVITY WITH PAY

The theme of the 2014 National Productivity Convention reflects the challenges that the Philippines faces in the light of the 2015 ASEAN Economic Integration. Amidst robust economic growth despite natural disasters, sound macroeconomic fundamentals, and high level of confidence of the international community brought by the series of credit upgrades, the challenge of decent work to achieve inclusive, sustainable and equitable growth remains a serious concern. One critical response to the challenge falls squarely within the mandate of the National Wages and Productivity Commission and its regional Wage Boards nationwide, that is, how to increase the level of productivity, the

output per worker, and translate it into wage gains and how to compete not on the basis of low wages, but on higher labor productivity. In short, the real and the big challenge is how to link wages with productivity. It isn't just making companies competitive and profitable through improved productivity, but for productive workers to get higher wages and ultimately enjoy higher living standards.

Beyond what government can do by way of policy responses, the long-term solution to productivity problems lies more on what happens at the firm or enterprise level, specifically, the factors that influence the growth of firms and their productivity performance. There are many factors, of course, but let me focus on two important drivers close to our hearts at the NWPC and at the DOLE. The first one is innovation, which is discovering or developing new ideas or new ways of doing things and putting them into practice. I remember one definition of excellence that says, "Excellence is doing ordinary things in extraordinary ways." Indeed, an excellent worker is an innovative worker.

The second is skills, which is about having the right people who can identify or create these ideas and make them work. You combine the two and you produce the quality of products or

services that will define and distinguish your company from all the rest. It is not just a profitable and competitive company, but more importantly, one that values its people--the workers--as the best asset. This is the desirable and shared goal among government and the social partners when we adopted the two-tier wage reform system that defines the role of minimum wage as a social safety net and the guidelines on how to compute it, and which also establishes the link between wages and productivity.

Three years into the system and translating it into operational terms, we can identify specific gains to be sustained and gaps to be addressed. At tier one, we identify minimum wages above the poverty income threshold in eight (8) regions and wages below the poverty income threshold in another eight (8) regions.

By the end of 2015, we expect to completely close the gap in five of the regions where the wages are below the poverty income threshold, bringing down the number of regions to three where minimum wages fall below the poverty threshold. By 2016, all regions would have minimum wage rates above the poverty threshold.

In the implementation of this reform, seven Wage Boards have also decided, through consensus, not to allow exemptions from the minimum wage.

The bottomline, however, when we talk of minimum wage, along with the other labor standards and occupational safety and health standards, which are preconditions for successful productivity programs, is the effective compliance and enforcement system that we have also addressed by another tripartite-endorsed labor reform--the new labor laws compliance system. This new labor laws compliance system combines the existing enforcement system with a pro-active and developmental approach using an ISO-type process of compliance and certification, which allows correction of deficiencies with DOLE assistance and which fosters a culture of voluntary compliance. It is a system that enables the DOLE to implement all labor laws in all companies covered by the Labor Code, as amended, with greater assurance that existing jobs already in the market will not be lost, that new investors will not find compliance with labor laws a disincentive to set up their business and to expand and add more jobs, and that rights of workers are respected and their wages and benefits are paid on time and in the right amount. The ILO, which is assisting the DOLE in developing the online

application system for the new LLCS, describes this innovation as first in the world.

At tier two, we link wages with productivity, and it is not just the minimum wage that we consider, but the total compensation which combines the minimum wage plus productivity wage or pay increases.

If we look first at productivity, we see the country's labor productivity generally increasing from 4.7 percent in 2010 to 5.7 percent in 2013. It outpaced that of Vietnam at 3.8 percent, Indonesia at 3.5 percent, and Thailand at 2.5 percent. Compare these productivity increases with real wage and we see that there remains gaps that need to be addressed.

Statistics on decent work indicate that from 2010 to 2013, real wages grew by less than 2 percent per year. Across sectors, real wages grew relatively faster in services than in industry and agriculture. Meanwhile, labor productivity grew by 4.7 percent in 2010, dipped to -1.0 percent in 2011, and continued its upward trajectory to 5.6 percent in 2012 and 5.7 percent in 2013.

Across major industries, these gaps have been observed in manufacturing, construction, utilities, and financial services. To address real wage and labor productivity gaps, there is a need for the NWPC to really zero in on very specific sectors where real wages lag behind productivity growth and tailor-fit policy and program intervention.

Already, our Regional Boards are assisting MSMEs mostly in manufacturing, tourism, transportation, and agribusiness through the conduct of productivity training and the issuance of advisories that go hand-in-hand with minimum wages promoting productivity-based incentive schemes. In addition, the subsequent advisories to be issued by the Regional Boards will focus on the industries where the gap between real wage and productivity exists. Through these interventions, the link between pay and productivity is tightened so that wage growth will not lag behind productivity growth.

We really have to make sure that gains are shared by employers with their workers, not as a matter of compulsion by regulation, but as a matter of mutual faith and belief that the workers are still their best assets and are the main engine of enterprise productivity and growth. No less than a change in

cultural mindset is entailed to address this issue. And when we succeed, and I am sure we will, we would have pursued to reality the overarching national goal of inclusive growth and poverty reduction.

Whether we register gains that we need to sustain or gaps that we have to address, what is important is that today, the NWPC has found its niche as the government agency equipped with the capacity to assist and train MSMEs on how to enhance their productivity performance and translate it into wage gains and better standards of living for our workers. That is very much its mandate. Building its capacity to multiply productivity and innovation advocates in the country is the reason for its partnership with the Temasek Foundation and Nanyang Polytechnic of Singapore: To train NWPC and DOLE personnel and those from DA, DTI, DOST, and DOT, together with our social partners, to become productivity professionals. This is the first in the history of the NWPC and the DOLE to train a huge number of 230 participants to undergo two levels of training on basic productivity concepts and tools and enterprise development and innovation.

The NWPC has an existing partnership agreement with the DOT in improving workforce productivity through the NWPC Service Quality training program for the hotel and restaurant industries. Under this partnership agreement, the DOT and the Hotel and Restaurant Association of the Philippines will help promote and advocate the SQ program among hotels and restaurants to ensure delivery of error-free service to its clients.

Within the DOLE, a convergence strategy has been adopted to ensure stronger complementation and coordination of DOLE programs directed towards the common goal of raising workforce and enterprise productivity. The NWPC and the NCMB are improving workforce productivity through workplace cooperation. They jointly help enterprises create plant-level labor management committees as mechanisms for implementing productivity improvement programs and gain-sharing schemes.

The NWPC also partnered with the BWSC in accelerating the delivery of productivity programs to DOLE livelihood beneficiaries. While the BWSC ensures better targeting and prioritization of livelihood beneficiaries, the NWPC expands the total package of intervention for livelihood beneficiaries by

including simple productivity improvement programs to ensure that they will transform themselves into viable enterprises.

To maximize benefits for the clients, the NWPC has integrated its package of services into a Productivity TOOLBOX for MSMEs consisting of systematized and ladderized training, starting with awareness raising, basic training, intermediate training, and advanced training that includes enterprise development and innovation. Aside from quality in terms of the content and training methodology, what separates the TOOLBOX from the other training packages is that it is given free to MSMEs.

Three years into the Two-Tier Wage System, the Philippines' ranking in the labor market efficiency pillar has already improved by 20 notches in the 2014/2015 Global Competitiveness Report of the World Economic Forum. Our ranking on flexibility of wage determination has moved up from 109 last year to 86 this year. Similarly, our ranking on pay and productivity moved up from 44 last year to 27 this year, making it the highest-scoring indicator under the labor market efficiency. The competitiveness ranking is derived from the Executive Opinion Survey of business executives of the country, which captures practices of large companies. Therefore, the assistance provided by the NWPC is

directed to MSMEs, primarily to allow them to transition from informal to formal, improve and upscale their operations and products, and link them to the local and global supply chain.

I congratulate the NWPC in meeting the real challenge in helping propagate compliance with labor standards and safety and health regulations as conditions sine qua non to foster a culture of productivity and competitiveness through the promotion of decent work and improved quality of life for all. The basic requirements to be observed when they give their services free is to ensure as GLS and OSHS. We really cannot talk about productivity if these conditions are non-existent.

As we move forward, we have to keep in mind that the road to increased productivity and enhanced competitiveness requires keeping up with the challenges. Despite the fact that many experts say that the Philippines is on the road to economic recovery, we are frequently reminded that a lot remains to be done.

It is our belief that advancing national productivity can only be achieved undoubtedly when we crack the wall that divides the concept of wages and productivity and link it to produce improved

living standards for our people. We have noticed that this wall created--and continues to create--diverging standpoints: enterprises always look for firm level productivity while workers constantly measure their wages. With the two-tiered wage system, we have come to realize that apart from setting minimum wages, there are clear and more effective alternatives to increasing workers' incomes without hampering businesses' performance.

In the last two years, the NWPC and its Regional Tripartite Wages and Productivity Boards have been consistent, active, and cooperative in the promotion of productivity incentives scheme, a significant component of the two-tiered wage system. As a by-product of reforms after reforms, the TTWS is a deliberate strategy aimed to encourage workers and enterprises to voluntarily adopt productivity improvement as basis for the fair and reasonable sharing of gains **beyond minimum wage**

For the years to come, the NWPC commits the same unwavering service to implement the wage reform and provide technical advice and assistance on productivity improvement to enterprises all over the country. The value-chain approach will be adopted in the delivery of productivity training programs, bringing

in the core of productivity and innovation champions from the DOLE, other government agencies, social partners and other private sector partners.

In this era of regional and economic integration, the workforce must **consistently** constantly undergo training, and MSMEs must continue to be innovative to shift to high value-added activities, develop market niches and link to regional and global production networks to take advantage of the opportunities from economic integration. To paraphrase a learning maxim of the Nanyang Polytechnic in Singapore, we must "eat, breathe, and live productivity."

Our President said during the opening plenary of the 23rd World Economic Forum on East Asia that while our country is in the midst of a dramatic turnaround in every sector, the government is determined in sustaining this trend and making sure that each and every Filipino enjoys the full dividends of progress. This is our parallel goal in the Department of Labor and Employment, that is why we always take into account the possible impacts of our labor policies and reforms on workers' lives and enterprises' viability and we continue to do so by engaging our

social partners in very positive and constructive social dialogues towards forging consensus.

As I end, let me aptly quote Paul Krugman of Princeton University who said that “productivity isn’t everything, but in the long-run, it’s nearly everything”. May I also say that in our time, especially now that the ASEAN Economic Community is almost upon us, our daily productivity guide should be "Work smarter; not harder."

Thank you and good day! God Bless us all.