



Republic of the Philippines
 Department of Labor and Employment
 National Wages and Productivity Commission
 REGIONAL TRIPARTITE WAGES AND PRODUCTIVITY BOARD XII



ADVISORY ON THE IMPLEMENTATION OF PRODUCTIVITY-BASED INCENTIVE SCHEMES FOR MANUFACTURING/PROCESS, RETAIL AND SERVICE INDUSTRIES

NUMBER RBXII-01, SERIES OF 2017

By virtue of the power and authority vested under Republic Act No. 6727, otherwise known as Wage Rationalization Act of 1989, the Board hereby issues this Productivity-based scheme advisory for the manufacturing/process and retail and service sectors in Region XII.

SECTION 1. Rationale

This Productivity-based incentive scheme advisory is being issued in accordance to the National Wages and Productivity Commission (NWPC) Guidelines on the Two-tiered wage system: the mandatory minimum wage as the first tier and productivity-based pay as the second tier.

The productivity-based pay is voluntary in nature. However, it is perceived to increase the productivity of the organizations as it motivates the workers to improve performance. It will also enhance the labor-management relations. Establishments are encouraged to form a labor-management committee whose main function is to develop a gainsharing, profit sharing and other productivity incentive schemes.

Monetary reward is a significant factor that affects the amount and quality of worker's output. However, productivity incentives which can be in the form of recognition of the worker's ability, productivity, and performance, could supplement their motivational and economic needs.

Consultations were conducted with the stakeholders involved in the Manufacturing and Retail and Service sectors during the Usapang 2Ps: Pasahod and Productivity last May 19, 2017 at East Asia Royal Hotel, General Santos City. As a result, the Board resolved to initiate the second tier of the aforesaid Two-tiered wage system in the Manufacturing, Retail and Service sectors. These were considered as priority industries based on their contribution to economic growth and labor employment in the region.

SECTION 2. Definition of Terms:

- a. Board – refers to the Regional Tripartite Wages and Productivity Board XII

- b. Productivity-based incentive scheme (PBIS) – refers to productivity pay increases and bonuses given to workers based on agreement between workers and management.
- c. Region 12 or SOCCSKSARGEN – composed of four provinces: South Cotabato, Cotabato, Sultan Kudarat, Sarangani; and five cities: Koronadal, Tacurong, General Santos, Kidapawan, and Cotabato.
- d. Manufacturing/process – Transformation of materials into items of greater value by means of one or more processing and/or assembly operations.¹
- e. Manufacturing industry - It is an industry who transformed raw materials into finished goods (final product) on a large scale
- f. Retail and service Sectors- refers to the class of establishments principally engaged in the sale of goods/ services to end users for personal or household use, generally without transformation, and rendering services incidental to the sale of merchandise. Services sector comprises wholesale and retail trade; Transport, storage and communication; hotels and restaurant; Real Estate, renting and agribusiness; Education; human health and Social work; and Tourism
- g. GRDP – refers to Gross Regional Domestic Product

SECTION 3. Regional Economic Performance

1.1. Economic growth

1.1.a. Region 12 is the sustainable food center of the South, which economy has a great potential to further expand its record-breaking levels with the projected surge in the industry sectors. The region ranked 10th in terms of growth rate and 9th in terms of Gross Value Added (GVA) contribution to the Gross Domestic Product in 2016.²

1.1.b. Priority industries and economic productivity of the region is enhanced by the conduct of investment promotion activities, continuous industry clustering strategy, expanded and upgraded infrastructure and logistics support, developing the quality standards of the products to compete in the world market, and improving the competitiveness of the industry and services sectors.

1.1.c. SOCCSKSARGEN has great potentials for high levels of agriculture production, tourism development, energy generation, and other resource based industries. It ranked no. 7 in livestock inventory, top producer of high value crops such as banana, asparagus and oil palm, and one of the leaders of corn and palay production for the country. It is noted that General Santos City is the leading host for the eighty percent (80%) of the tuna industry.³

1.2 Labor Force

1.2.a. As of October 2016, the labor force participation rate in the region was estimated at 64.6% with 3.3% unemployment rate and underemployment of 20.6% percent.⁴

1.2.b. The Labor force is grouped into three broad sectors: Agriculture, Industry and Service sector. As of July 2016, the retail sector accounted for 19.3% of the employment in the region, while the Manufacturing sector shared 6.5%. Workers in the services sector comprised the second largest proportion of the population who are employed; roughly 19.3% are engaged in wholesale and retail trade.⁴

1.3 Other Major Socio Economic Developments

1.3.a. The target for 2013 investments in the region was surpassed by 1.252 million with the notable increase in investments by about 37% over the level achieved in 2012.

1.3.b. In 2015, Region 12 reached a total investment of Php 7.650 billion or an increase of 70.3 percent compared to the level of investment in 2014. The coco sugar manufacturing plant in Cotabato Province was included in the investments reported by the Board of Investment.⁵

1.3.c. RORO Service was recently launched between Indonesia and the Philippines with route from Bitung, Indonesia, to Davao City and General Santos City, and vice versa.

1.3.d. Region 12 is known as a major provider of quality products and services such as high value crops, fishery, mineral resources and tourism. It has various eco-tourism destinations such as Lake Sebu, Mt. Apo, and the Gumasa beaches, including diving sites, historic caves and bird and bat sanctuaries.³

2. Priority or Growth Industry

2.1. Manufacturing industry is one of the driving forces in the growth of the Philippine economy. The sector proves its importance throughout the years for it generates employment and technological innovation.⁶

2.2. As most of raw materials in the region are agriculture-based, the Manufacturing industry in the region will continue to expand as there is a sustained increase in agricultural production particularly high value crops. It is evident based on historical data, that the growth of the manufacturing in the region is connected with agriculture.

2.3. The food Manufacturing Industry in the Philippines is the largest in terms of number of establishments, of which 80% of the Tuna canneries sector are located in General Santos City.³

2.4. Processed fruits liked canned pineapple posted the highest contribution to the region's earnings and total exports in 2015. While crude coconut oil was the third largest export, being the canned tuna ranked second.⁵

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3. Outlook

3.1. The Region has the potential of becoming one of the fastest growing regional economies in the country with its integration in Brunei- Indonesia-Malaysia-Philippines East Asia Growth Area (BIMP-EAGA) and ASEAN economy. The integration offers opportunities for investments and trading.

3.2. The regional economic growth as measured by the Gross Regional Domestic Product (GRDP) is targeted to grow 9.4 percent in 2022 with the source of growth coming from industry and service sectors. The Industry sector is targeted to grow 10.5 percent and the Service sector is targeted to grow 10.5 percent (as shown in Table 2. Growth Target).

3.3. SOCKSARGEN by 2022 seeks to create a globally competitive knowledge economy, high trust society, and a source of strong foundation for growth.

4. Productivity and Incentives Schemes

4.1 This advisory is being issued to those enterprises with and without existing productivity/performance-based incentive schemes. For those without existing productivity/performance-based incentive schemes, this will guide them in developing such program. They are also encouraged to develop on their own a productivity improvement incentive and gainsharing program which is reasonable and applicable in their respective companies.

4.2 This advisory is also being issued to further strengthen the higher level of productivity to those enterprises that are already providing productivity incentives based pay to employees.

4.3 The key performance indicators in the Manufacturing and Retail and Service sectors, to wit:

INDUSTRY	Key Performance Indicators
Manufacturing	<ul style="list-style-type: none">➤ Production Target➤ Reworks/reject reduction➤ Materials/Reduction cost
Retail and Service	<ul style="list-style-type: none">➤ Sales Target➤ Reduction of customer complaints➤ Reduce Process cycle time➤ Reduce reworks/reject

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4.4 The Manufacturing and Retail and Service sectors may choose to adopt the following sample of productivity/performance-based incentive schemes already adapted by some enterprises, to wit:

4.4.1 Bonuses or cash incentives

❖ ATTENDANCE INCENTIVE

Coverage: applicable to all rank and file employees, excluding managerial and supervisory employees, working for a number of days in a month without incurring absences and tardiness

Performance Metrics:

$$1 - \frac{\text{No. of days not absent in a year}}{\text{Total no. of working days in a year}} \geq 0$$

Incentive: Cash amounting to Php 500.00 or 3 kilos of rice

Frequency: Monthly

❖ LOYALTY INCENTIVE

Coverage: applicable to all employees including managerial and supervisory employees, who have served for a period of 5 years in the establishment

Performance Metrics:

$$1 - \frac{\text{No. of days not absent in 5 years}}{\text{Total no. of working year}} \leq 0$$

Incentive: 1,000

Frequency: every 5 years

❖ SALES INCENTIVE PROGRAM

Coverage: Applicable to all employees of enterprise

Performance Metrics:

$$\frac{\text{Net income for year } 1}{\text{Net income for year } 0} - 1 \times 100 \geq 20 \%$$

Incentive: Token/cash (20% of the amount of excess sales)

Frequency: Quarterly

❖ **TRASH INCENTIVES / UTILITY REDUCTION (reduction of cost of electricity and water consumption)**

Coverage: Applicable to all employees of the enterprise

Performance Metrics:

$$\left[\frac{\text{Utility consumption for year 1}}{\text{Utility consumption for year 0}} - 1 \right] \times 100$$

Incentive: 20% of savings realized

Frequency: Quarterly

❖ **PRODUCTION/PRODUCTIVITY INCENTIVE**

Coverage: Applicable to all employees of the enterprise

Performance Metrics:

$$\left[\frac{\text{Volume of production year 1}}{\text{Volume of production year 0}} - 1 \right] \times 100 \geq 20\%$$

Incentive: Token (small home appliance) for 20% increase volume of production

Frequency: Annually

❖ **BEST IN CUSTOMER SERVICE**

Coverage: Employees in frontline service with at least 20% reduce customer complaints

Performance Metrics:

$$\left[\frac{\text{Customer complaints for quarter 1}}{\text{Customer complaints for quarter 0}} - 1 \right] \times 100$$

Incentive: 1,000.00

Frequency: Semi-annual

❖ **ZERO REJECTS/ REWORKS INCENTIVE**

Coverage: Production Employees in the manufacturing industry

Performance Metrics:

$$\frac{\text{No. of rejects/reworks}}{\text{Total No. of goods produced in a quarter}} = 0$$

Incentive: 3,000.00 cash

Frequency: Quarterly

4.4.2. COMMON TYPES OF PRODUCTIVITY INCENTIVE PLAN

❖ SCANLON PLAN

Coverage: A period of 3 years of salaries and Sales

Metrics:

$$\frac{\text{Wages(3years)}}{\text{Sales(3years)}} = \text{Average Scanlon Base Ratio(SBR)}$$

$$\text{SBR} \times \text{Actual Sales} = \text{Theoretical amount}$$

$$\text{Theoretical amount} - \text{Wages \& Salaries paid} = \text{Salaries \& Wages Saved}$$

$$\text{Salaries \& Wages saved} \times 1 - \text{reserve ratio} = \text{amount to be distributed}$$

Note: Reserve ratio is determined by the management

Incentive: Gains shared is comparing the actual labor cost with the required (standard) labor cost

❖ RUCKER PLAN (Value added approach)

Metrics:

$$\frac{\text{Total Value added}}{\text{Labor cost}} = \text{Average Labor Cost}$$

$$\frac{\text{Total value added}}{\text{Average labor cost/value added ratio}} = \text{Theoretical amount}$$

$$\frac{\text{Theoretical amount of wages and salaries}}{\text{Actual wages and salaries}} = \text{Salaries and Wages saved}$$

$$(1 - \text{Reserve ratio}) \times \text{salaries \& wages saved} = \text{Amount to be distributed}$$

Note: The management may set the Reserve ratio

❖ **Improved Productivity through Sharing (IMPROSHARE)**

Coverage: 3 years of labor hours and production

Metrics:

$$\frac{\text{labor hours}}{\text{Production(units produced)}} = \text{Base Productivity Factor (BPF)}$$
$$\text{BPF} \times \text{Units Produced} \times \text{units produced} = \text{Theoretical hours}$$
$$\text{Theoretical hours} - \text{actual hours} = \text{Hours gained}$$
$$\text{Improshare bonus} = \frac{\text{Hours saved}}{\text{Actual hours}}$$

Note: The Hours saved is a proportion as agreed by the management and employee

4.4.3. Professional development and Non-monetary benefits

- Trainings
- Seminars
- Study grants/courses
- Health and wellness package such as gym membership
- Books/educational resources
- Customer's commendations
- Semestral gathering
- Corporate social responsibility project – local trip

4.5 The productivity incentive schemes provided herein shall be without prejudice to productivity incentives program already implemented that are providing better terms and conditions of incentives.

4.6 It is understood that the incentives and other forms of bonuses granted under the Tier 2 shall be treated differently and shall not form part to the wage as provided under the Tier 1.

Section 4. Recognition of Successful Productivity Practices

The RTWPB XII will confer and give recognition to enterprises who have successfully implemented the productivity practices to be recognized in the local business community in order to encourage other enterprises to adopt such practices.

Section 5. Tax Incentives

5.1. Pursuant to RA 6971, under Sec. 7, the manufacturing and retail and trade sectors that implement a productivity improvement program, duly agreed upon by both labor and management, shall get tax credits/incentives.

5.2. A special deduction from gross income equivalent to fifty percent (50%) of the total productivity bonuses and/or fifty percent (50%) of the total grants in case of manpower training and special studies given to employees under the program over

and above the total allowable ordinary and necessary business deductions for said bonuses/grants under the National Internal Revenue Code.⁷

Section 6. Recommendation

We encourage those with and without existing productivity incentives schemes in manufacturing, retail and services sector to adopt productivity-based schemes set forth in the advisory or to create/design its own productivity incentive scheme by generating its performance criteria/metrics, incentive equation and manner of distribution of incentives. Specifically, the following options may be pursued:

A. For Establishments with Existing Productivity Incentive Schemes

1. Sustain the implementation existing schemes
2. Expand existing schemes by adopting some of those highlighted in this advisory
3. Create/design and adopt additional schemes

B. For Establishments without Productivity Incentive Schemes

1. Adopt a combination of schemes reflected in this advisory
2. Create/design and adopt the same new incentive schemes.

Section 7. Technical Support

The Regional Tripartite Wages and Productivity Board shall provide a technical information and assistance to conclude productivity agreements such as capacity building and consulting services, especially to micro, small and medium enterprises in designing quality and productivity improvement programs and gainsharing schemes through Work Improvement Measurement - Time and Motion Studies (WIM-TMS) and Productivity training programs such as the 5S or Good Housekeeping; ISTIV modules for manufacturing enterprises; Service Quality for service establishments; and Green Productivity.

Section 8. Effectivity

This Advisory shall take effect fifteen (15) days after publication.

Signed this 18th day of July 2017 at Koronadal City.

A. G. P. M. M.



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Note: This Advisory on the implementation of Productivity-based incentive schemes for Manufacturing/Process, Retail and Service Industries Number RBXII-01, Series of 2017 was officially published in The Mindanao Cross on September 30, 2017. Hence, this Advisory took effect on October 16, 2017.

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 Manufacturing and Service Industry

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 ² SOCCSKSARGEN Regional Development Plan 2017-2022, NEDA

³ SOCCSKSARGEN Regional Development Plan 2011-2016, NEDA

⁴ Philippine Statistics Authority

⁵ Regional Development Report 2013, NEDA XII

⁶ Industry career guide

<http://www.dlsu.edu.ph/research/centers/aki/participant/trainings/workingPapers/2015-19.pdf>

⁷ Republic Act No. 6971 , An act to encourage productivity and maintain industrial peace by providing incentives to both labor and capital



Table 2: Growth Target (%), Gross Regional Domestic Product (GRDP), 2017-2022

GVA/ Sector	2018		2017		2016		2015		2014		2013		2012	
	L	H	L	H	L	H	L	H	L	H	L	H	L	H
GRDP	5.4	6.0	6.1	6.6	6.7	7.2	7.2	7.7	7.8	8.1	8.3	8.8	8.9	9.4
Agriculture	1.0	2.0	2.0	2.5	2.5	3.0	3.0	3.5	3.5	4.0	4.0	4.5	4.5	5.0
Industry	7.0	7.5	7.5	8.0	8.0	8.5	8.5	9.0	9.0	9.5	9.5	10.0	10.0	10.0
Services	7.0	7.5	7.5	8.0	8.0	8.5	8.5	9.0	9.0	9.5	9.5	10.0	10.0	10.0

Source of data: NEDA XII

Demographic trends

The 2015 Census of Population (POPCEN 2015) showed that the population of Region XII (SOCCSKSARGEN) as of August 1, 2015 stood at 4,545,276. The 2015 population of the region is higher by 435,705 compared with the population of 4.11 million in 2010 and by 1,323,107 compared with the population of 3.22 million in 2000. The total population of Region XII accounted for about 4.3 percent of the Philippine population in 2015. Between 2010 and 2015, the region's population grew at an annual average rate of 1.94 percent. By comparison, the rate at which the region's population grew during the period 2000 to 2010 was higher at 2.46 percent.

Among the four provinces comprising

the region, Cotabato (North Cotabato) recorded the biggest population in 2015 with 1.38 million, followed by South Cotabato (excluding General Santos City) with 915,000, and Sultan Kudarat with 812,000. Sarangani had the smallest population with 544,000. General Santos City (Dadiangas), the only highly urbanized city in the region posted a population of 594,000. Cotabato City, on the other hand, had a population of 299,000. This city is an independent component city in Region XII whose province, Maguindanao, is under the regional jurisdiction of the Autonomous Region in Muslim Mindanao (ARMM). Among the five cities in Region XII, General Santos City had the biggest population at 594,000, followed by Cotabato City with 299,000, Koronadal City with 175,000, Kidapawan City with 140,000, and Tacurong with 98,000.

Table 3: Population SOCCSKSARGEN, By Province/City, 2015, 2010-2015, 2000-2010

Province/City	2015 Population	2010-2015	2000-2010
Philippines	100,981,437	1.72	1.90
Region XII	4,545,276	1.94	2.46
Cotabato (North)	1,379,747	2.27	2.49
Sarangani	544,261	1.67	1.97
South Cotabato	915,289	1.94	1.82
Sultan Kudarat	812,095	1.60	2.45
General Santos City	594,446	1.91	2.71
Cotabato City	299,438	1.86	5.19

Source of data: PSA XII

The implementation of interventions under the Responsible Parenthood and Reproduction Health (RPRH) program is

expected to further reduce the population growth rate of the region by the end of the plan period.