

## Business process outsourcing: the Philippine experience

*J. Xavier Gonzales\**

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### Abstract

This paper seeks to benchmark the Philippines and India in the global outsourcing space for information technology (IT) and IT-enabled services (ITES) to elicit lessons learned from national competitive positioning and strategy execution. It characterizes the ITES industry's size, share of economic output, and growth prospects. Because the ITES industry has high labor value-added, the paper explores the quality of the human resources and its impact on industry growth, specifically citing the Philippines as a case example. Next, it examines the interplay of geography and demographics in generating industry scale, using as an example the emergence of Megam Manila as a concentrated conurbation for BPO and call center activity, with analogies created to the Indian regional economies. Finally, it assesses the externalities of public-private sector cooperation, multinational impetus, and market access to the end-user markets in fostering industry growth.

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### 1. Introduction

This paper will first examine the current state of the Philippine business process outsourcing (BPO) industry. It will then delve into analogies between the Philippines and India, since both countries share a similar economic and social milieu. Lastly, it will answer the question of the Philippines' capacity for growth in this sector, and provide suggestions on how to achieve it.

The export-driven sector of the Philippine BPO industry is estimated to employ about 120,000 by end of 2005, and expected to generate around US\$ 2.1 billion in annualized export revenues.

While software development shows the highest per capita revenue at US\$ 34,000 per systems engineer (the same as India's), headcount has remained pegged at 10,000, with Accenture accounting for over a third and the rest spread out in small quantities. As we all know, in the early 1990s, India redefined itself as the global knowledge capital of software and left all other countries nibbling at the edges.

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\*Chairman, Universal Storefront Services Corporation.

Clearly, the call center sector has been the big winner in the first half of this decade, growing from an estimated 4,500 agents in 2001 to 75,000 by end of 2005.

But how about the other sectors in the global BPO space? The "other BPO" sector—accounting, HR services, claims processing, and the like—is where the call center industry was two years ago. It has a larger pool to work on, and leverages a university system patterned after that of the United States. This sector shows great promise, but right now you can count the number of players with both hands.

The animation industry is a bit of a puzzle, because it went from about 20,000 employed five years ago to 5,000 today. There are a number of theories on its decline, ranging from technology underinvestment to cottage industry management to competition from Vietnam, China, and India. Maybe the phenomenon merits a case study.

The training period for medical transcription is four months for those with a medical science degree, and six for those without. We produce about 45,000 medical science graduates yearly and have sent a large number of doctors and nurses overseas, so this could be a sunrise sector.

By comparison, the semiconductor and electronics (S&E) industry, the nation's top exporter, generates US\$ 27.6 billion in revenues, or two-thirds of the country's trade and services exports, while employing around 376,000 (see Table 1). Reflecting the industry's size, investors poured in US\$ 492 million into S&E in 2004, compared with US\$ 147 million for the BPO sector. On the other hand, the employment profiles are completely different. BPO compensation is, on average, double S&E compensation at Php 20,000-25,000 monthly. Right now, after S&E and garments, BPO is the third-largest industry exporter. It also provides the largest employment value of the top three industries.

**Table 1. Semiconductor and electronics sector vs. BPO**

	<i>S&amp;E</i>	<i>BPO</i>	<i>S&amp;E / BPO (X)</i>
Revenues	US\$ 27.6 billion	US\$ 2.1 billion	13.1
Employment	376,000	120,000	3.1
Investments (2004)	US\$ 492 million	US\$ 147 million	3.3
Compensation	Php 10-12,000/mo	Php 20-25,000/mo	0.5

The call center industry accounts for 60 percent of the BPO sector revenues, but, as I will suggest later, it has the capacity to grow only at this year's hiring rate. Since I started in the business five years ago, agent compensation has grown by 80 percent. Still, developed economies speak of 30-50 percent savings by outsourcing to the Philippines, or to our major competitor, India.

India is the larger and more populous economy, but the Philippines is richer and more export oriented. Because they are the second- and third-largest English-speaking nations globally, and have a Western legal heritage, they get more than their fair share of BPO bids.

Both these countries epitomize the other half of the global economic divide, certainly on the physical infrastructure front, but more tellingly, on its human development face. The statistics shown in Table 2 came from the 2005 IMD *World Competitiveness Yearbook*, which involved 60 countries and regions. On R&D, health, and education, both countries—but even more so the Philippines—are at the rear of the bus.

**Table 2. Physical and social infrastructure: benchmarking with India**

<i>2004 IMD World Competitiveness (rank)</i>	<i>India</i>	<i>Philippines</i>
Roads (km/sq km)	0.8 (29)	0.6 (34)
Electricity costs for industry (\$/kwh)	0.080(42)	0.081(44)
Mobile telephone subs (per 1000)	25 (59)	270 (50)
Computers/1000	12 (59)	30 (57)
Internet users/1000	35 (59)	69 (57)
R&D/GDP (%)	0.84 (40)	0.14 (59)
Health/GDP (%)	6.1 (43)	2.9 (60)
Pupil/teacher ratio (prim)	40.2 (59)	35.4 (56)
Pupil/teacher ratio (sec)	32.4 (56)	38.3 (58)
Educ/GDP (%)	3.2 (57)	3.0 (59)

There is some way out of this morass, however, and for many, going overseas has been a ticket to a better life. Migrants, whether permanent or temporary, bring in US\$ 21.3 billion and US\$ 11.6 billion in remittances annually for India and the Philippines, respectively, according to a recent World Bank study (Table 3). After Mexico, both countries are the next-largest emerging market remittees. From a different perspective, manpower export is the second-largest export category in the Philippines, representing 27 percent of total exports and the largest economic value-added trade category. (As a further note, 51 percent of Filipino households with at least one family member working abroad belong to the country's top 25 percent family income earners, while 28 percent belong to the next 25 percent, with the average overseas Filipino worker [OFW] earning US\$ 778 per month or nine times of the per capita GDP.)

**Table 3. Manpower exports: benchmarking with India**

	<i>India</i>	<i>Philippines</i>
OCWs (million)	7	8
Remittances (billion US\$)	21.3	11.6
Remittances/Exports (%)	22	27
Remittances/GDP (%)	3	14
Remittances/capita (\$)	20	136
Remittances/OFW (\$)	3042	1450

Tertiary education has been the job qualifier for these migrants. If 20 million Filipinos (or 24 percent of the population) have a reasonable tertiary-level education and speak good English, then why would they not be in demand in a global economy with increasingly lower borders to trade and work?

**Table 4. Tertiary education: benchmarking with India**

	<i>India</i>	<i>Philippines</i>
Population (million)	1091	85
No. with tertiary education (million)	87	20
Percentage of tertiary educated over total population	8	24
Annual graduates (thousand)	1540	380
ICT graduates (thousand)	650	41
MS cert prof	100,000+	2,237

In fact, in the same World Competitiveness survey, when businessmen were asked to answer the question of whether skilled workers are readily available, on a scale of 1 to 10, the Philippines comes out number 2 (number 1, by the way, is Bavaria, a large region in Germany). It also stands somewhere in the middle of the pack in assessments of its educational system. Statistics out of India can be surprising. It has by far the largest illiteracy rate of the 60 countries or regions at 40 percent, yet because of its reputation for strength in science, engineering, and information technology, it ranks at the top in tertiary educational-system assessment.

There is a second job qualifier for migrants, one I would characterize as “global adaptability”—a personality set of language skills, flexibility, and global openness, which allows for ready adaptation in host countries. Here, the Philippines generally ranks in the upper quartile, and India in the second quartile (see Table 3). In fact, the conventional wisdom in BPO today is that the Philippines provides the best call center agents of the outsourced countries. And why not—for a country with a history of thinking American, feeling Spanish, and acting Asian?

**Table 5. Global adaptability: benchmarking with India**

<i>2003 IMD World Competitiveness (rank)</i>	<i>India</i>	<i>Philippines</i>
Language skills are meeting enterprise needs	7.53 (11)	7.41 (12)
National culture is open to foreign ideas	7.09 (27)	7.60 (14)
Flexibility/adaptability of people is higher when faced with new challenges	7.28 (16)	7.31 (14)
Customer satisfaction is emphasized in your economy	6.22 (37)	6.85 (22)
Entrepreneurship is widespread in your economy	5.78 (32)	6.29 (17)

So if the Filipino worker is competitive working in the back-offices of various industries in host countries, couldn't the work be brought here, where it can be done more cheaply with the same quality?

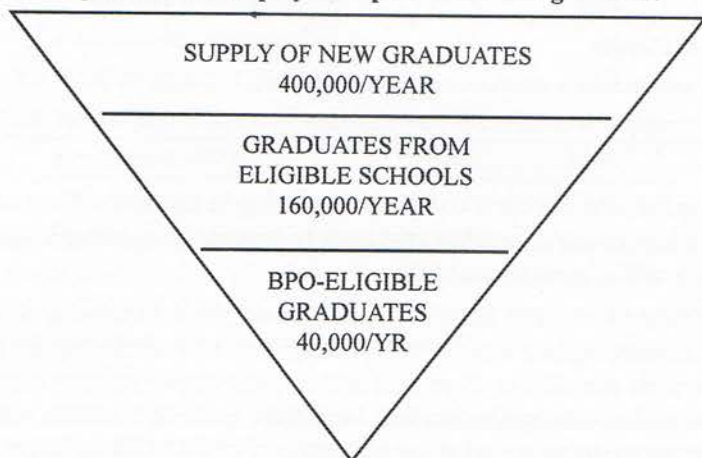
The answer is yes, and India is the best model for a successful outsourcing industry, commencing in the early '90s in Bangalore, and accounting for US\$ 12.8 billion in exports annually or 46 percent of Philippine semiconductor exports. The capital markets have recognized India's leadership in the BPO sphere, with its top five companies attaining a market capitalization of US\$ 47 billion, larger than the Philippine stock exchange market cap.

But while the economic factors are promising, the delimiting factor is BPO employables. In this respect, a major source is the currently employed, for which I estimate the eligibles at around three million, or 50 percent of the employment category of executives, managers, professionals, and proprietors (see Figure 2). A 0.2 percent shift of 60,000 annually because of compensation attractiveness is a reasonable goal here.

**Figure 1. BPO employment potential: career shifters**

The Philippines graduates about 400,000 college students each year, but based on our experience in this industry, higher-quality schools graduate 160,000, of which only 25 percent can fit into the higher-quality BPO jobs.

**Figure 2. BPO employment potentials: new graduates**



Our own call center experience suggests that for the first quarter of 2005, net new employees were 60 percent career shifters and 40 percent new graduates.

This all fits nicely with an extrapolation to an annual hiring capacity of 100,000 BPO employables, of which 35-40 percent are call-center eligible. Think about the scale, though, of employment if 100,000 jobs were feasible every year. That's 35 twenty-story buildings with 1,000 sq m footprint per floor. Where do we put all this space? The most natural conurbation to handle this growth is Mega Manila.

Mega Manila is about 13,000 sq km, or 4.3 percent of the Philippines' land mass. It has a concentrated footprint of 636 sq km in Metro Manila, and a hinterland in the north and south comprising three provinces with over 6,000 sq km each. It is a concentrated beehive of economic activity, accounting for an estimated 50 percent of the country's GDP.

Mega Manila is centered on the twin cities of Makati and Manila, which are generally one-and-a-half- to two-hour drive from the principal endpoints. The main traversal arteries are the North and South Luzon expressways, which provide a 140 km corridor connecting Metro Manila to the hinterland. Terrain is flat in the north and in the Metro Manila delta, with some rolling countryside in the east, and more rolling in the south. Freshwater sources from monsoon rains, the surrounding Sierra Madre mountains in the east, and the freshwater Laguna de Bay in the south provide an ample natural resource baseline for population expansion.

Metro Manila can also be divided into three segments: the suburbs; the light industrial cities of both the north and south; and the business, government, and logistics organizations at the metropolitan center. Metro Manila has a population of 10.5 million, 85 percent in the north and center, with the North and South Mega hinterlands carrying 6.8 and 7.2 million inhabitants, respectively, and growing at triple the Metro Manila rate.

Mega Manila generates 8.4 million jobs, or 28 percent of the country's employment, and 80 percent of BPO-eligible school graduates come from this region. This means that BPO sectoral growth is ultimately tied to the fortunes of this region.

A case study of where call centers have located in the Philippines is illustrative. Over the last five years, Mega Manila has taken 93 percent of the employment and Metro Cebu the remaining 7 percent. (Metro Cebu is 7 percent in population size of Mega Manila.) Within Mega Manila, Metro Manila took 89 percent of all seats; and within Metro Manila, Central Metro took two-thirds of the seats. With improvements in infrastructure, we expect North and South Metro Manila, and subsequently North and South Mega Manila, to immobilize employees from traveling to the city center within this 24.5 million conurbation.

**Table 6. Mega Manila call center geography**

<i>Region</i>	<i>No. of seats</i>	<i>No. of agents</i>
North Mega Manila	4,400	5,280
North Metro Manila	11,448	13,738
Central Metro Manila	34,735	41,682
South Metro Manila	5,700	6,840
South Mega Manila	2,000	2,400
Metro Manila	51,883	62,260
Metro Outskirts	6,400	7,680
Mega Manila	58,283	69,940
Cebu Province		
Metro Cebu	4,600	5,520
Philippines	62883	75,460

Mega Manila's potential can be benchmarked to other regions like Lombardy in Italy, or Maharashtra in India. Mega Manila is a highly concentrated locus of economic activity, with a population exceeding that of Australia and Malaysia. Are its issues closer to Maharashtra's? Should its developmental challenges be closer to Lombardy's? This is a good test for the government and the BPO industry going forward.

By the year 2010, Mega Manila will have a population of close to 30 million, hopefully supporting 200,000 call-center and 300,000 other BPO seats. Today, New Delhi, Mumbai, and Bangalore have a consolidated population of 45 million, supporting a slightly higher number with poorer infrastructure. Will the jobs come? That will require better execution.

We have not necessarily built a better mousetrap; in fact, we had excess occupancy capacity from the last Asian crisis, and the jobs came. What if the infrastructure were better?

It all starts with the roads. Complete the last leg of the SLEX to Batangas City, and upgrade SLEX to where the NLE is today. Do a Metro Manila Skyway connecting the NLE and SLEX. That's 60 km more to complete a 200 km north-south stretch. Open up the northeastern hinterland with C6, and the southwestern leg by extending the Cavite Expressway. Open up mass access within Metro Manila by completing the mass transit grid. That's the LRT1-MRT3 loop, MRT4, and MRT7. Open up mass access within Mega Manila by rehabilitating North and South Rail, which parallel the NLE and SLEX. Develop better access to Batangas City port in the south and Subic port in the north with the Subic Expressway to decongest Manila. Make the Clark and Basa airports in the north and south friendlier to regional travelers. Open up NAIA 3. Is that a decade's worth of work? Is that too tall an order? Are we still in the drawing board phase?

India is certainly not sitting back. Cisco recently announced a US\$ 1 billion investment in its Indian operations. When Boeing announces that it is working with HCL Technologies of India to co-develop software for everything from navigation systems to landing gear and cockpit controls for its new 7E7 Dreamliner jet, and India boasts annual R&D outsourcing contracts of US\$ 1 billion, they set a good example for us to follow.

Look at this headline from the 23 March 2005 issue of the *Asian Wall Street Journal*: "GE, India: History of Mutual Benefit", whose subhead reads "Corporate Giant Fostered Nation's Business Acumen, Fueled Outsourcing Trend". The article goes on to draw up a history of how General Electric (GE) started the global outsourcing revolution after a Jack Welch visit in 1989. In 1990, GE formed a joint venture to develop and market medical equipment in India with Wipro, a vegetable oil and manufacturing company, transforming itself into a software player. Wipro is now one of the top five Indian information technology-enabled services (ITES) companies with 40,000 employees and a market capitalization of US\$ 11 billion. In 1995, GE commenced subcontracting software development and maintenance to Indian companies. It still accounts for 15 percent of Tata Consulting Systems' (TCS) overseas revenue. TCS is the largest of the Indian big 5, with a market capitalization of US\$ 16 billion. In 2000, GE inaugurated the Jack Welch Technology Center in Bangalore, and planned to spend US\$ 600 million in 2005 on computer software development from Indian companies. In 2004, GE sold 60 percent of its 17,000-strong in-house India-based ITES company for US\$ 500 million.



We can never underrate the externalities of business acumen, branding reputation, and world-class processes that a trophy multinational brings to a company, industry, or country. In our case, the Customer Contact Center Inc.'s (C3) first international client was a world-class financial services institution, and our association with this institution established our reputation for quality service, while enabling us to attract other world-class customers.

In the software development space, Accenture is clearly the Philippine market leader with close to 4,000 developers. HSBC is opening a 40,000 sq m facility in Alabang for 6,000 in-house servicing employees. Dell is consolidating upward of 3,000 agents. There is clearly promise here—and scale.

There is a limit to growth, however, which is set by the quality of the employee base, currently at 100,000 annually. The challenge is to expand labor capacity.

Thus arises the need to cultivate the country's university system. Initial efforts at upgrading English capacity focused on entrepreneurs creating new schools with adjunct training courses. This has not and will not be as successful in the long term, however, as this entails working directly with the existing universities in embedding call center speech and communication standards in the curriculum, and training the teachers who will develop their wards' English communication skills. As an example, C3 worked with Lyceum of Batangas on its curriculum to improve its English diagnostics results. Of the 42 tested, only one met the standard for neutral sound, proper sentence structure, and confidence in self-expression; 11 others diagnosed with inconsistencies that could be remedied with a semester's training; and the remaining 30 needed intensive training over an extended period, especially in basic grammar. Speech labs and apprenticeship programs further supplement curriculum development.

Let us now discuss a second intervention: a rigorous focus on quality standards of certification.

To do this, let us look to India, which has wholly embraced the articulation and promotion of quality standards of certification for the software industry. A perusal of the website of the National Association of Software and Services Companies (NASSCOM) focuses on the breadth of India Inc.'s CMM level 5 certification. The website goes on to cite Indian companies opting for international security standards such as ISO17799, BS7799, COBIT, and ITSM. C3 was the first and, until recently, the only call center in the Philippines with dual ISO 9001:2000 and BS7799 certifications. Prominently displayed in our center, these provide a good housekeeping seal of comfort to our customers on the rigor and consistency of our work and security processes. How many CMM level 5 certifications exist in the Philippine software industry? Adherence to standards and certifications is about branding, and India has provided the appropriate benchmarks that its customers appreciate and understand.

Finally, special mention must be made of using standards to upgrade training capacity. The entire BPO industry has given new meaning to the term adult education, with its focus on experiential learning. Foundation and product training, classroom and on-the-job training and refresher courses, lecture supplemented with competency-based training (CBT), help desk manuals and FAQs, training flashes and case conferencing, and coaching huddles, all require a strategic vision of how to maximize learning in a high-pressure nonacademic environment, a keen understanding of course design, and a communicating and motivating floor leadership. The concept of pocket learning and certification can make lifelong learning a more desirable reality.

To sum up, this paper examined the two critical factors to the Philippines' current success in the BPO arena—a competitive tertiary educational system and an endearing personality profile successfully honed in a global migrant environment. Comparisons and lessons from India were drawn to highlight these factors.

We also note that the BPO human resource capacity is limited by the quality of our graduate pool, which in the short term can be offset by hiring career shifters, with a 100,000 employee yearly hiring potential. Thirty-five to 40 percent of these potential hires are call-center based and 60–65 percent are other BPO-based.

Finally, we suggested initiatives in infrastructure investment, particularly in Mega Manila; developing alliances with multinationals; and enhancing continuing education programs to give impetus to expanding our human resource capacity.

As a final note, let me end with a reference to a speech I gave on an interesting book called *Blue Ocean Strategy* [2005]. I hope this is no too much pop economics. A blue ocean strategy is one that creates uncontested market space and captures new demand for a product or service, thus rendering competition irrelevant. The most oft-cited example is Cirque de Soleil, which redefined the whole circus industry as adult instead of family entertainment, as a theater night-out option, with the lower-cost structure of an ensemble instead of high-maintenance stars and animals. A blue ocean strategy involves the simultaneous pursuit of differentiation and low cost to transform an industry.

Differentiation in the Filipino's national character is uncontested. Because of a unique set of historical circumstances, as mentioned earlier, we think American, feel Spanish, and act Asian. The gene pool is hard to copy. If it can express itself more in English, all the better for us. Low cost, on the other hand, derives from the scale economies that come from being in knowledge networks, with common standards of excellence, surrounded by a responsive, linked infrastructure. The fun—or should I say the hard work—begins with execution. That, to some extent, requires a national spirit.

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