

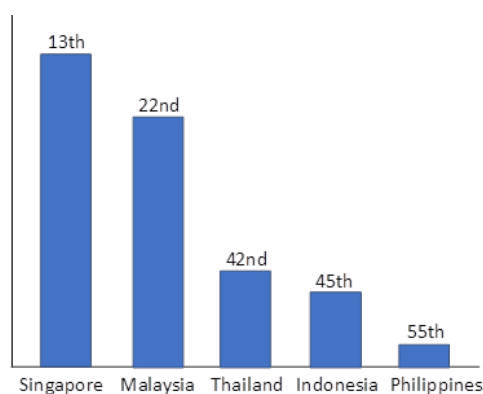
No. 2018-03 | November 2018

Five Years of World Talent Report: Some Notes on the Philippines

The International Institute for Management Development (IMD), with the Asian Institute of Management Rizalino S. Navarro Policy Center for Competitiveness (AIM RSN PCC) as its Philippine partner, recently released the 2018 World Talent Report (WTR). This report ranked the Philippines 55th out of 63 countries. The Philippines' rank has been fairly constant in the five years of the WTR. It also placed 55th in 2014, 57th in 2015, back to 55th in 2016, climbed up to 45th in 2017, and back to 55th again this year.

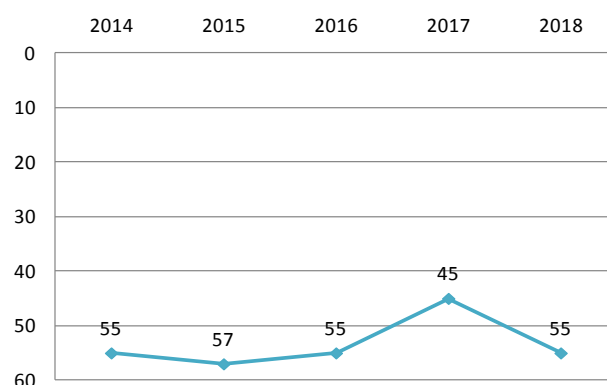
All Southeast Asian economies included in the report this year ranked higher than the Philippines, reflecting the latter's lack of competitiveness versus its neighbor and competitor countries. Singapore was at 13th, followed by Malaysia (22nd), Thailand (42nd), and Indonesia (45th). Overall, the highest ranked country was Switzerland, followed by

Figure 1. ASEAN countries in the 2018 WTR



Source: IMD World Talent Report 2018

Figure 2. Philippines' WTR ranking, 2014 to 2018



Source: IMD World Talent Report 2018

Denmark, Norway, Austria, and Netherlands. At the bottom of the ranking is Venezuela, followed by Mongolia, Mexico, Colombia, and Slovak Republic.

The 2018 WTR

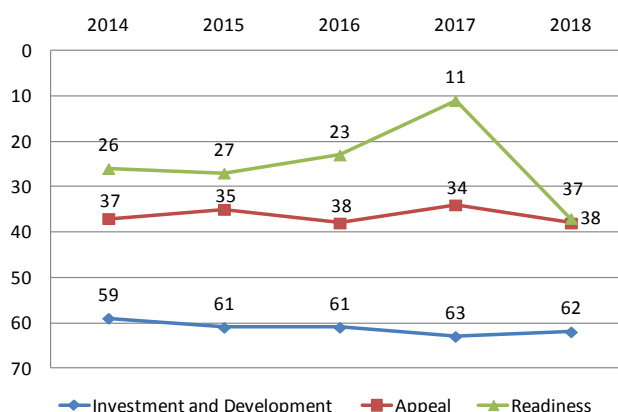
The WTR ranks countries based on their ability to attract, develop, and retain a talented pool of human resources that businesses can employ. It looks not only at the employability of human resources, but also at its ability to help businesses create value. It uses both hard statistics and perceptions-based indicators from an executive opinion survey. Hard statistics hold two-thirds weight in determining the rankings, while perceptions-based criteria account for the remaining third. Most of the data used by the WTR were also utilized by its sister publication, the World Competitiveness Yearbook (WCY).

The 2018 edition ranked countries using 30 criteria grouped into three factors – Investment and Development, Appeal, and Readiness. The Investment and Development factor measures the level of investment in and development of domestic, home-grown human resources. It includes such indicators as expenditure on education, student-teacher ratio, employee training, and health infrastructure. The Appeal factor measures the ability of a country to attract and retain high-quality human resources from abroad. It includes indicators such as cost of living, quality of life, remuneration levels, tax rates, and security and property rights. While Investment and Development looks at local, home-grown labor, Appeal investigates attractiveness of the country to skilled foreign workers. The final factor, Readiness, looks at the quality and growth of the existing talent pool in the economy. Some of the indicators under Readiness are labor force growth, availability of skilled labor, international experience of managers, competency of senior managers in businesses, quality of the educational system, quality of science education, language skills, and student mobility.

Among the three factors, Readiness has consistently been the highest-ranked, placing 37th this year. From 26th in 2014, it dropped to 27th in 2015, climbed back to 23rd in 2016, and even registered a high 11th place last year. It is also the only factor wherein the Philippines bested Indonesia (49th) and Thailand (50th). The relatively higher rank of the Readiness factor was mostly driven by the sub-indicators on availability of skilled labor (7th), language skills (20th), and availability of competent senior managers (23rd).

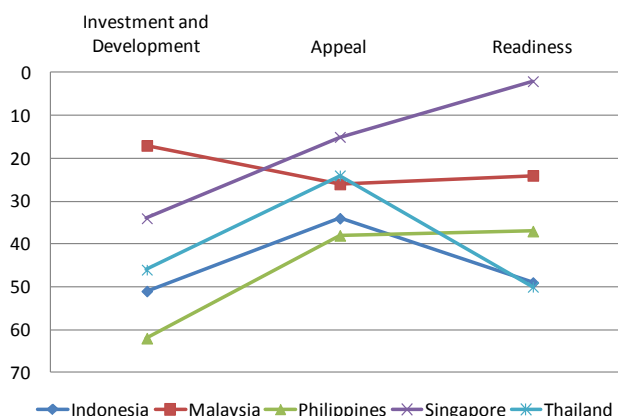
The next highest-ranked factor is Appeal at 38th. Its ranking remained relatively constant over the last five years ranging from 34th to 38th. Among its indicators, the highest ranked are effective personal income tax rate, cost of living, and

Figure 3. Philippines' WTR ranking per factor, 2014 to 2018



Source: IMD World Talent Report 2018

Figure 4. 2018 WTR ranking per factor, ASEAN countries



Source: IMD World Talent Report 2018

worker motivation; while the lowest ranked are remuneration in services professions, quality of life, and personal security and private property rights.

The consistently worst-performing factor – and by a wide margin relative to Readiness and Appeal – is Investment and Development, at 62nd out of 63 countries in 2018. In the five years of the WTR, its highest rank was 59th in 2014, and ranged from 61st to 63rd in the succeeding years. In comparison, the Philippines' ASEAN neighbors fared much better, particularly Indonesia at 51st, Thailand at 46th, Singapore at 34th, and Malaysia at 17th.

The indicators that contributed the most to Investment and Development's poor ranking were student-teacher ratio in primary and secondary education, public expenditure in education, female labor force, and government expenditure on education per student.

Discussions and Implications

Several implications about Philippine human resources can be drawn from the WTR results. These implications can help inform policy makers on which interventions should be implemented to make the country more competitive and attractive.

Philippines lags behind its neighbors and competitors

The ASEAN countries are not only the Philippines' geographical neighbors; they are also competitors for foreign direct investments, export markets, tourists, and people. One factor that a potential investor looks for in a country is the quality of its human resources – and the Philippines appears to lag behind its competitors in this respect. Countries such as Indonesia, Thailand, and Malaysia invest more in the development of home-grown labor and

are more attractive to skilled workers from other countries. The importance of high-quality human resources to an investor cannot be underestimated. It is vital to the growth and success of the business as it promotes innovation, efficiency, product quality, and use of technology.

The Philippines does not invest in its home-grown human resources

The most glaring trend when looking at the factor results is the near-bottom rank of Investment and Development. This suggests that the Philippines does not invest in the development of its home-grown human resources. A teacher handles too many students in primary and secondary education, the public sector still does not spend enough on education despite recent increases in budget allocation, and health infrastructure remains inadequate. These investments are vital because they improve the quality of existing human resources in the economy.

Lack of investments endangers the relatively better ranking in quality of existing manpower

The Philippines is in the middle of the pack when it comes to the quality of existing human resources, ranking 38th in Readiness. It is even ahead of Thailand and Indonesia in this factor in 2018. However, the Philippines is lacking in investments that will further improve the quality of this existing pool of manpower. It may be in the middle in terms of talent quality of the existing pool, but lack of investments to improve it means the country is in danger of sliding down the ranking. This is particularly true if other countries continue to invest heavily in their home-grown talent pool.

Education investments are needed

In several competitiveness rankings, education investments is a perennial problem point for the Philippines. Yet, this is one of the most basic investments in developing a talented pool of human resources. In the WTR, some of the worst-ranked indicators for the Philippines are those that pertain to education – public expenditure on education, government expenditure in education per student, and student-teacher ratio in primary and secondary education. The country should invest more in education to avoid getting further behind our competitors and to preserve the remaining advantages that we have.

Conclusions and Challenges Ahead

The Philippines should invest more in developing its home-grown manpower pool if it wants to improve its competitiveness position relative to its competitor countries. Human resource investments have become more crucial now that drastic changes are expected in the way people work and in the skills required by different sectors as the fourth industrial revolution takes place. For instance, the Business Process Outsourcing sector, previously concentrated on lower-end voice call services, is now trying to penetrate the higher-value part of the chain such as medical transcription, backroom accounting, and software development. Automation of certain tasks is also expected to alter the required skills for one to be competitive, further increasing the importance of manpower development investments in areas that may have been overlooked in the past — problem solving and critical thinking, creativity and interpersonal relations, and entrepreneurship. Human capital investments such as basic education and health services should be increased, improved, and expanded to a larger share of the population. These basic services are where the Philippines ranked the lowest in the

WTR. In addition, education and health services during the formative years should be enhanced, as most of the skills and talent needed for a person to be competitive are formed during these years.

For more information, please contact:

AIM Rizalino S. Navarro Policy Center for Competitiveness

3/F Eugenio Lopez Foundation Bldg., Joseph R. McMicking Campus, Asian Institute of Management,
123 Paseo de Roxas, 1260 Makati City, Philippines

Tel: +63 2 892 4011 | +63 2 403 9498

Email: policycenter@aim.edu



RIZALINO S. NAVARRO
POLICY CENTER
FOR COMPETITIVENESS

