# IT-BPO INDUSTRY PROFILE, PROSPECTS, CHALLENGES AND ISSUES FOR GROWTH AND EMPLOYMENT

Written by
Tereso S. Tullao, Jr., PhD
Rhory Fernandez
Chris Cabuay
Denise Serrano
School of Economics,
De La Salle University

## INTRODUCTION

The Information Technology – Business Process Outsourcing (IT-BPO) Industry is one of the most dynamic emerging sectors of the Philippines. It has expanded widely and it exhibits great dynamism, but people have the notion that the BPO industry is solely comprised of call centers, when it is actually more diverse with back-offices, knowledge process outsourcing, software design and engineering, animation, game development, as well as transcription. These sub-sectors are still small in terms of the number of establishments, companies and employees, but they are growing steadily, supported by several government programs and industry associations. Given such support and in addition, the technology-intensive nature of the sector, the IT-BPO industry could significantly shape the future of the services industry of the Philippines.

## NATURE OF THE PHILIPPINE IT-BPO INDUSTRY

The Information Technology – Business Process Outsourcing (IT-BPO) Industry is one of the most dynamic emerging sectors of the Philippines. It has expanded widely and it exhibits great dynamism, but people have the notion that the BPO industry is solely comprised of call centers, when it is actually more diverse with back-offices, knowledge process outsourcing, software design and engineering, animation, game development, as well as transcription. These sub-sectors are still small in terms of the number of establishments, companies and employees, but they are growing steadily, supported by several government programs and industry associations. Given such support and in addition, the technology-intensive nature of the sector, the IT-BPO industry could significantly shape the future of the services industry of the Philippines.

Nature of the Philippine IT-BPO Industry
The industry has eight sub-sectors: contact centers, knowledge process outsourcing and back offices, software development, animation, game development, medical transcription, and engineering design, wherein the bulk of employment is in contact centers. The specialization, conditions and requirements of the industry's workforce vary in the different sub-sectors, but all employees are required to be technologically literate,

not just in basic computer applications, but also in advanced applications, particularly programming, animation and video-editing. Call center employment has also increased significantly in recent years, but the industry contributed only 0.74% of total employment in 2006, growing at an average rate of 0.22% per year (NSCB, 2008: www).

The Philippines' share in global Off-shoring and Outsourcing (O&O) grew to 15% in 2008, the third largest around the world. In the same year, the industry contributed 3.6% to the country's GDP and 12.36% to exports, in particular, the export of services (NSCB, 2008: www).

Off-shoring describes the relocation of a company's business processes like manufacturing, operations, and support processes such as accounting and customer service to other countries, particularly in global production networks. On the other hand, outsourcing involves contracting a third party to perform a company's necessary processes in place of an internal source. The recent trend of outsourcing gives rise to the concept of off-shoring, which is not only about foreign inputs working domestically, but also cross-country collaborations.

## RECENT LEGAL AND INSTITUTIONAL DEVELOPMENTS

The implementation of the Roadmap 2010 set by the Business Processing Association of the Philippines (BPAP) aimed to capture 10% of the global O&O market by 2010. With the help of some government policies, particularly Executive Order No. 561, which enabled the establishment of Philippine Cyber Corridor in 2006 that provided an ICT belt across the country and reduced bandwidth costs by 85% (Tullao, Fernandez, Serrano & Cabuay, 2011), the roadmap was successful in

reaching its goal. Currently, BPAP extended its aforementioned endeavor with "Roadmap 2016: Driving to Global Leadership". As characterized by a news article by Hamlin (2011), this new roadmap aims to capture US$270 billion of the global O&O market by 2016, while doubling revenues by US$25 billion. Achieving this goal will generate nearly 1.3 million jobs and will contribute 12.5% to the Philippine's GDP.

## PROSPECTS, CHALLENGES AND GROWTH POTENTIALS OF THE INDUSTRY

Outsourcing has been a global phenomenon due to integration and intense competition among businesses; it provides competent, yet cost-efficient labor. In terms of employment, service exports have strongly increased and the IT-BPO industry has created a significant number of jobs, but companies still have a difficult time finding suitable candidates for emloyment.

According to the A.T. Kearney Global Services Location Index of 2011, the index that analyzes and ranks the top 50 countries that provide the best outsourcing activities, the Philippines currently ranks 9th, with an index score of 5.65. The index is from 0 to 10; 40% of the index score is based on financial attractiveness (the Philippines scored 3.18); 30% is based on people skills and availability (the Philippines scored 1.31); and 30% is based on business environment (the Philippines scored 1.16).

In terms of financial attractiveness, the Philippines ranks 7th because of the inexpensive compensation costs, but it scores low in infrastructure costs, and tax and regulatory costs. The Philippines is 21st in people skills and availability because of qualities such as level of education, relevant experience, language capabilities, size and

availability of the labor force. On the other hand, the Philippines ranks 42nd out of 50 countries in terms of business environment. It ranks low since the Philippines has relatively great country risk, low country infrastructure and cultural exposure, as well as low security against piracy and intellectual property theft.

Overall, the Philippine IT-BPO industry has the potential to be at the forefront of the global BPO race, but the following must be accomplished: 1.) development of stringent legal frameworks for the industry; 2.) education and an increase in citizen awareness on developments in ICT; 3.) development of the industry's human resource pool; and 4.) establishment of additional and necessary infrastructures.

## DEVELOPMENT OF LEGAL FRAMEWORKS.

All developments that will be facilitated by the IT-BPO industry will be anchored on how the government will act to improve the sector. Without effective and sufficient government policies, the industry will be inefficient. Arangkada Philippines (2010) suggests that to strengthen the legal and regulatory framework of the industry, there is a need to establish a Department for Information and Communication Technology. The Cybercrime Prevention Act and Data Privacy Act should also be passed in Congress to better protect intellectual property rights in the country.

## DEVELOPMENT OF CITIZENS' ADAPTABILITY TO ICT.

In addition, to facilitate better citizen reception, there is a need to develop a highly positive and supportive public environment for the industry, informing all stakeholders of the industry's contribution to the economy, and correcting industry misperceptions (Arangkada Philippines, 2010).

Providing national Internet access and computers to all households will help educate Filipinos on the advantages of ICT. The use of computers and basic office software should also be taught in all schools, from primary to tertiary levels, to reinforce ICT developments.

Views on IT-BPO occupations should be repositioned to correct misperceptions. There is a growing view that occupations in the contact-center sub-sector are dead-end or low-end jobs, when they are veritable occupations that the Philippines may specialize in (Tullao, Fernandez, Serrano & Cabuay, 2011). Employees from such occupations are good English-speakers, flexible to individual and team works, and well versed in computers, particularly those in the animation and software development sub-sectors. Fortifying the creative sub-sectors that are more inclined to advertising, animation, culinary arts, film, literature and music will also improve the perception towards the IT-BPO industry since the public's gauge on the industry will extend from mere knowledge and information management provider to catalysts of employee creativity and talent. To make activities in the creative sector more apparent, local and foreign talents could display their works, and give lectures and advanced trainings through the Recreation of the Design Center of the Philippines. This will also be in line with curriculum realignment and training to match the needs of the sector (Arangkada Philippines, 2010).

## DEVELOPMENT OF HUMAN RESOURCES.
The industry has expanded rapidly, employing around 12,000 full-time employees in 2009, but the employee pool is still insufficient. The growing industry needs a more robust talent supply, both in quality and quantity (Arangkada Philippines, 2010). Philippine educational institutions are not providing a sufficient number of graduates to meet the labor demands of the industry. The academe produces an adequate number of graduates, but many graduates take courses either unrelated or uncomplimentary to outsourcing. Consequently, companies need to spend on training and retraining new hires to match their skills and the needs of the industry (Arangkada Philippines, 2010).

There is a need to establish schools that are geared towards education on IT-BPO functions. Although many applicants with tertiary education diplomas apply in BPO firms, their skill levels do not meet industry requirements. Only 6-10% of the applicants are effectively recruited and deployed for an entry-level job (Ortiz and Capistrano, 2009). Establishing schools specializing in IT-BPO functions is necessary to close the education gap and to resolve employment mismatch. In line with this, training programs to increase faculty trainers' proficiency on the industry's workings should be developed. TESDA-accredited technical and vocational schools are already offering short courses on call center training and medical transcription, which may be beneficial to companies in reducing costs, but this does not make it more appealing to high school graduates whose parents want them to finish lucrative or professional courses. Arangkada Philippines (2010) suggests the development of Service Science Management Engineering (SSME) started by IBM, which is the interdisciplinary approach to the study, design and implementation of services system, or the application of science and engineering to processes the industry usually needs. This has been implemented

in universities in China, and has contributed greatly to the development of their IT-BPO industry. Introducing the SSME course will serve as the starting point for the development of careers in the IT-BPO industry; training in the technical and vocational schools should be more than enough to guarantee a position in the industry.

Using English as an instructional medium in all schools and adopting a National Competency Test for private enterprises to have a better basis for hiring new employees will also benefit the industry (Arangkada Philippines, 2010).

## DEVELOPMENT OF TELECOMMUNICATIONS INFRASTRUCTURE.

Modern telecommunications and information technology is vital not only to the development of the industry, but to the growth and efficiency of the Philippine economy. Telephones, mobile phones, Internet access, and various cable and satellite technologies help businesses perform their daily processes. Despite being a catalyst to effective and efficient operations, infrastructure development in the country is still behind countries like Singapore, Vietnam and Malaysia. To improve this, programs that will provide inexpensive access to information and communication technology, and e-governance should be implemented. Arangkada Philippines (2010) suggest to overhaul R.A. 7925 (Public Telecommunications Policy Act), and amend it to authorize full convergence and to strengthen the pricing methodologies and competition-related provisions of telecommunications companies, to double computer and internet access penetration for most Philippine households. Free wireless Internet services should be provided in public high schools as well as densely populated areas in the country. Doing so will improve infrastructure and provide citizens much-needed awareness on ICT, and train them to be more proficient in using available technologies.

Cultural barriers such as negative mentalities against the occupations that are essential to the industry should be eliminated. It should be accepted that the IT-BPO industry is actually something the Filipinos are good at, and that it is a potentially strong driver of growth and development, not only for the Services Sector, but for the entire economy as well (Tullao, Fernandez, Serrano & Cabuay, 2011).

## REFERENCES

Arangkada Philippines 2010: A Business Perspective. Business Process Outsourcing (BPO). Joint Foreign Chambers Advocacy Paper.

Arangkada Philippines 2010: A Business Perspective. Creative Industries. Joint Foreign Chambers Advocacy Paper

Arangkada Philippines 2010: A Business Perspective. Infrastructure: Telecommunications and information technology. Join Foreign Chambers Advocacy Paper.

A.T. Kearney, 2011. Offshoring Opportunities Amid Economic Turbulence. The A.T. Kearney Global Services Location Index, 2011.

Hamlin, M., 2011. IT-BPO Road Map 2011-2016: Driving to Global Leadership. Breakthroughs! Business Processing Association of the Philippines, October 2010-January 2011, vol.4 No.4.

Office of Economic and Commerce of the Embassy of Spain in Manila (OECESM), (n.d.). The BPO Sector in the Philippines. Instituto Espanyo de Comercio Exterior.

Ortiz, M.A., and Capistrano, M.V., 2009. Assessment of training policies of CHED, TESDA and Industry to Address Employment Mismatch. Universal Access to Competitiveness and Trade (UACT) in cooperation with the International Labor Organization (ILO).

Tullao, T., Fernandez, R., Serrano, D., and Cabuay, C., (2011). Career Guide on the IT-BPO Industry. Career Guides on Selected Industries, Department of Labor and Employment, Bureau of Local Employment in cooperation with the Angelo King Institute, De La Salle University.

## WEB REFERENCES

National Statistical Coordination Board – www.nscb.gov.ph

**CONTACT INFORMATION**

**DLSU - Angelo King Institute**
Room 223, St. La Salle Hall
2401 Taft Avenue
1004 Manila

Angelo King International Center
Corner of Arellano Avenue and Estrada Street
1004 Manila

+63-2-524-4611 loc. 287,
+63-2-524-5333, +63-2-5245347 (Fax)
http://aki.dlsu.edu.ph
AKI@dlsu.edu.ph