

Contemporary Issues and Problems in the Philippine Industrial Relations System

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Abstract

This paper describes industrial relations as social relations of production and using this framework characterizes the Philippine IR system as predominantly paternalistic, hierarchical and unitary. Using statistics gathered from government sources he discusses the state of trade unionism and collective bargaining in the country and the low compliance to labor standards which are directly related to the number of strikes among the organized labor sector. He recommends the need to curb declining trade union membership and militancy by calling on labor unions to align themselves with civil society, explore new mechanisms for labor empowerment and support corporate codes of conduct to promote self regulation of labor standards compliance. He also urges a strong partnership among the IR actors with government and the private sector becoming more proactive to labor policy reforms and promotion of labor empowerment and social justice initiatives.

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Introduction

This paper describes and characterizes the workplaces and the IR actors in developing countries and explains their processes using the framework of the ILO in defining industrial relations (IR) as social relations of production.

In a developing country like the Philippines, the dominant IR system is the paternalistic unilateral decision making process practiced in most micro, small and medium scale enterprises.

Collective bargaining system is practiced in big enterprises and is still a significant IR process in the country. Bipartism is reinforced by a state-dominated form of tripartism.

Bipartism in the Philippines was introduced by the American colonial administrators in the 1950s with a promise that the country would soon industrialize like the USA. Trade unionism and collective bargaining are important ingredients of development with equity in an industrializing economy. Labor through their unions would be able to prevent exploitation by the capitalist employers and thereby partake of the fruits of development and industrialization.

The Philippines used to be the second most developed country in the far east next to Japan. It now lags behind in economic development as economic liberalization and globalization deepen. With a stagnant industrial sector and a robust labor intensive services sector, trade unionism in the country is in a rapid decline.

In the meantime, unemployment and underemployment continue to rise and the bulk of the workforce continues to be marginalized through contractualization and informal work. There is widespread non-compliance to labor standards especially in the informal sector where the bigger bulk of the labor force is situated.

With scarce jobs and a weakened trade union movement, industrial peace prevails in the country despite the widespread non-compliance to labor standards and poverty among the poor working groups. There is now a call for unified actions among the various IR actors, namely: government, employers, labor and civil society in order to propel the country to catch up with South East Asia's fast development growth.

The crisis worsens as the actors continue their reactive stances. Dynastic elites still dominate both the economic and state institutions resulting in widespread inequity and poverty. With a weakening formal sector, which is the base of the trade union movement, the labor sector has now expanded to social movement unionism and parliamentary politics through the party list system.

Theoretical Framework

Industrial relations (IR) is defined as social relations of production (ILO, International Institute of Labour Studies, 1970). It covers the behaviour and relations of people and groups of people at work: in formal and informal sectors; in manufacturing, agriculture and services sectors; and among the employed, self-employed, or even those non-wage or unpaid family workers (Thomas and Waterman, 1979).

IR as a field of study was born in the USA in the early 1900s during its industrializing period. According to Kaufman (2004:1), its proponents were part of a reformist group critical to the "callous and exploitative treatment of labour and believed the existing relation between capital and labour were seriously unbalanced and inequitable".

Kaufman emphasized that IR "was a reaction against the waste, human suffering and social injustice associated with unrestrained profit making and employer power in the 19th and early 20th century capitalism. ... Out of these tensions grew a number of revolutionary and reform movements, with the more radical groups dedicated to the overthrow of capitalism and the wage system, while the more moderate ones sought to work within capitalism but soften and humanize its rough edges".

In developing countries undergoing similar development pains and using the broadened concept of IR as social relations of production, Thomas and Waterman (1979:40) observed that "it takes little imagination to discover that the powerless groups will not be the groups that would benefit most from the trading patterns". They added that an improvement in the urban economy would just trigger more migration from the rural areas, "thereby preventing any improvement in living conditions for these groups."

This is true in the Philippines. With the failure of industries to absorb the increasing labor force, internal and external migrations have accelerated and the majority of the labor force is sheltered in the informal sector. Thomas and Waterman's description fits the Philippine situation:

At the lowest level, one finds about 30 to 40 percent of the labor force. They are either unemployed, visibly or invisibly underemployed, or employed in low earning jobs such as handicrafts, street trading, casual labor, etc...".

The next layer - of about 35.4 percent - consists of trade and service workers, workmen and domestic servants; many of them with primary or even secondary education. Their protection by labor legislation is minimal, but their incomes are far beyond the lowest income bloc, some access to informal credit markets is possible, and thus access to capital and some appropriate technology is within reach.

Types of IR Systems

Robert Cox (1971) identified nine (9) types of IR systems:

1. Peasant-lord or feudal system where workers are bound to their traditional land-based occupations. The lord is all-powerful in relation to the worker, but his power is tempered by an ethnic paternal obligation. The state does not enter the relationship except to extract some of the surplus from production.

2. Primitive market system where some peasants have lost status or broken the ties with the feudal system to become landless laborers. The wage contract appears. Workers are mobile and have some choice of employment and thus some individual bargaining power. They have no collective power as labor organizations do not exist. This type of system is to be found among urban marginal populations in many developing countries.

3. Small manufacturing or free enterprise system characterized by the formation of an urban proletariat, greater stability of employment, greater skills on the part of workers, and

the beginnings of trade union organizations. Employers tend to be paternalistic; but the efforts of the state to extend more impersonal forms of protection into the employment situation may be thwarted by employers who are also suspicious of and hostile to trade union growth.

4. Lifetime commitment or consultative system is a unique Japanese adaptation to the requirements of long-term industrialization. Choice and mobility of workers are reduced in exchange for security guarantee by a paternalistic employer. Since the workers' security is bound up with the enterprise, trade unions are enterprise unions. As employers and the state are closely linked, unions tend to be politicized and oppositionist.

5. Bipartite system where labor is relatively specialized, skilled, and mobile and trade unions are strongly organized on a basis broader than the enterprise, e.g. the industry basis, providing a countervailing power to employers and able to bargain directly with them. Employers in this system also tend to be effectively organized. The state plays a minimum role in administering labor protective legislations and applying minimum standards, especially to those outside the system.

6. Tripartite system where the state plays a more active role as a third party bargaining with non-state employers and trade unions. The state is concerned with the outcomes of collective bargaining because it is a large employer and because such outcomes affect the attainment of the economic and social goals of public policy.

7. Corporatist-bureaucratic system where competitive party politics have been suppressed but semi-autonomous organizations of employers and workers exist. There is little effective collective bargaining and both worker and employer organizations seek satisfaction mainly by direct pressure on the state, which is the determining power.

8. Mobilizing systems where a political elite promotes mass organizations in the informal sector of society, especially among peasants and the urban marginal population, i.e. those not assimilated to modern modes of production. Workers are exhorted inspirationally to dedicate themselves to constructing a restraint to the tendency of trade unions to advance the interests of their particular members (economism). The political elite puts the force

of the state behind its mobilizing effort and thereby weakens or eliminates the power of non-state employers.

9. Socialist system, which is logically a development of mobilizing systems. As specialization of the roles increases with industrialization, workers have more choices of occupation and employment. Trade unions and management are conceived as functionally related agencies for the implementation of an economic policy integrally planned through the state with the participation of those agencies. Although conflict of interest is in theory excluded as the system matures, distinct interests appear between different groups of management and workers. The inspirational quality of early mobilizing systems gives way to a more emotionally neutral contractual employment relationship.

Political-Economic Characteristics of IR Systems

Taking off from Cox typologies, the nine (9) IR systems (plus the co-determination system) are plotted in a socio-political matrix shown in Figure 1. The diagram shows their diachronic¹ sequential relations.

According to Thomas and Waterman, a country can have many IR systems typical in less developed or developing segmented economies. Their political systems are often hierarchical and their system of governance (or management) is unitary.

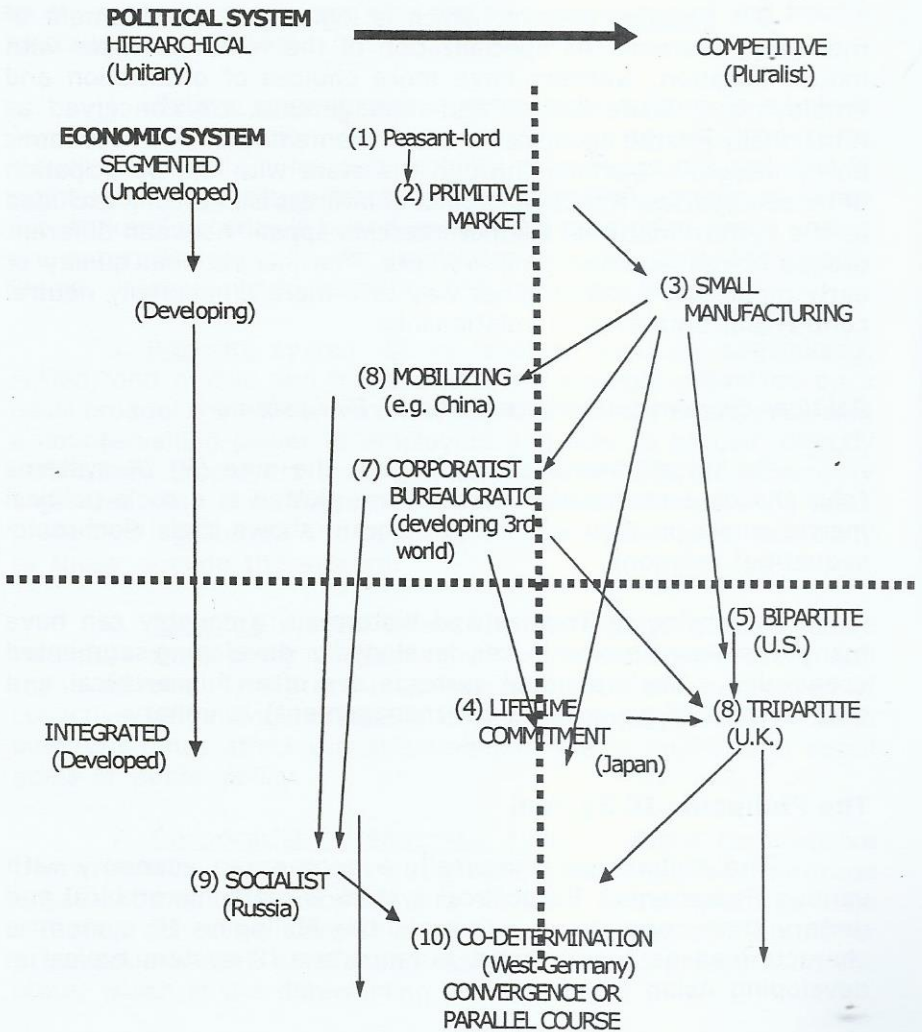
The Philippine IR System

The Philippines is typically a segmented economy with various IR systems. Its political system is more hierarchical and unitary than competitive. Overall, the Philippine IR system is characterized as a corporatist bureaucratic IR system typical in developing Asian countries.

The dominant form of governance in the country is a paternalistic, enterprise-based unilateral decision making process practiced in micro-, small- and medium-sized companies. In 2003,

¹ According to Cox, the diachronic approach is directed to understanding the transformation of systems and thus often focuses more on conflict than on equilibrium.

Figure 1: Matrix Diagram of the 9 IR Systems



these enterprises accounted for more than 99% of all business establishments in the Philippines and employed 68% of the recorded employment.

Table 1 Distribution of Establishment by Employment Size
and Employment, 2003

Employment Size	Number of Establishments	Employment
Micro (1-9 workers)	661,825	1,973,685
Rate (%)	92.00	38.95
Small (10-99)	52,474	1,126,668
Rate (%)	7.29	22.23
Medium (100-199)	2,460	340,809
Rate (%)	0.34	6.72
Large (200 & above)	2,661	1,625,932
Rate (%)	0.37	32.09
Total	719,420	5,067,194
Rate (%)	100.00	100.00

Source of Data: NSO (ASPBI), Leogardo 2005.

In the rural areas and in the informal sector, the prevalent IR systems are a combination of the peasant-lord (feudal), primitive market and small manufacturing. Land-based elite political families control both the political and business institutions.

The paternalistic unilateral decision making process is a one-way, top-down decision making process described by Douglas McGregor (1960) as theory X. The basic assumption on the workers is that they are lowly skilled, not motivated to work and are inherently lazy. Workers, therefore, need to be directed and threatened with some forms of punishment.

The country's formal sector is dominated by private and state enterprises run by elite groups of bureaucrats, politicians, and businessmen. The IR system in big enterprises is characterized by enterprise bargaining and reinforced by tripartism where the state is the most dominant actor.

In other enterprises in the formal sector, the Japanese-influenced consultative mechanism is slowly being incorporated in the unilateral decision making type of corporate governance. Collective negotiations is practiced in the public sector and various labor-management cooperation mechanisms are incorporated in the essentially top-down, paternalistic management style in the private sector.

Contemporary Issues in Philippine IR System

1. Unionism and collective bargaining in the Philippines

Trade unionism and collective bargaining are not the dominant features of the Philippine IR system. Ninety eight percent (98%) of the labor force are not covered by collective bargaining agreements (CBAs).

In 2003, labor organizations totaled 16,091 covering 1,516,862 workers. This was less than 10% of the total wage and salary workers (Table 2). While the number of labor organizations increased during the last 25 years, the number of union members declined from 3.8 million in 2000 to 1.5 million in 2003. Unions now have fewer members as a result of outsourcing and contractual employment (Bitonio 1999). Workers in the formal sector declined as globalization deepened (Macaraya 2004).

Collective bargaining agreements (CBAs) in 2003 numbered 2,842 covering 556,374 workers. This represented only 1.7% of the labor force and 1.8% of the total employed (2004 Yearbook of Labor Statistics). This means that collective bargaining as an IR process, although not insignificant, is not dominant even in the formal sector of the economy.

Coverage of trade unions declined drastically from 30% in 1995 to 9.9% of the wage and salaried workers in 2003. Salaried workers were mostly in the formal sector. Majority of the labor force were in the informal sector and were not unionizable.

In 2003, more than half of trade unions (55%) were in Metro Manila (Table 3). This was much bigger in 1992 at 76.6%.

Trade unions in the government sector grew from 29,407 members in 1987 to 253,355 in 2003, increasing more than eight (8) times in 16 years. This was despite the prohibition of public sector unions from going on strike or engage in any other concerted activities.

Despite the small number of unionized workers in relation to the total labor force, the trade union movement is still a very significant political force in the country. This is due to two main reasons.

Table 2- Number and Membership of Existing Labor Organizations by Type of Labor Organization and Percentage of Wage and Salary Workers, Philippines: 1980, 1985, 1990, 1995, 2000 and 2003

Year	1980	1985	1990	1995	2000	2003
<i>Total Labor</i>	<i>Organization</i>					
<i>Number</i>	1,747	1,996	4,636	7,882	10,296	16,091
<i>Membership</i>	1,920,623	2,117,023	3,055,091	3,586,835	3,788,304	1,516,862
<i>% of wage & salary workers</i>	27.0	24.1	29.7	30.2	27.2	9.9
<i>Private</i>	<i>Sector-</i>	<i>Independent</i>				
<i>Number</i>	1,630	1,868	4,292	7,283	9,430	14,629
<i>Membership</i>	412,649	477,687	718,023	781,572	883,515	756,854
<i>Private</i>	<i>Sector</i>	<i>Federated</i>				
<i>Number</i>	110	121	145	159	166	170
<i>Membership</i>	1,507,974	1,639,336	2,241,398	2,669,712	2,727,595	506,653
<i>Public</i>	<i>Sector*</i>					
<i>Number</i>	29 (1987)	192	192	431	691	1,282
<i>Membership</i>	29,407	95,670	95,670	135,551	177,194	253,355
<i>TU Center</i>	7	7	7	9	9	10

*Registration of public sector unions started only in September 1987.

Sources of Data: Bureau of Labor Relations, 2004 Yearbook of Labor Statistics

First, trade unions are concentrated in Metro Manila, the center of political, cultural and economic activities in the country. Second, they are federated nationwide. They have expanded to the informal sector through their party list groups, such as Bayan Muna, Anakpawis, Akbayan and Partido ng mga Manggagawa.

Since its introduction in the country, the trade union movement has shown militancy, capable of launching regional or nationwide strikes or protest actions. More than 50% of the unionized workers in the private and public sectors are federated (2003).

Federated trade unions usually unite on common economic and political demands. During May 1 labor day celebrations, they usually arrive at a consensus on common demands while the government usually comes up with a package of benefits or incentives to labor.

Table 3- Number and Membership of Existing Labor Organizations by Type o Labor Organization, National Capital Region (NCR)- 1992, 1996, 2000 and 2003

Year	1992	1996	2000	2003
Total Labor Organization				
Number	3,242	4,171	4,719	8,910
Membership (000)	2,408	2,144	2,815	874
Private Sector				
Number	n.a.	n.a.	4,345	8,452
Membership (000)	n.a.	n.a.	2,688	731
Federated				
Number	106	n.a.	129	134
Public Sector				
Number	161	n.a.	245	324
Membership (000)	95	n.a.	127	143

Sources of Data: Bureau of Labor Relations, 2004 Yearbook of Labor Statistics

2. Low Compliance to Labor Standards

High level of compliance to labor standards exists in certain industries/sectors, including exporters, franchisees, and large corporations with reputational risks. Low level of compliance, however, exists as one goes deeper down the supply chain and in

small and micro-enterprises that produce for the domestic market (Sibal 2005).

In 2003, 41% of the 25,331 establishments inspected in the country violated various labor standards. Underpayment of minimum wage was highest at 15.8%. In the National Capital region (NCR), 83% of the 1,091 establishments inspected violated labor standards. Non-compliance with the minimum wage was highest at 41% (2004 Yearbook of Labor Statistics).

Enforcement of labor standards laws by the Department of Labor and Employment (DOLE) through the Bureau of Working Conditions (BWC) is weak primarily due to the limited number of labor inspectors. The labor department has shifted its thrust by encouraging voluntary compliance particularly in enterprises with at least 200 workers through partnership with labor, professional and employers' organizations, and other government agencies (Sibal 2005).

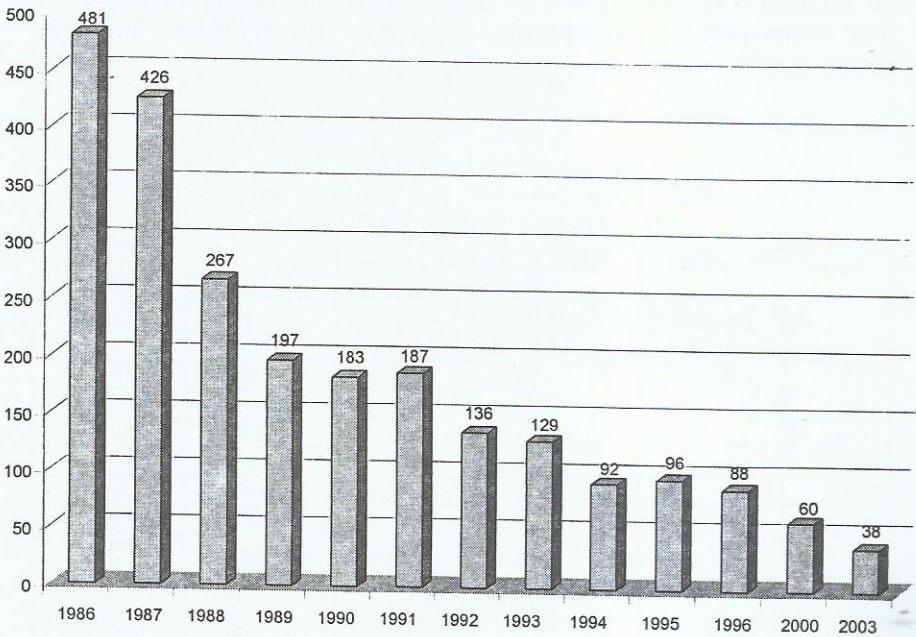
Table 4- Number of Strikes/Lockout Notices Filed,
Actual Strikes/Lockout, Workers Involved and
Man-days lost, Philippines: 1937-2003

Year	Strikes/ Lockout Notices Filed	Total	With Notice	W/o Notice	Workers Involved	Man-days lost (000)
1937	n.a.	34	n.a.	n.a.	2,954	n.a.
1940	n.a.	35	n.a.	n.a.	6,165	n.a.
1946	n.a.	49	n.a.	n.a.	40,149	n.a.
1950	n.a.	42	n.a.	n.a.	8,111	n.a.
1955	n.a.	47	n.a.	n.a.	14,547	591
1965	527	109	n.a.	n.a.	55,229	612
1970	819	104	n.a.	n.a.	36,852	995
1975 Dec	13	5	1	4	1,760	4
1980	362	62	31	31	20,902	105
1985	1,175	371	309	62	111,265	2,458
1990	1,562	183	164	19	68,412	1,345
1995	904	94	78	16	54,412	584
2000	734	60	50	10	21,442	319
2003	606	38	38	--	10,035	150

Despite rampant violations of labor standards in the country, there is generally an atmosphere of industrial peace in the Philippines. Strikes and man-days lost have drastically declined from 1985 to 2003 as shown in Table 4 below. In 2003, only 606 notices of strike were filed and 38 cases resulted in strikes. These strikes involved only 10,035 workers with only 150,000 man-days lost.

The National Conciliation and Mediation Board of DOLE reported a consistent decline of strikes in the past two decades, 1986-2003. Labor strikes went below a hundred for the first time in 1994 (Cocio 1997). Now, it is down to 38.

Figure 2- Number of Actual Work Stoppages, 1986-2003



Source: National Conciliation and Mediation Board

It should be noted that the major issues in these strikes were not centered on violations of labor standards (only 18.2% in 2003) but on unfair labor practice as follows:

Table 5- Major Issues in Strikes, 2000 And 2003 (partial)

	2000	2003
1. Illegal dismissal/suspension of union officers/members	33.5%	44.0%
2. Discrimination against/harassment of union members	39.9	53.3
3. Bargaining deadlock – economic	27.0	59.2
4. Bargaining deadlock – on provisions not specified	20.2	--
5. Violations/non-implementation of CBA	18.1	19.1
6. Other ULP issues	52.2	73.8
7. Minimum wage/ECOLA	0.3	18.2

Sources of Data: Bureau of Labor Relations, 2004 Yearbook of Labor Statistics

Unionized big firms are complying with the minimum labor standards. Small- and medium-sized firms, especially those in the informal sector, on the other hand, fail to comply with labor standards. Very strict implementation of labor standards laws may result in massive closures of small and uncompetitive enterprises. This will be more detrimental to the labor sector already disadvantaged by the lingering high unemployment rate in the country.

Labor-management cooperation schemes (LMCs) are special committees composed of workers and management representatives tasked to improve labor-management relations and the working environments in order to increase productivity and enhance the quality of worklife.

These LMCs are instituted in both unionized and non-unionized firms. Among the most common forms of LMCs in the country are: Japanese-inspired quality circles, committees for strategic planning, tripartite industrial peace councils, and others.

LMCs are relatively new in the Philippines. In 2003, there were 227 LMCs covering 6,193 workers in 256 establishments monitored by DOLE. Because of the non-adversarial character of the LMCs and considering that majority of the labor force are still unorganized, LMCs are being promoted as an addition and/or enhancement to the collective bargaining and the paternalistic unilateral decision making IR processes in the country.

Table 6- Labor Management Councils/Committees (LMCs)
Organized, Philippines, 1998, 2000 and 2003

Year	1998	2000	2003
<i>Newly Organized</i>	130	204	175
Establishment Covered	64	23	187
Workers Covered	3,961	3,835	5,057
<i>Councils/Committees Reactivated</i>	43	47	52
Establishment Covered	68	47	69
Workers Covered	1,254	1,202	1,136

Sources of Data: Bureau of Labor Relations, 2004 Yearbook of Labor Statistics

Problems and Recommendations

Discussed below are among the emerging problems in the present Philippine IR system with corresponding suggested remedies:

1. The declining trade union membership and militancy may lead to further exploitation of the workers especially among the contractual workers and those in the informal sector. Under globalization, the state institutions, which are expected to protect the working class, are weakened due to devolution, privatization, lowering of consumer subsidies and other impositions of the WTO, World Bank and the IMF.

The trade union movement, which is the most organized and disciplined people's organization in the civil society, should be strengthened rather than weakened in order to protect the consumers and working class from possible abuses and exploitation from the globalized private sector interests.

The trade union movement must seriously align itself, not distance from, the emerging civil society organizations, such as cooperatives, peoples' organizations, party list groups, civic and religious associations, guild, crafts and professional/occupational associations (Sibal and Tolentino, 2001). It should also participate in operating new mechanisms for labor empowerment, such as collective negotiations, labor-management committees/councils,

employees stock options programs (ESOPs), quality circles (QCs), and others.

The trade union movement should likewise support the institution of corporate codes of conduct to promote self-regulation of labor standards compliance. It should also actively partner with the government in the enforcement and remedial interventions to correct labor standards violations (Sibal, 2005 and Leogardo, 2005).

2. If the political-economic crisis and increasing unemployment continue to rise, labor militancy and work stoppages may be resurrected as the labor sector strengthens its parliamentary struggles via civil society and party list organizations. This may hamper economic recovery and development.

The recent events show the increasing alienation of the government from the labor movement, the civil society and some segments of the industry. Instead of an accommodating stance on the part of the government to the growing number of those opposing it, it has imposed a hard line stance in dealing with them. It has reached a point that dialogues among the social actors are becoming more difficult.

Hans Cacdac (2002) warned that "if the social partners do not get their acts together, the harsh consequences shall be political and economic instability. Our ship will collapse, and we will drown. The gains achieved by 100 years of Philippine unionism shall have been for naught".

To avert this possible scenario, management and government as IR actors should be proactive and not be very reactive to labor policy reforms and promotion of labor empowerment and social justice initiatives. The present administration should bend backwards and open serious dialogues to settle its differences with the opposition not only on IR issues but also on political concerns.

Should the present administration survive this difficult challenge, it should speed up and give utmost priority to job creation programs in partnership with the major social actors via some measures, such as the following:

- a. minimizing graft and corruption;
- b. reducing cost of production inputs, such as electricity, water, transportation, communications, interest of capital, and others;
- c. nurturing of local businesses via tariff protection and making smuggling a heinous crime;
- d. improving infrastructure to catch up with the standards of South East Asia;
- e. rationalizing skills training and educational institutions along with the needs of targeted industries and economic sectors;
- f. raising consumer awareness and protection by campaigning for the patronage or *tangkilian* of locally produced quality products and services; and
- g. immediate enactment of an anti-political dynasty law (Sibal, Ballescas, et.al, 2005).

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