

Business Process Outsourcing in the Philippines

Perception, as defined by Cambridge Dictionary, is a belief or opinion, often held by many people based on how things seem. I like this word because people usually see things differently – for others it may be good, for other unpleasant. If we relate perception with globalization, this will always be mixed because the effects will continue to be mixed, depending whether you are receiving the positive or negative effects of it. In class, we have discussed the negative effects or challenges of globalization. For my essay, I wanted something different, I would like to share with you, and more over give emphasis on the positive effects, especially economic effects in my country from the world’s interconnectedness, especially in the rise of a particular service sector in my country which is Business Process Outsourcing in the Philippines. I personally chose this topic because I myself am a “product” of a Business Process Outsourcing industry.

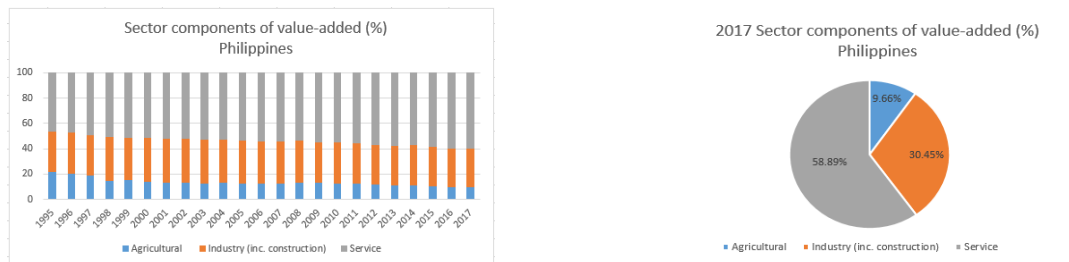
Business Process Outsourcing

Business Process Outsourcing (BPO) is defined by the International Labour Organization as the transfer of a company’s *non-core* activities to a third party that uses information technology for service delivery. “Depending on the specialization, and type of control the leading firm is willing to relinquish, business process are usually outsourced either to an independent third party or a Multinational Enterprise subsidiary, also known as *global in house center* . In my case, I have worked in the latter, working for Thomson Reuters (main competitor is Bloomberg) for 8 years and 4 years in Baker & McKenzie a leading global law firm.

History and Trends in BPO in the Philippines

In the Philippines, Business Process Outsourcing started in 1992 by Frank Holz, when he established the first contact center for Accenture in the Philippines. The main type of BPO started with contact centers, then later on shifted to different type of outsourcing (non-voice) activities such as IT Services Outsourcing, Data Entry, Financial Services Outsourcing, Engineering and even Legal Shared Services. In some BPO industries, you interact with clients (usually in the contact center industries), but others BPOs, like where I worked in, interaction is with internal clients, which are within the organization. Ever since its launch, the Philippine service sector has grown by over 10 percent in terms of value added while both agriculture and manufacturing sectors have declined by 22 and 10 percent respectively. This growth in service has paralleled growth in the Philippines BPO industry. Indeed, the BPO sector has tripled its global market share from 4 percent in 2004 to 12.3 per cent in 2014; by 2020 it is expected to further increase its share to **19 percent** . Moreover the Philippines BPO industry **outperformed** the **world’s BPO** industry performance , posting an average growth of around 9 to 12 percent between 2004 and 2014, while globally the BPO industry registered growth of around 5.7 percent during the same period. ¹

Figure 1: Sector components of value-added (%) Philippines



Source: World Bank , <https://data.worldbank.org/>

(side note : in one of your classes, you mentioned exactly this trilemma - that one industry will stand out and it is impossible to strike a balance for all industries).

One might ask what brought about this growth in the country? The main drivers of BPO in the Philippines can be attributed to the following:

- Low labour cost and a highly skilled workforce
 - Even though quality is often associated to high prices, BPO workers in the country can produce high quality of work
- Competitive ITC infrastructure
- Government tax incentive

¹ Errighi, Lorenza; Bodwell, Charles; Khatiwada Sammer. (2016, December). *Business Process outsourcing in the Philippines: Challenges for decent work* . Retrieved from https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms_538193.pdf

- The Philippine Bureau of Internal Revenue (BIR) offers most offshore contact centers and other BPO solutions companies operating in the Philippines a primary four –year exemption (and a supplementary two-year exemption) from Philippine corporate income taxation.²
- Command of the English language
 - In the 2018 EF English Proficiency Index, (a ranking of countries or league table of countries by the average level of English language skills amongst adult that took the EF test.) the Philippines ranked # 14 of 88 countries and ranked # 2 in Asia³. I would like to point out that aside from having a high level proficiency in English. We have a neutrally accented English language (compared to the BPO workers in India). The A.T. Kearney Index also notes that Filipino workers, especially in the BPO industry “have a neutral accents that are more closely aligned to American customers.”⁴ Moreover due to our historical ties with the west, (especially to the US); There is also a deep connection with Western values, culture, pop culture even up to the present.
- Low cost and high quality of real estate in the country
 - Most of the “grade A “ real estate are occupied by companies.

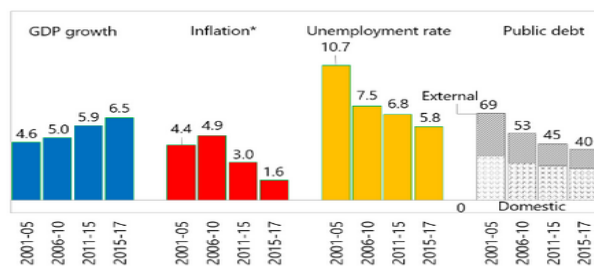
Effects of the BPO Industry in the Philippines

Positive Effects

The strong BPO industry in the country has contributed to the development in the Philippines, it is also the largest source of contributor of foreign exchange earnings after remittances, according to the Oxford Business Group. In addition, the International Monetary Fund projected a growth of 6.5 percent in 2018 and a 6.7 percent in 2019 .

Figure 2: Philippines Economic Performance

(GDP Growth, Inflation and the unemployment rate are in percent, and public debt in percent of GDP)



Sources: Bangko Sentral ng Pilipinas.
Note: Inflation averages are based on the series using 2012 as a base year.

Source : *The Philippines' Economic Outlook in Six Charts* (<https://www.imf.org/en/News/Articles/2018/09/27/na092718-the-philippines-economic-outlook-in-six-charts>)

Also, in an article by Reuters, published last November 2017, the BPO Industries has employed about 1.15 million people. I could not stress enough this importance because in my country, a lot of people go abroad for the following reasons: they want a higher salary or better opportunities, some go abroad because they can't find work in the Philippines due to age limit here in most companies, particularly Filipino companies, and lack of a university degree). In the BPO sector in my country, there is no age limit and although having a university degree is an advantage, you can still get hired as long as you pass the hiring exam and requirements. In some cases, young Filipino adults can't afford to go to the university and finish their courses, so what they do is they usually work in a call center to save, then later on get their degree. Although working in a BPO industry may not be the dream job of some people, at least having a fall back is always better than being unemployed ; or people can opt to find a job in the BPO than finding work abroad and being far away from home or family. The monthly compensation of BPO employees is also very attractive – as the average compensation in BPO more than double as compared to the Philippine average wage. Compensation increases year after year, making the industry more progressive. In addition to the decline of unemployment and overall economic growth of the country, this also had a positive effect on real estate of the country as Philippine firms have been developing more office spaces to accommodate the ballooning business process outsourcing.

Aside the economic benefits of Business Process Outsourcing, one affirmative effect is also the increased support and initiative of the government on educational and vocational skill trainings for Filipinos –particularly for this industry. For example, last 2015, our Technical Education and Skills Development (TESDA) infused PHP 65 million (Euros1.083 million) for training fund the IT BPO Industry.

² Magellan Solutions, *Government Incentive* Retrieved from <https://www.magellan-solutions.com/call-center-industry/government-incentives/>

³ 2018 EF English Proficiency Index; Retrieved from <https://www.ef.com/wwen/epi/regions/asia/philippines/>

⁴ Digital Marketing Philippines; *2018 Edition, The Outsourcing Industry in the Philippines* Retrieved from <https://digitalmarketingphilippines.com/the-outsourcing-industry-in-the-philippines-2018-edition/>

Negative Effects

There are also some challenges in this industry. The most pressing in my opinion would be health issues. Since most of external and internal clients are abroad, normally, employees working in this industry work on a graveyard shift, depending on the market (example US market, EUROPEAN market) you are assigned to. Having a graveyard shift can cause disruption in the employees work-life balance, sleep patterns and affect their psychological well-being. Harassments from irate clients is also an added stress (as Filipinos, culturally we belong in the high context communication while Westerners belong to the low context spectrum, as result, Filipinos are not used to receiving negative feedback or criticism). It is also alarming to know that workers in this sector experienced a high incidence of HIV/ AIDS than other sectors in the Philippines. In a study conducted by the Philippines Population Institute (UPPI) last 2010 entitled "Lifestyle and Reproductive Health Issues of Young Professionals in Metro Manila and Manila Cebu", showed that Filipino workers in contact centers faced a higher probability of exposure to HIV/AIDS, the stress they experienced in the workplace, among other factors, could encourage risky sexual behaviour.⁵ In my opinion though, aside from the high level stress, it is the night shift schedule that changes the dynamics of relationships, causing infidelity and promiscuity in the work place, thus eventually leading to high incidence of HIV/ AIDS.

It is surprising to know as well that in the BPO industry – worker's union are almost non-existent in the Philippines. This is due to the following reasons: Salaries and working conditions are already above national standards, union activity is seen by employers as unnecessary and is something that would risk impairing the industry's competitiveness and growth, BPO workers tend to solve their issues in the HR department and lastly BPO workers tend to go from one contact center to another, also known as "call center hopping" than to ask either directly or through a trade union for better working conditions from their current employer. Because unions are non-existent in the BPO sector, workers voices and representation remain weak, undermining prospects for decent work.⁶

Threats of BPO Industry :

The rise of Artificial Intelligence can be seen as a foreseeable threat in the BPO industry in the country. Artificial Intelligence, which may dilute the country's biggest advantage: which is English proficiency. AI can also take over 40,000 to 50,000 "low skilled or process-driven jobs" Despite this threat, the BPO industry in the Philippine is changing its strategy, shifting into a higher level skill and value added services and move from BPO to KPO (Knowledge Process Outsourcing).

Opinion:

Despite the negative effects of BPO in terms of health and in relationship in some cases. I personally believe that the good effects of BPO industry outweighs the negative. Based from my experience working in a global shared service industry, I have learned a lot about other industries or markets as well. (I started as an analyst for the Lat AM and Spanish Financial Market for Thomson Reuters, although I had no prior background on economics or finance, I have acquired knowledge on Capital Markets and M&A and this has been basically the backbone of my career for almost 13 years.) Working in a BPO/ Shared Services is not entirely bad at all and it is not also a dead-end career as some people may put it. Because good companies (like Thomson Reuters and Baker McKenzie) are also concern about the professional development of its employees and Human Resources would really create programs to increase your soft skill and technical skills. At times, they would also send you abroad for other assignments which can further expand your skills as well. (I have been sent to India, Poland and the UK to facilitate training program which was a very enriching experience). Colleagues abroad treat you also as an equal and your ideas also matters. What I like about BPO is that in terms of decision making and communication - it is more collective, rather than in Asian culture which is more hierarchical. However, what I did notice that most of the general managers of these BPOs are from the West and there seems to be few opportunities for Filipino managers to be in the "top level" management. Although BPOs are usually non-core services, I would like to see people from the BPO services, particularly women to 'break the glass ceiling' that workers doing non-core activities can contribute in making strategic decisions for the whole organization as a whole.

That concludes my story. I wanted this essay to be different as you mentioned in the class that we should write something that we know, and I wanted to take this opportunity to share my personal "perception" on how globalization has made a significant impact to my country.

On another note, thank you also for the time in reading my simple essay. Wishing you more trilemmas in the future ☺

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⁵ Errighi, Lorenza; Bodwell, Charles; Khatiwada Sammer. (2016, December). *Business Process outsourcing in the Philippines: Challenges for decent work*. Retrieved from https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---sro-bangkok/documents/publication/wcms_538193.pdf

⁶ Ibid.

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