# The Philippine Business Process Outsourcing (BPO) sector and the Global Financial Crisis
## Executive Summary

**Ceferino S. Rodolfo**
Center for Research and Communication Foundation

## I. Current Industry Status

- Global outsourcing & off-shoring (O&O) of services, commonly referred to as business process outsourcing (BPO), has been a recent but rapidly growing phenomenon. Its growth can be attributed to two main drivers:

    - From the demand side, as the global market became more competitive due to the lowering of barriers to trade, companies had to be more competitive in terms of lower costs and better services.

    - From the supply-side, rapid developments in information and communication technology (ICT) have made it technically possible to digitize service activities and transmit them via the internet in a cost-effective and timely manner.

  Thus, while outsourcing and off-shoring—separately and in combination—have long been part of strategic decisions of companies, their application to service processes have increased the coverage, depth and value of O&O activities.

- India has been the established country-leader in the global BPO industry, supported primarily by the availability of qualified professionals. The Philippines has however gained recognition as a viable BPO location based on:
    - the availability of professionals with the required language skills, cultural affinity with the US (the main BPO market), and strong customer service orientation;
    - the dramatic improvements in telecommunications infrastructure resulting from the deregulation of the industry in the early 1990s, among others; and,
    - the availability of premium-grade building facilities.

- As a result, over the past five years (2004 to 2008), the Philippine BPO industry grew in terms of employment from about 100,000 to about 372,000 full-time employees (FTEs), for an average annual growth of about 40%; and in terms of revenues, from about US$1.5 billion (B) to US$6B, for an average growth of 43%.

**BPO Performance**

| | Employment (full-time persons) | growth | Revenues (M US$) | growth | Revenue / Employee (US$) | growth |
|---|---|---|---|---|---|---|
| **2004** | 100,500 | | 1,475 | | 14,677 | |
| **2005** | 163,250 | 62% | 2,375 | 61% | 14,548 | -1% |
| **2006** | 235,575 | 44% | 3,207 | 35% | 13,613 | -6% |
| **2007** | 298,953 | 27% | 4,816 | 50% | 16,111 | 18% |
| **2008** | 371,965 | 24% | 6,061 | 26% | 16,294 | 1% |
| ***average*** | | ***40%*** | | ***43%*** | | ***3%*** |

Source of Basic Data: BPA/P

## II. Impact of the Crisis on the Sector

- In 2007, prior to the global crisis, the industry developed the Offshoring & Outsourcing Philippines Roadmap 2010. It targeted to grow the country's share of the global market from the approximately 5%-6% in 2006, to about 10% by 2010. This means that revenues should increase to about US$13B by 2010, supported by about 900,000 full-time employees (FTE).

- With the global crisis, the 2010 targets are not expected to be met. However, the industry will continue to enjoy **strong growth**—revenues will increase by between 20% to 30%; while employment will grow at a slightly lower rate since (a) productivity in the sector has been increasing (i.e. less employees are needed to support the revenue targets) and (b) more value-adding BPO services are being established. Thus, by 2010, revenues will most likely grow to about US$9.5B; and full-time employees will number at least 580,000.

- Given the global orientation of the BPO sector, its performance should be positively correlated with that of the global economy—especially of the main BPO markets, e.g. the United States. However, a confluence of factors provides the Philippine BPO industry with a unique opportunity to consolidate its position as a preferred location for BPO services in the context of the slowdown.

  The impact of the crisis on the industry can be examined from the market demand side and from the supply side.

### A. Market Demand:

- **Positive impacts**. The continued relative stability of the Philippine economy, coming at a time when India has suffered from negative perceptions due to the terrorist attacks in Mumbai and the financial governance issues at Satyam, has highlighted the Philippines' attractiveness as a BPO location.

In addition, the global crisis and the resulting corporate bankruptcies have pushed companies to seek ways by which they can enhance their cost competitiveness and improve service quality—key value propositions of BPOs.

And, provided that the crisis will result in a stable and predictable depreciation of the Philippine Peso, this may have a positive impact on foreign exchange-earning sectors, including BPOs.

- **Negative impacts**: The financial crisis resulted in a decline in business transactions supported by BPO companies. However, two important trends must be highlighted:

  - First, even with the general slowdown, certain types of transactions have been observed to increase e.g. the shift towards outbound calls for credit collection; and,

  - Second, there is continued strong interest on the Philippines as a BPO location, with possible projects in the pipeline. However, it is expected that the negotiation process for contracts to be harder, with clients adopting a certain level of wait-and-see posturing, greater risk aversion, and concern for value. As client companies are also in the midst of financial and organizational restructuring themselves, negotiation cycles become longer.

**B. Supply side**:

- **Positive impacts**. The relatively slower growth of other sectors can lead to greater attractiveness of BPOs as employers of new graduates; while lay-offs from other industries, including returning Overseas Filipino Workers (OFW), and can potentially provide BPOs with a source of job applicants—provided of course that they possess the required skill sets or can be re-trained to acquire BPO-related skills.

  Especially viable are industry-shifters at the managerial level and OFWs with the requisite knowledge of specific developed economies. A larger pool of managerial talent can hopefully lead to lower attrition levels; while a pool of returning OFWs can support efforts to further penetrate existing and new BPO markets.

  And, slower economic growth will lessen inflationary pressure on main BPO cost items, including office rental rates, utilities, and wages.

## III. Proposed Interventions

- The financial crisis is expected to dent the rapid growth of the Philippine BPO industry. However, the industry is still expected to grow strongly in terms of both revenues and employment.

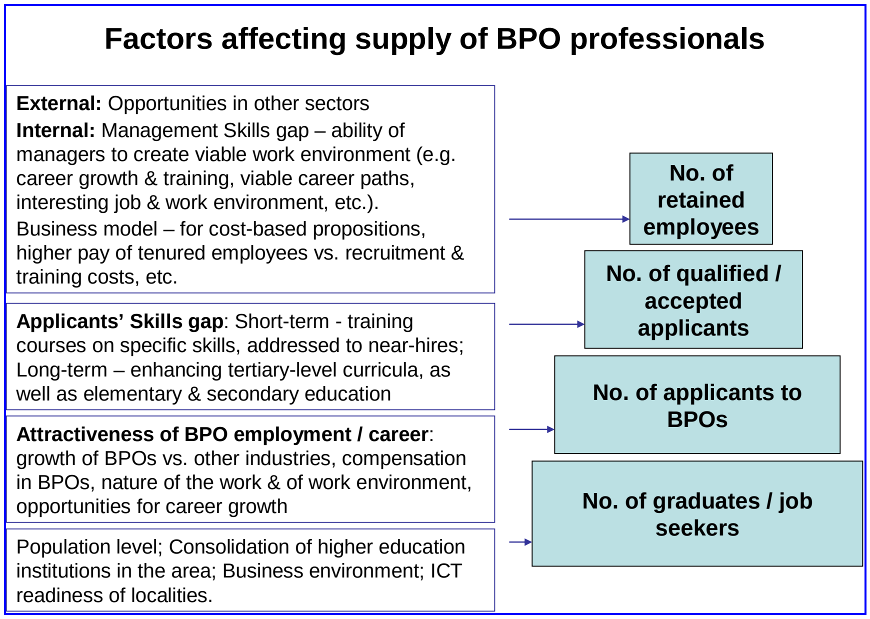
- The crisis provides a window for the country to further actualize its global leadership potential, especially in the context of the problems faced by its leading competitor-country. This requires addressing long-term competitiveness issues and short-term initiatives to take advantage of unique opportunities.

- The industry already has a roadmap, authored by the BPA/P and jointly developed with stakeholders (e.g. key government agencies including the CICT and DTI). It presents a detailed analysis of the challenges that the Philippines faces in order to grow the BPO industry, as well as prescribed solutions.

- The main competitiveness issue in the industry is the sustainability of the supply of BPO professionals. This, in turn, is a function of a number of factors, including: the concentration of educational institutions and BPO professionals in a particular region, the attractiveness of a career in the BPO industry, the mismatch between applicants' skills and the job requirements, job opportunities in other industries, managerial skills needed to create a work environment conducive to retaining employees, and the business model's assumptions on pay increases and employee retention rates.

- Majority of these factors can be addressed at the level of individual BPO organizations, e.g. thru Management Development Programs, employer branding, work-life balance initiatives, development of career paths, etc.

- However, Public-Private-Partnership (PPP) approaches can be very effective in addressing certain critical factors. In general, **excellent PPP initiatives** are **already existing** and **on-going** and may just need to be up-scaled or enhanced.




- These PPP approaches include:
    - **Short-term impact**:
        - Addressing mismatch between skills and job requirements via training, especially of the near-hires (e.g. TESDA - BPA/P partnership on the Pangulong Gloria Scholarships)
        - Promoting industry-specific exposure to students, [e.g. longer internships as being advocated by the ECCP and currently practiced by a number of academic institutions; the Advanced English Proficiency Training Program (ADEPT), a tie-up between BPA/P and COCOPEA)]
    - **Medium-term impact**:
        - Expanding BPO locations to outside of Metro Manila and Metro Cebu (e.g. Next Wave Cities within the Cyber Corridor initiative of the BPA/P, CICT, and DTI)
        - Maintaining BPO-friendly business environments in localities [e.g. thru more intensified Industry-LGU-NG dialogues and partnerships, as initiated by local ICT Councils]
        - Joint Industry-Academe management development programs [e.g. Training for Offshoring and Outsourcing Leadership Program (TOOL) - middle management program for the in partnership with Ateneo and De La Salle]
    - **Long-term impact**:
        - Addressing the decline in our educational system, especially as it relates to following specific skills: language proficiency (e.g. English), computer skills, critical thinking, analytics, problem-solving, and soft skills (incl. leadership, teamwork, initiative, customer service) [e.g. at the tertiary-level, the Service Science

Management and Engineering initiative of CICT and industry players]

## Specific Recommendations

- Ensure implementation of Implementing Guidelines of MOA signed between TESDA and BPAP on February 4, 2008 under the PGMA-TWSP.

- Form ICT Councils in NCR, for instance: (a) to promote BPO-LGU-Academe partnerships (e.g. with the participation of LGU-run or LGU-supported public universities) and (b) to advocate recognition of PEZA incentives among LGUs.

- Intensify holding of Training Matching and Job Assistance Events, as a partnership between government (e.g. TESDA, CICT, DOLE, DTI, etc.), BPA/P and its member companies, and other industry associations (e.g. Semiconductor and Electronics Industries in the Philippines, Inc. or SEIPI).

- Ensure strict implementation of Republic Act No. 9492 “An Act Rationalizing the Celebration of National Holidays,” and rationalize declaration of holidays at the local level.

- Continue aggressively promoting the Philippines internationally as a BPO location, jointly by BPA/P, CICT, and DTI.

- Ensure continued inclusion of BPOs in appropriate BOI / PEZA priority / incentive lists; study granting of incentives to training providers (or promote greater interest, if they are already eligible for incentives).

- Support the passage of the Data Privacy Bill (sponsored by Rep. Liwayway Vinzons-Chato) and DICT bill (sponsored by Sen. Edgardo Angara).

- Study the possibility of up-scaling alternative BPO models, e.g. home-based outsourced service work.

**Summary of Recommendations:**

<table>
<tr><th></th><th>Government</th><th>Industry</th><th>Academe</th></tr>
<tr><td colspan="4">(1) Sustainable supply of BPO professionals</td></tr>
<tr><td>Attractiveness of BPO employment / career</td><td>Intensify holding of Training Matching and Job Assistance Events, as a partnership between government, BPA/P, and other industry associations (e.g. SEIPI).</td><td>Employer branding</td><td>Exposure of students to BPOs as a viable career (going beyond call centers), via internships and specific BPO-focused courses</td></tr>
<tr><td rowspan="3">Applicants' Skills gap</td><td colspan="2">Short-term - training courses on specific skills, addressed to near-hires; ensure implementation of joint TESDA – BPA/P circular</td><td></td></tr>
<tr><td></td><td colspan="2">Business-Academe partnerships; Internship programs, BPO-focused subjects in the tertiary curricula</td></tr>
<tr><td colspan="3">Long-term – enhancing tertiary-level curricula, as well as elementary & secondary education; Service sector focused curricula, as initiated by the CICT and industry players.<br>Promote CHED-Academe dialogue, facilitated by CICT (or, in the future, the DICT)</td></tr>
<tr><td>Management Skills gap</td><td></td><td colspan="2">Management development programs, jointly developed by BPA/P and the Academe</td></tr>
<tr><td colspan="4">(2) Maintaining BPO-friendly environment at the level of localities</td></tr>
<tr><td></td><td colspan="2">BPO-LGU-NG dialogues/partnerships at the local level, led by the ICT Councils (especially in the NCR); Promote LGU-NG-Academe partnerships, to include participation of LGU-run or LGU-supported universities.</td><td></td></tr>
<tr><td></td><td>Ensure strict implementation of RA No. 9492 (on celebration of national holidays) and Rationalize declaration of holidays at the local level.</td><td></td><td></td></tr>
<tr><td colspan="4">(3) More aggressive promotion of the Philippines as a BPO location</td></tr>
<tr><td rowspan="3"></td><td colspan="2">Continue aggressively promoting the Philippines as a BPO location, jointly by the BPA/P, CICT and DTI<br>[Consider incentives for international promo-related expenses]*</td><td></td></tr>
<tr><td colspan="2">Continued inclusion of BPOs in BOI / PEZA incentives</td><td></td></tr>
<tr><td colspan="2">Passage of a Data Privacy Law</td><td></td></tr>
</table>

* tentative recommendation