

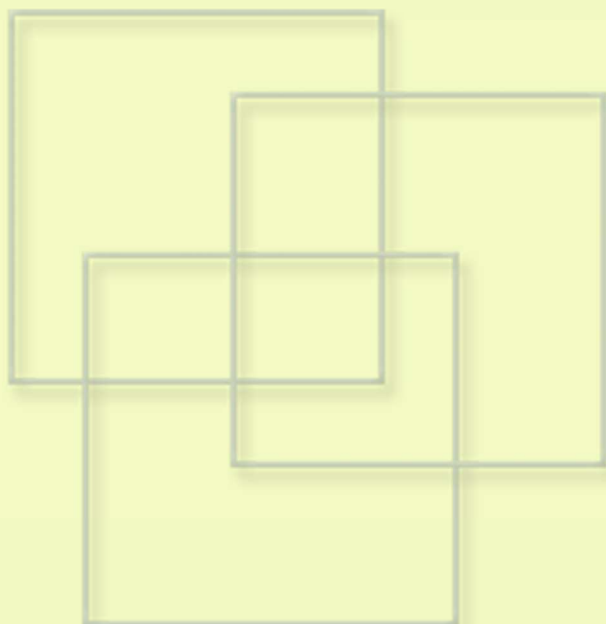


International  
Labour  
Organization

## ILO Asia-Pacific Working Paper Series

# Business process outsourcing in the Philippines: Challenges for decent work

Lorenza Errighi, Sameer Khatiwada and Charles Bodwell  
December 2016



**ILO Asia-Pacific Working Paper Series**

Business process outsourcing in the Philippines:  
Challenges for decent work

---

Lorenza Errighi, Charles Bodwell and Sameer Khatiwada  
December 2016

Copyright © International Labour Organization 2016  
First published 2016

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: [rights@ilo.org](mailto:rights@ilo.org). The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit [www.ifrro.org](http://www.ifrro.org) to find the reproduction rights organization in your country.

---

Errighi, Lorenza; Khatiwada, Sameer; Bodwell, Charles

Business process outsourcing in the Philippines: challenges for decent work / Lorenza Errighi, Sameer Khatiwada and Charles Bodwell; International Labour Organization. – Bangkok: ILO, 2016 (ILO Asia-Pacific working paper series, ISSN: 2227-4391; 2227-4405 (web pdf))

International Labour Organization

outsourcing / value chains / foreign investment / decent work / employment / wages / working conditions / labour standards / Philippines

12.07.2

*ILO Cataloguing in Publication Data*

---

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and digital products can be obtained through major booksellers and digital distribution platforms, or ordered directly from [ilo@turpin-distribution.com](mailto:ilo@turpin-distribution.com). For more information, visit our website: [www.ilo.org/publns](http://www.ilo.org/publns) or contact [ilopubs@ilo.org](mailto:ilopubs@ilo.org).

---

Printed in Thailand

# Preface

The International Labour Organization (ILO) is devoted to advancing opportunities for women and men to obtain decent and productive work. It promotes rights at work, decent employment opportunities, more effective social protection and improved dialogue with respect to work-related issues. As countries in the Asia-Pacific region navigate a sustainable recovery from the global economic crisis, the ILO Decent Work Agenda and the Global Jobs Pact provide critical policy frameworks for strengthening the foundation for a more inclusive and sustainable future.

Advances in information and communication technology (ICT) have facilitated growth in the business process outsourcing (BPO) sector, and the Republic of the Philippines ranks among the world's major BPO destinations. The BPO's economic influence in the country has tripled in the last ten years. Low labour costs, a highly skilled workforce and competitive ICT infrastructure have provided the major drivers for this growth. While contact centres represent the most important subsector in terms of revenue and employment, higher value added subsectors are also growing. BPO is expected to expand rapidly in the coming years, further strengthening the country's participation in global supply chains (GSCs).

At the same time, this sector faces numerous challenges related to decent work. Employing a qualitative survey of the industry, this paper reveals four key findings: i) a real danger of skills shortages threatens as employers struggle to find correctly trained workers and, once they are hired, to retain them for longer periods; ii) employees report high-stress work environments with detrimental impacts on health, while HIV/AIDS is increasingly prevalent among BPO workers; iii) more than 50 per cent of workers are women, but they tend to be concentrated in low-paid, low-skilled jobs; and iv) trade union activities are almost non-existent in the BPO sector. This paper also sheds light on the efforts made by the Government, the BPO sector, employers' associations, and universities to address these challenges, and draws lessons for the future. Continued efforts to provide a stronger voice and representation for workers could do much to address the challenges of decent work creation.

The *ILO Asia-Pacific Working Paper Series*, of which the paper is a part, is designed to improve the understanding of decent work issues, stimulate discussion and encourage knowledge sharing and further research that will promote decent work in Asia and the Pacific.

Maurizio Bussi  
Director  
Decent Work Technical Support Team for  
East and South-East Asia and the Pacific  
Bangkok, Thailand

# Contents

Preface.....	iii
Acknowledgements.....	v
Abstract.....	vi
Acronyms.....	vii
1. Introduction.....	1
2. Global trends in the BPO industry .....	2
3. BPO in the Philippines .....	8
4. Challenges for decent work in the BPO sector.....	14
4.1 Skills shortages.....	14
4.2 Employee health and well-being .....	18
4.3 Women in the sector.....	20
4.4 Workers' voices, collective bargaining and ability to organize .....	21
5. Conclusions.....	23
References.....	24
Annex.....	29

## List of figures

Figure 1. Foreign direct investments into India and the Philippines, 1985–2015.....	5
Figure 2. Anticipated influences on future outsourcing decisions cited by firms, 2014 (% of respondents more likely to outsource as a result of following developments) .....	7
Figure 3. Value added by sector in the Philippines, % of GDP (2001=100) .....	9
Figure 4. Size of the BPO subsectors in the Philippines (in terms of sales revenue), 2005–13.....	11
Figure 5. Employment growth in the BPO sector, 2004–13 (2004=100) .....	12
Figure 6. Wage premium: Ratio of average annual wage in the BPO subsectors to average annual wage in the Philippines, 2009–13.....	13
Figure 7. Profile of companies that responded to the ILO (number of employees covered) .....	14

## List of tables

Table 1. Size of BPO subsectors, in terms of sales revenue (US\$ million) .....	10
Table 2. Total jobs in the BPO subsectors in the Philippines .....	11
Table 3. Economic indicators for the BPO sector in the Philippines, 2004–13.....	29
Table 4. Economic indicators for the contact centre subsector, 2004–13.....	30

# Acknowledgements

The authors would like to thank Christoph Ernst and Jon Messenger for their valuable comments and suggestions regarding earlier versions of the paper. The authors would also like to thank the ILO colleagues in the ILO Country Office for the Philippines – Khalid Hassan, Hideki Kagohashi and Ma Lourdes Macapanpan; and special thanks are due to Lorraine Villacorta. The study would not have been possible without the guidance and supervision of Maurizio Bussi, Director of the Decent Work Technical Support Team for East, South-East Asia and the Pacific. Any errors are the sole responsibility of the authors.

# Abstract

Advances in information and communication technology (ICT) have facilitated growth in the business process outsourcing (BPO) sector, and the Republic of the Philippines ranks among the world's major BPO destinations. The sector's economic influence in the country has tripled in the last ten years. Low labour costs, a highly skilled workforce and competitive ICT infrastructure have provided the major drivers of this growth. While contact centres represent the most important subsector in terms of revenue and employment, higher value added subsectors are also growing. BPO is expected to expand rapidly in the coming years, further strengthening the country's participation in global supply chains (GSCs). At the same time, it faces numerous challenges related to decent work. A qualitative survey of the industry reveals four key findings: i) a real danger of skills shortages threatens as employers struggle to find correctly trained workers and, once they are hired, to retain them for longer periods; ii) employees report high-stress work environments, with detrimental impacts on health, while HIV/AIDS is increasingly prevalent among BPO workers; iii) more than 50 per cent of workers are women, but they tend to be concentrated in low-paid, low-skilled jobs; and iv) trade union activities are almost non-existent in the BPO sector. This paper i) sheds light on the efforts made by the Government, the BPO sector, employers' associations and universities to address these challenges, and ii) draws lessons for the future. In general, the paper shows that continued effort in providing stronger voices and representation to workers could do much to address the challenges to decent work creation.

Key words: global supply chains (GSCs), business process outsourcing (BPO), foreign direct investment (FDI), employment, wages, working conditions, core labour standards, the Philippines.

## About the authors

Charles Bodwell is the Senior Enterprise Specialist and Sameer Khatiwada is the Employment Specialist with the Decent Work Technical Support Team for East and South-East Asia and the Pacific, ILO Regional Office, Bangkok, Thailand. Lorenza Errighi is a junior economist working as a consultant with the ILO Regional Office in Bangkok.

The responsibility for opinions expressed in articles, studies and other contributions rests solely with the authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.

# Acronyms

ADB	Asian Development Bank
AIDS	acquired immunodeficiency syndrome
AMEX	American Express
ASSOCHAM	Associated Chambers of Commerce & Industry
BPO	business process outsourcing
CAGR	compounded average growth rate
CFA	Certified Financial Accountant
CHED	Commission on Higher Education
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
EILER	Ecumenical Institute for Labor Education and Research
EPZ	export processing zone
FDI	foreign direct investment
GDP	gross domestic product
GIC	global in-house centre
GSC	global supply chain
HfS	Horses for Sources
HIV	human immunodeficiency virus
HMO	health management organization
HR	human resources
IaaS	infrastructure as a service
IBPAP	IT and Business Process Association of the Philippines
ICT	information and communication technology
ILO	International Labour Organization
IT	information technology
IT-BMP	information technology and business process management
I-TWSP	Industry Training for Work Scholarship Program
KPO	knowledge process outsourcing
LGBT	lesbian, gay, bisexual and transgender
MBA	Master of Business Administration
MNE	multinational enterprise
MOA	memorandum of agreement
NASSCOM	National Association of Software and Services Companies
NOA	National Outsourcing Association
NWC	next wave city
OBG	Oxford Business Group
OECD	Organisation for Economic Co-operation and Development
OSH	occupational safety and health
PaaS	platform as a service
PEZA	Philippine Economic Zone Authority
PPP	public-private partnership
PSA	Philippines Statistics Authority
SaaS	software as a service
SME	small and medium-sized enterprise
SMP	Service Management Programme
UPPI	University of the Philippines Population Institute



# 1. Introduction

Information and communication technology (ICT) innovation together with increasingly fragmented production processes have encouraged the outsourcing of labour-intensive services to countries such as the Philippines. Today, an American consumer living in Memphis, Tennessee, might call the American Express (Amex) credit card help line and be connected to someone in Manila, who will then provide them with assistance.<sup>1</sup> Companies such as Amex are taking advantage of the separation of services production and consumption made possible by ICT innovations. Seeking cost efficiency, companies may outsource their non-core business processes to specialized third-party service providers, which may then offshore their labour-intensive operations to developing countries with lower labour costs. Meanwhile, large multinational enterprises (MNEs) have directly offshored their labour-intensive services to cost-competitive locations by establishing “global in-house centres” (GICs).

The Philippines serves as a leading destination for business process outsourcing (BPO). This industry, its growth driven mainly by contact centre services, is expected to reach US\$25 billion in total revenue by 2016 – approximately 7.3 per cent of GDP, nearly equivalent to foreign remittances in terms of economic importance. BPO sector growth in the Philippines is driven by a host of factors, chief among them the following: low labour costs; a highly skilled and educated workforce; widespread command among the workforce of a relatively neutrally accented English language; competitive infrastructure; and government tax incentives. The BPO sector currently employs 1.3 million workers in the Philippines and, if recent employment growth trends are any indication of future developments, then the sector is likely to prove an important source of job creation. Furthermore, average BPO sector wages tend to range considerably higher than the national average, while more than 50 per cent of BPO workers are women.

Given ICT innovations and increasingly prevalent automation, however, the Philippine BPO sector will need to make the transition towards higher value addition and more knowledge-intensive activities.

As this paper shows, the BPO sector in the Philippines faces several challenges vis-à-vis decent work. Referring to case studies of several large firms operating in the country, structured interviews conducted for this study indicated the following:

- the BPO sector faces an inadequate supply of skilled workers, high turnover and difficulty in retaining talent, difficulties that will likely be compounded as the sector moves towards higher value added services;
- the sector demands high performance standards, which is in itself not bad, but an in-and-out (high turnover) sector culture has exacerbated stress-related health issues, and employees tend not to enjoy a work-life balance (e.g. child care provisions for women workers are rare);
- even though women comprise more than 50 per cent of BPO workers, they tend to be concentrated in low-paid and low-skilled jobs, plus they face obstacles in terms of upward mobility and equal pay; and

---

<sup>1</sup> Amex is used here only as an illustrative example; it is not one of the companies examined in this study.

- given that unions are almost non-existent in the BPO sector, worker voices and representation remain weak, undermining prospects for decent work.

The following section places the BPO sector’s growth in the Philippines within the context of a global overview of that industry. Section 3 looks at BPO sector trends in the Philippines, drawing lessons for future growth and potential challenges. Section 4 draws upon structured interviews conducted for the purpose of this study, and examines challenges for decent work in the Philippine BPO sector. Section 5 presents the study conclusions.

## 2. Global trends in the BPO industry

### Evolution of the BPO industry has been led by innovations in information and communication technology (ICT)

Business process outsourcing (BPO) is defined as the transfer of a company’s non-core activities to a third party that uses information technology for service delivery. Depending largely on the level of specialization and the type of control the lead firm is willing to relinquish, business processes are usually outsourced either to an independent third party or to a MNE subsidiary, also known as a global-in-house centre (GIC). There are two types of outsourcing: i) “nearshoring”, undertaken in geographical proximity to the lead firm; and ii) “offshoring”, where the service provider is remotely located (Messenger and Ghosheh, 2010).<sup>2</sup> Indeed, enabled by improvements in ICT, firms have outsourced non-core activities to locations with lower labour costs, sufficiently high human capital and adequate ICT infrastructure. (The Republic of India and the Philippines have become the two largest destinations for BPO.) As a result, BPO has become one of the most important global supply chains (GSCs) in the service category. In 2012, the industry was worth \$100 billion; by 2020, according to estimates, it could be worth \$250 billion.

Companies that outsource their business services come from a wide variety of industries, notably banking, retail, tourism and medical services. Unsurprisingly, BPO involves a wide range of activities and is divided into subsectors depending on the types of service provided. BPO services may be classified in a number of ways, but this paper follows the classification adopted by the IT and Business Process Association of the Philippines (IBPAP), which specifies seven BPO subsectors: back office operations; contact centres; software development; animation; data transcription; engineering development; and digital content creation (Box 1). The BPO sector can also be divided into two broader categories, depending on whether the services provided involve back-office or front-office operations, the latter involving consumer support services through direct interaction with the clients’ customers.

<p><b>Box 1</b></p> <p><b>BPO subsectors</b></p> <ul style="list-style-type: none"> <li>• Contact centres provide both inbound and outbound voice services for sales, customer service, technical support and other business processes.</li> <li>• Back office operations provide services related to finance, accounting (i.e. bookkeeping) and human resource management (i.e. payroll processing).</li> </ul>
--

<sup>2</sup> In some countries, for example the Federative Republic of Brazil, business processes may be outsourced to enterprises in the same country.

- Software development services include all the processes required for the creation and management of software, e.g. analysis, design, prototyping, programming and testing, customization, maintenance.
- Animation services involve the design and provision of cinematographic drawings and models of inanimate objects through 2D and 3D technology.
- Data transcription services are used to interpret and transcribe oral dictation for such clients as health professionals and legal offices.
- Engineering development involves the engineering and design of such products as civil works, buildings and components, and electronics.
- Digital content services provide such digital products as music and information available on electronic media.

Source: IBPAP in Bird and Ernst (2009).

### **Most BPO remains highly labour intensive, and countries with high educational endowments and modern ICT infrastructure most surely benefit**

Despite the increasing reliance on information technology (IT) for the delivery of services in the BPO sector, most related activities remain labour intensive. This is the main reason outsourcing companies rely on developing countries with both abundant supplies of low-cost labour and high technological and educational endowments. Thus India and the Philippines, both with abundant supplies of educated workers, present two of the most favoured BPO destinations. A global ranking of destination cities for BPO services in terms of availability of competitive human capital, good business climate and ICT infrastructure shows that the top-ten list is dominated by India, followed closely by the Philippines (Tholons, 2014). In fact, Krakow, Poland, is the only city outside of Asia and the Pacific to appear in the top ten. If countries rather than cities are considered, on the other hand, then top BPO destinations include the Republic of Costa Rica, the Czech Republic, Ireland, Malaysia and the Socialist Republic of Viet Nam.

India, the world's largest BPO service provider, possesses both the educational and technological endowments and the advantage of low labour costs (see Box 2). Studies have shown, however, that the Philippines fares better than India in terms of the quality of its talent – a recent study found that 30 per cent of Filipino graduates are employable, compared to only 10 per cent in India.<sup>3</sup> The Philippines' comparative advantage in the BPO sector has been attributed to three main factors: English is spoken with a neutral accent (which is typically untrue in India); the workers share cultural similarities with Americans (because of the country's colonial past); and Filipino workers bring a typical cordiality to their work (Lee et al., 2014). Globally, the success of the BPO sector is closely tied to continued investment in skills and modernization of telecommunications infrastructure.

BPO is an industry that has benefitted from low-cost locations with relatively highly endowed, skilled workforces. Many BPO services involve repetitive tasks that are considered low skilled in much of the developed world.<sup>4</sup> However, such services are often provided by high-skilled professionals in the developing world, who are attracted to the sector by higher wages. Indeed, evidence suggests that median hourly earnings in the ICT sector and ICT-related occupations (including BPO) is about 150 per

<sup>3</sup> The Associated Chambers of Commerce & Industry (ASSOCHAM): "India's losing 70 per cent incremental voice & call centre business to Philippines: Study" (6 Apr. 2014). See <http://assocham.org/newsdetail.php?id=4455> [accessed 8 Dec. 2016].

<sup>4</sup> This has been less true in recent years, as countries have moved up the value chain. For example, back office services and knowledge process outsourcing (KPO) jobs tend to be high-skilled, both in developed and developing economies.

cent higher than they are in urban non-ICT sectors. Furthermore, firms engaged in industries characterized by greater Internet and software intensity faced higher wage increases across all skills level compared to the rest of the economy (World Bank, 2016).

Research shows that the BPO sector is likely to continue growing in the near future, as firms will need to achieve greater competitiveness by focusing on their core business, meanwhile outsourcing their non-core activities to more competitive and specialized service providers (HfS Research, 2013). Aside from the People's Republic of China, India and the Philippines, countries that are likely to see further BPO sector expansion include Brazil, the United Mexican States, the Republic of Poland, and Romania (Deloitte, 2014). On average, the ICT sector in developing countries employs 1 per cent of their total workforce, while in the Organisation for Economic Co-operation and Development (OECD) countries, around 3–5 per cent of the workforce are engaged in the ICT sector (World Bank, 2016). As new technological advances, notably cloud computing and automation, transform industries such as the BPO sector, companies engaged in offshoring non-core businesses will increasingly recognize a country's ability to adapt to new technology and innovation, beyond any cost advantages stemming from low wages (Deloitte, 2014).

### **Box 2**

#### **BPO sector in India**

India is the top global sourcing destination for BPO, representing 55 per cent of the world's market share – an estimated market size of \$146 billion in 2015, with export accounting for 67 per cent of total revenues.<sup>5</sup> Overall, the industry accounts for 9.3 per cent of India's GDP and employs 3.7 million workers (NASSCOM, 2016a).

The Indian BPO industry developed in the early 1990s, following liberalization policies that aimed to attract foreign direct investment (FDI). India, with a large, low-cost pool of highly educated, English-speaking workers, provided cost savings of about 40–50 per cent to companies that were able to offshore non-core businesses (D'Cruz and Noronha, 2010). In the meantime, the Indian BPO sector has progressively upgraded since the 1990s, creating new markets and industries (Fernandez-Stark et al., 2011).

IT services represent the biggest subsector within the industry, accounting for \$68 billion in revenues in 2015, while business process management (BPM) accounts for \$26 billion, which closely matches the size of the BPO sector in the Philippines. The difference in terminology – BPM in India, as opposed to BPO in the Philippines – is due to the fact that NASSCOM in India relabelled BPO as BPM to reflect the higher value added services provided by the subsector. Indeed, the IT-BPM industry in India is highly diversified in terms of services provided, and has increasingly prioritized skills over scale: in 2015, the industry registered 7 per cent growth in employment, compared to 13 per cent growth in revenue (NASSCOM, 2016b).

### **Foreign direct investment: The main factor in BPO sector development**

In some cases, countries have developed BPO capabilities through indigenous firms, but explosive growth has typically come only with the inflow of foreign direct investments (FDI) as foreign firms started looking for low-cost locations to outsource service delivery. The first wave of growth occurred as MNEs started establishing subsidiaries. India provides a case in point, where local companies started providing computer programming services in the 1980s, but the BPO sector only began to boom in the 1990s, when foreign firms began to establish operations in the country (Messenger and Ghosheh, 2010).

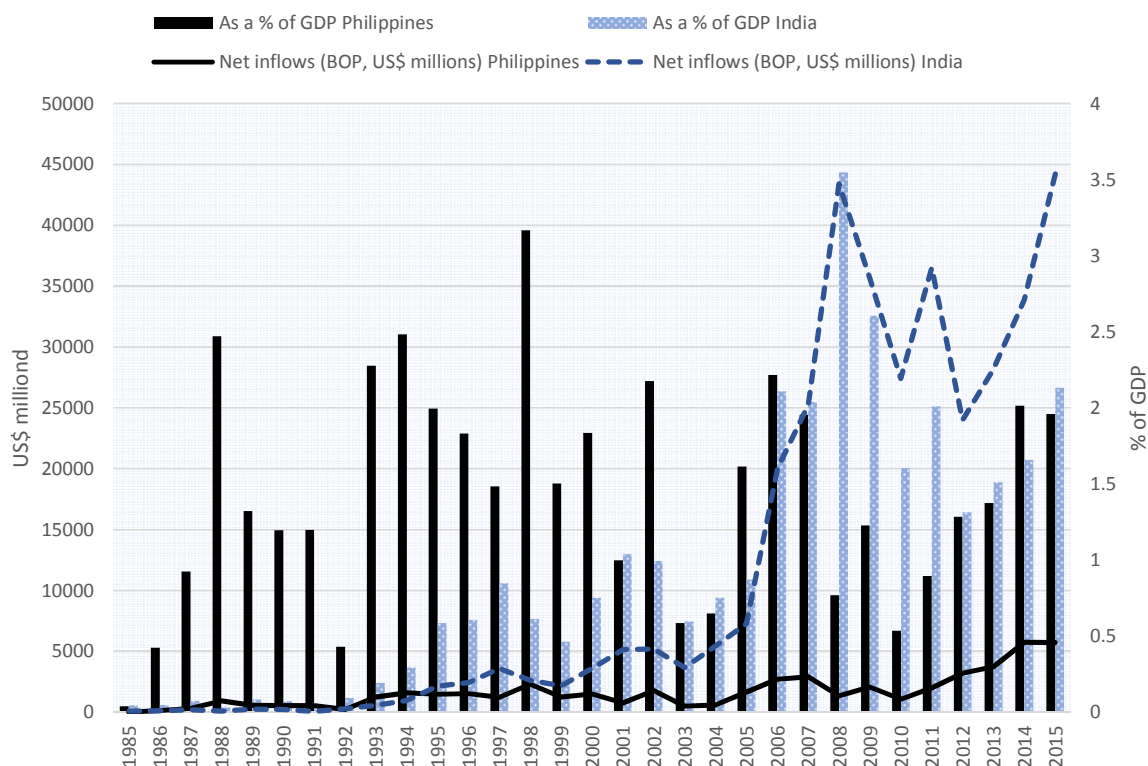
Indeed, FDI inflows to India were flat until the early 1990s, swelling in the late 1990s and continuing on an increasing trend ever since, albeit with a decline in the aftermath of the financial and economic

---

<sup>5</sup> The NASSCOM definition and scope of the IT-BPO industry in India is broader, including as it does IT services, business process management, product development, software products, hardware and e-commerce.

crisis in 2008–09 (Figure 1). As a share of GDP, FDI inflow into India in 1992 was 0.1 per cent (\$0.3 billion); this increased to 1 per cent in 2000, and by 2008 it amounted to 3.5 per cent (\$43.4 billion). It declined after the crisis but has recently picked up again, at 2.1 per cent of GDP in 2015 (\$44 billion). Meanwhile, in the Philippines the trend in FDI has been more volatile, already peaking as a share of GDP back in 1998, at 3.2 per cent (\$2.3 billion). By 2008, it was 0.8 per cent of GDP, or \$1.3 billion – in the last few years, however, FDI inflow into the Philippines has followed an upward trend: in 2015, it was 1.9 per cent of GDP, or \$5.7 billion (still considerably smaller than that in India).

**Figure 1. Foreign direct investments into India and the Philippines, 1985–2015**



Source: *World development indicators*, 2016.

### **Additional factors: Innovations in technology, particularly cloud computing and business process automation**

Innovations in technology and communication systems have an enormous impact on the BPO sector, creating demand for new skills and affecting employment outcomes. Two types of innovations have been key for the BPO sector: i) cloud computing; and ii) business process automation. As these innovations, in particular cloud computing, are broadly adopted, there are likely to be significant consequences for the labour market. Indeed, cloud computing has the potential to transform fixed costs into variable costs, rendering the provision of business services more flexible (see Box 3). Cloud computing allows firms to pay for ICT services according to the extent of their usage. This “pay as you go” model substantially reduces fixed costs for firms, since they no longer need to invest in expensive hardware or software to run their daily operations.

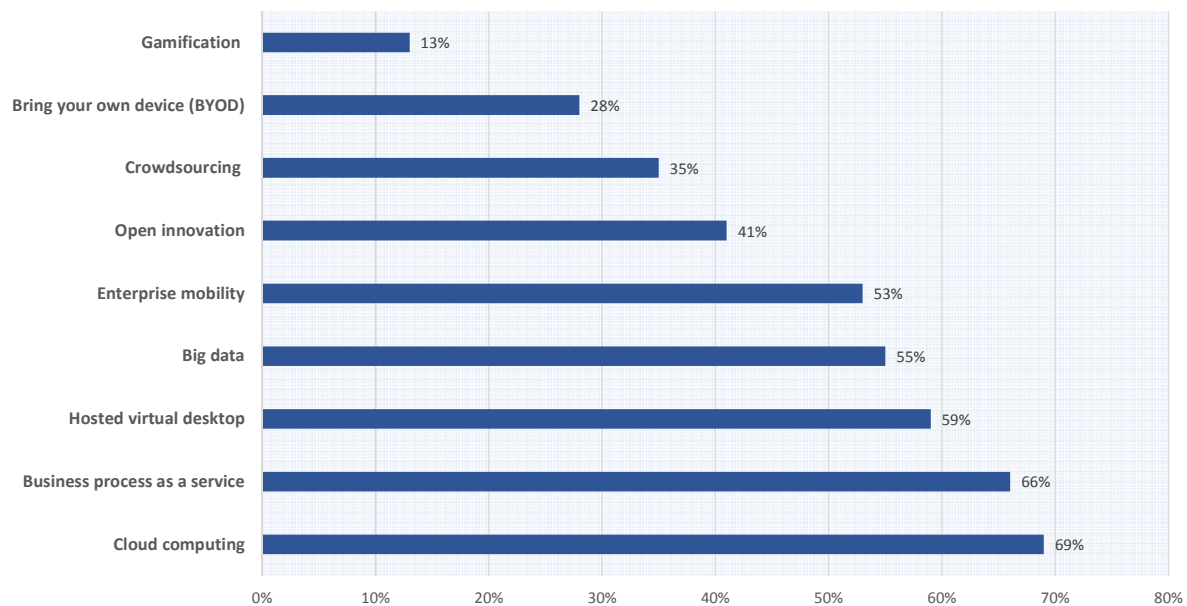
### Box 3

#### Innovations in BPO industry: Cloud application services

- **Infrastructure as a service (IaaS)** is a self-service model for accessing, monitoring and managing remote infrastructure such as storage, networking and networking services (e.g. firewalls). Instead of having to purchase hardware, users can subscribe, paying for only as much of the service as they consume.
- **Software as a service (SaaS)** is a software distribution model in which applications are managed by a third-party vendor and typically made available to clients over the Internet.
- **Platform as a service (PaaS)** provides operating systems and associated services over the Internet without any download or installation. PaaS is sometimes called “cloudware” because it moves resources from privately owned computers into the Internet “cloud”. PaaS can be considered an outgrowth of software as a service (SaaS).

A recent survey of large firms showed that more than two thirds of firms anticipate that future outsourcing decisions will be influenced by cloud computing (Figure 2). Other innovations likely to be important going forward include big data, business process as a service, and hosted virtual desktop. Indeed, as investments in technology infrastructure and economies of scale become less relevant, these innovations can level the playing field between big businesses and small and medium-sized enterprises (SMEs), thereby fostering local development and job creation. Cloud computing could have positive implications in terms of employment, since this technology enables employees to work from any location as long as they have access to a reliable Internet connection and the necessary cloud platform. This in turn enables crowdsourcing, where individuals can provide services to clients looking for specific tasks to be completed. Moreover, the increasing flexibility of BPO service provision can have a positive impact on the following vulnerable groups: women, who tend to be constrained by cultural norms and family obligations; people with disabilities; and individuals who live far from large urban centres. For example, the Kudum-bashree project in India has allowed companies to outsource IT services to women-run cooperatives in rural areas, with almost 80 per cent of these women earning at least one dollar a day (World Bank, 2016). In addition, the fixed-cost savings to BPO firms that derive from not relying on set locations with the concomitant rent, electricity and transportation costs could be directed instead to higher wages for employees, assuming international labour standards are followed.

**Figure 2. Anticipated influences on future outsourcing decisions cited by firms, 2014 (% of respondents more likely to outsource as a result of following developments)**



Note: The Deloitte Consulting Global Outsourcing Survey 2014 included 157 unique respondents representing 140 public and private sector entities.

Source: Deloitte, 2014.

Automation is another technological innovation affecting the BPO sector. This process involves using computer programmes to perform repetitive tasks, where the chances of unforeseen errors are lesser than they would be if humans were doing them. Labour cost advantages can provide firms, where they offshore their non-core operations to developing countries, with total cost savings of 15 to 30 per cent. Automation, for its part, is expected to reduce costs by as much as 40 to 75 per cent (KPMG, 2016). Automation could take the lead in BPO services such as IT support, workflow processes and other types of back-office operations characterized by high volumes of data and transactions, where queries and actions are predictable, regular and suitable to automation. The need to cut costs is leading even contact centres in developing countries to resort to automation for the provision of basic and frequently demanded services. In South Africa, for example, a local health-care company is already using IBM's artificial intelligence system for its customer care operations (World Bank, 2016).

More complex tasks, however, where basic robotic process automation remains insufficient, are still likely to require human workers. Moreover, as basic services get automated, technological updates increase the skill intensity of BPO activities conducted by workers. This transition to higher value added BPO activities is referred as “knowledge process outsourcing”, or KPO. (Fernandez-Stark et al., 2011). In this context, developing countries, if they want to remain attractive BPO destinations, need to foster skills upgrading by investing in human capital. At the same time, more focus is needed on issues of non-inclusive development, as business process automation and KPO are likely to preferentially employ and otherwise benefit groups of skilled and highly educated workers.

### **Innovations in the BPO sector can create challenges for the world of work**

Indeed, the flexibilization of employment through innovations such as cloud computing could also bring challenges in terms of decent work stemming from higher volatility in employment and lower access to social protection, since employees are hired per project rather than on a fixed-term basis. Further

expansion of this “on-demand economy” might require a rethinking of the social protection schemes in place, perhaps by delinking social insurance from employment through independent social assistance (World Bank, 2016). Additionally, as a substantial degree of self-management and specialized technical skills are needed for these flexible, ICT-enabled forms of employment, advances in cloud computing could perpetuate the creation of elite forms of employment in BPO, benefiting a few highly skilled individuals while reducing the need for lower-skilled workers. Furthermore, as the pressure for near-shoring increases – where companies relocate their non-core business services close to home – countries with low labour costs could see a decline in jobs created by offshoring. The prevalence of offshoring would depend on the readiness of developing countries to adopt new technological developments, while still offering cost-competitive prices.

The Philippines scores relatively well in terms of cloud readiness, positioning itself as the tenth top destination in the world.<sup>6</sup> The expanding BPO industry provides substantial opportunities for implementation of cloud technology in that country. Moreover, the Philippines was found to score relatively well in terms of freedom of information as compared to most of its Asian neighbours – this also facilitates deployment of cloud technology. However, to enable broad implementation of cloud technologies, improvements are needed in government regulations, data privacy and telecommunication infrastructure. Moreover, challenges remain for the expansion of BPO activities in rural areas, where access to quality ICT networks and infrastructure remains limited. Since 2009, IBPAP has supported the identification of top and emerging locations in the Philippines to set up BPO operations through its “next wave city” (NWC) project, which aims at bringing economic development to more sites across the country, as well as enabling efficient operations for BPO companies.

Meanwhile, cloud technology could affect some BPO subsectors more than others. For example, it is likely to have a strong impact on flexibilization of employment relations in the software development sector, which demands a relatively high level of skills and autonomy. On the other hand, customer service operations carried out in contact centres may favour the use of the traditional business model, as it is easier to assess the performance and motivate employees gathered in a single location. However, contact centres are still likely to benefit from cloud technologies through the “pay as you go” system. Indeed, despite the fact that contact centre activities tend to be office-based, innovations in the traditional business model are emerging – for example, business start-ups in the Philippines that provide on-demand contact centre services through experienced home-based contact centre agents working at hourly rates.

### **3. BPO in the Philippines**

**In line with the increasing importance of the service sector in the Philippines, the BPO sector has tripled in the last 10 years**

In the last 15 years, the Philippine service sector has grown by over 10 per cent in terms of value added, while both agriculture and manufacturing sectors have declined by 22 and 10 per cent respectively (Figure 3). This growth in services has paralleled growth in the Philippine BPO industry. Indeed, the BPO sector has tripled its global market share from 4 per cent in 2004 to 12.3 per cent in 2014; by 2020, it is expected to further increase its share to 19 per cent (OBG, 2015). Moreover, the Philippine BPO

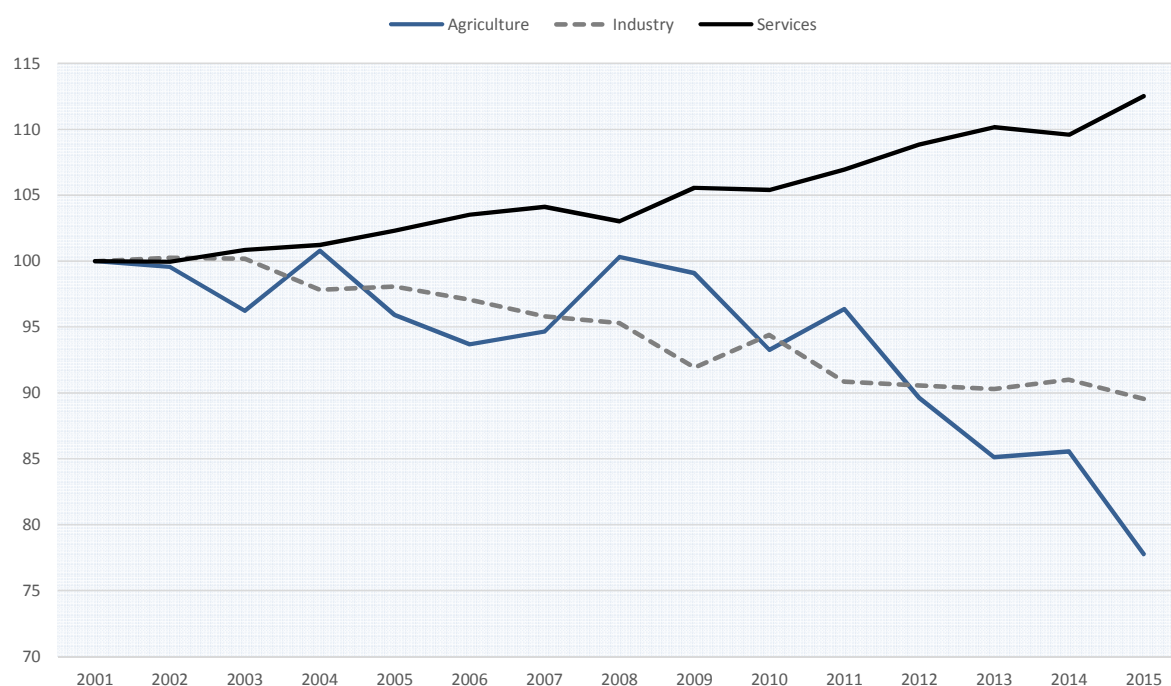
---

<sup>6</sup> See <http://www.rappler.com/business/industries/215-tech-biz/83186-ph-climbs-cloud-readiness-index> [accessed 8 Dec. 2016].



industry outperformed the world’s BPO industry performance, posting an average growth of around 9–12 per cent between 2004 and 2014, while globally the BPO industry registered growth of around 5–7 per cent during the same period. In 2014, total revenue in the Philippine BPO industry was \$18.4 billion – 6 per cent of GDP – employing 1.03 million people. The road map for 2011–2016 prepared by IBPAP and the Philippines’ Department of Science and Technology (DOST) forecasts that by 2016 the BPO industry will reach a target of \$25 billion in revenues (7.3 per cent of GDP) – matching the economic contribution of foreign remittances – and employ 1.3 million people. The sector is also expected to support 3.2 million indirect jobs by 2016, including employees in the ICT sector and research facilities.<sup>7</sup>

**Figure 3. Value added by sector in the Philippines, % of GDP (2001=100)**



Source: Authors’ calculations based on the World Development Indicators, 2016.

### **Contributing to this growth: Low labour costs, highly skilled workforce with neutral accent in English, and ICT infrastructure**

Surpassing India in 2011, the Philippines has established itself as a top destination for BPO services, in particular for contact centre business. This may be attributed to low labour costs coupled with a good endowment in human capital – more than a quarter of the population holds a tertiary degree, and more than half a million more graduate from college each year, most with both an excellent command of the English language and a cultural affinity with the United States. Consequently the Philippines has also managed to develop a competitive advantage in voice-based BPO services (Del Prado, 2015; Lee et al., 2014). Furthermore, since the deregulation of the telecommunications industry in 1993, the Philippines has developed globally competitive ICT infrastructure, with two fibre-optic networks covering most regions of the country. The low cost and high quality of available real estate is also an advantage – 80 per cent of grade “A” office space in central Manila is currently occupied by companies (Lee et al., 2014).

<sup>7</sup> See <http://www.IBPAP.org/investors/benefits-of-doing-business-in-the-philippines> [accessed 7 Dec. 2016].

Meanwhile, the Government has been active in attracting BPO investment through tax incentives favoured by the Philippine Economic Zone Authority (PEZA). PEZA incentives include the following: a special 5 per cent tax on gross income earned; exemption from payment of import duties and taxes on imported machinery, equipment and raw materials; a deduction equivalent to 50 per cent of training expenses; and permanent resident status for foreign investors who make an initial investment of \$150,000 or more. Industry associations have also played an important role in promoting BPO-related investment in the country, establishing networks and global linkages, as well as encouraging the Government to create a business-enabling environment (Lee et al., 2014; Del Prado, 2015).

### Contact centres: Most important revenue source in the Philippine BPO sector

Tracing the growth in the BPO industry in the Philippines can provide a broader context. The industry has undergone three phases: i) in the late 1990s, when the first BPO operations were established, most of them contact centres; ii) during the early 2000s there was a transition towards higher value added activities such as transcription services and back-office operations in accounting and finance; and iii) in the late 2000s the BPO sector further developed into high value added subsectors, in particular medical transcription services (Fernandez-Stark et al., 2011). In 2010, in the light of this transformation, the Philippines was presented with the Offshoring Destination of the Year award by the UK's National Outsourcing Association.

Despite this transition into higher value added activities, however, the Philippine BPO industry remains heavily reliant on contact centres. As of 2013, contact centres accounted for 55 per cent of the total revenue in the BPO sector (\$8.4 billion), up from 45 per cent (\$2.8 billion) in 2008 (Table 1 and Figure 4). Even though other subsectors – particularly transcription and software development – have seen increasing growth, they account for a much smaller fraction of the total sector revenue.

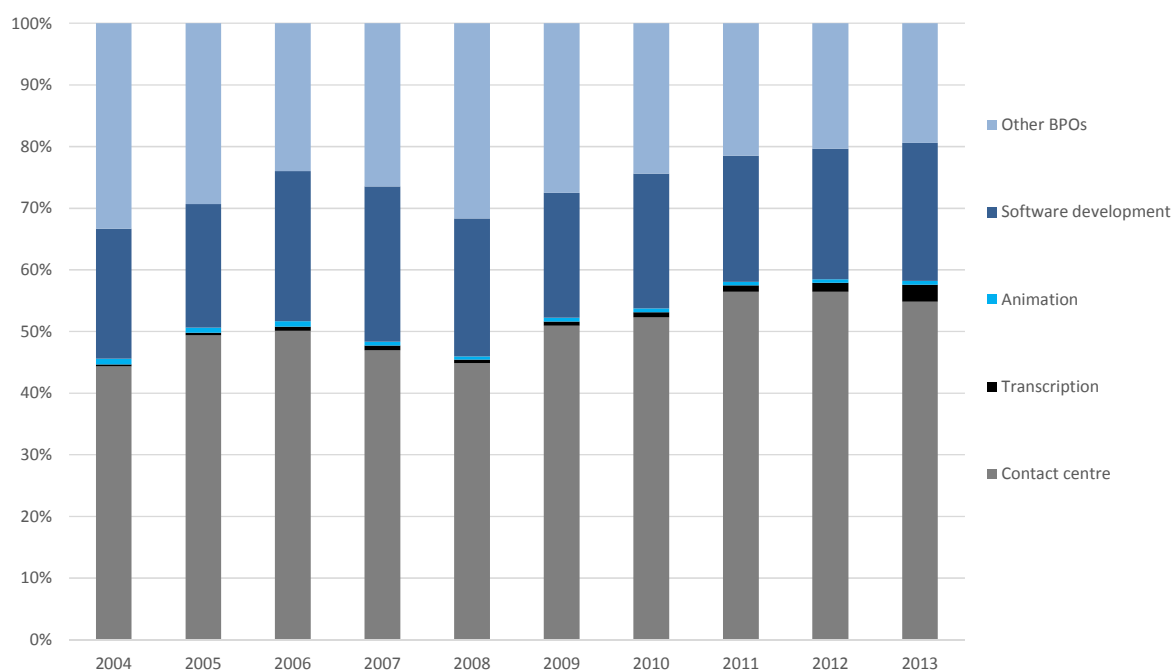
**Table 1. Size of BPO subsectors, in terms of sales revenue (US\$ million)**

	Sales revenue, levels (in US\$ million)									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Contact centre	587.2	985.6	1455.4	2050.5	2838.7	4206.8	5260.0	6817.3	7587.2	8393.8
Transcription	4.2	8.5	20.3	32.6	34.0	56.6	84.2	121.5	198.4	422.6
Animation	12.4	17.0	26.0	28.9	36.3	52.3	63.2	72.0	80.4	88.0
Software development	278.8	399.2	706.9	1098.3	1412.5	1672.3	2197.9	2469.1	2848.4	3429.2
Other BPOs	441.0	585.4	697.0	1157.3	2004.0	2269.9	2452.4	2594.4	2736.0	2971.4
TOTAL INDUSTRY	1323.5	1995.7	2905.7	4367.6	6325.4	8258.0	10057.7	12074.3	13450.4	15305.0

Source: Bangko Sentral Ng Pilipinas.

Meanwhile, the Philippine BPO sector remains heavily reliant on foreign equity, with a foreign-to-total-capital ratio of 93.4 in 2013 and an average of 86.6 between 2005 and 2013. Contact centres attract the highest share of FDI – \$3.8 billion in 2013, representing 48.1 per cent of the total \$7.8 billion in BPO sector FDI. Historically, the United States has been the biggest foreign investor in the BPO sector. Since 2010, however, Europe – especially the United Kingdom – has surpassed the United States in terms of foreign equity inflows in that sector. (In 2013, 48.7 per cent of total FDI was from Europe, while 31.4 per cent was from the United States.)

**Figure 4. Size of the BPO subsectors in the Philippines (in terms of sales revenue), 2005–13**



Note: the bars refer to sales revenue for each BPO subsector out of total sales revenue in the BPO sector in the Philippines.  
Source: Authors' calculations based on Bangko Sentral Ng Pilipinas.

### Contact centres remain biggest employers, but employment growth in higher value added subsectors more pronounced in recent years

Contact centres both generate the most revenue in the BPO sector and serve as the largest employers in the Philippine BPO industry. In 2013, the contact centres accounted for 530,882 jobs, more than 60 per cent of jobs in the sector (Table 2). None of the other subsectors can boast similar levels of employment. Software development, a growing subsector, accounted for 10 per cent of all the jobs (82,583) in 2013. Similarly, transcription accounted for 2.4 per cent of employment, animation even a smaller share. Lastly, other BPOs, a category with a mix of different types of activities, accounted for 213,939 jobs in 2013 (25.1 per cent of all jobs in the BPO industry).

**Table 2. Total jobs in the BPO subsectors in the Philippines**

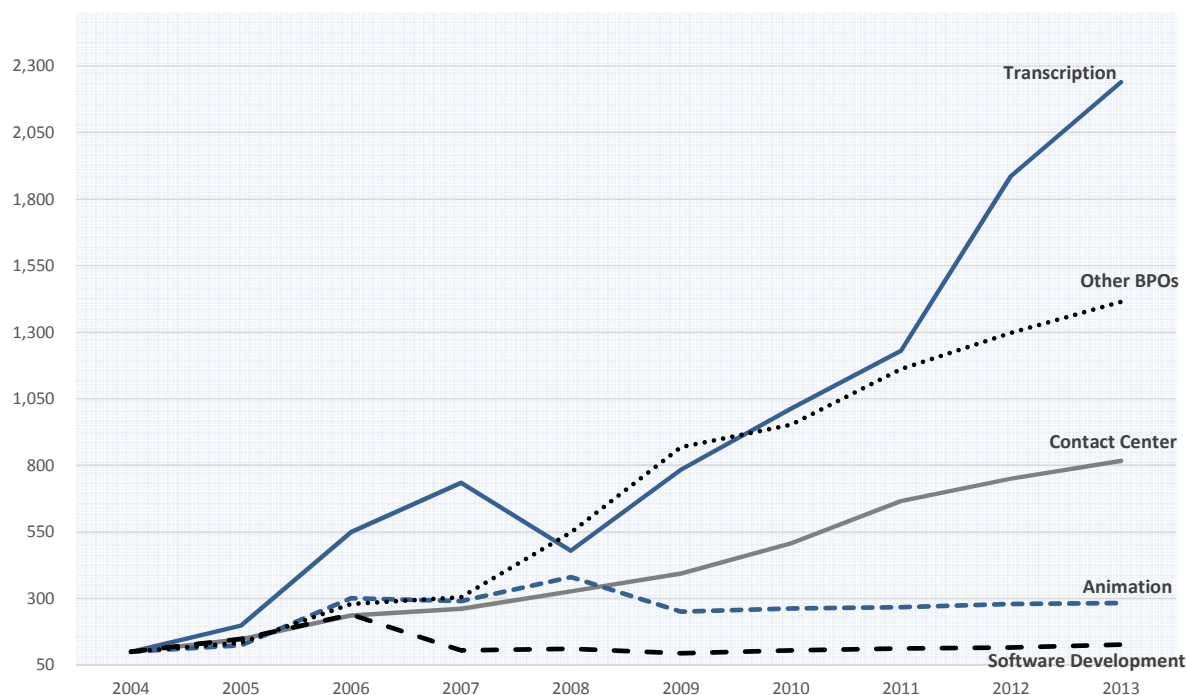
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Contact centre	65,006	96,246	153,683	169,748	212,372	255,765	329,597	433,183	487,757	530,882
Transcription	901	1,785	4,956	6,621	4,321	7,060	9,131	11,084	16,997	20,172
Animation	1,488	1,864	4,482	4,323	5,656	3,732	3,908	3,973	4,164	4,206
Software development	11,975	17,829	42,657	44,870	49,893	46,987	49,516	55,464	64,922	82,583
Other BPOs	15,118	20,278	42,267	45,994	82,893	131,267	143,975	175,761	196,092	213,939
<b>TOTAL INDUSTRY</b>	<b>94,488</b>	<b>138,002</b>	<b>248,045</b>	<b>271,556</b>	<b>355,135</b>	<b>444,811</b>	<b>536,128</b>	<b>679,464</b>	<b>769,932</b>	<b>851,782</b>

Source: Bangko Sentral Ng Pilipinas.

Meanwhile, in terms of jobs growth in different subsectors, transcription services has led the way with a 20-fold increase – from fewer than 1,000 jobs in 2004 to more than 20,000 in 2013 (Figure 5). Similarly, other BPOs (an eclectic mix of back office operations), which are higher value added than contact centres, have also seen a significant increase in employment – a greater than 13-fold increase in total employment, from 15,118 jobs in 2004 to 213,782 in 2013. Other high value added subsectors have seen more jobs. Animation, for example, has seen a three-fold rise in jobs since the early 2000s. Although software development has grown slightly in recent years, this subsector mostly holds promise for job creation in the future, still accounting for a very small fraction of total jobs created in the BPO

sector. Moreover, estimates suggest that, since 85 per cent of current jobs in the Philippine BPO sector are in routine tasks (both cognitive and manual), these are vulnerable to automation in the near future (World Bank, 2016). To avoid massive job losses, the country needs to continue moving towards higher value added – i.e. non-routine and cognitively demanding – tasks.

**Figure 5. Employment growth in the BPO sector, 2004–13 (2004=100)**

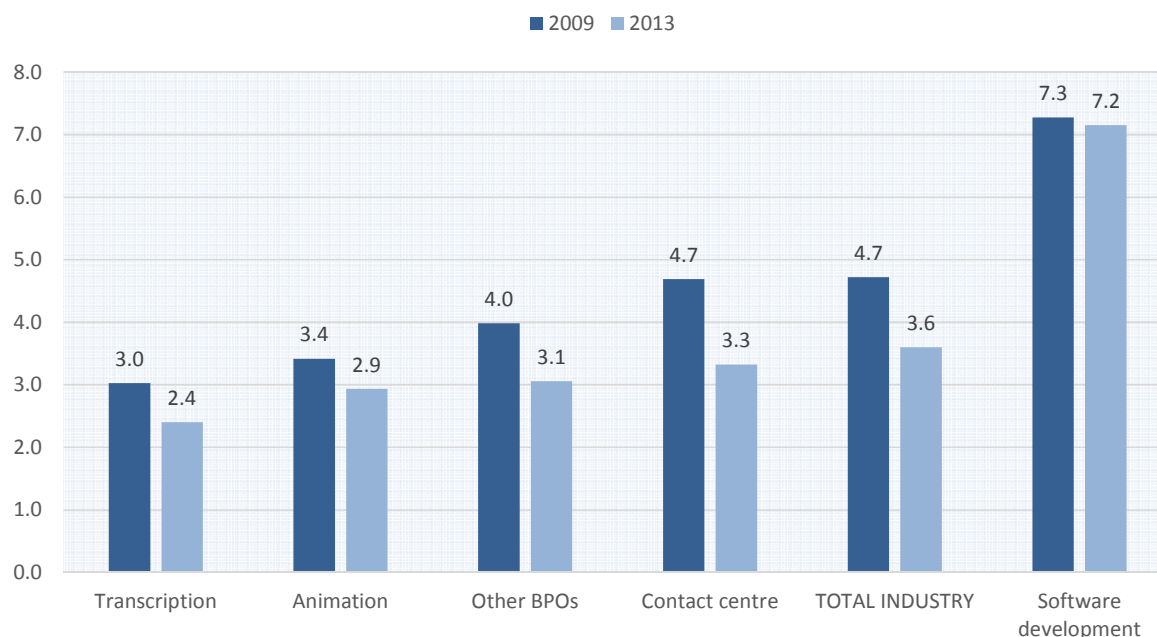


Source: Authors' calculations based on the Bangko Sentral Ng Pilipinas.

### Higher wages in the BPO sector: The biggest draw for young graduates in the Philippines

Compensation per employee in the Philippine BPO sector is substantially higher than the average wage in the rest of the economy (Figure 6). In 2013, annual average compensation per employee was \$9,297 per year in the BPO sector, while the average daily wage in the rest of the economy was \$2,580 per year (ILO, 2014). The highest paying subsector was software development, where the average annual compensation per employee was \$18,453 – this represented a growth of 11.5 per cent between 2009 and 2013. The transcription services category is the lowest paid in the industry, where the average annual wage was \$6,198 in 2013, although that figure remained well above the average income in the Philippines. Indeed, as it is evident from Figure 6, average wages in the BPO sector are 3.6 times those in the rest of the Philippines, which declined from 2009, owing mostly to increased wages in the rest of the economy, since it has been growing much faster than the BPO sector (albeit starting from low levels). In terms of the wage premium in the BPO sector, software development is the most attractive – over seven times the average annual wage in the rest of the economy – underscoring the need to move towards higher value added activities in the BPO industry.

**Figure 6. Wage premium: Ratio of average annual wage in the BPO subsectors to average annual wage in the Philippines, 2009–13**



Source: Authors' calculations based on the Bangko Sentral Ng Pilipinas and Global Wage Report, 2014/15.

### **BPOs have a large economic impact in the Philippines but lack linkages to other sectors**

The BPO sector in the Philippines has clearly emerged as one of the most important industries in the country, quickly closing in on the economic contributions from migration and inflow of foreign remittances. Indeed, Philippine workers have long been leaving their country in search of better economic opportunities abroad – currently these workers are contributing \$25 billion to the economy. But as the BPO sector continues to expand, it is likely to surpass remittances as a source of national income – indeed, within the next two years the total revenue generated by the sector is likely to amount to \$30 billion.

In terms of the sector's impact on the rest of the economy, a study commissioned by the Asian Development Bank (ADB) found that the Philippine BPO industry had only limited inter-sectoral linkages. In particular, out of the 240 sectors studied in the Philippines, the BPO sector ranked 138th in terms of forward linkages, and provided services mainly to the following businesses: tour and travel agencies; wholesale and retail trade; and banking. Similarly, the BPO sector ranked 178th in terms of backward linkages, requiring output from banking, electricity and communication services for its operations (Magtibay-Ramos et al., 2007). As the BPO industry grows, however, increasing employment and compensation should have a positive impact on domestic demand and consumption. According to research conducted by the Oxford Business Group (OBG), BPO workers tend to spend all of their earnings onshore, and each new job in the BPO industry therefore generates 2.5 additional jobs in retail, public transportation and other support services (OBG, 2015).

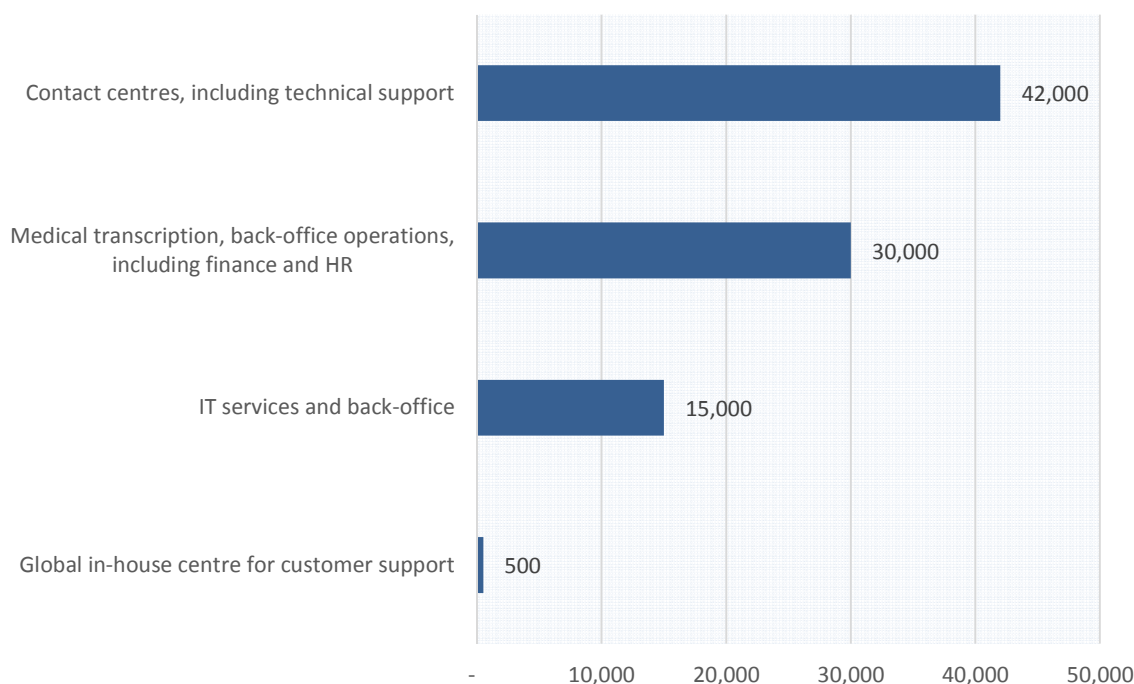
## 4. Challenges for decent work in the BPO sector

This section presents the main value added of the paper, employing as it does structured interviews across all the major BPO subsectors, and identifying industry challenges in terms of decent work creation (

Figure 7). These interviews targeted IBPAP representatives, general managers, human resource (HR) executives and BPO employees. Taking into account the most recent estimates of BPO employee numbers, total employment generated by the companies interviewed for this study represented roughly 7 per cent of the total BPO industry workforce. Those companies interviewed operated in both the voice and non-voice BPO categories; the latter included IT, medical transcription, financial accounting and HR services. Employment figures at each of these companies ranged from around 500 to more than 40,000 workers (

Figure 7). Areas of investigation included the following: skills development, worker well-being, gender disparities and workers' voice and representation. This section also proposes key public and private interventions to address decent work challenges.

**Figure 7. Profile of companies that responded to the ILO (number of employees covered)**



### 4.1 Skills shortage

#### Expanding BPO sector in the Philippines threatens concomitant skills shortage

The Philippine BPO sector employs mainly college graduates, since the minimum requirements for positions usually includes at least two years of college education with excellent command of spoken and written English. According to a study by Bird and Ernst (2009), 80 to 90 per cent of employees in

the BPO companies tend to be college graduates. While the contact centres subsector tends to accept any type of educational background from the graduates, the software development subsector requires more specialized technical skills acquired through degrees in IT-related subjects. Furthermore, BPO companies specialized in higher value added non-voice service activities recruit employees who usually have specialized international certifications: e.g., financial analysts have CFA (Certified Financial Accountant) certifications, while employees engaged in medical transcription are usually specialized nurses. Not surprisingly, employees at the BPO firms tend to be relatively young, with an average age of 23–28 years and with limited or no previous work experience (Bird and Ernst, 2009). Indeed, the BPO sector has created better quality employment opportunities for college graduates with no previous work experience – a large majority of these workers previously relied on six-month contractual jobs in wholesale and retail sales, earning close to minimum wage in their first post-degree employment (Amante, 2010).

Given the relative attractiveness of BPO jobs as a first employment for young graduates, firms in the sector report difficulties hiring candidates to fill vacancies. Minimum entry requirements usually include a strong command of the English language, computer literacy and a customer-oriented mind set. These qualifications are proving increasingly difficult to find, considering the recent expansion of the industry. Reportedly, only 3 per cent of applicants that apply for BPO jobs are adequately skilled (Keitel and Ledesma, 2013). With contact centres, for example, which should have an easier time filling positions, IBPAP estimates that in fact only 10 per cent of applicants qualify for contact centre positions. The skills gap in the BPO sector is likely to become more severe as the industry expands – experts estimate that for the sector to grow at the targeted rate of 15 per cent per year 150,000 new entrants are needed each year, not taking attrition into account. This would require 60 per cent of all new graduates to enter the BPO sector, which, given the recent take-up rate, is unrealistic. As the sector expands, there will likely be too few college graduates to meet demand. This is a particularly pressing problem, considering that the Philippine BPO sector aims to transition to higher value added activities.<sup>8</sup>

### **High turnover of BPO workers putting further strain on employers' ability to train workers for higher value added activities**

Aside from skilled labour shortages, the BPO sector tends to suffer relatively high turnover rates, which translate into higher recruitment and initial training costs for employers. According to IBPAP, average yearly industry turnover for its members was 38 per cent in 2009; that figure decreased to 19 per cent in 2015, but remained high compared to industry standards. Moreover, empirical evidence shows that the turnover rate can vary significantly according to the companies surveyed and across years. For example, enterprises surveyed by Bird and Ernst (2009) showed that the annual turnover rate ranged between 19 and 47 per cent. On the other hand, research conducted by Amante (2010) suggested a turnover rate of 20–30 per cent. One of the companies interviewed for this paper reported a monthly turnover as high as 50 per cent for employees in leadership positions, and 75 per cent for analyst positions.

Amante (2010) shows that the main factors behind high BPO industry turnover include the following: i) lack of competitive compensation (22.2 per cent of respondents); ii) lack of professional growth (21.6

---

<sup>8</sup> The animation subsector illustrates the challenges facing the industry: there is a limited pool of talent in the country that can do the job, since more skilled workers tend to emigrate looking for better opportunities abroad, leaving the Philippine industry with the production of 2D animation, rather than the fast-growing and more lucrative 3D animation services (Tschang, 2011).

per cent); and iii) stress in the workplace (17 per cent). Furthermore, the practice of “call centre hopping” is common and, considering the limited supply of skilled and experienced professionals, employees that change jobs are likely to obtain higher compensation with a new employer. Additionally, career development in the Philippine BPO sector can be limited, especially in contact centres. For example, Bird and Ernst (2009) found that senior managers in contact centres represent 0.5 to 2 per cent of the total workforce, compared to the 80 to 90 per cent of workers who are agents handling inbound and outbound calls – monotonous jobs that involve low skills, for which college graduates are often overqualified. The situation is better in the software development subsector, where managers constitute of 5 to 26 per cent of the total workforce. In both these subsectors, promotion to managerial positions does happen internally, but the average worker’s chances for advancement are slim.

Initiatives to tackle the problem of skills shortages and high turnover include the following:

- **Public-private partnership (PPP) between IBPAP and the Technical Education and Skills Development Authority (TESDA).** This PPP was established to address the skills gap challenge. The 2011 memorandum of agreement (MoU) between IBPAP and TESDA resulted in the creation of the Industry Training for Work Scholarship Program (I-TWSP), aimed at providing training to “near hire” applicants who stand just below the threshold requirements to fill positions in the BPO sector.<sup>9</sup> Different BPO categories require different types of training, so that subjects taught, funding and hours vary according to the specific BPO subsector. For example, the I-TWSP allocates 100 hours of training to each selected applicant in contact centres, whereas 500 hours of training are allocated to each new hire in the more skills-intensive software development subsector. As I-TWSP beneficiaries include high-school graduates, this scheme has the potential to diminish labour shortages in the BPO industry while promoting inclusive growth. As the interviewees for this study revealed, the I-TWSP has supported moves on the part of participating companies to increase their return on investment through access to subsidized training.
- **Aiming to reduce recruitment costs and promoting a steadier supply of BPO employees, IBPAP has designed a national competency test.** The test addresses basic skills in demand in the BPO sector, namely proficiency in English and computer literacy. IBPAP has share information on scores with educational institutions in the country to ensure that the existing curriculum is in line with global industry requirements. As part of its skills development effort, IBPAP also partnered with educational institutes in its ADEPT programme, which aims to improve language skills among university students. Private sector efforts have supported the development of the medical transcription programme, for example the MTC Academy, the largest medical certification institution in the Philippines. MTC has partnered with the American Association for Medical Transcription to ensure that the certification system matches the curriculum requirements of BPO enterprises operating in the subsector. The Government has also supported subsector growth by offering scholarships for specialized training of health professionals (Fernandez-Stark et al., 2011).
- **The Philippine 2011–2016 Development Plan targeted the BPO industry as a priority sector.** As part of this, the Government has introduced reforms to the education system to address labour shortages and facilitate the transition to higher value added services. For this purpose, a service management program has been included in college curriculum in partnership between IBPAP and the Commission on Higher Education (CHED). This initiative establishes

---

<sup>9</sup> The programme is still in place, but is now managed solely by TESDA.



synergies with the 2011 reform of Philippine’s education system, which extended the pre-university cycle from 10 to 12 years. The service management programme provides final-year college students the opportunity to take elective courses as their minor degree specialization, enabling students to acquire a basic knowledge of the BPO industry, or more advanced skills tied to the sector, by following the Lean Six Sigma Certification Programme.<sup>10</sup>

- **Strengthening Knowledge-Based Economic and Social Development.** This ADB technical assistance programme supports IBAP and the University of the Philippines in the promotion of inclusive skills development in the BPO industry through the creation of e-SPM, an online platform that makes the service management programme taught in universities available online free of charge. This programme is expected to target 3,000 students (50 per cent of them women) and involve 900 teachers (50 per cent women).<sup>11</sup> IBPAP observed that migrant Filipino workers around the world – for example in Europe, Hong Kong (China) and the Kingdom of Saudi Arabia – are following these online courses from abroad. This may eventually support the return of the Philippine diaspora to their home country, equipped with skills adequate to finding quality employment in the BPO industry.
- **Private initiatives by big firms to match efforts by Government and universities.** While smaller companies tend to rely on industry-level initiatives promoted by IBPAP, two of the largest MNEs operating in the non-voice subsector cooperate with universities in establishing curricula in line with industry requirements. These include skills development in customer service, communication, analytics and social media management. An MNE interviewed for this paper had been active in cooperating with Philippine universities to address these areas of skills development. Another resource the sector needs is people with advanced technological skills, including cloud-based analytics to handle “big data”. Meanwhile, some companies also provide graduating students with access to on-line training materials. As part of their talent attraction strategies, large BPO enterprises normally engage in career orientation seminars as well as recruitment events in university campuses across the country. One of the largest BPO companies in the Philippines also promotes social impact training initiatives, among these helping disadvantaged youth gain the job skills needed in the BPO industry and providing training and certification for rural BPO workers.
- **Increasingly common on-the-job training and other in-house efforts.** Internal skills-development strategies may involve in-house training that can last from a few weeks to six months, depending on the level of technical skills required for a certain position. In addition, continuous training best practices exist among the largest players in the BPO sector. These range from career development seminars to on-line training materials, personal financial management courses and advanced training such as through the Lean Six Sigma certification. One of the companies interviewed encourages the creation of various “employee resource groups”, which gather workers with similar interests and lifestyles to provide personal and professional development through mentoring and community involvement. These initiatives

---

<sup>10</sup> Universities have also been supported by the private sector in developing middle-management skills through pre-MBA programmes and e-learning tools, and have attracted additional support from Harvard Business Publishing (Fernandez-Stark et al., 2011).

<sup>11</sup> Interview with IBPAP. For more information see: <http://fics.upou.edu.ph/index.php/projects/88-strengthening-knowledge-based-economic-and-social-development> [accessed 8 Dec. 2016].

can support career advancement in leadership roles internally, while increasing employee satisfaction and reducing attrition.

## **4.2 BPO sector employee health and well-being**

### **Employees report high-stress work environments with detrimental impacts on health**

Working conditions in the BPO sector are regulated by the Philippine Labor Code, which addresses hours of work, pay and benefits, social security, industrial relations, collective bargaining and occupational safety and health (OSH) issues. As this paper has indicated, wages in the BPO sector tend to be higher than in the rest of the economy, and this is a major pull factor for young graduates. However, wages are only one of the many aspects of decent work. A study by Amante (2010), for example, found high levels of stress were common in the BPO sector, particularly in contact centres. On average, agents in contact centres each took 78 calls per day, but they might have to deal with more than 100 calls per day. Agents had to respond to at least 91 per cent of these calls within 22 seconds, and then were given 5–6 minutes to address clients' requests. Employees often suffered from health problems such as headache, fatigue, eye strain, chest and back pain and voice problems. Meanwhile, since most Philippine BPO operations served American and European clients, employees had to work night shifts (considering time zone differentials). Night work can cause disruptions in employees' work-life balance and affect their psychological well-being. Harassment from irate clients was the prime cause of stress among the surveyed BPO employees, and the main factor in their decision to leave.

### **High incidence of HIV/AIDS among BPO workers**

Meanwhile, workers in the BPO sector experienced a higher incidence of HIV/AIDS than did other sectors in the Philippines. For example, a 2010 study entitled "Lifestyle and Reproductive Health Issues of Young Professionals in Metro Manila and Metro Cebu", conducted by the University of the Philippines Population Institute (UPPI), shows that Philippine workers in contact centres, compared to workers in other sectors, faced a higher probability of exposure to HIV/AIDS; the stress they experienced in the workplace, among other factors, could encourage risky sexual behaviour. This study claimed a 150 per cent higher rate of engagement in risky sexual behaviour among male contact centre workers, compared to their non-contact centre counterparts, and a 450 per cent higher rate of engagement in risky sexual behaviour among female contact centre workers, as compared to their non-contact centre counterparts (Salvana, 2012).

Meanwhile, an ILO-funded study by the Department of Psychology, Ateneo de Manila University, corroborated the prevalence of risky behaviours among contact centre workers, including early sexual activity, infrequent condom use and promiscuity (Melgar et al., 2009). Another study identified employment in contact centres as a significant risk factor for testing positive for HIV – 12 per cent of the total sample tested positive for HIV and, while one-third of those tested indicated that they worked in the contact centre industry, one-half of those who tested positive reported being contact centre agents (Ganguangco et al., 2010). Aside from high levels of workplace stress, other factors might partially explain these findings, for example causes related to BPO workers' higher-than-average incomes and demographic profiles.

Efforts have been made to enhance general well-being and health among BPO sector employees:

- Initiatives to promote compliance with OSH and general labour standards.** In 2014, the Department of Labor and Employment of the Philippines (DOLE) and IBPAP signed a memorandum of agreement (MOA) to foster voluntary compliance with OSH and general labour standards set and monitored by DOLE. Efforts include provision of training materials and promotion of increased awareness on welfare issues in the BPO sector, while fostering voluntary adoption of labour code standards. Under this programme, BPO companies can voluntarily sign up for labour inspections. In cases of non-compliance, DOLE provides audited companies with flexible support in complying with labour standards. These standards include provisions that address issues related to unhealthy lifestyle among BPO workers, the presence of on-site medical facilities, mandatory breaks for breastfeeding women, and free transport for workers doing night shifts. Since the launch of this programme, DOLE has conducted labour inspections that found 39 per cent of the firms undergoing these voluntary audits comply with the standards.<sup>12</sup> One interviewee stated that MNEs operating in the Philippine BPO sector are in most cases compliant to national regulation and, given the need to attract and retain talent, they often adopt standards that go beyond it.
- Efforts to improve employee health and wellness.** In order to share best practices related to mental and physical health of employees (especially related to stress in the workplace), IBPAP explained that BPO companies had been partnering with health management organizations (HMOs) to improve their wellness programmes; this was in line with the practices reported by the interviewed companies. Meanwhile, some of the firms provided on-site fitness centres to their employees to encourage physical activity and improved overall health. Well-being programmes also included classes targeting good health and wellness practices (i.e. stretching exercises), free massages, first-aid training sessions, Zumba and yoga classes, personal counselling sessions. Employees could suggest other fitness activities to the HR managers. Other firm initiatives included recreational activities such as retreats, running events, summer outings, photo shooting events and birthday celebrations, all with the aim of reducing stress in the workplace, improving relationships among employees and reducing attrition rates.
- Government efforts to reduce the incidence of HIV/AIDS among BPO workers.** In 2015, the Department of Health reported that the incidence of HIV/AIDS was on the rise among call centre workers. A congressional inquiry was pushed to strengthen the Philippine Comprehensive Policy on HIV/AIDS prevention through the implementation of an effective National HIV/AIDS plan. With government-led initiatives and in close partnership with participating firms, HIV/AIDS awareness seminars are held on a yearly basis (these seminars are promoted by the provincial governments).

#### Box 4

##### Labour issues in the Indian BPO industry: Similarities to the Philippine experience

- Continued demand for skills and public-private initiatives.** As in the Philippines, India's IT-BPM industry relies on young (25 years on average), highly educated segments of the population, with at least a college degree if not a postgraduate education (Ramesh, 2004; D'Cruz and Noronha, 2010). To ensure continuing availability of qualified personnel, NASSCOM has partnered with universities to strengthen professional education in line with industry requirements. This has been complemented by in-house training efforts by BPO companies (Fernandez-Stark et al., 2011).

<sup>12</sup> Interview with IBPAP.

- **High attrition rates and efforts at retaining staff.** Attrition rates are also high in the Indian IT-BPM industry, with NASSCOM (2016b) estimating an average attrition of 30–40 per cent for BPM services and 15–18 per cent for IT services. Therefore, as in the Philippines, employee retention is a serious issue in the Indian BPO sector, especially in contact centres but also for back-office operations. The high turnover has been mostly attributed to the strong result orientation, continuous monitoring and night-shift work characteristic of BPO jobs, with the concomitant work-related stress and work-life imbalances. Employee decisions to leave are often accompanied by a desire to find more rewarding career opportunities that better match their level of education (Ramesh, 2004; Noronha and D’Cruz 2006; D’Cruz and Noronha, 2010). Various initiatives have been promoted to increase employee motivation to stay, including highly attractive compensation packages (considering that BPO salaries are already higher than those in other sectors) and the use of the “early warning system” in human resources management to identify individuals likely to leave and then prioritize immediate intervention (NASSCOM, 2016c).
- **Women’s participation in the BPO sector.** In India, the IT-BPM industry serves as an important employer of women, and it has been championed for its gender inclusivity. In 2015, NASSCOM estimates, the industry directly employed more than 1.2 million women. In rural India, an awareness programme regarding opportunities in the BPO industry successfully increased both enrolment in relevant training programmes and elementary school enrolment among young girls (World Bank, 2016). However, women represent around 35 per cent of the total sector employees, a figure not as high as that in the Philippines. This may reflect stronger cultural barriers against women employment in the industry, associated with work-life imbalance and difficulties in meeting family obligations.
- **Workers’ voice and representation in the industry is limited.** NASSCOM, as the leading industry association, promotes the view that unionization in the sector is irrelevant because salaries and working conditions are substantially better than the national average. Any union activity is perceived negatively on the grounds it could hamper sectoral growth and development (D’Cruz and Noronha, 2010). On their side, Indian BPO employees have been reluctant to join unions because of their higher professional status compared to blue-collar workers (Sandhu, 2006). Other factors have included high labour mobility among BPO employees, a general aversion to conflict, fear of employer backlash, and managerial policies centred on individualism (Noronha and D’Cruz, 2006; Ramesh, 2004; Taylor et al., 2008 in D’Cruz and Noronha, 2010). Alternative arrangements, similar to those in the Philippines, have been offered in some cases to provide space for people to voice their grievances (Sandhu, 2006; James and Vira, 2009; Pratap, 2010).

### 4.3 Women in the BPO sector

#### **More than 50 per cent of workers are women, but they tend to be concentrated in low paid, low-skilled work**

According to the most recent estimates from the Philippines Statistics Authority (PSA), more than 55 per cent of workers in the BPO sector are women. Women were present in medical transcription industries (74.5 per cent), data processing (65.2 per cent) and call centre activities (58.8 per cent). Furthermore, the study by Amante (2010), where 59.3 per cent of respondents were women, indicated the presence of a significant wage differential between male and female BPO employees, with men earning 13 per cent more than women. The reported gender pay gap is mostly explained by the fact that men tend to occupy higher and better paid positions, such as technical and IT engineering jobs. Women, on the other hand, are found in lower-skilled and lower-paid employment positions such as sales agents and customer service representatives.

Formerly, moreover, Philippine labour law prohibited women from working night shifts (between 10 p.m. and 6 a.m.). In 2011, however, due to the growing contribution of the BPO sector to the national economy and since most BPO employees were women serving customers in different time zones,

employers successfully lobbied for the repeal of this provision. Subsequently, new requirements for employers were established, including mandatory transport services for women doing night shifts and other social services, catering in particular to those with children. While the prevalence of night shifts has closed the gap in demand and supply for BPO worker hours, it has raised concerns regarding work-life balance for women.

Efforts are being made to address the concerns of women in the BPO sector:

- **Private sector initiatives.** One of the firms interviewed, which was among the largest non-voice BPO service providers in the Philippines, introduced a four-month maternity leave, going beyond the minimum 60-day leave mandated by national legislation. At another company, employees were granted a 90-day maternity leave if they had spent at least two years with the firm. Another firm in the industry granted a six-month maternity leave, thereby improving the gender balance within the company. Normally, however, the BPO companies followed a 60-day maternity leave policy in compliance with Philippine labour law. But as salaries tended to be higher than the social security contributions for maternity leave, some large BPO firms could afford to cover the difference.
- **Telework from home provisions for workers with children.** Among the largest BPO firms interviewed, employees with children – regardless of their gender – were eligible for telework from home. Moreover, to promote work-life balance, one of the companies surveyed offered its employees the option of working half days on Fridays (compensated by working an additional hour each day from Monday to Thursday). This allowed workers to spend more time with their families (this initiative, however, was being promoted by the company’s headquarters in the United States).
- **Dialogue between single parents and executives.** As part of its employee engagement efforts, one company interviewed promoted dialogue among female single parents and married executives to voice their respective concerns and share their personal victories. This initiative helped to reduce attrition among the employees involved. Moreover, the same company celebrated a “women month”, when various activities were conducted with the goal of empowering women and making them feel appreciated. Another company interviewed promoted similar initiatives by allocating funds for the promotion of leadership activities and career mentoring through women-specific resource groups.

#### **4.4 Workers’ voice, collective bargaining and ability to organize**

##### **Trade union activities almost non-existent in the BPO sector, although in theory workers in the sector can organize**

In 1953, the Philippines ratified the fundamental ILO Conventions on freedom of association and collective bargaining.<sup>13</sup> Commitment to these international labour norms are reflected both in the Philippine Constitution and in the Labor Code. In fact, article 255 of the Philippine Labor Code provides employees with the right to elect their representatives in labour management committees, effectively allowing employees to participate in policy decisions that regulate their rights, benefits and welfare. In

---

<sup>13</sup> Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98).

theory, therefore, workers in the BPO industry, as in any other sector covered by the legislation, are allowed to form unions, participate in union activities and engage in collective bargaining with their employers. In practice, however, union formation and activities in the Philippine BPO sector are very limited or non-existent. Research indicates that employers in the sector tend to be opposed to unions, as salaries and working conditions are already above national standards. Furthermore union activity is seen by employers as unnecessary and something that would risk impairing the industry's competitiveness and growth (Amante, 2010). Among some BPO firms located in EPZs and PEZAs, where there tends to be lesser government intervention, a "no-union" provision is sometimes stipulated in employment contracts (Reese and Soco-Carreon, 2013).

Meanwhile, there is mixed evidence regarding worker perceptions of the need to unionize. Amante (2010) found that 49.2 per cent of BPO employees expressed the need to have unions. The study by Reese and Soco-Carreon (2013), meanwhile, revealed that Philippine contact centre agents do not collectively organize for various reasons, including the following: i) they feel that their current job is not part of their lifetime career; ii) they are discouraged from unionizing by their employers; iii) they tend to solve issues with HR on an individual basis; iv) they underestimate market power; they are intimidated by the complexity of employment agreements; they feel that unions are "something for blue-collar workers"; and they share a prevailing antipathy for unions. Moreover, given the labour shortages present in the industry, BPO employees may believe it easier to engage in "call centre hopping" than to ask either directly or through a trade union for better working conditions from their current employer. Hence, given an overall negative perception of unions, and given labour shortages in the industry and abundant worker opportunity to change employers, no significant union activity is being conducted in the Philippine BPO sector.

Efforts are being made to unionize workers and, in some cases, create avenues for them to express their concerns or lodge complaints:

- **A "Magna Carta for call centre workers", a recent effort to organize workers, has failed to gain traction.** In 2007, major trade union federations, with support from the ILO, attempted to establish a union in the sector. More recently, political figures in the country have been trying to push for stronger unionization in the BPO industry. In 2013, the introduction of a "Magna Carta" for call centre workers was pledged by a member in the upper house of Congress, aiming to enforce the right of call centre workers to organize and join labour unions, as well as to ensure better contractual and OSH protection. Interviews conducted for this paper suggested that BPO firms viewed this proposal negatively, as a widespread belief prevailed that the nature of work in the industry was performance-based and any attempt at government intervention through "forced unionization" could hamper sector growth and competitiveness, potentially scaring away foreign investors.
- **Companies have tried to provide platforms for lodging complaints.** Some BPO companies encourage employees to file their concerns through a web portal, whereupon these complaints are handled by the HR department. Under this system, grievance procedures can be monitored globally by head offices (EILER, 2012). Other mechanisms include an "open door policy" and a helpline made available to employees for expressing their concerns individually. In some cases, employees' concerns are also addressed through annual satisfaction surveys, through which workers can express their views anonymously. At one of the companies interviewed, feedback mechanisms were implemented through monthly focus group discussions between managers and employees. Most complaints received by employees at the companies interviewed were related to relations with their

superiors (whose management style was often regarded as excessively harsh), lack of career growth opportunities, or workplace conditions (such as temperature and air-conditioning, or cleanliness of bathrooms). Issues related to working conditions issues were often addressed immediately. However, these measures are criticized by labour activists as a “top-down” approach on the part of HR departments. Labour activists claim that HR practices are seen in the BPO sector as a substitute for the role of unions in the promotion of workers’ rights (EILER, 2012).

- **Addressing decent work issues in the BPO sector would benefit from continued efforts to provide workers with a stronger voice and greater powers of representation.** It is clear that workers in the BPO sector are not unionized. Furthermore, workers generally view the role of unions in a negative light. But more effective promotion of better opportunities for organization and bargaining could resolve many sector issues, particularly in the following areas: supporting and encouraging additional training and skills upgrading; reducing stress at work; tackling the prevalence of HIV/AIDS; and promoting more equal career advancement opportunities among men and women. Addressing these concerns would help both workers and employers to alleviate the problem of high staff turnover, which tends to lead to higher recruitment and training costs.

## 5. Conclusion

The growth of the Philippine BPO sector has provided over a million jobs, and BPO has become the second-largest contributor, after remittances from overseas Filipino workers, to the country’s GDP. As the industry moves towards maturity, technological innovations will likely bring a new wave of development, creating a demand for higher skilled workers. The challenge for the Philippines is to remain competitive as a BPO destination while ensuring decent work for over a million workers, especially women, engaged in the sector.

While talent retention challenges remain, and technological innovation may widen skills gaps, the Philippines has proven its potential to move towards higher value added in the BPO sector through efforts by the Government, universities, IBPAP and individual MNEs. In this respect, the Philippine BPO sector provides a positive example of economic upgrading through participation in service GSCs, mostly by way of a localized development strategy. The remaining skilled labour shortages may potentially contribute to a “race to the top” in working conditions, favouring social upgrading in the industry. While social protection and effective compliance with national labour legislation are becoming necessary to attract and retain workers, firm-level strategies are increasingly emphasizing employee well-being programmes, and these often go beyond the minimum legal standards.

Union activities are virtually non-existent in the Philippine BPO sector. Employers generally mistrust unions, while BPO workers still have only limited awareness of the benefits of joining unions, and individualism prevails. Employers tend to adopt individual complaint mechanisms, and complaint resolution often does not involve employees. This approach has been criticized by academics and labour activists, who claim that BPO workers do not get to voice their real complaints for fear of losing their jobs.

Civil society, along with the social partners, could play a role in strengthening workers’ voice and representation by engaging in capacity-building and awareness-raising campaigns. The Government could also play a role in creating a platform for social dialogue between workers and employers in the

BPO sector, aiming to foster mutual understanding of the remaining labour issues and pursuing a tripartite approach to finding sustainable solutions.

## References

Amante, M.S.V. 2010. “Offshored work in Philippine BPO”, in *Offshoring and working conditions in remote work* (Basingstoke, Palgrave Macmillan; Geneva, ILO).

Barrientos, S.; Gereffi, G.; Rossi, A. 2010. “Economic and social upgrading in global production networks: A new paradigm for a changing world”, in *International Labour Review*, Vol. 150, No. 3–4, pp. 319–340. Available at: <http://www.capturingthegains.org/pdf/ctg-wp-2010-03.pdf> [7 Dec. 2016].

Bird, M.; Ernst, C. 2009. “Offshoring and employment in the developing world: Business process outsourcing in the Philippines”, Employment Working Paper No. 41 (Geneva, ILO). Available at: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_elm/---analysis/documents/publication/wcms\\_117922.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---analysis/documents/publication/wcms_117922.pdf) [7 Dec. 2016].

D’Cruz, P.; Noronha, E. 2010. “Employee dilemmas in the Indian ITES-BPO sector”, in *Offshoring and working conditions in remote work* (Basingstoke, Palgrave Macmillan; Geneva, ILO).

Del Prado, F.L.E. 2015. “The BPO challenge: Leveraging capabilities, creating opportunities”, Discussion Paper Series No. 2015–36 (Manila, Philippine Institute for Development Studies). Available at: <http://dirp3.pids.gov.ph/webportal/CDN/PUBLICATIONS/pidsdps1536.pdf> [7 Dec. 2016].

Deloitte. 2014. *Deloitte’s global outsourcing and insourcing survey: 2014 and beyond* (London). Available at: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-2014-global-outsourcing-insourcing-survey-report-123114.pdf> [7 Dec. 2016].

—. 2016. “Outsourcing accelerates forward”, *Global outsourcing survey 2016* (London). Available at: <https://www2.deloitte.com/us/en/pages/operations/articles/global-outsourcing-survey.html> [7 Dec. 2016].

Desiderio, L.D. 2015. “IT-BPM revenues up 18 pct to \$18.4-B”, in *The Philippine Star* (Manila, 19 March). Available at: <http://news.abs-cbn.com/business/03/18/15/it-bpm-revenues-18-pct-184-b> [7 Dec. 2016].

Ecumenical Institute for Labor Education and Research (EILER). 2011. *Modern day sweatshops: Business process outsourcing (BPO) in the Philippines* (Manila). Available at: <http://www.amrc.org.hk/sites/default/files/Business%20Process%20Outsourcing%20in%20the%20Philippines.pdf> [7 Dec. 2016].

Espina, M.P. 2015. “BPO revenues to overtake OFW remittances in 2017 – IT expert”, in *Rappler* (Manila, 27 June 27). Available at: <http://www.rappler.com/business/industries/174-outsourcing/97586-bpo-revenues-overtake-ofw-remittances> [7 Dec. 2016].



Farrell, D.; Laboissière, M.; et al. 2005. *The emerging global labor market*, McKinsey Global Institute report. Available at: <http://www.mckinsey.com/global-themes/employment-and-growth/the-emerging-global-labor-market> [7 Dec. 2016].

Fernandez-Stark, K; Bamber, P.; Gereffi G. 2011. “The offshore services global value chain: Economic upgrading and workforce development”, in Gereffi G.; Fernandez-Stark K; Psilos, P.: *Skills for upgrading: Workforce development and global value chains in developing countries* (Durham, North Carolina, Duke Center on Globalization, Governance & Competitiveness; Research Triangle Park, North Carolina, RTI International), pp. 132–189.

Gangcuangco, L. M.; Sumalapao D.E.; Tan M.L.; Berba R. 2010. “Changing risk factors for HIV infection among men having sex with men in Manila, Philippines”. AIDS 2010 - XVIII International AIDS Conference; Vienna; 18–23 July 2010. Available at: [https://www.researchgate.net/publication/257304300\\_Changing\\_risk\\_factors\\_for\\_HIV\\_infection\\_among\\_men\\_having\\_sex\\_with\\_men\\_in\\_Manila\\_Philippines](https://www.researchgate.net/publication/257304300_Changing_risk_factors_for_HIV_infection_among_men_having_sex_with_men_in_Manila_Philippines) [7 Dec. 2016].

Horses for Sources (HfS). 2013. “Outsourcing is dead, long live outsourcing!” An HfS & KPMG Webinar, 26v June. Available at: [http://www.horsesforsources.com/wp-content/uploads/2013/06/Webcast-deck-outsourcing-is-dead\\_HfS\\_FINAL1.pdf](http://www.horsesforsources.com/wp-content/uploads/2013/06/Webcast-deck-outsourcing-is-dead_HfS_FINAL1.pdf) [7 Dec. 2016].

International Labour Organization (ILO). 2014. “Wages in Asia and the Pacific: Dynamic but uneven progress”, in *Global Wage Report 2014/15*, Asia and the Pacific Supplement, Regional Economic and Social Analysis Unit (RESA), Bangkok, ILO. Available at: [http://www.ilo.org/wcmsp5/groups/public/-/asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms\\_325219.pdf](http://www.ilo.org/wcmsp5/groups/public/-/asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms_325219.pdf) [7 Dec. 2016].

IT and Business Process Association of the Philippines (IBPAP). “Benefits of doing business in the Philippines”. Available at: <http://www.ibpap.org/investors/benefits-of-doing-business-in-the-philippines> [7 Dec. 2016].

James, A.; Vira, B. 2009. “Unionising’ the new spaces of the new economy? *Alternative* labour organising in India’s IT enabled services–business process outsourcing industry”, in *Geoforum*, <http://www.geog.qmul.ac.uk/docs/staff/23746.pdf> [7 Dec. 2016].

Keitel, R.; Ledesma, M. D. 2009. “Night work prohibition of women workers in the Philippine call center industry”. Conference on *Regulating for decent work: Innovative labour regulation in a turbulent world*, Track 2: *New dimensions in the implementation and enforcement of ‘non-core’ norms* (8-10 July 2009, Geneva). Available at: <https://www.ilo.org/legacy/english/protection/travail/pdf/rdwpaper35b.pdf> [7 Dec. 2016].

—. 2013. “The partnership between government and the IT-BPO Industry in their quest for inclusive growth in the Philippines”, *International Journal of Development and Sustainability*, 2(2), 2164–2175. PDF available for download [7 Dec. 2016].

KPMG. 2016. “Rise of the robots. Robotic process automation can cut costs for financial services firms by up to 75 per cent” (New York). Available at: <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/rise-of-the-robots.pdf> [7 Dec. 2016].

Lee A.; Vári-Kovács, Z.; Q Yu, S.; Lall, A. 2014. “Business process outsourcing in the Philippines”, Lee Kuan Yew School of Public Policy - Microsoft Case Studies Series on Information Technology, Public Policy and Society (October). Available at: <https://lkyspp.nus.edu.sg/wp-content/uploads/2014/12/Business-Process-Outsourcing-in-the-Philippines.pdf> [7 Dec. 2016].

Lee Kuan Yew University of Public Policy and Microsoft. 2015. *Shared prosperity : An ICT manifesto for the Philippines for 2016 and beyond* (Singapore). PDF available for download [7 Dec. 2016].

Magtibay-Ramos, N; Estrada, G.; Felipe, J. 2007. “An analysis of the Philippine business process outsourcing industry”, ERD Working Paper No. 93 (Manila, Asian Development Bank [ADB]). Available at: <https://www.adb.org/publications/analysis-philippine-business-process-outsourcing-industry> [7 Dec. 2016].

Majumder, S; Sharma, R.P. 2014. “Indian ITES industry going rural: The road ahead”, in *Journal of Business & Economic Policy*, Vol. 1, No. 2; (December). Available at: [http://jbeprnet.com/journals/Vol\\_1\\_No\\_2\\_December\\_2014/8.pdf](http://jbeprnet.com/journals/Vol_1_No_2_December_2014/8.pdf) [7 Dec. 2016].

Melgar I.E.; Ofreño M.A.P.; Kintanar N.S. 2009. “Risk behaviors for HIV/AIDS among call center employees in the Philippines” (Manila, ILO Country Office for the Philippines). Available at: [http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-manila/documents/publication/wcms\\_477060.pdf](http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-manila/documents/publication/wcms_477060.pdf) [7 Dec. 2016].

Messenger, J.; Ghosheh, N. (eds). 2010. *Offshoring and working conditions in remote work* (Basingstoke, Palgrave Macmillan; Geneva, ILO).

NASSCOM. 2016a. “Impact on India's growth”. Available at: <http://www.nasscom.in/impact-indias-growth> [7 Dec. 2016].

—. 2016b. “Robust growth for the Indian IT-BPM industry”. Available at: <http://www.nasscom.in/robust-growth-indian-itbpm-industry> [7 Dec. 2016].

—. 2016c. “HR trends shaping India's IT-BPO landscape”. Available at: <http://www.nasscom.in/hr-trends-shaping-india%E2%80%99s-itbpo-landscape?fg=71029> [7 Dec. 2016].

NeoIT. 2006. “Offshore and nearshore ITO and BPO salary report”. *Offshoring Insights*. Market Report Series, Volume 4, Issue 4. Available at: [http://www.neogroup.com/PDFs/Whitepapers/OIv4i04\\_0506\\_ITO\\_and\\_BPO\\_Salary\\_Report\\_2006.pdf](http://www.neogroup.com/PDFs/Whitepapers/OIv4i04_0506_ITO_and_BPO_Salary_Report_2006.pdf) [7 Dec. 2016].

Noronha, E.; D’Cruz, P. 2006. “Organising call centre agents: Emerging issues”, in *Economic and Political Weekly*, Vol. 41, No. 21: 2115–21. Available at: [https://www.researchgate.net/publication/248706810\\_Organising\\_Call\\_Centre\\_Agents\\_Emerging\\_Issues](https://www.researchgate.net/publication/248706810_Organising_Call_Centre_Agents_Emerging_Issues) [7 Dec. 2016].

Oxford Business Group (OBG). 2015. “The Philippines' BPO sector creates jobs and is drawing wealth and investment”. *The Report: The Philippines 2015* (an overview). Available at:

<http://www.oxfordbusinessgroup.com/overview/philippines-bpo-sector-creates-jobs-and-drawing-wealth-and-investment> [7 Dec. 2016].

Philippines National Statistics Office. 2009. “Women in business process outsourcing industries”. Gender Factsheet No. 09-02, Gender and Development Committee (GCOM), March (Manila). Available at: <https://psa.gov.ph/sites/default/files/attachments/aodao/article/Women%20in%20Business%20Processes%20Outsourcing%20Industries.pdf> [7 Dec. 2016].

Pratap, S. 2010. “Challenges for organizing the BPO workers in India”. Asia Monitor Resource Centre. Available at: <http://www.amrc.org.hk/content/challenges-organizing-bpo-workers-india> [7 Dec. 2016].

Ramesh, B. 2004. “Cybercoolies in BPO”, in *Economic and Political Weekly*, Vol. 35, No. 9: 492–97. Available at: <http://www.epw.in/journal/2004/05/special-articles/cyber-coolies-bpo.html> [7 Dec 2016].

Reese, N.; Soco-Carreon, J. 2013. “No call for action? Why there is no union (yet) in Philippine call centers”, in *ASEAS - Austrian Journal of Southeast Asian Studies*, 6(1): 140–159. Available at: [http://www.seas.at/aseas/6\\_1/ASEAS\\_6\\_1\\_A8.pdf](http://www.seas.at/aseas/6_1/ASEAS_6_1_A8.pdf) [7 Dec. 2016].

Salvana, E.M. 2012. “HIV in the Philippines: A prime target for elimination through test-and-treat”, in *Acta Medica Philippina* 2012; 46(1): 54–56. Available at: [https://www.researchgate.net/publication/283139123\\_HIV\\_in\\_the\\_Philippines\\_A\\_prime\\_target\\_for\\_elimination\\_through\\_test-and-treat](https://www.researchgate.net/publication/283139123_HIV_in_the_Philippines_A_prime_target_for_elimination_through_test-and-treat) [7 Dec. 2016].

Sandhu, A. 2006. “Why unions fail in organising India’s BPO-ITES industry”, in *Economic and Political Weekly*, Vol. XLI No. 41 (14 October). Available at: <http://www.epw.in/journal/2006/41/commentary/why-unions-fail-organising-indias-bpo-ites-industry.html> [7 Dec. 2016].

Schnabel, C. 2015. “PH climbs to 10th spot in cloud readiness ranking”, in *Rappler* (Manila, 9 February). Available at: <http://www.rappler.com/business/industries/215-tech-biz/83186-ph-climbs-cloud-readiness-index> [7 Dec. 2016].

Srivastava, M. 2010. “Philippine call centers overtake India” (Bloomberg, 2 December). Available at <http://www.bloomberg.com/news/articles/2010-12-02/philippine-call-centers-overtake-india> [accessed 7 Dec. 2016].

Taylor, P.; Noronha, E.; D’Cruz, P. 2008. “Employees voice and collective formation in the Indian ITES-BPO industry, in *Economic and Political Weekly*, Vol. 43, No. 22: 37–46.

The Associated Chambers of Commerce & Industry (ASSOCHAM). 2014. “India’s losing 70 per cent incremental voice & call centre business to Philippines: Study”. Available at: <http://assochem.org/newsdetail.php?id=4455> [8 Dec. 2016].

Tholons. 2014a. *2015 top 100 outsourcing destinations* (New York, December). Available at: [http://www.tholons.com/nl\\_pdf/Tholons\\_Whitepaper\\_December\\_2014.pdf](http://www.tholons.com/nl_pdf/Tholons_Whitepaper_December_2014.pdf) [7 Dec. 2016].

Torres, E. 2014. “Philippines: A Magna Carta for call centre workers”. (*Equal Times*, 28 February) . Available at: [http://www.equaltimes.org/philippines-a-magna-carta-for-call#.V3OhT\\_mLTIV](http://www.equaltimes.org/philippines-a-magna-carta-for-call#.V3OhT_mLTIV) [accessed 7 Dec. 2016].

Tschang, T. 2011. *The Philippines’ IT-enabled services industry* (Singapore, Lee Kong Chian School of Business, Singapore Management University). Available at: <http://siteresources.worldbank.org/INTPHILIPPINES/Resources/Tschang-word.pdf> [7 Dec. 2016].

Vincenton. 2013. “Two ways to destroy RP’s BPO industry: Forced unionization and government intervention”. Blog article (Wordpress, 6 August). Available at: <https://vincenton.wordpress.com/2013/08/06/two-ways-to-destroy-rps-bpo-industry-forced-unionization-and-government-intervention/> [7 Dec. 2016].

World Bank. 2016. *World development report 2016: Digital dividends*. (Washington DC, World Bank Group).

—. 2016. *World development indicators*. Available at: <http://data.worldbank.org/products/wdi> [7 Dec. 2016].

# Annex

**Table 3. Economic indicators for the BPO sector in the Philippines, 2004–13**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Sales revenue (\$ million)</b>	1324	1996	2906	4368	6325	8258	10058	12074	13450	15305
<i>sales revenue growth (%)</i>	-	67.9	47.7	40.9	38.4	48.2	25.0	29.6	11.3	10.6
<b>Export revenue (\$ million)</b>	888	1388	2288	3490	5288	7717	9470	11160	12503	14175
<i>export revenue growth (%)</i>	-	56.3	64.9	52.5	51.5	45.9	22.7	17.8	12.0	13.4
<b>Export-to-revenue ratio (%)</b>	67.1	69.5	78.7	79.9	83.6	93.4	94.2	92.4	93.0	92.6
<b>Total equity (\$ million)</b>	-	492	622	934	1957	2587	4395	5746	7327	8367
<i>equity growth (%)</i>	-	-	26.5	50.1	109.5	32.2	69.9	30.7	27.5	14.2
<b>Foreign direct investment (\$ million)</b>	-	329	376	821	1825	2376	4288	5355	6959	7815
<i>FDI growth (%)</i>	-	-	14.3	118.5	122.2	30.1	80.5	24.9	30.0	12.3
<b>Foreign-to-total-equity ratio (%)</b>	-	66.9	60.4	87.9	93.3	91.8	97.6	93.2	95.0	93.4
US investment (% of total FDI)	-	67.3	71.5	54.2	54.0	57.2	71.8	38.5	37.3	31.4
EU investment (% of total FDI)	-	22.1	5.7	23.5	18.6	31.8	7.3	46.2	41.2	48.7
<b>Employment (headcount)</b>	94,488	138,002	248,045	271,556	355,135	444,811	536,128	679,464	769,932	851,782
<i>employment growth (%)</i>	-	46.1	79.7	9.5	30.8	25.3	20.5	26.7	13.3	10.6
<b>Annual compensation per employee (\$)</b>	4989	5572	5105	7841	7778	7686	8398	8464	8849	9297
<i>annual compensation growth (%)</i>	-	11.7	-8.4	53.6	-0.8	-1.2	9.3	0.8	4.5	5.1

Source: Bangko Sentral Ng Pilipinas

**Table 4. Economic indicators for the contact centre subsector, 2004–13**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Sales revenue (\$ million)</b>	587	986	1455	2051	2839	4207	5260	6817	7587	8394
<i>sales revenue growth (%)</i>	-	50.8	45.6	50.3	44.8	30.6	21.8	20.1	11.4	13.8
<i>share to total BPO sales revenue (%)</i>	44.4	49.4	50.1	46.9	44.9	50.9	52.3	56.5	56.4	54.8
<b>Export revenue (\$ million)</b>	561	949	1330	1732	2489	3938	5126	6166	7062	7578
<i>export revenue growth (%)</i>	-	69.2	40.1	30.2	43.7	58.2	30.2	20.3	14.5	7.3
<i>share to total BPO sales revenue (%)</i>	63.2	68.4	58.1	49.6	47.1	51.0	54.1	55.3	56.5	53.5
<b>Export-to-revenue ratio (%)</b>	95.6	96.3	91.4	84.5	87.7	93.6	97.4	90.4	93.1	90.3
<b>Total equity (\$ million)</b>	-	243	281	596	1356	1387	2428	3063	3372	3864
<i>equity growth (%)</i>	-	-	15.9	112.0	127.3	2.3	75.0	26.2	10.1	14.6
<i>share to total equity in BPO (%)</i>	-	49.4	45.2	63.8	69.3	53.6	55.2	53.3	46.0	46.2
<b>Foreign direct investment (\$ million)</b>	-	213	259	585	1309	1330	2421	3007	3338	3759
<i>FDI growth (%)</i>	-	-	21.7	126.1	123.7	1.6	82.0	24.2	11.0	12.6
<i>share to total FDI in BPO (%)</i>	-	64.7	68.8	71.2	71.7	56.0	56.4	56.1	48.0	48.1
<b>Foreign-to-total-equity ratio (%)</b>	-	87.6	92.0	98.1	96.5	95.9	99.7	98.2	99.0	97.3
US investment (% of total FDI)	-	65.3	99.1	69.7	74.3	84.6	82.4	46.1	47.8	47.3
EU investment (% of total FDI)	-	33.9	0.4	30.4	25.5	13.0	12.4	50.2	39.1	40.4
<b>Employment (headcount)</b>	65,006	96,246	153,683	169,748	212,372	255,765	329,597	433,183	487,757	530,882
<i>employment growth (%)</i>	-	48.1	59.7	10.5	25.1	20.4	28.9	31.4	12.6	8.8
<i>share to total employment in BPO (%)</i>	68.8	69.7	62.0	62.5	59.8	57.5	61.5	63.8	63.4	62.3
<b>Annual compensation per employee (\$)</b>	5099	5772	4985	6420	7912	7640	8510	8240	8301	8569
<i>annual compensation growth (%)</i>	-	13.2	-13.6	28.8	23.2	-3.4	11.4	-3.2	0.7	3.2

Source: Bangko Sentral Ng Pilipinas

# Business process outsourcing in the Philippines: Challenges for decent work

Advances in information and communication technology (ICT) have facilitated growth in the business process outsourcing (BPO) sector, and the Philippines ranks among the world's major BPO destinations. This sector's economic influence in the country has tripled in the last ten years. Low labour costs, a highly skilled workforce and competitive ICT infrastructure have provided the main drivers for this growth. While contact centres represent the most important sub-sector in terms of revenue and employment, higher value added sub-sectors are also growing. Overall, BPO is expected to expand rapidly in the coming years, further strengthening the country's participation in global supply chains (GSCs). At the same time, this sector will face numerous challenges related to decent work.

A qualitative survey of the industry reveals four key findings: i) a real danger of skills shortages threatens as employers struggle to find correctly trained workers and, once they are hired, to retain them for longer periods; ii) employees report high-stress work environments, with concomitant detrimental impacts on health, while an increasing incidence of HIV/AIDS is evident among BPO workers; iii) more than 50 per cent of workers are women, but they tend to be concentrated in low-paid, low-skilled work; and iv) trade union activities are almost non-existent in the BPO sector. This study sheds light on efforts to address these challenges, and draws lessons for the future. In general, the paper shows that continued efforts to provide stronger voices and representation for workers could do much to address the challenges in providing decent work.

ILO Regional Office for Asia and the Pacific

United Nations Building, 11<sup>th</sup> Floor  
Rajdamnern Nok Avenue,  
Bangkok 10200, Thailand  
Tel.: +66 2288 1234, Fax.: +66 2288 3062  
Email: BANGKOK@ilo.org

[www.ilo.org/asia](http://www.ilo.org/asia)

**DECENT WORK**

A better world starts here.

ISSN: 2227-4391 (print)  
2227-4405 (web pdf)