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**Offshoring and employment in the
developing world: Business process
outsourcing in the Philippines**

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,² in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

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Foreword

A key characteristic of globalization has been the steady expansion of multinational corporations and their related trade and investment activities. Trade liberalization has generated a dramatic alteration in the structure of production, with increased trade not only in final goods, but also in intermediate goods. Technological changes have increased the “divisibility” of the production process into ever more discrete stages and even in “tasks”. The result has been a profound change in the way goods are produced and in the international division of labour. Where fragmentation of production is technically possible, multinational corporations have tended to retain core activities in which they were able to compete and adopt a variety of outsourcing or offshoring arrangements.

Even though offshoring has started in manufacturing, there is a rising trend towards service offshoring. New communication technologies (Internet) and improved communication structures in developing countries facilitated this trend. This study analyzes the case of the Philippines, which is prominent for the outsourcing of business process services as it is the second largest world-wide. This study will analyze the effects the BPO (Business Process Outsourcing) sector has had on the Philippines and on its labour market, as well as employment strategies by BPO companies. Was the impact significant for the country’s labour market in quantitative and qualitative terms? Does this specialization on the BPO sector contribute to the positive development of the Philippines’ labour market or does the emergence of the BPO sector have a negative impact on the labour market? Results of the study show that BPO service exports have increased strongly and will continue to do so during the forthcoming years. BPO services have created a significant amount of new jobs and may reach close to one million jobs in 2010. Its share in the total economy, however, is rather low, but rising and is expected to reach three per cent in 2010. Also, the quality of the jobs is rather good as the wages are high and the working conditions relatively satisfactory. Nevertheless, the tasks in BPO services are rather low-skilled, in general being carried out by overqualified workers. Career perspectives are limited, with the best opportunities being in the IT sector.

It is, therefore, crucial to identify the BPO sectors that help to develop the labour force in the long-run. Public policies should focus on BPO sectors, which are of great value for the economy, and provide them with the necessary infrastructure. Finally, small Philippine-owned companies should be given the chance to participate more actively in the emergent BPO sector. This could be achieved by offering them the same or similar favourable incentives that are currently being offered to foreign-owned companies.

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1. Introduction

1.1. Business process outsourcing: The case of the Philippines

Offshoring of services has enjoyed great popularity in the last few years with the emergence of advanced information and communications technologies allowing the transmission of tasks and information. Developing countries have become large producers of services destined for developed countries. Particularly in this context, Asia has been successful in positioning itself in the centre of the offshoring boom providing a wide range of services. For this reason, services play an increasingly important role in international trade and thus offshoring (Dossani 2005: 241-242). In order to demonstrate the impact of offshoring on an economy and on the labour market, the Philippines will be used as a case study. The Philippines have established themselves as an important service offshoring destination and in a broad range of services and are competing with India and China. However, the Philippines have become especially well-known for the numerous call centres, which have started to set up their operations. However, also other offshored services such as software development have gained ground and are characterized by strong export rates⁵.

The services offshored to the Philippines are mostly bundled in the Business Process Outsourcing (BPO) sector in the Philippines. The BPO sector embraces services, which are provided either by Philippine or foreign-owned companies, which tend to export their services to other countries. Services belonging to the BPO sector can be characterized as offshored services due to their nature. They are generally services, which were previously located in-house but have been offshored due to several considerations. This study will analyze the effects the BPO sector has had on the Philippines and its labour market and what employment strategies BPO companies have pursued. Was the impact significant for the country's labour market in quantitative and qualitative terms (in particular skills development)? Has this specialization on the BPO sector contributed to the positive development of Philippines' labour market or is the country stuck in a bad specialization?

A short introduction will be given followed by an overview of the BPO landscape in order to better understand the Philippine economy. Additionally, it is essential to understand what government initiatives have been undertaken to encourage the rapid development of the BPO sector. This overview of the BPO development is complemented with an empirical research part, which discusses topics related to the labour market. First, what enticed companies to establish their operations in the Philippines and what their future expansion plans are. Then, what kinds of jobs have been created through the BPO sector and whether BPO companies taking any effort to change the skill level of their employees. In this context the possible career paths will be explained. Finally it will be discussed, whether the BPO sector develops linkages with other sectors of the economy and what kind of difficulties BPO companies encounter in the Philippines.

⁵ This study has been conducted prior to the onset of the global economic crisis and the consequences of the crisis has not been taken into consideration. Nevertheless, recent analysis shows a limited impact of the crisis on BPO services.

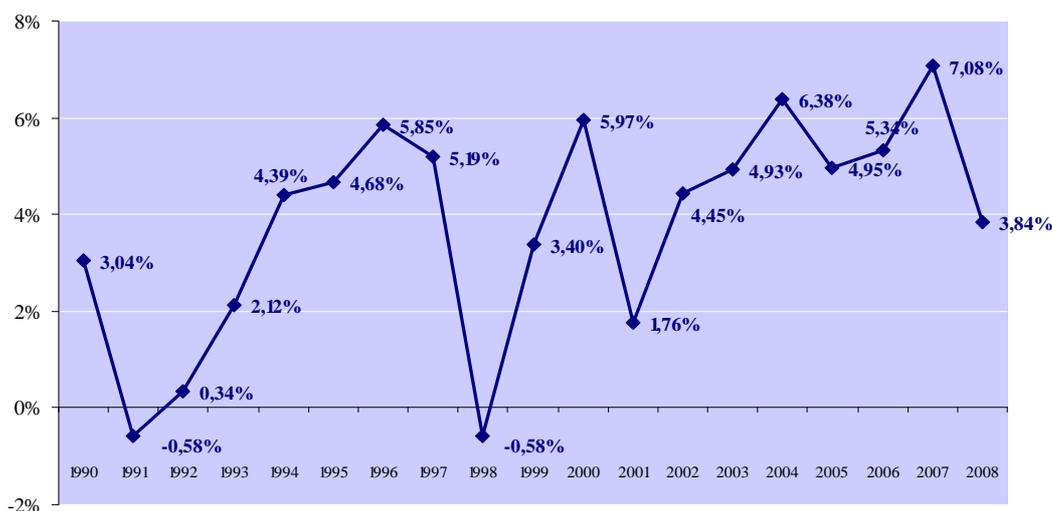
1.2. Relevant facts: The Philippine economy

Before analysing the Business Process Outsourcing (BPO) sector of the Philippines a short introduction into the Philippine economy explains the change in real GDP in the past (see figure below).

The Philippines have profited from a stable average real GDP growth rate of 2.5 per cent of between 1980 and 1997 (ADB 2005: 1). This economic growth occurred in spite of the political and economic crisis under the Marcos regime between 1983 and 1986, which partly resulted in a refusal of new credit granting or renewal of existing loans by international lenders (Sicat 1998: 294). After an upswing in 1990, the economy stagnated in 1991 due to external and internal shocks and partly due to the gulf crisis (Lamberte and Yap 1991: 2). The period after 1991 was followed by a period of prosperity. However, this cyclical upturn was slowed by the Asian financial crisis in 1997, which was caused by foreign exchange speculators withdrawing their devaluing Philippine peso investments. In order to bolster the peso's depreciation, the government raised interest rates considerably, which in turn led to a decline in investments. In 1998, the financial crisis had a negative impact on various sectors including the industrial sector as a result of declining domestic demand and a "negative investor sentiment". Nevertheless, export growth in the electronics sector was unaffected by the economic slowdown (Sicat 1998: 292-293).

Looking at the GDP growth rates after 1998, however, one can observe positive growth rates in subsequent years over the previous years, with only 2001 and 2008 showing a decrease in real GDP over the previous year. The decline in 2001 was caused by the general economic downturn and the terrorist attack in September 2001 as well as the political instability during President Estrada, who was impeached because of corruption and economic plunder (Bacani and Espinosa-Robles 2001: 1). The downward movement in 2008 can be mostly attributed to the global financial crisis.

Figure 1: Percentage change in real GDP over previous year

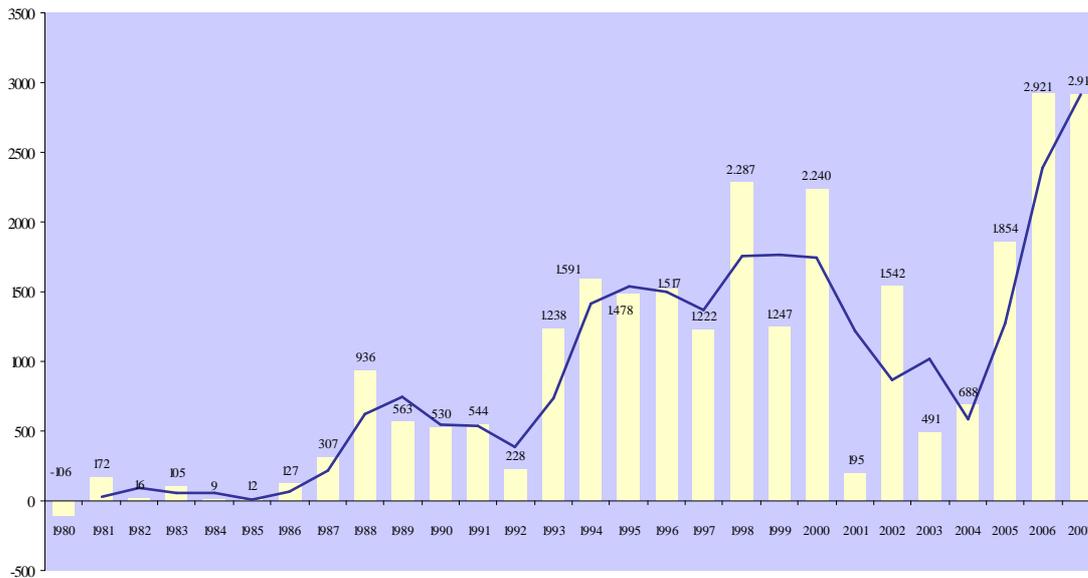


Source: Own calculations based on Economist Intelligence Unit (EIU) Country Data database (2008: www).

Historical Foreign Direct Investment Trends

This section presents a brief overview of past foreign direct investment (FDI) trends, since a part of offshoring is also related to FDI. Despite the pursuit of an import-substitution policy during the 1950s, the Philippines attracted substantial foreign direct investment in particular coming from American companies, which aimed at supplying the local market with consumer goods and thus substituting imports. This caused the emergence of foreign-owned subsidiaries in such industries as textiles, pharmaceuticals, household appliances, car assembly, tyres and food (OECD 1999: 161).

Figure 2: Inward Direct Investment in million US Dollars



Source: Own calculations based on Economist Intelligence Unit (EIU) Country Data database (2008: www).

The 1960s and 1970s, however, saw a decrease in foreign direct investment from its prime investor, namely the USA, due to market saturation, nationalistic policies and termination of preferential treatment of US companies. This negative investor sentiment continued until the mid-1980s but since then the Philippines have attracted stable inflows of foreign direct investment (OECD 1999: 161). Strong FDI inflows started in the 1990s and were not affected by the Asian crisis in 1997 (see figure above). The surge in FDI inflows was mainly due to the introduction of special economic zones, which gained substantial importance from 1994 onwards and grant special benefits relating to the export of goods (OECD 1999: 162). These export processing zones have also played a major role in developing the most important export sector of the Philippines, namely the electronics sector. American companies followed by Japanese and European firms are the main investors in the Philippine economy (OECD 1999: 165).

Looking at the distribution of FDI between industries (see figure below) one can observe that the manufacturing industry remains the most important investment target, followed by mining and banks and other financial institutions. The manufacturing sector absorbed more than 50 per cent of foreign direct investment between 1983 and 1992 but encountered a slight decrease for the period of 1993 to 2003 with a share of 40 per cent in total foreign direct investment. Within the manufacturing sector, the chemicals, petroleum and coal and food sector receive a substantial part of foreign direct investment. Moreover, the transport equipment industry has also seen a considerable rise in foreign direct investment. Noteworthy is also the upward trend in the business service industry and the

public utility industry. The sharp increase in the communication sector can be traced back to the abolition of the telecommunications monopoly. To sum up, it can be said that there has been a trend towards rising foreign direct equity investment in the Philippines.

Table 1: Registered foreign direct investment by industry in million US dollars

	1983-1992	1993-2003	1983-2003
Banks and other Financial Institutions	18	273	152
Banks	10	128	71
Financial Institutions	8	146	80
Manufacturing	116	438	284
Chemicals & Chemical products	24	41	33
Food	20	160	94
Basic metal products	13	11	12
Textiles	6	4	5
Transport Equipment	12	21	17
Petroleum and Coal	12	91	63
Metal products, except Machinery	1	4	2
Mining	42	76	60
Petroleum and Gas	36	72	54
Commerce	11	70	42
Wholesale	7	38	23
Real Estate	5	30	18
Services	16	23	19
Business	3	8	6
Public Utility	2	215	113
Communication	1	138	76
Agriculture, Fishery and Forestry	3	0,4	2
Agriculture	4	0	2
Construction	1	40	23
Total	208	1143	698

Source: Own calculations based on Bangko Sentral ng Pilipinas (2008: www).

2. Business process outsourcing landscape

The Philippines have become a popular Business Process Outsourcing (BPO) destination and are competing especially with India (Magtibay et al. 2008: 41). In the last few years multinational corporations and other companies have recognized the importance of improving their performance and attaining distinctive skills and resources not available or too costly in their home country. BPO is a relatively new phenomenon in the Philippines and has started to emerge especially at the beginning of the millennium. Furthermore, the Philippines offer a wide range of BPO services in the field of call centre, back office, data transcription, animation software development, engineering development and digital content (see table below).

Table 2: Types of BPO services

Types of BPO Services	
Contact (call) centre	Inbound and outbound voice operation services for the purposes of sales, customer service, technical support and others.
Back office	Services related to finance and accounting (e.g. bookkeeping, accounts maintenance, claims processing, asset management), human resource administration (e.g. payroll processing, benefits administration, human resources data management).
Data transcription	Provision of transcription services for interpreting oral dictation of health professionals, dictations during legal proceedings and other data encoding services.
Animation	Process of giving the illusion of movement to cinematographic drawings, models or inanimate objects through 2D, 3D, etc.
Software development	Analysis and design, prototyping, programming and testing, customisation, reengineering and conversion, installation and maintenance, education and training of systems software, middleware and application software.
Engineering development	Includes engineering design for civil works and building and building components, ship building and electronics.
Digital content	Creation of products that are available in digital form such as music, information that are available for download or distribution on electronic media.

Source: Business Processing Association Philippines (BPA/P) (2008: www).

This is also reflected in the workforce employed by the BPO sector. Thus, the BPO sector witnessed a strong growth rate in workforce of 63 per cent in 2005 as the number of employees grew from 99,300 in 2004 to 162,000 in 2005. However, the growth rate is expected to decrease slightly to 38 per cent in 2010. Moreover, the biggest BPO sector in terms of employment and service exports⁶ is the call centre sector, which employed 64,000 people in 2004 and grew to 112,000 employees in 2005. Thus, more than 60 per cent of the total workforce employed in the BPO sector belongs to this sector.

According to the forecast of the Business Processing Association Philippines (BPA/P), the call centre activities will decrease slightly relative to other BPO activities. Thus, the call centre sector is expected to grow to approximately 331,000 people by 2010 which will constitute 36 per cent of the total number employed by the BPO sector (921,000). The call centre sector is followed by the back office and the software development sector in terms of number of people employed and service exports. Furthermore, the back office and medical transcription sector is expected to gain in importance and thus show positive growth rates for employment and service exports until 2010. However, these sectors employ less people and generate fewer service exports than the call centre sector. In fact, the back office sector employed 15,000 people compared to 10,000 people in the software development sector in 2004 and grew to 22,500 and 12,000 in 2005 respectively.

The service exports generated by the BPO sector amounted to approximately 1.5 billion US dollars in 2004 and are expected to grow to 12.2 billion US dollars by 2010. Like the workforce, the service exports are also likely to grow at a slightly lower pace from 2007 until 2010 as compared to the strong growth rates between 2004 and 2006. The call centre sector achieved the highest exports with approximately 1 billion US dollars in 2004 and is forecasted to exceed 5.2 billion US dollars in 2010.

⁶ The revenues generated by the BPO sector can be regarded as service exports. Information provided by Ms. Gilian Virata, Director for Information and Research, Business Processing Association Philippines.

Table 3: Employees in the BPO sector 2004-2010

BPO sectors	2004	2005	2006*	2007*	2008*	2009*	2010*
Contact centre	64,000	112,000	168,000	218,000	262,000	301,000	331,000
Back office	15,000	22,500	36,000	61,000	110,000	187,000	299,000
Medical transcription	3,000	5,000	9,000	17,000	34,000	68,000	122,000
Legal transcription	300	450	675	1,013	1,519	2,126	2,764
Other data transcription	2,000	3,000	4,000	6,000	8,000	10,000	13,000
Animation	2,800	4,000	6,000	10,000	17,000	27,000	41,000
Software development	10,000	12,000	16,000	22,000	33,000	50,000	75,000
Engineering design	2,000	2,800	4,000	6,000	10,000	15,000	21,000
Digital content	200	500	1,000	2,000	4,000	8,000	16,000
Workforce	99,300	162,250	244,675	343,013	479,519	668,126	920,764
New jobs generated		62,950	82,425	98,338	136,506	188,608	252,638
Growth rate of new jobs generated		63.4%	50.8%	40.2%	39.8%	39.3%	37.8%

Source: Business Processing Association Philippines (BPA/P) (2008: www). * forecast.

Table 4: Service exports generated by the BPO sector 2004-2010

BPO sectors	2004	2005	2006*	2007*	2008*	2009*	2010*
Contact centre	1,024	1,792	2,688	3,488	4,192	4,816	5,296
Back office	120	180	288	488	880	1,496	2,392
Medical transcription	42	70	126	238	476	952	1,708
Legal transcription	4	6	9	13	20	28	36
Other data transcription	26	39	52	78	104	130	169
Animation	52	74	111	185	315	500	759
Software development	170	204	272	374	561	850	1,275
Engineering design	34	48	68	102	170	255	357
Digital content	3	7	13	26	52	104	208
Service exports in US \$ M	1,474	2,419	3,627	4,992	6,769	9,130	12,199
Growth rate of service exports		64.1%	49.9%	37.6%	35.6%	34.9%	33.6%

Source: Business Processing Association Philippines (BPA/P) (2008: www). * forecast.

2.1. Magnitude of business process outsourcing

In order to better estimate the size of the BPO industry in the Philippines and also to measure the magnitude of offshoring on the labour market, the share of employment in the BPO sector in total employment of the Philippines was calculated. This measure confirms that the BPO sector is still a quite young phenomenon as it accounted for 0.31 per cent in 2004. However, its share in total employment more than doubled within two years amounting to 0.74 per cent in 2006. Due to the strong employment growth rates in the BPO sector, the magnitude of BPO on the labour market will very probably rise.

As regards the contribution of BPO to the Philippine gross domestic product (GDP), the National Statistical Coordination Board (2008: www) stated that BPO has increased GDP by 0.2 per cent between 2004 and 2007 and has increased service exports by 6.2 per cent for the same period.

Table 5: Share of BPO sector in total employment 2004-2006

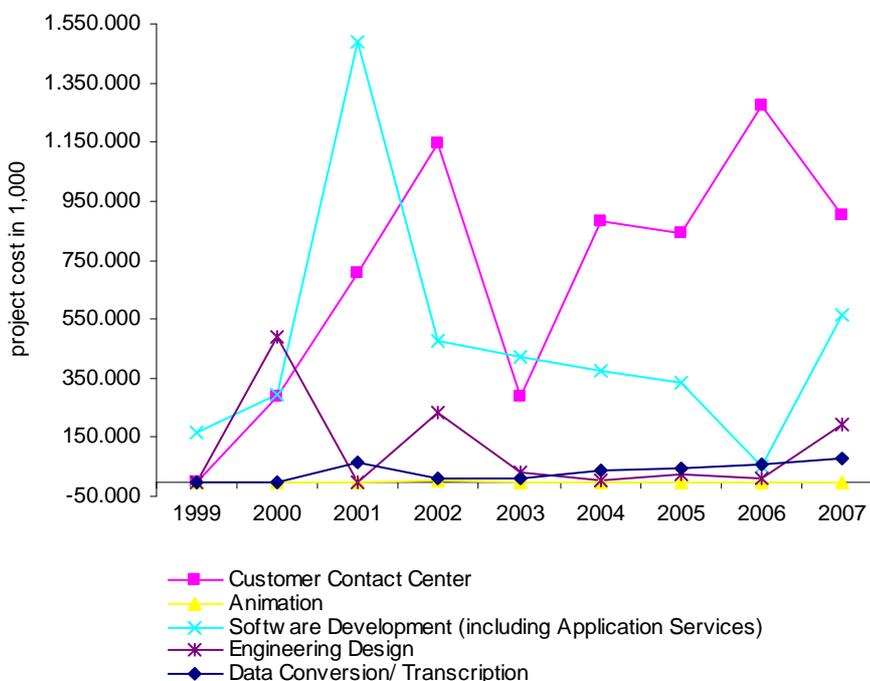
	2004	2005	2006
Employment BPO sector	99,300	162,250	244,675
Total Employment Philippines	31,613,250	32,313,000	32,962,000
Share of BPO sector in Total Employment	0.31%	0.50%	0.74%

Source: Own calculations based on Business Processing Association Philippines (BPAP) and Bureau of Labour & Employment Statistics (BLES)

2.2. Investments in business process outsourcing sectors

In order to determine the BPO sectors, which received most investment, statistics on the cost of BPO projects compiled by the Board of Investments (BOI) can be consulted. It can be seen from the figure below that investment in the BPO industry took off at the end of the 1990s and considerable investment was undertaken from 2000 to 2002. This investment probably constitutes the initial investment necessary to conduct business. Furthermore, it can be observed that investment in the BPO sector started to rise again in 2004 especially after a substantial decline in 2003. It can be noted that overall investment in the BPO sector witnessed a peak in 2001 with 2.3 billion Philippine pesos of which 31 per cent can be contributed to customer contact centres (i.e. call centres) and 66 per cent to software development. However, as regards the other BPO sectors, only engineering design received substantial investment at the beginning of the millennium amounting to 500 million Philippine pesos in 2000. Between 2003 and 2006, however, investment in engineering design slowed down followed by a slight increase in 2007.

Figure 3: Statistics on BOI registered BPO projects in thousand Philippine pesos



Source: Own calculations based on Board of Investments (BOI) (Unpublished Data: 2008).

3. Empirical research

In order to better understand the impact of the BPO industry on the Philippine economy and in particular on the workforce employed by BPO companies, telephone interviews with chief executive officers (CEOs), senior human resource managers and chief operating officers (COOs) were conducted. Since the BPO industry is very large in size, the focus was on call centres and IT⁷ companies. The reason behind this lies in the fact that these two types of BPO sectors serve different parts of the value chain. While call centres activities are located towards the lower end of the value chain, IT companies can be found at the higher end of the value chain (Dossani 2005: 249-251). Thus, these two BPO sectors were chosen in order to analyse possible differences and discrepancies between those two sectors. The results are presented in the following and give detailed information about employment policies practiced in the IT and call centre sector. Furthermore, it will be analysed to what extent the Philippines benefited from the BPO development.

3.1. Description of sample

In total, eleven interviews with BPO companies were conducted (see table below). From these eleven interviews, five interviews can be attributed to the call centre sector, four to the IT sector, one to the data transcription sector and one company offers call centre services as well as IT services. Currently there are about 122 companies operating in the IT industry (Philippine Software Industry Association 2008: www). Furthermore, the number of call centres amounted to 146 at the end of 2006 (Business Processing Association Philippines 2008: mimeo). Thus, the companies interviewed reflect around 4 per cent of all call centres and IT companies currently located in the Philippines.

The companies interviewed were mostly Philippine-owned companies or companies with a large Philippine stake in it. This does not, however, fully reflect the ownership structure of the call centres currently operating in the Philippines since many are American-owned or have large American stakes in it. However, also English, Singaporean, Australian and Indian ownerships can be found among the call centres. As regards the IT industry, many companies are indeed Philippine-owned, nevertheless besides American companies also Japanese, Indian and Singaporean exist (PEZA 2008: www).

It is noteworthy that most of the companies interviewed were established between 2000 and 2005. Looking at this sample, call centre companies usually employ more people than IT companies. Services offered by call centres usually consist of inbound and outbound services, while services in the IT industry are quite varied ranging from software development to application services.

The clients served by BPO companies vary slightly. Thus, industries served by the call centres include the following: airline, telecommunications, IT, broadcast media, food, internet and public sector. Moreover, revenues in the call centre industry are generated to a large extent through selling to US-based companies. IT companies usually offer their services to the telecommunications, banking, IT, retail, media, consumer goods, airlines and service industry. Additionally, the Philippine-owned IT companies usually export less than call centres with export shares of their respective revenues ranging from 5 per cent to 90 per cent.

⁷ Although the previous sections only discussed the software development sector, also other IT services are offered to offshoring companies. Thus, in the following the term IT shall refer to software development services as well as other IT services offered by BPO companies.

Table 6: Overview of companies interviewed

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
<i>Year of establishment</i>	2003	2005	2004	2004	2003
<i>Ownership structure</i>	100 % Philippine-owned	50 % Philippine-owned 50 % American-owned	100 % Philippine-owned	100 % Philippine-owned	100 % Philippine-owned
<i>Employment</i>	6,000	470	130	1,564	680
<i>Services offered</i>	<ul style="list-style-type: none"> ▪ Inbound services ▪ Outbound services ▪ Back office work 	<ul style="list-style-type: none"> ▪ Outbound services ▪ Inbound services 	<ul style="list-style-type: none"> ▪ Outbound services (research surveys) 	<ul style="list-style-type: none"> ▪ Inbound services ▪ Outbound services ▪ Loyalty programs for companies 	<ul style="list-style-type: none"> ▪ Order processing ▪ Product inquiry ▪ Customer service ▪ Technical support ▪ Inbound/outbound telemarketing ▪ Warranty claims support
<i>Major clients/industries</i>	Airlines, telecommunications	Internet advertising and online marketing	IT companies	Broadcast media, telecommunications, search engines	Government agencies, food order
<i>Export share in % of revenues</i>	95 % from US-based clients	100 % from US-based clients	95 % from US-based clients	66 % mostly from US-based clients	0 % (100 % local)

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
<i>Year of establishment</i>	1993	2003	2001	2003	1937	2000
<i>Ownership structure</i>	100 % Philippine-owned	100 % Philippine-owned	60 % Philippine-owned 40 % Indian-owned	100 % Philippine-owned	100 % Philippine-owned	100 % American-owned
<i>Employment</i>	220	40	90	15	7,000	400
<i>Services offered</i>	<ul style="list-style-type: none"> ▪ Applications development ▪ Web-based applications ▪ Onsite programming support 	<ul style="list-style-type: none"> ▪ Consulting and systems integration ▪ Enterprise applications ▪ Managed services and IT outsourcing ▪ Training 	<ul style="list-style-type: none"> ▪ Application maintenance & support ▪ Product development ▪ Software quality group 	<ul style="list-style-type: none"> ▪ Desktop support ▪ Server support ▪ Software applications ▪ IT infrastructure build-up 	<ul style="list-style-type: none"> ▪ Various IT services ▪ HR and finance services ▪ Call centre services 	<ul style="list-style-type: none"> ▪ Utilization review ▪ Medical transcription ▪ Legal transcription ▪ Medical record abstraction ▪ Data entry
<i>Major clients/industries</i>	Telecommunications, banking, food and IT	Retail, wholesale, business services (accounting, legal services, engineering)	Software industry	Media, manufacturing, business services, BPO companies	Pharmaceuticals, banks, consumer goods, airlines	Doctors, lawyers, hospitals, insurance companies
<i>Export share in % of revenues</i>	5 % from US-based and Dutch companies	6 % from abroad	90 % from US, Netherlands, UK, Singapore	20 % from abroad	80 % from abroad	100 % US-based clients

Source: Own compilation, interviews with companies (June 2008)

3.2. Business incentives

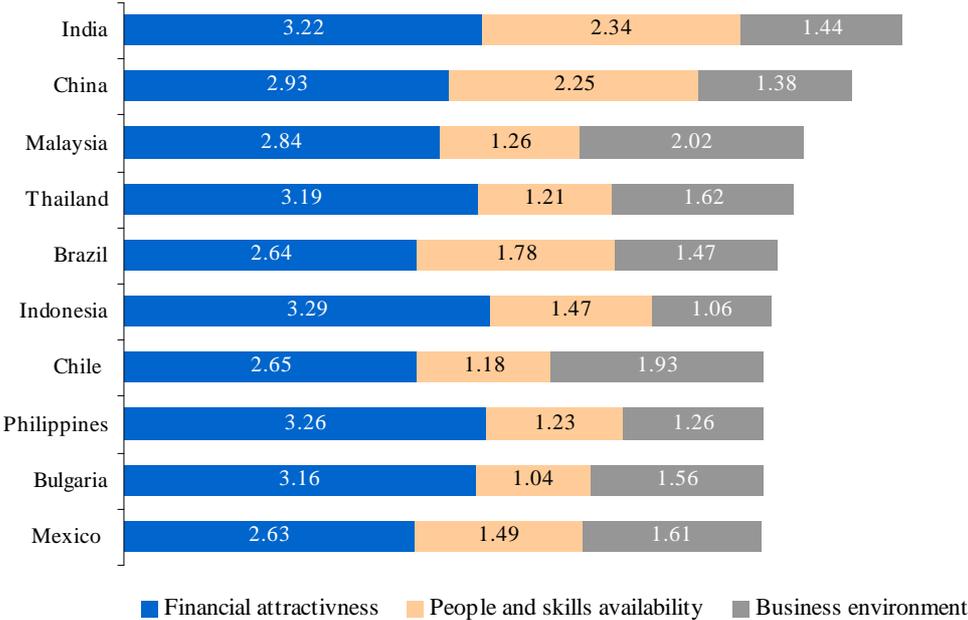
Board of Investments (BOI) and PEZA (Philippine Economic Zone Authority) incentives are very favoured among the BPO companies interviewed. Companies located either in an ecozone of the PEZA or registered with the Board of Investments (BOI) mostly appreciate the tax holidays granted by these two government agencies (see Appendix B). Out of the eleven companies interviewed, four companies take advantage of the PEZA, two companies of the BOI and one company has the possibility to avail of both agencies' incentives (see Appendix table A3 and Appendix B). Companies availing of these incentives generally had high export shares (between 90 per cent and 100 per cent of total revenues generated) and had a higher number of employees than companies not taking advantage of these incentives. Companies who did not avail of these incentives were Philippine-owned companies mainly catering for the local market. Obstacles for smaller companies manifest themselves in relatively high rents of buildings in ecozones and the BOI requirement for Filipino companies to generate 50 per cent of their revenues by exports.

The wholly or partly foreign-owned companies emphasised that operating cost are far below the cost in their home countries or other offshoring destinations. The availability of well-trained labour at low cost enticed companies to operate specifically in the Philippines. In fact, the Philippines is ranked place eight in the A.T. Kearney's global services location index⁸ after India and China (see figure below). However, the Philippines is ranked place one in terms of cost attractiveness along with Indonesia and Vietnam since the wage and telecom costs are among the lowest among all 50 countries analysed (A.T. Kearney 2007: 5-6, 15).

Another factor contributing to the Philippines as an attractive offshoring location is the availability of high-skilled labour. The companies interviewed emphasised that the Philippines offer a large labour pool of college graduates with a very good command of English. Furthermore, especially the call centres stated that the Filipino accent is neutral as compared to the Indian workforce who possesses a stronger accent (see Appendix, table A3). The English language proficiency stems from the American occupation between 1898 and 1946 in which the American system of education was introduced and English became the medium of instruction and the official language besides Filipino. Moreover, since the Philippines were occupied nearly fifty years, a certain cultural affinity with the American culture has developed which facilitates doing business with the US (National Statistics Office 2006: 12-15).

⁸ The index is composed of three dimensions, namely financial attractiveness, people and skills availability and business environment. Financial attractiveness captures the cost side and includes compensation costs, infrastructure costs and tax and regulatory costs (A.T. Kearney 2007: 15).

Figure 4: Global services location index



Source: A.T. Kearney (2007: 2).

Finally, the cultural attributes constitute another asset, which Filipino workers possess. Filipino workers were considered by the companies interviewed as hardworking, responsible and customer-oriented employees and therefore especially suitable for the BPO industry, which is characterized by a lot of customer interaction.

3.3. Business expansion

Most companies in the sample had a relatively high compound annual growth rate (CAGR)⁹ since their year of establishment.¹⁰ It is noteworthy that particularly the call centres were able to grow at high CAGRs ranging from 25 per cent to 168 per cent (see Appendix table A4). The contact centre with the highest growth rate was call centre 2, which is partly American-owned. However, the CAGR for companies in the IT sector showed slightly lower growth rates ranging from 22 per cent to 49 per cent. IT company 3, which has a large Indian share in it, had the highest CAGR among the IT companies interviewed with 49 per cent. As regards the expansion in terms of workforce, the companies still forecast strong CAGRs between mid-2007 and 2013. However, these are substantially lower than the previous experienced growth rates. All of the companies interviewed were in the process of expanding business in terms of opening new branch offices or enlarging their existing office in order to serve more customers. Furthermore, ten out of eleven companies are expanding organically while call centre 1 will expand

⁹ The CAGR (Compound Annual Growth Rate) is computed as follows: $((A(t_n)/A(t_0))^{1/(t_n-t_0)}-1)$

¹⁰ Since the year of establishment varies for the different companies, the period of years used in the CAGR formula varies. The employment level, which was used for the starting value was calculated as follows: If the company was founded prior to 2003, the employment level of 2003 used. However, if the company was founded after 2003, the employment level of the year of establishment was taken. However, for all companies the employment status of mid-2007 was used as the ending value to calculate the past CAGR.

through joint ventures, since it has already reached a size of 6,000 employees and does not see any further possible increase in the number of product programs and thus workforce within the company. Therefore, call centre 1 has two joint venture partners in the Philippines, who are also active in the call centre industry. These two joint venture partners are foreign-owned call centre companies, which are globally present and have started to set up their operations also in the Philippines.

As regards the introduction of new services into their product range, five companies interviewed expressed the intention to offer also back office services (e.g. HR, IT, tax support, payroll and accounting services). Mainly call centres, however, were interested in complementing their product range with back office services (see Appendix table A4). Moreover, most call centres and IT companies plan to enrich their product portfolio along their core competencies.

3.4. Workforce in the BPO sector

This section explains what skills call centre and IT employees have to possess in order to become potential candidates. The hiring rates, the composition of the workforce and labour turnover rates in call centres and IT companies will also be discussed (see Appendix table A5).

The skills requirements vary slightly between call centres and IT companies. Most call centres demand from their candidates to have at least a two-year college education, besides possessing excellent oral and written English language skills in order to handle the job adequately. As regards the field of study, all call centres expressed no preference towards a specific field of study. In the call centre industry it is more important to have a customer-oriented mindset than coming from a specific field of study. Therefore, call centre agents come from all different fields of study.

The prerequisites for becoming a technical employee in an IT company were similar across the software companies interviewed. Software companies usually require a college degree in an IT-related or technical college course and good English and communication skills. IT companies usually test the technical aptitude of their applicants before employing them. Here, the English language proficiency skills are less important than in the call centre industry since the focus is on technical work.

Looking at the hiring rates of call centres, these lie between two and 30 applicants out of a hundred. It is noteworthy, that the larger call centres like call centre 1 and call centre 4 had the lowest hiring rate and smaller contact centre had higher hiring rates. Moreover, call centres which also serve the local market (call centre 4 and call centre 5) can actually increase their hiring rate since the English proficiency requirement is loosened. In contrast to the wide varying hiring rate of call centres, companies in the IT industry hire between four and twelve candidates out of a hundred applicants (see Appendix table A5).

As regards the composition of the workforce in a call centre, the majority of the employees are agents handling inbound and outbound calls (80 per cent to 90 per cent), a smaller part can be contributed to business support staff (8 per cent to 20 per cent). However, (senior) managers constitute the smallest part of a contact centre's workforce with around 0.5 per cent to 2 per cent. Moreover, employees in call centres are predominantly young with an average age between 23 and 28 years.

The picture, however, looks different for IT companies. Software companies in the sample have a slightly different labour force composition. Technical staff account for 62.5 per cent to 95 per cent and the business support staff has a similar share like call centres with 10 per cent to 20 per cent. The share of the managers in total workforce, however, varies considerably and ranges between 5 per cent and 26 per cent. This raises

the question why more managers are needed in the IT sector. It could be for instance the case that managers in the IT industry, or respectively in our sample are less productive.

All companies interviewed employ only Filipinos as personnel and managers. Only contact centre 2 (partly American-owned) stated that they also have three American managers. This implies that also Filipino workers have the chance to advance within the company and get promoted. Finally, the share of college graduates is relatively high in both, call centres and IT companies with the majority of companies employing between 80 per cent and 90 per cent.

As regards the labour turnover rates, call centres have generally a relatively high turnover rate between 19 per cent and 47 per cent with call centre 1 having the largest turnover rate and call centre 5 having the smallest. The labour turnover rates in IT companies are slightly lower ranging from 5 per cent to 20 per cent with the tendency of smaller IT companies having a substantial lower turnover labour rate. There are several reasons for the labour turnover: First, employees often accept better offers from other call centres or IT companies. However, employees moving to another company usually stay within their industry. The second reason is employees migrating to other countries. A job in the BPO service sector is, to a certain extent, an alternative option to migration, but often, the wage incentives to migrate are still higher. In fact, the Philippines have a migration issue since over one million workers migrated to other countries in 2008. These workers constituted 3.4 per cent of the total labour force in 2008. The major destinations for Filipino workers are: Saudi Arabia, United Arab Emirates, Hong Kong, Kuwait, Qatar, Taiwan, Singapore, Italy, United Kingdom and Korea (Philippine Overseas Employment Administration 2008 :www). Finally, the working conditions, i.e. especially night shifts and the monotonous work for call centre agents make the BPO sector attractive mostly as a temporary professional activity.

Other reasons for high turnover are the work organization and the fact that most workers are relatively young and turnover is always higher among this age group. A minor reason is that most workers are either overqualified or have another qualification and thus consider BPO services from the beginning as a temporary professional activity.

Table 7: Share of overseas workers in total labour force 2001-2006

	2001	2002	2003	2004	2005	2006	2007	2008
Total overseas deployed Filipino workers	867,599	891,908	867,969	933,588	988,129	1,062,657	1,077,623	1,263,013
Total labour force	33,361,000	33,675,000	35,078,000	35,619,000	35,496,000	35,806,000	35,918,000	37,343,000
Share of overseas workers in labour force	2.6%	2.6%	2.5%	2.6%	2.8%	3.0%	3.0%	3.4%

Source: Own calculations based on Philippine Overseas Employment Administration data (2008: www).

3.5. Employee training and development

The employee development differs substantially in the call centre industry and the IT industry (see Appendix table A6). Employee development in the call centre industry is mostly organised as follows: newly hired employees generally receive an initial training, which consists of English proficiency training (especially accent neutralization), basic customer service skills and often American culture and geography if the respective call centre serves the American market. This initial training lasts between five days and two weeks and should prepare the call centre agent for handling the customer service calls. Furthermore, call centres complement this initial training with product-specific training, which is tailored to the product program the call centre agent will be in charge of in the future. Moreover, call centres also offer continuous training, which mainly consists of training related to product updates. In addition to that, most call centres also have a leadership development program since they have the policy to promote from within the company. It is noteworthy that all companies have their own in-house training group, which is responsible for employee development. Only three larger call centres stated that they also take advantage of external training services.

In contrast to call centres, the initial training of IT companies usually consists mainly of technical skills such as programming or software development and lasts between ten weeks and six months. Furthermore, the continuous training is also often related to technical skills and sometimes also coupled with managerial skills.

The career path was very similar across the call centres interviewed. Some call centres, however, prefer flatter hierarchies than others. A newly hired employee with no experience usually starts as an agent. The average monthly wage for call centre agents is between 11,000 and 18,000 Philippine pesos per month. Moreover, agents working for a domestic product program usually receive a lower wage than agents serving foreign clients. The wage paid by call centres is around two to three times the statutory minimum wage (Foreknew 2007: 539). Furthermore, the average monthly wage in Metro Manila accounted to 10,911 Philippine pesos in 2002. Thus, call centre agents, mainly young people, earn considerable more than similar workers in other sectors (National Statistics Office 2006: 561), which also reflects the fact that they are often overqualified.

If the agent showed considerable responsibility, the next step would be to become a team leader responsible for managing eight to fifteen agents at a time. After this position there could be three or more hierarchy steps depending on the size of the call centre and the hierarchy structure. However, these positions are mainly related to the call centre operations. The highest level constitutes the top management, which receives a wage of up to 200,000 Philippine pesos per month.

The career path within the IT companies, on the other side, varies substantially from the call centre companies. Generally, software companies have three levels for their technical staff depending on their experience. If they have shown leadership skills and a certain responsibility, they can also advance to the management of the company. The average monthly wage for inexperienced technical staff is usually between 11,000 and 20,000 Philippine Pesos per month. Besides the monthly pay, many call centres and IT companies offer additional benefits such as performance-based incentives, vacation/sick leaves or health services. Only IT Company 3, however, has started to set up its own pension fund while the other companies had no pension fund in place.

As regards employee promotion, ten out of eleven companies stated that they were following the policy of recruiting internally for higher positions if possible.

3.6. Linkages

Linkages are on both, on intra-sectoral and inter-sectoral level, quite minimal. Inter-sectoral linkages constitute linkages with other sectors of the economy. Magtibay et al. (2008: 46) using the Input-output accounts¹¹ of the Philippines find out that the BPO sector in the Philippines has indeed very limited linkages. The total linkage index is 0.49, which is composed of the backward linkage (0.45) and the forward linkage (0.04). Thus, the backward linkage is slightly higher than the forward linkage. Therefore, the BPO sector ranks place 177 out of the 240 sectors analysed in terms of total linkages, which indicates that the BPO sector is neither a large buyer nor a provider of inputs to other sectors in the economy.

Nevertheless, the BPO sector still consumes more inputs than it provides to other sectors. Furthermore, the BPO sector especially requires inputs from three sectors namely banking, electricity and telecommunications. Moreover, it only provides inputs to the following sectors: tour and travel agencies, wholesale and retail trade and banking. A factor contributing to these low indices is that most of the services generated by the BPO sector are generally exported and are not destined for the local market. In addition, the nature of the services does not require a lot of inputs from other sectors or companies. It is noteworthy, that although the BPO sector has limited linkages, it still stimulates other sectors since the relatively high salaries increase personal consumption (Magtibay-Ramos et al. 2008: 46-47).

The companies interviewed in the sample stated that they mostly consumed the following services or goods, some forward, some backward related items in the "service production" chain, from other companies: recruiting services, security services, employee training services, computer equipment and telecommunications services. As regards the intra-sectoral linkages within the BPO sector, most companies indicated that they obtain only a few services and inputs from other BPO companies. Four out of five call centre companies stated that they purchase software systems from other BPO companies with IT focus. Furthermore, two IT companies indicated that they sometimes require IT skills not available in the company (see Appendix table B1).

3.7. Difficulties in the BPO industry

The major challenge BPO companies face is the recruitment and retention of employees. As more and more call centres and other BPO companies start to emerge, it becomes more difficult for call centres and IT companies to find suitable candidates. Nine out of eleven companies interviewed considered this as a challenge (see Appendix table B2). In fact, all larger call centres in the sample stated that the competition was especially coming from other call centres. This "war" for suitable candidates leads to rising wages in the BPO sector making it difficult for smaller Filipino-owned IT companies to recruit qualified personnel since they are not able to pay wages competitive with those of large or foreign-owned call centres. One senior manager of the call centre industry stated that the pool of suitable candidates was limited since English proficiency level of the candidates would not always fulfil the requirements of the call centres. Another CEO of a bigger Philippine-owned call centre said: "Out of the 400,000 graduates every year, only 30 per cent would be qualified to work in a call centre and out of these only 20 per cent

¹¹ Includes the 240-by-240 transactions table, which shows the production flows within the economy during the year for each of the 240 sectors and are recorded in monetary terms. "Each sector's output is distributed as a row of the table and the corresponding column gives the input requirements" (Magtibay-Ramos et al. 2008: 46).

are willing to work in a call centre.”¹² This would result in approximately 24,000 willing and suitable college graduates every year. This possible supply, however, does not satisfy the demand coming from the BPO industry, which generated 98,000 new jobs in 2007 (see chapter 2.).

Only call centre 5 and IT company 3 said that they were not facing any difficulties in the recruitment of employees. Call centre 5 was strategically located near the university campus facilitating the recruitment of college graduates. Both companies grew at a slow and steady pace in terms of employees and thus had no need to recruit as many employees as larger call centres do.

Table 8: Higher education graduates by discipline group 2003/2004

Discipline Group	Grand Total	Share in Total Graduates
Agricultural, Forestry, Fisheries, Vet Med.	13,154	3%
Architectural and Town Planning	3,462	1%
Business Administration and Related	101,119	26%
Education and Teacher Training	71,851	19%
Engineering and Technology	50,679	13%
Fine and Applied Arts	1,662	0%
General	3,607	1%
Home Economics	1,100	0.3%
Humanities	4,667	1%
Law and Jurisprudence	2,672	1%
Mass Communication and Documentation	4,712	1%
Mathematics and Computer Science	35,367	9%
Medical and Allied	41,688	11%
Natural Science	4,209	1%
Religion and Theology	1,427	0.4%
Service Trades	2,413	1%
Social and Behavioral Science	13,284	3%
Trade, Craft and Industrial	3,579	1%
Other Disciplines	26,268	7%
Total Graduates	386,920	100%

Source: Commission on Higher Education (2008: www).

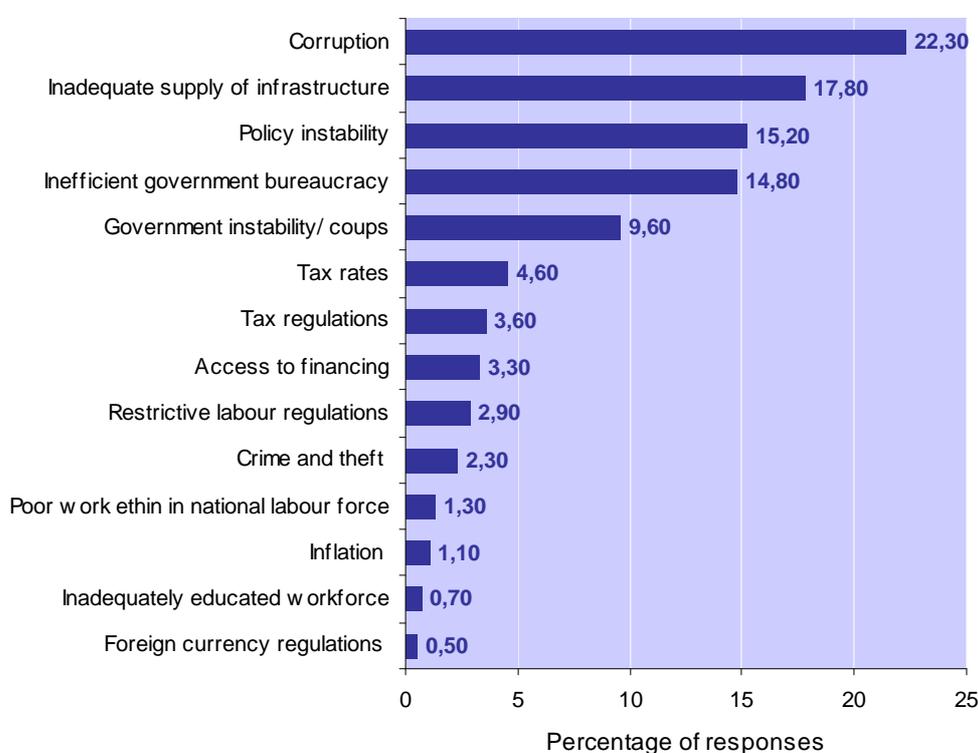
As regards difficulties with government policies, the answers of the companies interviewed generally varied. One concern expressed by the IT and call centre company was that the government was in the process of encouraging trade unions in the BPO sector. This constitutes a fear for BPO companies since trade unions are rather limited and are not well seen among call centres (Ofreneo 2007: 546). Labour market rigidities were another concern mentioned. One call centre was worried with the bureaucratic process of getting exemption from the prohibited night work for women workers. Women are generally not allowed to work during night. Most of the customers of the call centres, however, are US-based companies, which are approximately twelve hours ahead of the Philippines. This implies for workers in the call centre industry that their working day starts around 9 p.m. and ends at 7 a.m. in the morning. Nevertheless, night work for women is prohibited by law (Ofreneo 2007: 545). Contact centres therefore have to seek

¹² Interview with Annie Reyes (President of Pacific Hub), 20 June 2008.

exemption from this rule for every female night worker. Another senior manager of a call centre claimed that Philippine public holidays do not coincide with American public holidays, making it more difficult for call centres to operate. Thus, this call centre asks for more “global-business friendly” labour rules. Two of the call centres were also complaining about the employment contracts. First, they would like to terminate contracts with more ease, faster and without or with very limited costs and, second, they would like employees to comply with their contract since they want to retain staff.

Two software companies stated that the government was inefficient and corruption was a major problem. The World Competitiveness Report (Porter et al. 2007: 286) publishes the most problematic factors of doing business¹³ and indeed corruption and inefficient government bureaucracy exacerbate business for companies in the Philippines considerably. Nevertheless, three companies in the sample reported that they had no difficulties with the current government policies in place.

Figure 5: The most problematic factors for doing business in the Philippines



Source: Porter et al. (2007: 286).

¹³ “From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 4. The bars in the figure show the responses weighted according to their rankings” (Porter et al. 2007: 286).

As regards the competition among companies, two call centres and two IT companies reported that there was especially strong competition from foreign-owned companies or multinational corporations establishing their call centre operations in the Philippines. The seven other companies, however, stated that there was a healthy level of competition and competition primarily limited itself to the recruitment of suitable candidates. The acquisition for clients has not considered as a major problem by seven companies. Nevertheless, two call centres emphasised that other call centre markets (e.g. China, India, Singapore or Malaysia) constitute a potential threat and two smaller Filipino-owned companies indicated that it was difficult for them to acquire foreign clients because of lacking networks and travel possibilities (e.g. visa requirements).

4. Conclusion

The Philippines have recognized the profitability of BPO services and thus tried to attract companies by offering them favourable investment conditions. Results of the study show that BPO service exports have strongly increased and will continue during the next years. BPO services created a significant amount of new jobs and may reach close to one million jobs in 2010. Its share in the total economy, however, is rather low, but rising and is expected to reach 3 per cent in 2010. Nevertheless, the Philippines may soon face a bottleneck in labour supply as companies are increasingly facing difficulties to find suitable candidates, which may lead to rising wages in the BPO sector.

Moreover, the quality of the jobs is rather good as the wages are high and the working conditions mostly satisfactory, besides night shifts. Nevertheless, the newly created jobs in the call centre industry do not necessarily imply a skill upgrading of the workforce employed since the tasks assigned are often routine and do not involve a lot of knowledge transfer to the employees. Furthermore, it can be argued that the employment of college graduates as call centre agents might not be the most effective allocation of national human resources. The majority of work done in a call centre involves rather low-skilled tasks. Nevertheless 80 per cent to 90 per cent of the call centre workforce is composed of college graduates who come from various fields of study. Although, career perspectives exist for call centre agents, they are limited to the call centre business. Most call centre companies plan to introduce call centre services along the services already offered and will not move into areas, which would include more skill-intensive tasks. On the positive side, call centre offers young people the possibility to earn a relatively high wage, which makes them so attractive. Nevertheless, young people do not stay for a long period with the call centres and the labour turnover rate is high. Furthermore, the night work makes the sustainability of this sector questionable from a company point of view, but also difficult for a worker's point of view. Although the extent of the call centre sector compared with total employment is still relatively small, it could lead to an increasing wage gap since the call centre agents are paid a wage by far exceeding the average wage.

The case, however, is slightly different in the IT sector, employees get the chance to apply their knowledge learnt in college and thus can work in an environment where they get the chance to enhance their skills. Thus it is beneficial for them and consequently for the Philippine economy since it breeds IT experts. This sector has more perspectives for the Philippines in the long-run.

Furthermore, the magnitude of the BPO sector is still too small in order to retain brain drain and thus mitigate migration of highly educated employees to other countries. The importance of the BPO sector, however, will increase since the government forecasts a total of one million jobs by 2010 in this sector. This could imply that the BPO sector accounts for approximately 3 per cent of the total employment in the Philippines.

It is therefore crucial important to identify the BPO sectors, which help to develop the labour force in the long-run. The Philippines should thus implement policies, which

encourage the BPO sectors, which are of great value from a socio-economic point of view and provide them with the necessary infrastructure in terms of physical and human capital. Skill development on the labour supply side is therefore indispensable. Finally, also small, Philippine-owned companies should get the chance to participate more actively in the emergent BPO sector. This could be enabled by offering favourable incentives also to them and not only to foreign-owned companies. Recent trends have also shown that foreign companies start by outsourcing simple, standardised tasks. Later on, based on positive experience at the first stage, they also outsource higher value-added tasks in science and engineering requiring higher skilled labour force as part of their global strategy (Manning, Massini, Lewin, 2008). Service sector outsourcing has therefore a potential in the Philippines to create more and better jobs in the future if the sector is supported by a right policy mix which guarantees a friendly business environment and the availability of appropriately skilled labour force.

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Appendix A. Research findings in detail

Table A1: Overview of business incentives

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Government Incentives	BOI incentives PEZA incentives Tax holidays	PEZA incentives Tax holidays	BOI incentives Tax holidays	PEZA incentives Tax holidays	Did not avail of any government incentives
Operating Cost	-	Labour cost and other operating cost lower than in the US	-	-	-
Strong Demand from abroad	Demand coming from European Union (UK in particular) and the US	-	Demand coming from the US	Demand coming from the US	Demand coming from the local and international market. Company has a niche in the local market
Availability of well-trained and skilled labour	English language proficiency and neutral accent	English Language proficiency and neutral accent	English language proficiency	Availability of college graduates English language proficiency and neutral accent	Communication skills
Cultural attributes of Filipinos	Strong cultural affinity with the US	Customer-orientated, accommodating	-	Resilient, patient, friendly "Feel how others feel before themselves"	Laid back, emotionally motivated
Other factors	-	-	Traditional industries not so dynamic	-	-

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Government Incentives	Did not avail of any government incentives Subsidy for graduates in-house training	Did not avail of any government incentives	BOI incentives Tax holidays	Did not avail of any government incentives	Two companies availing of PEZA incentives Tax holidays	PEZA incentives Tax holidays
Operating Cost	-	-	Operating cost are low (e.g. rents, infrastructure) and very competitive	-	-	Low labour cost but rents are high
Strong Demand from abroad	Demand coming from local and international market	Demand coming from underserved SME market in the Philippines	Demand for IT products coming from low-cost countries	Strong demand from Europe and the US	Strong demand from abroad	-
Availability of well-trained and skilled labour	Availability of college graduates English Language Proficiency	Availability of college graduates English language proficiency Young workforce	Large talent pool Available labour suitable for IT industry	Skilled and technically trained workforce English Language Proficiency	Quality of workforce English Language Proficiency College graduates from technical courses Friendly, Service-oriented Strong technical capabilities	Availability of well-trained employees English Language Proficiency
Cultural attributes of Filipinos	Diligent and hard-working	-	-	Good work ethics Responsible Persistent	-	Hard-working
Other factors	-	-	Investor-friendly environment Environment to do business globally	-	-	-

Source: own compilation, interviews with companies (June 2008).

Table A2: Overview of business expansion plans

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Business expansion	Not organically but by joint ventures	In process of building another sight	Moving to a bigger facility within a year and a half	In the process of looking for a third location	Expanding at current site
New employees hired	End 2009: 1,000 End 2013:4,000	End 2009:100 End 2013: 500	End of 2008: 100 End of 2013: 370	End of 2011: 3500 End of 2013: 4500	End 2009: 100 End 2011: 400 End 2013: 700
CAGR ¹⁴ in %: Period analysed: Year of establishment until mid-2007	56	168	31	154	25
CAGR in %: Period analysed: Mid-2007 until 2013	10	14	28	28	19
Advancement of existing services	Constantly depending on the clients' needs	Through agents' and performance development	Improving research work done for US clients and marketing	Offering also email responses and loyalty programs	Always using the latest technologies like VoIP (Voice over Internet Protocol)
Introduction of new services	Spanish inbound and outbound services	Expanding into other BPO lines such as back office work (HR, IT and tax support) and design	Inbound services, payroll, transcription and billing services and also data entry	Back office work (HR, accounting services etc.)	Services along call centre services like web-based services (online order management, online services)

¹⁴ The CAGR (Compound Annual Growth Rate) is computed as follows: $((A(t_n)/A(t_0))^{1/(t_n - t_0)} - 1)$

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Business expansion	Yes	Yes	Yes	Planning to move to a bigger office	Currently opening two more call centres	Yes, opening new production facility with more space
New employees hired	End 2013: 300	End 2010: 60-80 End 2013: 130	End 2010: 200 End 2013: 380	End 2013: 30	Could not quantify	End 2010: 600 End 2013: 400
CAGR ¹⁵ in %: Period analysed: Year of establishment until mid-2007	22	33	49	43	67	139
CAGR in %: Period analysed: Mid-2007 until 2013	17	31	35	22	n.a.	13
Advancement of existing services	Yes	Constantly refining and expanding services	Adjusting services to market needs	Yes, by offering desktop support and integrating themselves into customers' company	Through constant innovation and by complementing current products	Constantly adjusting product range to the clients' needs
Introduction of new services	Back office work (finance and accounting services)	Training to clients (system administration, Linux, open source)	Product testing (quality assurance)	Do not want to lose focus on core competencies	Depending on the market requirements	Depending on market requirements

Source: own compilation, interviews with companies (June 2008).

¹⁵ The CAGR (Compound Annual Growth Rate) is computed as follows: $((A(t_n)/A(t_0))^{1/(t_n-t_0)}-1)$

Table A3: Overview of workforce in the BPO industry

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Skills required	Minimum educational attainment requirement: 2 years of college education English language and communication skills College courses: varied courses Work experience: depending on the program Personal skills: customer-service orientation	Minimum educational attainment requirement: 2 years of college education English language, comprehension and communication skills College courses: varied courses Work experience: depending on the program Personal skills: customer-service orientation	Minimum educational attainment requirement: 2 years of college education English language and communication skills College courses: varied courses Personal skills: capacity to learn	Minimum educational attainment requirement: 3 years of college education, English language, comprehension and communication skills College courses: varied courses Personal skills: customer-service orientation, ability to communicate logically	Minimum educational attainment requirement: college graduate Fair English & Filipino language and communication skills College courses: varied courses Personal skills: customer-service orientation, listening skills
Hiring rate in %	2	30	20	Offshore business: 10 Domestic business: 20	20
Composition of labour force	85 % Agents 14.5 % Business support staff 0.5 % Senior managers	80 % Agents 20 % Business support staff and managers	90 % Agents 10 % Business support staff and managers	82 % Agents 9% Business support staff 7 % Supervisors 2 % Managers and Directors	80 % Agents 11 % Team leaders 1 % Managers 8 % Business support staff
Nationality of managers	Filipino	Filipinos and 3 Americans	Filipino	Filipino	Filipino
Nationality of employees	Filipino	Filipino	Filipino	Filipino	Filipino
Labour turnover rate in %	47	30	30	24 (voluntary 11%, involuntary 13 %)	19
Factors influencing labour turnover	Better opportunities within call centre industry	Better opportunities within call centre industry	Better opportunities within call centre industry Migration to other countries (e.g. Dubai)	Better opportunities within or outside call centre industry Migration to other countries (e.g. Dubai, Singapore, Malaysia, Africa)	Better opportunities within call centre industry Migration to other countries (e.g. Dubai, Singapore, Malaysia, Africa)
Share of college graduates in the company in %	95 % (average age between 23 and 35)	60 % (average age 25)	55 % (average age 25)	85 % college graduates 15% college level (average age 23)	90% (average age 23-28)

Company	IT Company 1	IT Company 2)	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Skills required	Minimum educational attainment requirement: college graduate from IT-related or technical course Programming aptitude Communication skills (understand instructions)	Minimum educational attainment requirement: college graduate from IT-related or technical course Good English skills	Minimum educational attainment requirement: college graduate (usually bachelor's degree) from IT-related or technical course Good English skills	Minimum educational attainment requirement: college graduate from technical course Technical Aptitude Good English Skills	For IT company: IT-related courses For call centre: varied courses Technical aptitude tests Communication and leadership skills	Minimum educational attainment requirement: college graduate (especially medical and legal courses, nurses, pharmacy) Employing nurses, doctors, pharmacists depending on task Good English Skills
Hiring rate in %	5	4	12	10	10	6
Composition of labour force	95 % IT specialists 5 % Managers	62.5 % Technical staff 20 % Business support staff 7.5 % Administrative staff 10 % Managers	80 % technical staff 20 % business support staff	74 % Technical staff 26 % Managers	80 % Technical staff and agents 10 % Business support staff 10 % Managers	80 % Staff 6 % Managers 14 % Business support staff
Nationality of managers	Filipino	Filipino	Filipino	Filipino	Filipino	Filipino
Nationality of employees	Filipino	Filipino	Filipino	Filipino	Filipino	Filipino
Labour turnover rate in %	15	5	19	6.5	20	15
Factors influencing labour turnover	Better opportunities within IT industry Migration to other countries (Middle East, Singapore, US)	Better opportunities within IT industry Migration to other countries	Better opportunities within IT industry Migration to other countries (Middle East, Singapore, US)	Better opportunities within IT industry Migration to other countries (e.g. Dubai, Australia) Change career	Better opportunities within IT industry Migration to other countries)	Migrating to other countries
Share of college graduates in the company in %	90 %	-	95 %	-	80 %	90%

Source: Own compilation, interviews with companies (June 2008).

Table A4: Overview of employee training and development

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Employee training	<p>Initial training (5 days to 2 weeks): customer service, American culture training, English proficiency training (accent neutralization)</p> <p>Initial product-specific training</p> <p>Continuous training (40 hours per year): demanded by client or development plan of company</p> <p>Leadership development program for managers</p> <p>Own in-house training with 100 trainers</p> <p>Usage of external training</p>	<p>Initial Training (2 weeks): communication skills, company policy, English proficiency training (accent neutralization)</p> <p>Initial product-specific training</p> <p>Continuous training: product updates</p> <p>Leadership development program for managers</p> <p>Own in-house training with 100 trainers</p>	<p>Initial Training (2 weeks): communication skills, company policy, English proficiency training (accent neutralization), telesales marketing, positive thinking and on-the-job training (2 weeks)</p> <p>Initial product-specific training</p> <p>Continuous training: team leader gives coaching and motivational talk</p> <p>Leadership development program for team leaders and managers</p> <p>Own in-house training with 100 trainers</p>	<p>Initial Training (2 weeks): Preparing agent for call centre job, English proficiency training (accent neutralization), American geography, basic customer service, sales training</p> <p>Initial product- specific training</p> <p>Continuous training: program-specific training</p> <p>Leadership development program for all hierarchy levels teaching managerial skills and business sensitivities</p> <p>Own in-house training</p> <p>Usage of external training</p>	<p>Initial Training (1 to 2 weeks): company policy, language training, phone etiquette</p> <p>Initial product specific training (product)</p> <p>Continuous training: especially product specific training</p> <p>Own in-house training</p> <p>Usage of external training</p>
Possible career path and average wage per month in Philippine Pesos	<p>Agent (14,500-18,000)</p> <p>↓</p> <p>Team manager (23,000-28,000)</p> <p>↓</p> <p>Shift manager (33,000-38,000)</p> <p>↓</p> <p>Program manager (53,000-70,000)</p> <p>↓</p> <p>Sight director (100,000-120,000)</p> <p>↓</p> <p>Assistant vice president (150,000-250,000)</p>	<p>Agent (15,000)</p> <p>↓</p> <p>Team leader (21,000)</p> <p>↓</p> <p>Program manager (30,000)</p> <p>↓</p> <p>Division manager (90,000)</p>	<p>Agent (12,000-16,000)</p> <p>↓</p> <p>Team leader (20,000-25,000)</p> <p>↓</p> <p>Shift manager (25,000-30,000)</p> <p>↓</p> <p>Operations manager (40,000)</p> <p>↓</p> <p>Top management: (performance-based)</p>	<p>Agent Domestic program (10,000-14,000)</p> <p>Offshore program (14,000-23,000)</p> <p>↓</p> <p>Team leader (30,000-40,000)</p> <p>↓</p> <p>Account manager (50,000-70,000)</p> <p>↓</p> <p>Operations manager (70,000-100,000)</p> <p>↓</p> <p>Call centre director (150,000-200,000)</p>	<p>Agent (11,000)</p> <p>↓</p> <p>Team leader</p> <p>↓</p> <p>Shift supervisor</p> <p>↓</p> <p>Program manager</p> <p>↓</p> <p>Top management</p> <p>Other wages not available</p>
Internal promotion	Favoured and part of company policy	Favoured if possible	Favoured if possible	Favoured and part of company policy	Favoured and part of company policy
Additional benefits	Government mandated benefits, health services, 24/7 medical services, spa area, odd hour shift premium, funds for recreational activities and additional sick and vacation leave No pension fund in place	Government mandated benefits, health benefits, performance-based commissions for agents No pension fund in place	Government mandated benefits, sick and vacation leave, health insurance, performance-based commissions for agents No pension fund in place	Health services, one meal per day, performance-based commissions for agents Reward system for attendance No pension fund in place	Government mandated benefits, health care No pension fund in place

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Employee training	Initial training (six months): intensive class room training on programming Continuous training: Technical support desk Own in-house training	Initial training: technical skills Continuous training: technical (Linux administration, programming, database administration) and non-technical training (sales & marketing, Customer Relationship Management, leadership skills) Own in-house training	Initial training (10 weeks): training on Microsoft, programming and software development, cultural sensitivity Continuous training: Newest technologies Own in-house training	Initial Training: technical skills Continuous training: Job-related IT and technical skills Own in-house training	Initial training Continuous training: job-related and managerial skills (communication and negotiation tactics, project management, planning skills) Leadership development program Own-in-house training	Initial training (8 months) English training, general business skills, typing skills, analytical skills Continuous job-related training Own-in-house training
Possible career path and average wage per month in Philippine Pesos	Programmer trainee ↓ Regular programmer (25,000) ↓ Senior programmer ↓ Manager (75,000)	Entry-level technician (11,000-19,000) ↓ Technician (19,000-38,000) ↓ Manager (40,000-75,000)	Junior software engineer (20,000) ↓ Software engineer ↓ Senior software engineer (70,000-80,000) ↓ Manager (50,000-100,000)	Junior software developer (15,000-20,000) ↓ Software developer (25,000-30,000) ↓ Senior software developer (30,000-40,000) ↓ Manager (18,000 + commission)	Not available	Career paths along various IT services Typical employee (45,000-80,000) ↓ Manager (10,000-30,000)
Internal promotion	Managers are hired from outside the company	Favoured if possible	Favoured if possible	Favoured if possible	Favoured if possible	Favoured if possible
Additional benefits	Government mandatory benefits, life and medical insurance, productivity incentives, bonuses No pension fund in place	Performance-based bonus system, paid vacation leaves, personal laptop, subsidize the purchase of IT equipment No pension fund in place	Health benefits, allowances for transportation and food Starting pension fund	Government mandatory benefits, pension fund, "movie night", health care No pension fund in place	Performance bonus, graduate recognition event, personal computer purchase, mobile phone plans and educational courses No pension fund in place	Health insurance, life insurance, sick and vacation pay, supervisors and managers: mobile phone allowances No pension fund in place

Source: Own compilation, interviews with companies (June 2008).

Table A5: Overview of linkages

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Purchase of intermediate goods or services <i>outside</i> the BPO sector	Recruiting agencies Security agencies Maintenance services for IT infrastructure Employee training services	Computer equipment Telecommunications Internet lines	Computer equipment Telecommunications Internet lines Hardware	Janitorial services Maintenance services with equipment vendors Computer equipment Telecommunications Internet lines Employee training services	Computer equipment Telecommunications Internet lines
Purchase of intermediate goods or services <i>within</i> the BPO sector	Information management system outsourced to sister company (SAP, HR system)	Software for call centre system Nothing from other call centres	Software for call centre system	None	Software for call centre system
Joint ventures or other cooperation agreements	Joint ventures with foreign-owned call centre companies establishing their operations in the Philippines Member of the Contact Center Association of the Philippines	None	Member of the Contact Center Association of the Philippines	DRP (Disaster Recovery Plan) with another call centre for business continuity	Member of the Contact Center Association of the Philippines

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Purchase of intermediate goods or services <i>outside</i> the BPO sector	Hardware	Employee training services Printing services Marketing services Projects with different IT	Hardware Employee training services PR services	Hardware	None	Equipment (e.g. telephones, computers) Internet connectivity
Purchase of intermediate goods or services <i>within</i> the BPO sector	Certain programming skills	companies or independent professionals	None	None	None	None
Joint ventures or other cooperation agreements	Member of the Philippine Software Industry Association	Member of the Philippine Software Industry Association	Member of the Philippine Software Industry Association	Member of the Philippine Software Industry Association	None	None

Table A6: Overview of difficulties in the BPO industry. Own compilation, Interviews with companies (June 2008)

Company	Call Centre 1	Call Centre 2	Call Centre 3	Call Centre 4	Call Centre 5
Recruiting suitable candidates	Recruitment and retention of qualified staff difficult since lack of qualified candidates Competition coming from other (especially in-house) call centres	It has become more difficult to find suitable candidates with the emergence of more and more call centres	Recruitment and retention of staff is a major challenge	Recruitment of agents difficult since competition coming from other contact centres	No difficulties since company is located near the university campus and has a steady growth in terms of employees
Government Policies	Exemption for women to work at night Employment termination difficult since separation pay, also for project based employees	No difficulties	Government very supportive but should make employees more aware complying with the employment contract	Labour rules should be more global-business friendly flexible as regards public holidays	No difficulties
Competition among companies	Competition coming especially from in-house call centres and other growing call centres markets like Dubai and Singapore	Competition coming from American contact centres establishing big call centres in the Philippines	Competition primarily for candidates	Healthy competition but still existent in the Philippine contact centre industry	No since they are serving a niche market
Acquiring clients	Difficulties because customer have more countries to choose from (e.g. China, India, Singapore, Malaysia)	A lot of competition for good clients. Trying to capture the Australian market	No difficulties	No difficulties	No difficulties

Company	IT Company 1	IT Company 2	IT Company 3	IT Company 4	IT and Call Centre Company	Data Transcription & Back Office Company
Recruiting suitable candidates	Difficulties because many foreign and other BPO (especially IT and call centres) companies have emerged	Difficulties because of Filipinos migrating to other countries and foreign call centres inflating salaries. Hard to recruit and retain people.	No because not so many candidates are needed	High wages paid in call centre industry, which makes it difficult to compete	Recruitment and retention of staff major challenge. "War" for talent	Becoming increasingly difficult because of competition coming from other BPO companies
Government Policies	Not problems but often problems to get visas to enter foreign countries	Inefficiencies in the government since uncompetitive business policies	Business-friendly government policies	Corruption as regards the internal revenue	Right of setting up trade unions	No difficulties
Competition among companies	Competition especially coming from foreign-owned companies	Competition especially coming from multinational corporations	Healthy level of competition	Healthy level of competition	Not so strong since company has established position	Not very strong
Acquiring clients	No difficulties in acquiring domestic clients but foreign clients	Not in direct competition since foreign companies serve different market	Not in the market for Small and medium enterprises (SMEs)	No difficulties	No because of industry leadership	Like in any other industry

Appendix B. Investor environment

Generally, there are two government agencies responsible for promoting investment within the Philippines, namely the Philippine Economic Zone Authority (PEZA) and the Board of Investments (BOI).

The Philippine Economic Zone Authority (PEZA) was set up in 1995 through “The Special Economic Zone Act” and is a government corporation, attached to the Department of Trade and Industry, granting fiscal and non-fiscal incentives to export producers and IT service providers. The Philippine Economic Zone Authority takes a central role in establishing special economic zones (ecozones). These are locations, which export providers and service exporters can rent (PEZA 2006: www).

One of the goals of the Special Economic Zone Act of 1995 is to encourage domestic and foreign investors into special economic zones, which should lead to greater employment and also result into “forward and backward linkages among industries in and around the economic zones” (Special Economic Zone Act 1995: 2). Furthermore, “Special economic zones (i.e. ecozones) are selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial tourist/recreational, commercial, banking, investment and financial centres. An ecozone may contain any or all of the following: industrial estates (IEs), export processing zones (EPZs), free trade zones, and tourist/recreational centres” (Special Economic Zone Act 1995: 2).

Following incentives are offered to companies located within the ecozones:

Table B1. Incentives for ecozone and IT locators

-
- Income tax holiday (ITH) or exemption from corporate income tax for four years, extendable to a maximum of eight years; after the ITH period, the option to pay a special 5 % tax on gross income, in lieu of all national and local taxes
 - Exemption from duties and taxes on imported capital equipment, spare parts, supplies, raw materials
 - Domestic sales allowance equivalent to 30 % of total sales
 - Exemption from wharfage dues and export taxes, imposts and fees
 - Permanent resident status for foreign investors and immediate family members
 - Employment of foreign nationals
 - Simplified import and export procedures
 - Other incentives under Executive Order 226 (Omnibus Investment Code of 1987), as may be determined by the PEZA board
-

Source: PEZA (2008: www).

Generally, “there are no restrictions on extent of foreign ownership of export enterprises. In domestic market enterprises, foreigners can invest as much as one hundred percent (100 per cent) equity except in areas included in the negative list” (Foreign Investment Act 1991: 1). The foreign investment negative investment list includes industries, where foreign equity is either prohibited or limited to a certain percentage (ranging from 20 per cent to 60 per cent foreign equity). The BPO industry, however, is not included in the negative list and thus opens to foreign investment (Executive Order No. 389: 1-2).

Another restriction is that the “employment of foreign nationals hired by ecozone enterprises in a supervisory, technical or advisory capacity shall not exceed five percent (5 per cent) of its workforce” (Special Economic Zone Act 1995: 18).

Another government agency responsible for promoting local and foreign investments within the Philippines is the Board of Investments (BOI). Furthermore, the BOI is responsible for setting up the Investment Priorities Plan, which defines the industries and areas in which investments are especially favoured. Companies covered by the Investment Priorities Plan can benefit from fiscal and non-fiscal incentives (BOI 2008: www). Activities of investment receiving especial attention are the following: agriculture, infrastructure, tourism, research and development, engineered products and strategic activities (Investment Priorities Plan 2008: 6-7).

Nevertheless, companies exporting services can also take advantage of these incentives. Export services are defined in the Investment Priorities Plan (2008: 53) as follows: “Service activities rendered to clients abroad and paid for in foreign currency with export requirement of at least 50 per cent of its revenue if Filipino-owned or at least 70 per cent, if foreign-owned.”

Hence, also contact centres, software development and other BPO companies can profit from these incentives if they fulfil the export requirements mentioned above. Moreover, contact centres have to comply with following requirement: “a contact centre project must have a minimum investment cost of 2,500 US dollars per seat” to avail of these incentives. “This amount covers the cost of equipment (hardware and software), office furniture and fixture, building improvements and renovation, and other fixed assets except land, building and working capital”(Investment Priorities Plan 2008: 53).

Fiscal and non-fiscal incentives provided by the BOI include the following (BOI 2008: www):

Table B2. Fiscal and non-fiscal incentives

Fiscal Incentives	Non-Fiscal Incentives
<ul style="list-style-type: none"> ▪ Income tax holiday up to 6 years ▪ Exemption from taxes and duties on imported spare parts ▪ Exemption from wharf age dues and export tax, duty, impost and fees for ten years ▪ Tax credits ▪ Additional deductions from taxable income 	<ul style="list-style-type: none"> ▪ Employment of foreign nationals ▪ Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies and exports of processed products ▪ Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of a re-export bond ▪ The privilege to operate a bonded manufacturing/trading warehouse subject to Customs rules and regulations

Source: BOI (2008: www).

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