

ANALYSIS OF PHILIPPINES INFORMATION TECHNOLOGY BUSINESS PROCESS OUTSOURCING (IT-BPO) INDUSTRY

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ABSTRACT

This study was conducted to illustrate the current condition of the Philippines IT-BPO Industry, its significance to the country's service sector and its contributions to the fast growing economy of the Philippines. Issue of sustainability was discussed, identifying the current efforts of Government, Industry Participants and related Organizations to furtherly improve the current Industry capability. Issues of service quality were also partly tackled as the nature of the Industry with in the country is gradually evolving from a mere Low Value (Voice BPO) into a High Value (Non-Voice BPO) which demands for a more highly skilled and specialized labor workforce.

Keywords: *IT-BPO, Sustainability, Voice BPO, Non-Voice BPO, Service sector.*

1. INTRODUCTION

Philippines, a country with more than 98.7 million people with only less than half of its total population considered a member of its labor force is still counted as one of the fastest growing economy in Asia for the past few years. 92.5 % of its labor force is employed in different industry sectors. The current total value of its overall gross domestic product is estimated to costs 250.3 billion US\$ which is equivalent to 2,587.88 per capita. Last year (2013), it was announced that Philippines was able to outperformed China in terms of economic growth. Thanks to its increasing share of the world's total revenue for outsourced services.

Philippines rely mostly on its service sector than to its industry and agricultural sector. 52.6% of each total number of employed labor force is employed in different industries of its service sectors while 16.1% is in industrial sector and 31.3% is in agricultural, hunting, forestry and fishing. For the past 3 decades, its service sector has been in an unstoppable growth, living behind industrial and agricultural sector (See Figure 1: Gross Domestic Product, by Industrial Origin: Percentage Distribution, NSCB).

Philippines service sector is comprise of many different industries, ranging from

wholesale and retail trade, hotels and restaurants, healthcare and social work to tourism and as well as its OFW's (Overseas Filipino Workers) around the globe. Large fraction of its revenue brought by service sector comes from remittances from OFW's, tourism and most especially from one its fastest growing industry, IT-BPO (Information Technology Business Process Outsourcing) which is the main focus of this study.

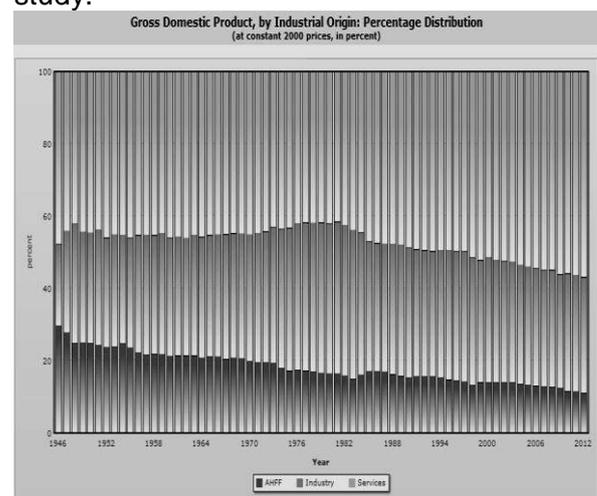


Figure 1: Gross Domestic Product by Industrial Origin: Percentage Distribution
Source: Philippines National Statistical Coordination Board

This paper aims to identify the core competences of Philippines IT-BPO industry which serves as one of the main drivers of

growth in country's economy for the past 10 years and also, to classify the social and economic impact of growth of IT-BPO in the Philippines and lastly, to identify the drivers of quality and sustainability of the IT-BPO in general. The latter part of this paper is arranged as follows 1.1: Nature and Category of IT-BPO, 1.2: PH IT-BPO and its core competences, 2: Social and Economic Impact, 3: Quality and Sustainability of IT-BPO Industry, 3.1: Sustainability, 3.2: Quality and 4: Conclusion.

1.1. Nature and Category of IT-BPO

IT-BPO (Information Technology Business Process Outsourcing) is a method of subcontracting Information Technology enabled business related operations to a third party with the aim on improving a firm business process. It's now one of the fastest growing industries not only in the Philippines but also in other parts of Asia like India, China, Malaysia, Vietnam and Indonesia. According to the 2013 Top 100 Outsourcing Destinations Ranking made by Tholons, a service globalization and investment advisory firm, Bangalore India ranked first as one of the best location for outsourcing followed by Mumbai in India as well and third is Manila Philippines.

BPO or outsourcing is classified in many ways depends on where and how far the processes of a particular firm has been outsourced. On shore BPO is when a firm outsources its processes to another company located in the same country. Near Shore BPO is when processes are outsourced to a neighbouring country and Off-shore BPO is when a firm processes are outsourced to a remote or far off countries. Jobs performed in many BPO companies are also classified into two categories, Voice BPO is when the agents have to take or make calls to their clients while performing their assigned tasks, while non-voice BPO is when the agents uses emails and other software's in order to perform their assigned tasks. A company that utilizes Voice BP is well known as the contact/call centres while Non-voice BPO companies are those that are doing back office jobs, medical transcriptions, accounting, animations, software development, legal and medical services and engineering services.

1.2. PH IT-BPO Industry

IT-BPO industry in the Philippines had started in 1992 by one of the American Outsourcing Company Accenture. Most of the primary jobs performed in the industry during its early years in the Philippines were mostly voice BPO jobs. There was a vast emergence of Call Centres in the Philippines for the past 10 years until 2011 when Philippines outperformed India in terms of number Call Centre jobs/agents and even considered as the Call Centre capital of the world, but as the demand for outsourced services increases many other non-voice jobs has also been brought to the Philippines for the outsourcing companies to cope up with their respective demands.

Now, PH IT-BPO Industry is expected to generate a staggering 16 billion US\$ in revenue by the end of 2013. The number of employees employed in the industry had increased from 777,000 of last year 2012 to 960,000 this year 2013. More than 60% of the employment comes from Voice BPO and the rest is in non-voice BPO. After a decade, PH IT-BPO industry is still considered to be in its early stage and is expected to grow more in areas of non-voice BPO jobs like human resources, health care, tourism, banking, finance, insurance and accounting.

1.2.1 PH IT-IBO Core Competence

Currently, Philippines is one of the top destinations for outsourcing mainly because of its High English Proficiency. Majority of its population is able speak and understand English specially those who attained higher education. Filipinos are remarkably good in terms of speaking idiomatic American English. Also, Filipinos are good in terms adapting both Asian and American Culture which makes easier for them to empathize with their customer/clients especially in US.

The country is also considered to have an abundant supply of highly skilled and motivated workforce which makes them in demand not only in domestic market but as well as in many other countries. Operational and Labor Costs is also comparably lower in the Philippines than any countries in US and some others in Asia. Quality of ICT (Information and Communication Technology) infrastructures in the capital city of the Philippines is also good which gives them an edge from ICT infrastructures in

India. The government of the Philippines also provides fiscal incentives for foreign and local investors. These factors has considerable impact on decision making process made by foreign companies before outsourcing there services to the Philippines. A ranking in terms of its influence is illustrated in (Figure 2: Ranked of each factors according to its Influence).

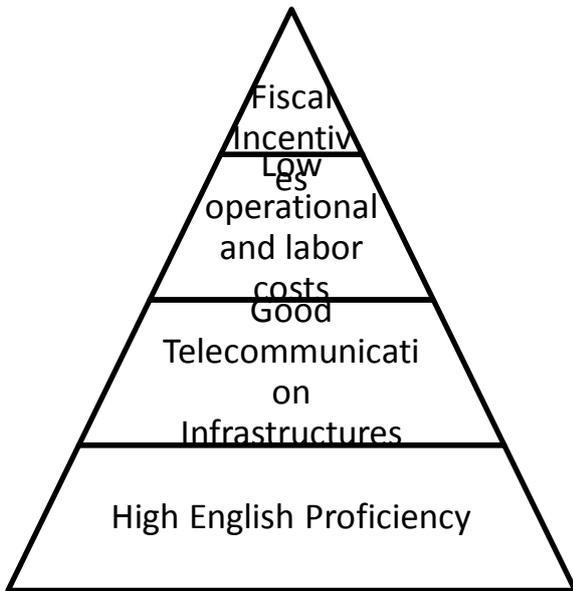


Figure 2: Rankings of Core Competences according to its level of Influence

2. SOCIAL AND ECONOMIC IMPACTS

The emergence of Call Centres and the growth of IT-BPO in general had surely brought considerable amount of benefits to the country’s economy. It provided more direct and indirect jobs for the people, improved community stability by lowering the number of Filipinos who has to go abroad for work and expanded middle class society by providing higher pay compared to other local existing jobs. But at the same time it created negative impact to the surrounding society who has been involved in its development process. Over all positive and negative impacts on society and economy are being showed in the below Figure 3:

Phase	Positive	Negative
Society	<ul style="list-style-type: none"> *CSR Programs (corporate social responsibilities) of many BPOs had help many communities that are in need *Improved Community Stability *Expanded middle class society (Improvements in Living Standards) *Empowerment of entrepreneurs *Given rise to issues like disaster management, privacy and cyber security 	<ul style="list-style-type: none"> *Caused stress and disrupted family lifestyles. *Disrupted social structures *24/7 Culture (females was force to work at night) *Income disparities
Economy	<ul style="list-style-type: none"> *One of the main contributors to the growth of economy *Provide more additional jobs *Growth in real estate and property development industry *Indirect impact to the lower-income groups *Empowerment of entrepreneurs 	<ul style="list-style-type: none"> *Dislodge Remittances from OFW's *Diminishing growth in Agriculture and Fishing Industry *Disrupted economic and labor market structures

Figure 3: Social and Economic Impact of PH IT-BPO

3. QUALITY AND SUSTAINABILITY OF PH IT-BPO INDUSTRY

There were few arguments whether IT-BPO services in the Philippines creates the same value as compared to other Asian countries like Indonesia, Vietnam and Malaysia and Singapore where in there’s a continuous growth in terms ICT infrastructure (See Figure 4: Competiveness and Innovation). Telecommunication and Industry infrastructures growth is comparably slow in the Philippines compared to the mentioned countries for the past two decades. In terms of sustainability, BPO managers as well other foreign investors are in a second thought whether the industry would be able to sustain in a long term run. The growing competitions among APAC (Asia Pacific) countries posses a treat to the growth of the industry domestically, also US government regulations towards their domestic companies outsourcing activities hinders the growth of outsourced jobs in the Philippines due to the growing complains from Americans that many of them find it difficult to get jobs inside the country.

According to the report done by Stephanie Dugdale, a student from The University of Arizona, many of the Americans viewed outsourcing in a negative way due to the fact that outsourcing would reduce American jobs.

There is also foreseen treat in the ratio of foreign investors compared local investors who are willing to invest in PH IT-BPO

Industry. Many local entrepreneurs are hesitant to enter the market due to high entry and exit barriers. Safety and Security inside the country is also a considerable factor that may possibly affect the decision making of foreign investors in terms of pursuing investments in the Philippines. Due to this reason, Government, Industry participants and many other non government organizations came up with a plan to improve the industry’s sustainability to reach its forecasted growth for 2016.

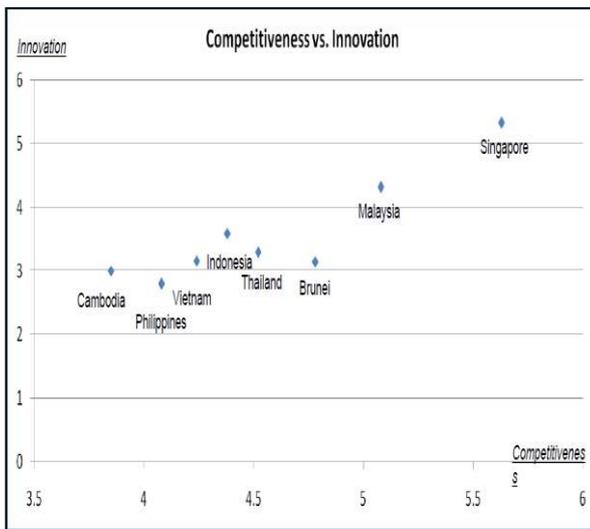


Figure 4: Competitiveness vs. Innovation
Source: Dr. Alvin Culaba, 2nd FGD on Competitiveness and Innovation “BPO Analysis”

3.1 Sustainability

The Road Map 2016 plan which is a collaborated effort between the mentioned parties (See Table 1 and Figure 5) aims to enhance the core competence of the IT-BPO industry by increasing investments in ICT infrastructure developments especially in growing provinces, Educational Reforms , more tax incentives for investors, conducting trainings and skills development programs with the partnership of other universities and as well as participation from other related organizations like BPAP (Business Processing Association Philippines). By 2016, according to the 2011 forecast issued by BPAP, the industry is expected to generate 25 billion US\$ of revenue which would account 9% share to the total amount of countries GDP. Direct employment is forecasted to reach 1.3 million and indirect employment up to 3.2 million.

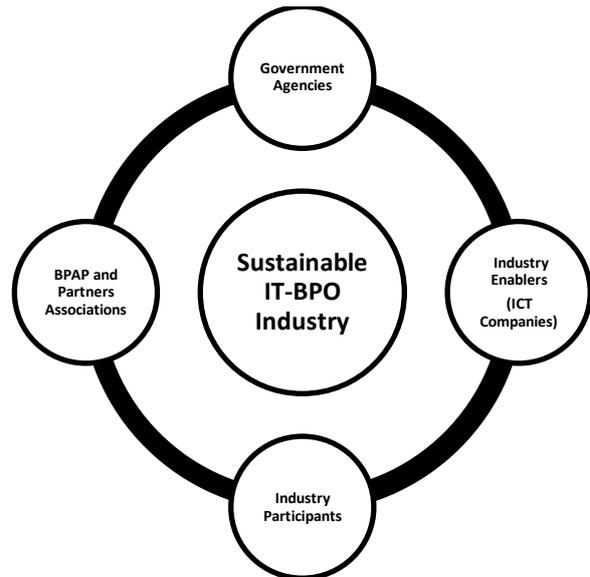


Figure 5: Collaboration between Government and Industry for Sustainable IT-BPO Industry

3.2 Quality

Philippines IT-BPO industry is gradually shifting from low-value (Voice BPO) to a nature of high-value (Non-Voice BPO) which means that demand highly skilled labor workforce is increasing. Outsourced non-voice services like Legal and Medical Transcription, animation, information technology, engineering service, digital content/game, accounting, banking, insurance and software support keeps on coming in leaving the industry with a major and growing challenge of hiring qualified workers though the labor is massively available, an educated and skilled labor force is underdeveloped to meet the needs of growing industries (Keitel. et al 2013).

Table 1: Road Map 2016 Initiatives

Participants	Initiatives
Government	<ul style="list-style-type: none"> • Tax and non-tax incentives -8%-10% cost reduction impact • Funding for Industry-Development Initiatives • Creation of regional ICT councils • National ICT Road Map • CHED, TESDA, DepEd instituted education sector reforms • Investor Enablement through PEZA and Other government initiatives

Table 1: Road Map 2016 Initiatives

Participants	Initiatives
Industry and related Organizations Initiatives	<ul style="list-style-type: none"> • Partnerships with universities • Company investments in Training • Participation in AdEPT, ELITES • Investments in Next Wave Cities™ • Investor guidance and Facilitation • Industry and Market development initiatives of BPAP and partner associations

Source: Everest Analysis. *Philippines IT-BPO Road Map 2016: Driving to Global Leadership*

CHED – Commission on Higher Education, TESDA – Technical Education and Skills Development Authority, DepEd – Department of Education, AdEPT – Advanced English Pre-Employment Training ELITES – Expanded Learning on IT-Services BPAP – Business Processing Association Philippines

For the past 15 years, the focus of IT-BPO industry in the Philippines is more on the language skills/talent of an employee’s which the main bases of hiring new applicants is. Language trainings are being conducted time by time inside the firm to improve employee’s ability to communicate with their customers especially in US. Applicants are normally hired whether they are or they are not familiar with the field that they applied for as long as they have good communication skills This in turns affects the quality of services provided by PH IT-BPO industry as the demand gradually shifts on a more complex type of services rather than by just simply making or receiving calls to and from their clients. This emerging issue prompted the government to invest more in Industry-based training work scholarship programs that trains the so called near-hire employee to equip them and make them for familiar of the nature of service that they are providing.

According to the latest Contact Centre Satisfaction Index Survey done by CFI Group, a US firm specialized in Customer Satisfaction Measurement using ACSI

(American Customer Satisfaction Index) in many different industries, the variables that has direct effects to the customer satisfaction in Contacts Centres which now includes not only voice services but also non-voice services are 1: Contact Process 2: Policies and Procedures 3. Representatives Knowledge 4.Representative’s Demeanour 5.They’ve used these five factors to evaluate the areas where BPO companies should focus in order to improve its overall performance. Results of the conducted survey showed that areas of focus should be concentrated in improving the firms contact process, policies and procedures and as well the knowledge of their agents in order to drive their customer satisfaction index higher.

In the case of Philippines, the industry itself is trying to cope up with these standards by providing rigorous specialized trainings to fresh graduates as well as to those that are already involve in the industry to increase the efficiency and effectiveness of its labor force. Also as mentioned in the previous chapters, the government had increased investments in areas of ICT Infrastructures Developments to furtherly improve the industry’s communication capability which has direct impacts on the firms contact process activity. But so far Philippines IT-BPO Industry especially the non-voice sector is still in its early stage and is seen to grow further in the coming years and thus living investors with questions whether the Industry would be able to sustainably provide highly skilled labor to perform complex task.

4. CONCLUSION

As the significance of IT-BPO industry in the economy of the Philippines grows, the government and the industry participants continues to seek ways on how to sustain the industry that could in turn benefit the country in the long run. Their focus turned to developing ICT infrastructures especially in other provinces considered as next wave cities and undergo skill development training programs. As the demand for a more complex nature of service, the industry is trying to cope up with its evolution to avoid issues of quality and sustainability of the industry based on its current capabilities.

Even though the growth of the industry had brought negative effects to both economy and society, this research had identified that impacts was in minimal level and is reversible by proper regulations towards the benefit of the society that is involve in the industry's daily activities . Right now, what the country needs is the sustainable supply of highly qualified skilled labor and based on the data's gathered by this research, this goal is attainable with the ongoing efforts conducted by both government and industry sectors.

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