

# **Capability Building for the BPO Industry as seen through Developments in the International Division of Labor**

Ermelo T. PICO\*

## **Introduction**

The Philippines has missed out on the agricultural revolution. Despite being the home of the International Rice Research Institute (IRRI), the oldest and largest agricultural research institute in Asia, the country has remained an importer of its staple food rice from present-day agricultural powerhouses Vietnam and Thailand.

The Philippines has also missed out on the industrial revolution. A classic example of failure to industrialize is the country's Progressive Car Manufacturing Program (PCMP). Launched in 1971, the PCMP failed to produce a Philippine-made car or develop small to medium sized enterprises for the domestic manufacture of automotive components for export.

This time around, the Philippines is poised to miss out on the services revolution.

In 2004, management consultants A. T. Kearney published an annual index to help companies understand and compare the factors that make countries attractive as potential locations for offshore services. The Offshore Location Attractiveness Index measured the viability of countries as offshore destinations for the most common remote services, inclusive of IT services and support, contact centers and back office support. The index ranks countries based on a

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\* Graduate student, UP School of Labor and Industrial Relations

number of measures (Table 1) which are grouped under three major categories: financial structure (renamed financial attractiveness in subsequent indices) – 40%; people skills and availability – 30%; and business environment – 30%.

Table 1 – Top ten countries for service offshoring (2004-2007)

Rank	2004		2005		2007	
	No. of measures = 39		No. of measures = 40		No. of measures = 43	
1	India	7.12	India	6.87	India	7.00
2	China	5.61	China	6.14	China	6.56
3	Malaysia	5.59	Malaysia	6.07	Malaysia	6.12
4	Czech Republic	5.58	Philippines	5.78	Thailand	6.02
5	Singapore	5.46	Singapore	5.73	Brazil	5.89
6	Philippines	5.45	Thailand	5.72	Indonesia	5.82
7	Brazil	5.44	Czech Republic	5.58	Chile	5.76
8	Canada	5.42	Chile	5.58	Philippines	5.75
9	Chile	5.37	Canada	5.52	Bulgaria	5.75
10	Poland	5.33	Brazil	5.50	Mexico	5.73

Source: "Making Offshore Decisions". A. T. Kearney's 2004 Offshore Location Attractiveness Index; "Building the Optimal Global Footprint". A. T. Kearney's Global Services Location Index, 2005; "Offshoring for Long-Term Advantage". The 2007 A. T. Kearney Global Services Location Index.

In the 2004 Index, the Philippines ranked sixth due to its favorable cost structure and promising human resources. It was noted that the Philippines has more students enrolled in universities than any other country in the index with the exception of China, India, Russia and Brazil; and that the country also graduates 15,000 technology students annually. In the 2005 edition, renamed Global Service Location Index (GSLI), the Philippines rose to fourth in terms of rank after it topped the financial attractiveness component of the index. However, in the 2007 GSLI, the Philippines dropped to eighth, having been overtaken by its South East Asian neighbors Thailand and Indonesia. This puts into question the continued competitiveness of the Philippines as an offshore service location and raises the following questions:

1. Will the Philippines continue to attract investments—and consequently generate more employment—in the Business Process Outsourcing (BPO) industry?

2. Will the industry be able to sustain its growth and move up to higher value-adding services?
3. What role will the government play to promote competitiveness and growth in the industry?

## **Relevance of the paper**

In the 2006 Workforce Development Summit hosted by the Department of Labor and Employment (DOLE), the government identified cyberservices as one of nine key employment-generating sectors (Catiang 2006). Cyberservices covers Information Technology (IT), Information and Communications Technology (ICT) and Information Technology-enabled services (ITES), all of which are linked to the Business Process Outsourcing (BPO) industry.

The Philippine BPO industry is heralded as the country's "sunrise industry" primarily due to its phenomenal growth from the years 2000 to 2004. The BPO industry measures its overall output in terms of total revenues, reported entirely as exports. From an estimated 0.075% contribution to the economy's gross domestic product (GDP) in 2000, industry revenues have grown to US\$ 2.4 billion or 2.4% of GDP in 2005 (Magtibay-Ramos et al. 2007). The Business Processing Association of the Philippines (BPA/P), the umbrella organization for offshoring and outsourcing in the country, reports total revenues amounting to US\$ 3.3 billion in 2006 and forecasts revenue growth to reach US\$ 13 billion by 2010 (Catiang 2007a).

The BPO industry employed 163,000 workers in 2005. The customer care (contact/call center) subsector accounted for 70% of employees, followed by back office subsector at 14%, and software development at 7%. The remaining 9% were employed in the animation, medical transcription, legal transcription, engineering design and digital content subsectors (Dominguez 2006). The workforce grew to 235,000 in 2006 and is forecasted by BPA/P to grow further to 900,000 in 2010 (Catiang 2007a).

India is the acknowledged global leader in the offshoring/outsourcing market and is the business model that the Philippine BPO industry wishes to emulate. However, unlike India, whose outsourcing revenues come from delivering high-quality software services, the Philippine BPO Industry is skewed towards voice-based contact centers for which it is currently viewed as best-in-class. This subsector is generally acknowledged to be at the lower end of the BPO value chain and Philippine dominance is increasingly being challenged by emerging offshore destinations such as Vietnam, Sri Lanka and Pakistan (Kearney 2005; 2007). This paper will argue