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INDUSTRY REPORT: THE PROBLEM OF SUSTAINABLE COMPETITIVE ADVANTAGE IN PHILIPPINE CALL CENTERS

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Facing high expectations as the newest "sunshine industry", the call center industry in the Philippines appears to have dimmer prospects in the coming years. Having experienced rapid growth from 2000 to 2003, the industry experienced a slowdown in growth from 2004 to 2006, raising the question of how sustainable the country's competitive advantage is against neighboring competitors such as India and China. This paper uses Porter's Diamond Model to analyze the factors resulting in competitive advantage between nations, and provides industry player and market information on the Philippine call center industry, as well as updates on how the industry's participants are seeking to address the industry's challenges.

I. INTRODUCTION

The call center industry is heralded as the newest sunshine industry in the country, earning around US$1.8 billion in 2005 alone, with revenues forecasted to reach US$5.3 billion by year 2010. Employment for this sector has more than doubled every year, from 2,400 agents in 2000 to 150,000 in 2006, and is expected to reach 300,000 full-time employed agents in 2010. The Philippines is among the top locations in the world for outsourced call centers. An SGV industry report states that in 2005, the Philippines' share of the global call center market is 3% and 31% for the Asia Pacific market. By 2010, industry leaders target 6% global market share and 51% Asia Pacific market share.

II. FRAMEWORK AND METHODOLOGY

What will give Philippine call centers an advantage over call centers in other countries, such as those in India, China, Malaysia, Singapore? Michael Porter's Diamond Model defines competitive advantage between nations as the outcome of four interlinked factors: 1) firm strategy, structure and rivalry; 2) demand conditions; 3) related supporting industries; and 4) conditions affecting the key factors of production within the nations. This paper aims to discuss the competitiveness of the Philippines using this framework. Desk research was conducted to obtain secondary industry data on local and global call centers, while interviews with call center managers provided insight on opportunities and challenges within the industry.

The role of government will also be discussed in this paper. Industry developments show government policies such as tax incentives and relaxation of property laws contributed to the industry's growth. Strengthening of government support for primary education is crucial to the sustainability of the Philippines' competitive position. Insufficiency in primary education is threatening the Philippine advantage as local players face difficulty meeting global demand with local supply of qualified call center agents.

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III. CALL CENTER OUTSOURCING

A call center is a business operation handling multiple types of customer-oriented functions such as marketing, selling and servicing, through multiple channels of customer interaction such as electronic mail, the World Wide Web, electronic messaging, voice messaging, fax messaging, and traditional mail. Call centers serve various stakeholders of an organization: from prospects to customers, suppliers to competitors, as well as distributors, partners, and employees. The term "call center" is used as a collective term to refer to these operations for the reason that the primary means of contact facilitated by these businesses are telephone calls.

Call centers are categorized as Business Process Outsourcing companies or BPOs. BPOs also include medical transcription, IT support, animation, software development, financial accounting and payroll processing companies. Outsourcing in the Philippines arrived at the heels of successful deregulation in the telecommunications industry. Intense competition spurred massive investment in technology and skill among Philippine telecommunications companies, leading to innovation, quality improvement, and price competitiveness in services.

The Philippines is no stranger to foreign arrangements of this kind. The semiconductor industry, one of the leading export sectors in the country, started in much the same way. From the early 1970's to mid 1980's this sector experienced dramatic expansion, growing at an annual average rate of 53%. International factors also impelled growth in the form of transnational companies from the developed economies (e.g., US, Europe, Japan) locating offshore plants in developing countries (e.g., Philippines, Vietnam, Singapore) for the most labor-intensive phases of semiconductor manufacturing. As with the call center sector, the Philippines' main advantage in semiconductors is cheap and literate labor. Government response to further incite export activity in semiconductors is similar to regulatory mechanisms implemented in the call center industry today, such as the establishment of freeport zones, the relaxation of tariffs and duties on imported technologies, and the permission to employ foreign nationals.

Agreements in the semiconductor industry during its period of rapid growth were covered by subcontracting arrangements. Today's global trend for "off-shoring", or offshore outsourcing, has very little difference with subcontracting. Offshoring is the arrangement by which one company contracts with service providers located outside the country for services that could also be or usually have been provided in-house. Outsourcing business processes to remote locations is made possible by advancements in the telecommunications sector in the outsourcer countries. Low labor cost and improved connectivity resulting from technological advancement and deregulation in the telecommunications sector in the servicing countries (e.g., India, China, Malaysia, the Philippines) have made offshore outsourcing attractive from an economical standpoint. The costs of operating a call center in the Philippines, for example, is reportedly 40% lower than in the United States (55% cost savings from labor less 15% incremental cost from travel and telecommunications requirements). Offshore outsourcing in general brings in around 25% to 50% in cost savings.

Globalization and its societal effects have made manageable the challenges of cross-cultural communication: many offshore destinations have a Western heritage and almost all are exposed to Western culture – *pop* culture, even – through the internet, cable television, and other entertainment media, e.g., movies, books. The difference in time zones between the servicing and the served countries (e.g., the United States, the United Kingdom) are addressed through alternate six- to eight-hour shifts in the day, enabling call centers to maintain 24-hour service agent availability. While incremental costs are incurred for perfunctory risk management expenses, e.g., hazard pay, etc., the total cost of operating a call center out of India or the Philippines are still lower compared to the cost of operating out of the US or the UK.

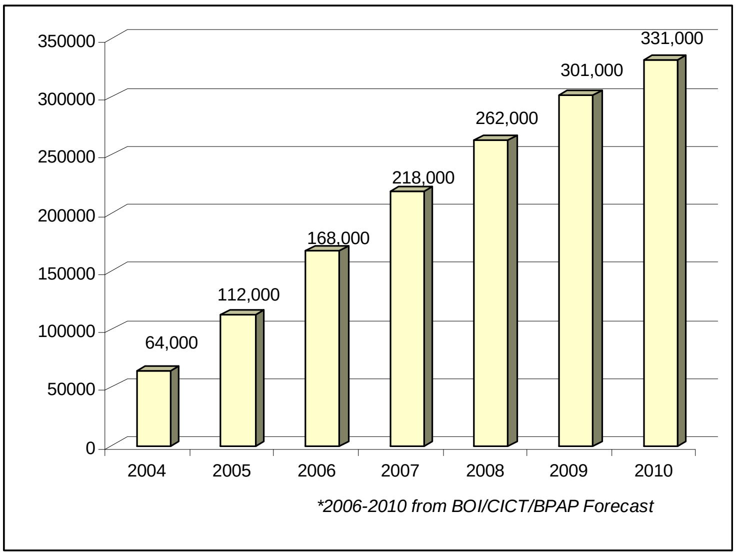
IV. THE PHILIPPINE CALL CENTER INDUSTRY

An IT-Enabled Services briefer from the Board of Investments in 2007 states that there are an estimated 146 call center companies in the Philippines. Call center companies should be distinguished from call center sites. A “site” is a facility housing a call center operation and a call center “company” may operate multiple sites. Sykes Asia, for example operates five sites in the Philippines while People Support operates four. There are three categories of call center companies:

- *Foreign-owned call centers with Philippine subsidiaries*. These are call centers owned by foreign companies, usually from the United States, that have branched out to offshore outsourcing.
- *Insourced call centers of large multinational corporations*. These are operations that are dedicated to the parent companies and whose objective is to bring competitive advantage by transforming an erstwhile internal back-office function into one that is revenue-generating.
- *Filipino-owned call centers*. These call centers are wholly owned by Filipino entrepreneurs or corporations (e.g. Smart, PLDT, Globe, etc.) that seek customers from the United States, Europe and Asia, particularly from Japan and Singapore.

Estimates from the Board of Investments (BOI), the Commission on Information and Communications Technology (CICT) and the Business Process Association of the Philippines (BPAP) report the demand for call centers to reach anywhere from between 30,000-50,000 new agents hired in the Philippines per year from 2007-2010.

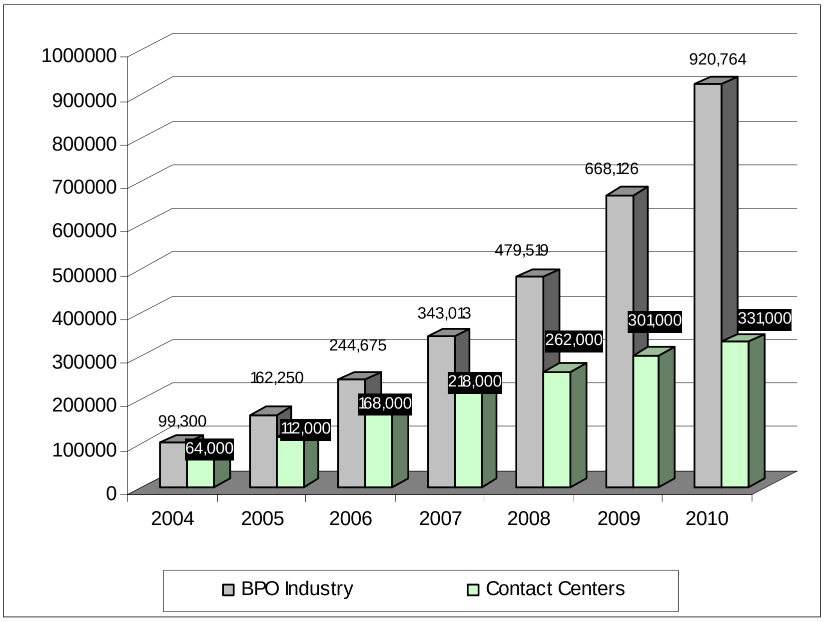
Figure 1
Employment in Contact Centers



Source: Board of Investments, BPAP

The success of call centers worldwide is attributable to the growth of outsourcing as a profitable business model. The BOI estimates that 2006 revenues in business process outsourcing (which includes other IT enabled services such as medical transcriptions, animation, and back office transactions processing) amounted to US$3.67 billion, and projects revenues to jump upwards 40% to reach US$4.79 billion this year. Joint forecasts from the BOI, BPAP and CICT predict that there will be 343,000 new outsourcing jobs this year (of which 64% or 218,000 will be in call centers), a 40% increase from the number of new outsourcing jobs in 2006 of about 244,000 (of which 69% or 168,000 were in call centers).

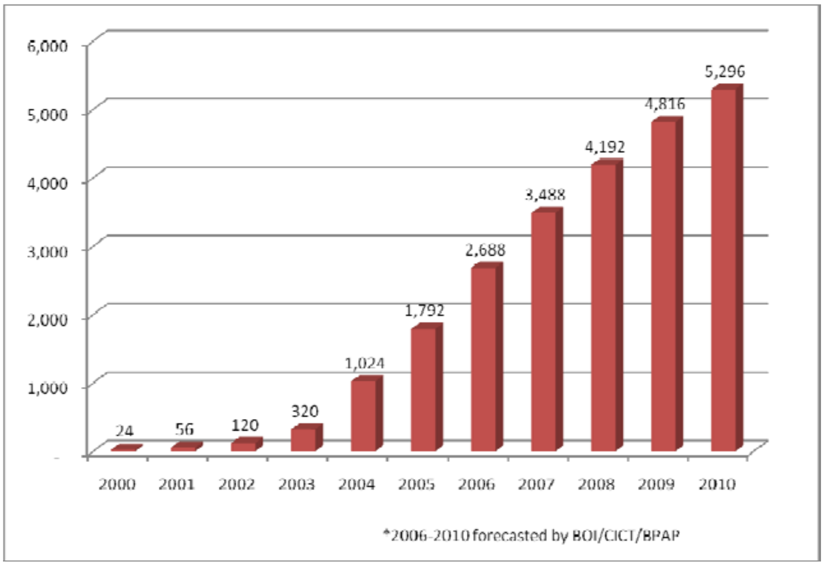
Figure 2
Annual Employment (2004-2010)



Source: Board of Investments, BPAP

The Philippine call center industry is estimated to have earned US$2.7 billion in revenues in 2006, a growth of 50% from 2005's earnings of US$1.7 billion. The Department of Trade and Industry expects actual 2007 returns to be close to US$3.5 billion, a further growth of 30%.

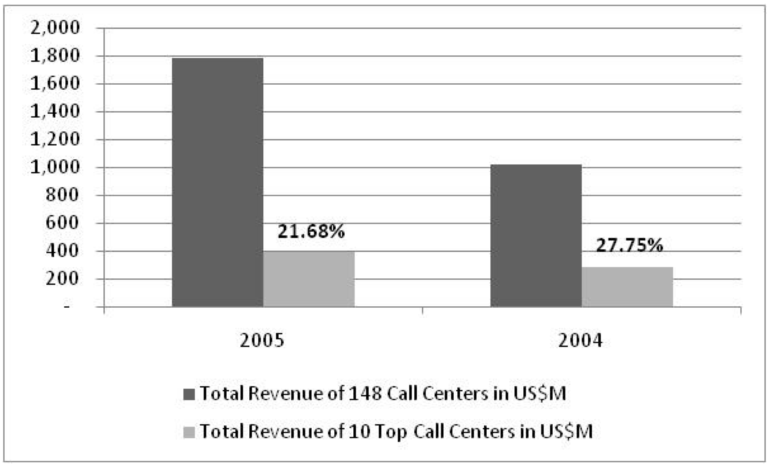
Figure 3
Annual Revenues of Contact Centers
(in US$M)



Source: Board of Investments, BPAP

It is interesting to note that service income of ten of the top call centers[1] in the country (Ambergris, Convergys, Cyber City Teleservices, Sitel, E-Telecare, iContacts Corporation, InfoNXX, Parlance, PeopleSupport, and Sykes Asia) together account for more than 20% of the total revenues of the entire sector.

Figure 4
Comparative Annual Revenues of
148 Call Centers vs. Ten Top Call Centers (2004-2005)

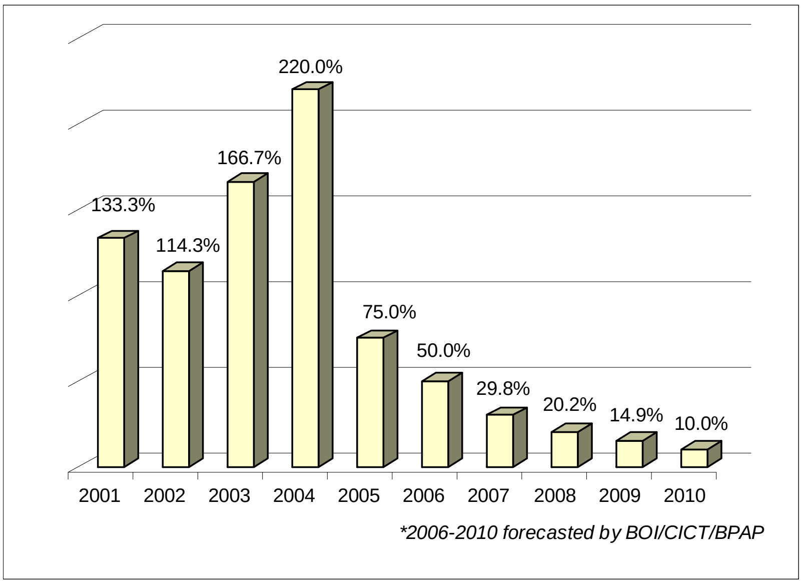


Activity in the industry is apparently dependent for the most part on a small number of big players. The BOI in its IT-Enabled services briefer (2007 release) states that it expects upward momentum to continue until 2010. Sources of growth have been identified as follows:

a) Expansion from established call centers such as PeopleSupport, Sykes, eTelecare, PLDT, ClientLogic, InfoNXX, Citibank, Ambergris, Accenture, IBM, Caltex and HP
b) Entry and consequent expansion, i.e. addition of new sites, etc. of global players such as Dell, HSBC, JP Morgan, AIG, Convergys, TeleTech, Sutherland, Deutsche Bank, and NetSuite.
c) Next wave of entrants such as Accor Reservation, MiSYS, Siemens, Ericson, Alsbridge, Virgin Atlantic, Philips, Emerson, Capital IQ, DDC and Kanbar.

Growth in the sector follows expansion the operations of big players. In the last two years, both Sykes Asia and People Support have established new call center sites while still others have added new projects and accounts. These activities and the influx of new players have resulted in revenues steadily growing until 2006 and expectations for further expansion until 2010. While growth is continuous, however, a slowdown in the rate of growth is expected starting 2005.

Figure 5
Annual Revenue Growth Rate of Contact Centers



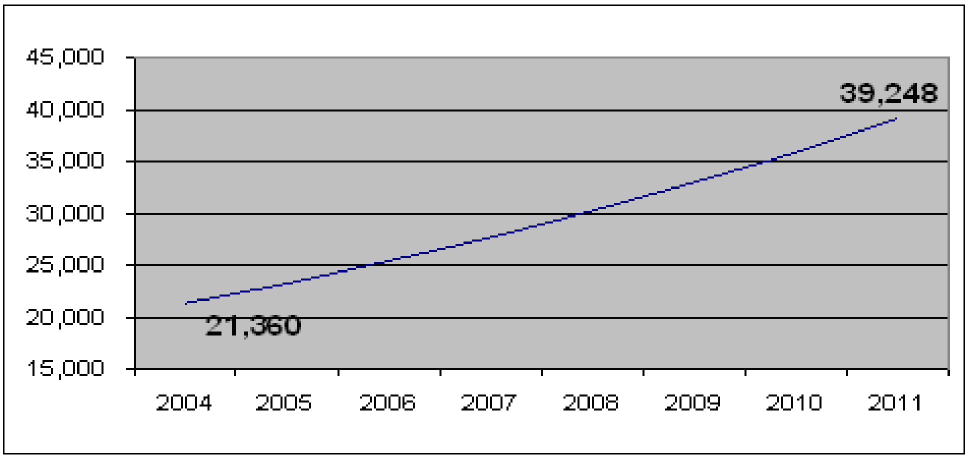
Source: Board of Investments, BPAP

Slowing growth in the last two years after the steep increases of 2003 to 2004 indicates that the call center industry in the Philippines is now approaching maturity. Sales and earnings expansions of the past years resulted from the Philippines' cost advantage over other countries. The passage of time, however, may erode this advantage as China and other Southeast Asian countries threaten to eat into the Philippines' market share with better cost or quality offerings. The challenge for the industry is to extend growth by improving the competitive dimensions where the Philippines is weak or by adjusting industry targets to create new competitive advantages.

The Global Arena

The Asia Pacific region outperforms other regions such as Eastern Europe, South America and Africa. Japan and South Korea are seen to increase nearshore outsourcing investments in low-cost, labor-rich neighboring China while Southeast Asian countries benefit from close-to-Western cultures, open economies, and advanced technologies for a similar cost advantage. In 2005, Frost and Sullivan forecasted that call centers in Asia will grow from 21,360 in 2004 to 39,248 call centers in 2011, at a compound annual growth rate of 9.1%

Figure 6
Forecast Growth of Call Centers in Asia Pacific



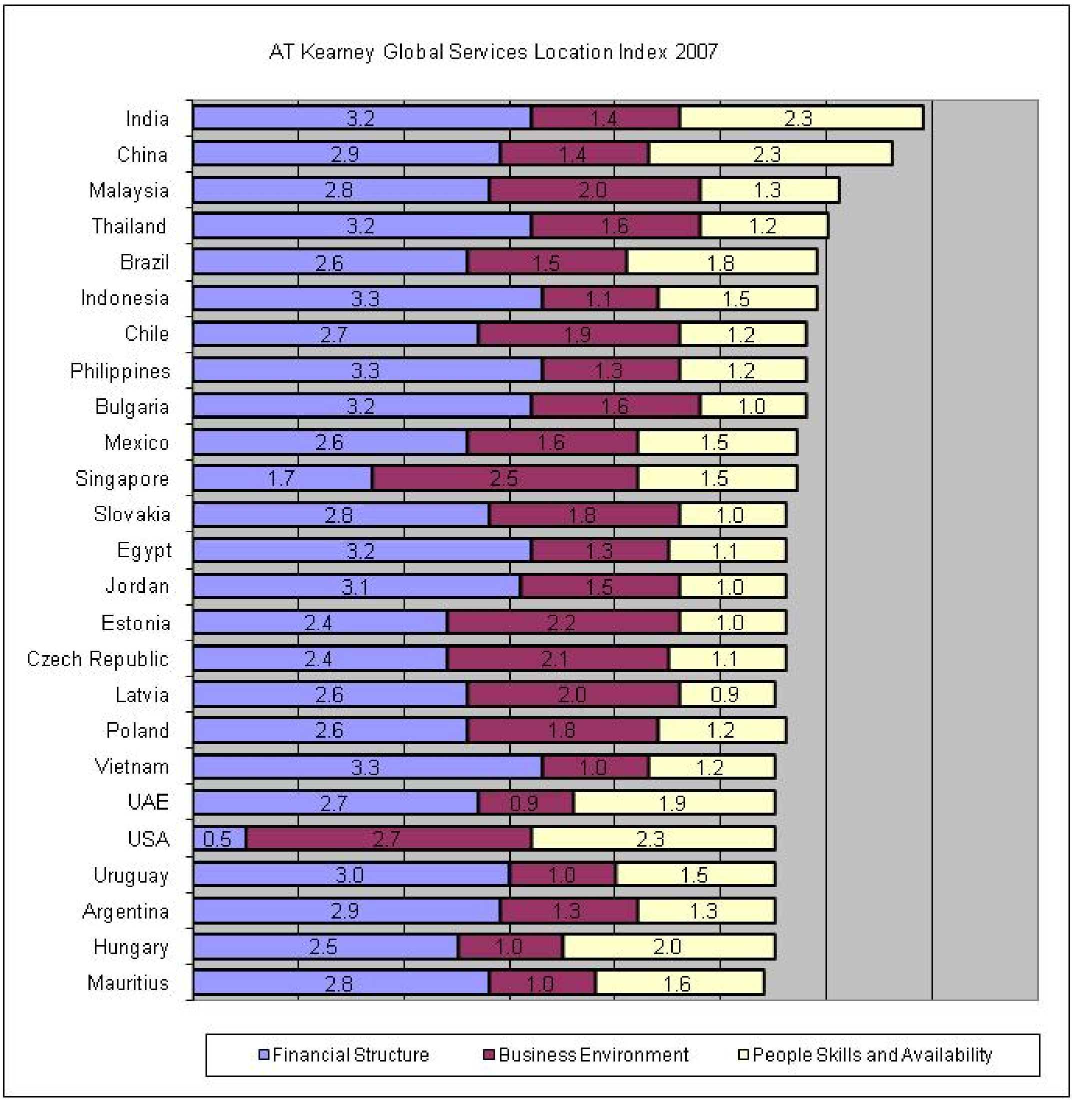
**at a Compound Annual Growth Rate of 9.1%, as forecasted by Frost and Sullivan.*

More recent studies predict faster growth rates. A 2006 Asian Contact Center Industry Benchmarking Report assessed the industry to be in a period of strong growth. The study conducted on 747 contact centers in the Philippines, India, Singapore, China, Malaysia and Thailand estimates that by 2007, the total 576,000 seats in the countries studied would increase to 704,500, a growth rate of 23%. Among the countries in the study, the Philippines has the highest forecasted growth rate. By 2007, it is expected to grow by 33%, Singapore and Malaysia by 32%, China at 22% and India by 16%.

Of the Asian destinations, India is the top choice, with other nations such as the Philippines, Malaysia, Singapore, and China following closely. The Philippines, having an American-influenced culture, a proficiency in English comparable to India without the heavy accent, and a skilled labor force, was considered the greatest threat to Indian domination in this sector. However, recent years' developments in other competitor countries such as China, Malaysia, Thailand and Indonesia coupled with a strong peso and deficiencies in the local supply of qualified call center agents have weakened the Philippines' advantage.

The A.T. Kearney Global Services Location Index in 2007, a survey conducted to measure the relative attractiveness of offshore locations with regard to financial structure (40%), people skills and availability (30%), and business environment (30%), has ranked the Philippines the 8th most attractive country for offshoring in 2007. The top twenty-five countries are as follows:

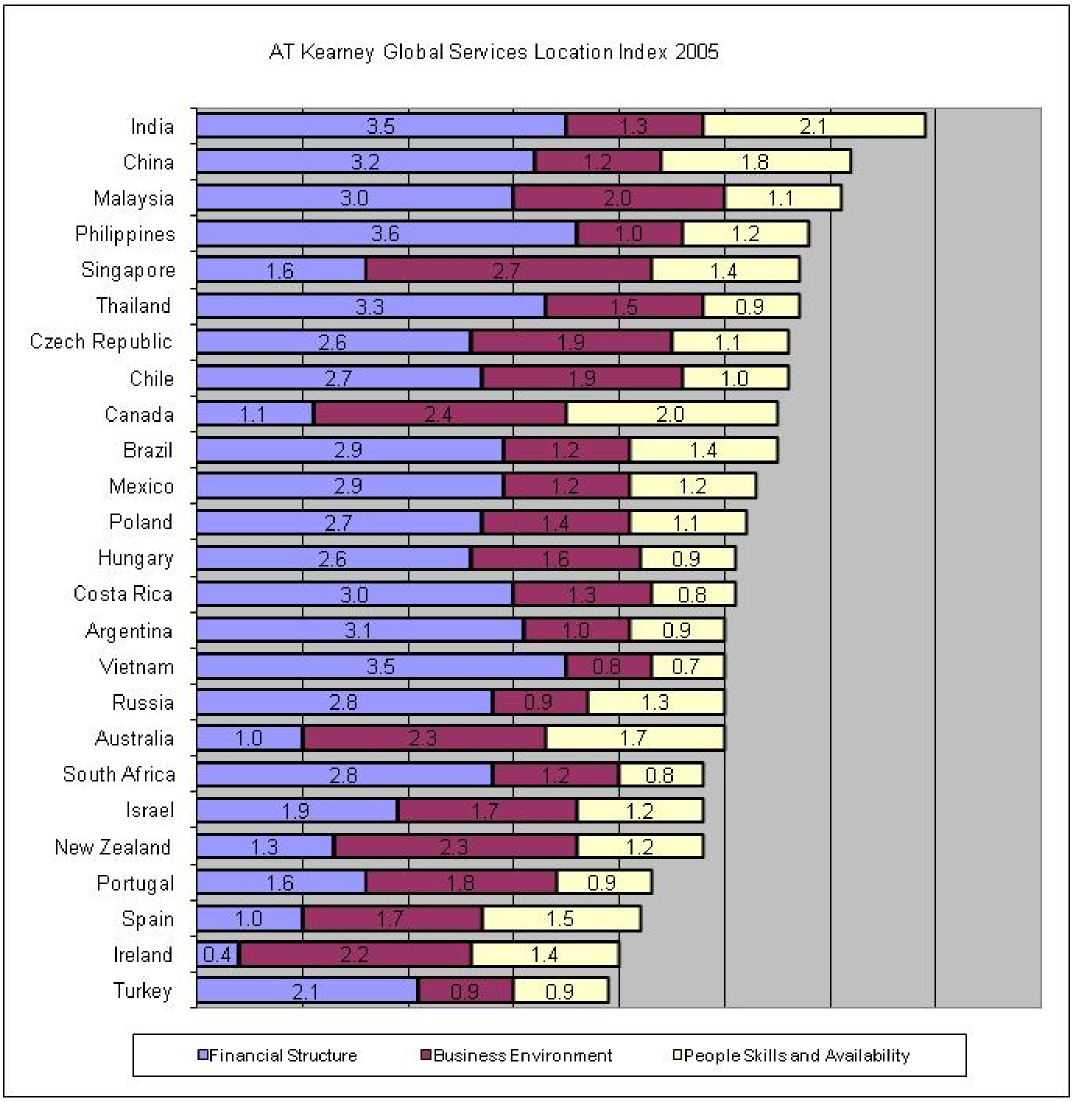
Figure 7



Source: AT Kearney 2007 Global Services Location Index

The 2007 study saw the Philippines decline from its 4th rank from AT Kearney's last GLSI survey which was conducted in 2005. The top twenty five locations then were as follows:

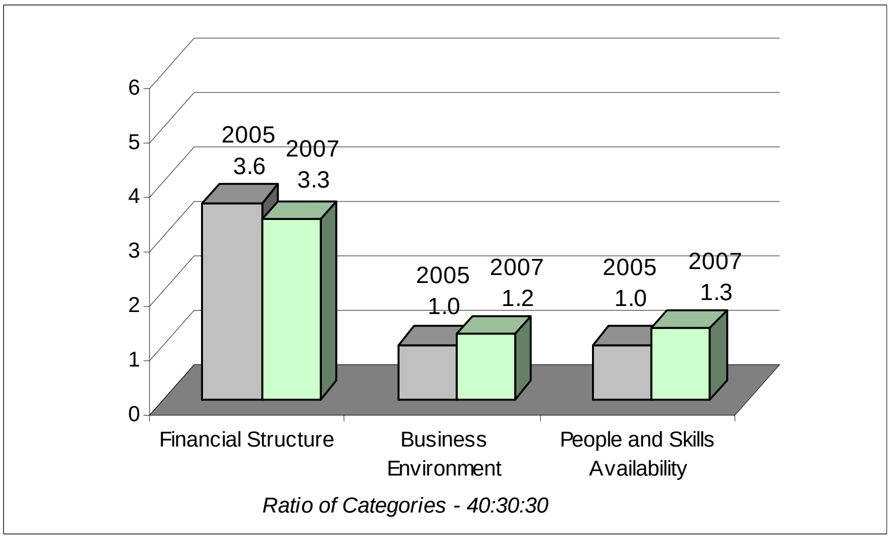
Figure 8



Source: AT Kearney 2005Global Services Location Index

The Philippines' drop in the AT Kearney rankings is attributed to the appreciation of the peso and growth in the call center industry which has driven up labor costs in terms of the US dollar, by as much as 30%, according to AT Kearney's GSLI 2007 highlights. In other areas of performance, the country improved slightly, particularly in infrastructure, industry size and language skills. In contrast, Malaysia, Thailand, and Indonesia have either retained their rankings or moved up the index. Slower industry growth rates in these countries have tempered the effects of inflation on labor costs.

Figure 9
Philippines' Offshore Attractiveness, 2005 & 2007
A. T. Kearney Findings



	Philippines' Score 2007	Philippines' Score 2005
Financial Structure		
Compensation Cost (8)	7.1	7.7
Infrastructure Cost (1)	0.7	0.8
Tax and Regulatory Cost (1)	0.3	0.5
	8.10	**9.00**

	Philippines' Score 2007	Philippines' Score 2005
Business Environment		
Country risk / Economic and Political Environment (6)	1.9	1.8
Country Infrastructure (2)	1.2	0.7
Cultural Adaptability (1)	0.7	0.8
Security of Intellectual Property (1)	0.3	0.2
	4.1	**3.5**

	Philippines' Score 2007	Philippines' Score 2005
People Skills and Availability		
Relevant experience / IT BPO Industry size/quality (4)	1.2	0.9
Size and availability of labor force (2)	0.7	0.7
Education (1.5)	0.9	0.9
Language (1.5)	1.2	0.7
Attrition risk (1)	0.2	0.6
	4.2	**3.8**

Source: AT Kearney 2005 and 2007 Global Services Location Index

India

Among the top contenders for offshore locations, India is the country with the most experience. The emergence of call centers as an opportunity for national growth came upon deregulation in the telecommunications industry in the mid-1990's, much like the Philippine experience. The outsourcing sector, the first participants of which were medical transcription service companies then followed by data management and customer support providers, began to take root in the late 1990's. As in the Philippines, the first operations consisted of support subsidiaries of multinational companies servicing the parent company.

Low-cost and highly-skilled labor, significant improvements in IT infrastructure, and a positive business environment spurred by industry organizations such as the National Association of Software and Services Companies (NASSCOM) propelled exponential growth for the industry in the years to follow. The NASSCOM estimates yearly growth of 37% for the outsourcing segment with the call center industry leading the sector. Call centers comprised 46% of the total US$4.6billion revenue the outsourcing sector earned in 2005. India is the strongest contender in the sector and is often tagged as the world's first-choice in offshore outsourcing. In 2005, it has 8% global market share and 68% market share in Asia-Pacific.

The Philippines' greatest advantage over India is in language skill. American English being the dominant lingua franca in sales and support transactions coursed through call centers, the Philippines has a culture that is closer to the West and an English tongue that is the easiest to understand in the whole of Asia, partly to exposure to American television and pop culture, as well as English being the medium of instruction in all education levels. It has been observed that India's pool of talent has the advantage in technical, specialized occupational skills while the Philippines' competence is in liberal arts, which provides more general knowledge as well as capabilities needed for back-office processing, e.g., communication skills, and cultural adaptability.

Increased global competition in the call center sector has led to efforts to expand the portfolio of services of the Indian IT-enabled services sector. NASSCOM reports that the last three to four years in India have been a period of diversification. India's BPO companies have expanded to higher-value processes through vertical integration towards non-voice-based services such as back-office processing and content development. In 2005, customer care services comprised 34% of total BPO revenues in India, compared to 69% in the Philippines.

Figure 10.1

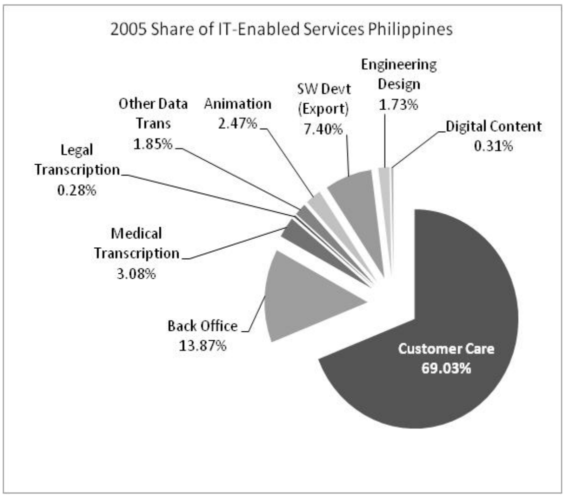
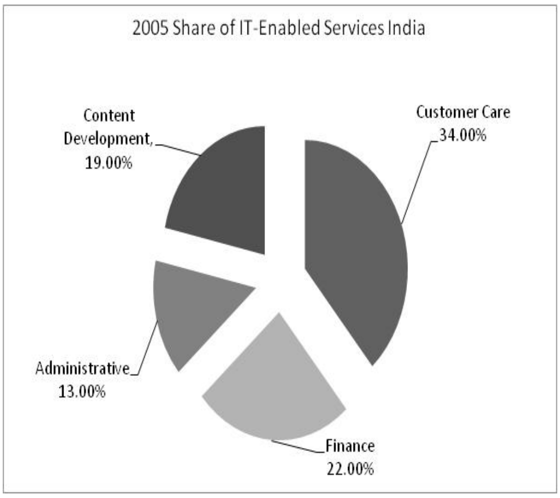


Figure 10.2



Sources: DTI (Philippines) , PriceWaterhouseCoopers (India)

China

China is the preferred choice as a call center location for companies targeting South Korea (attracted by ethnic Koreans living in China) with which it has the closest cultural ties. China is the only other country in the world that poses a threat to India as far as size and cost of labor supply is concerned. The yearly cost of operating a call center seat in China is the lowest in Asia.

Table 1
Comparative Annual and Hourly Costs per Call Center Seat in China, India, Malaysia, the Philippines, Singapore and Thailand

	in USD ($)	
	Annual Cost per Seat	**Hourly Cost per Seat**
China	13,543.00	3.62
India	15,872.00	4.24
Malaysia	34,779.00	9.29
The Philippines	18,086.00	4.83
Singapore	66,998.00	18.46
Thailand	18,527.00	4.95

Source: callcentres.net

China's cost advantage, however, is dampened by its deficiencies in English-speaking manpower. In this regard, China cannot as of yet compete head-on with India and the Philippines in the global outsourcing market. University enrolments however have grown 25% in recent years which increased the country's potential to compete. China's entry to the World Trade Organization has spurred the inflow of capital as well as Western influence and analysts predict that in due time the labor supply in China will be comparable to India in size as well as in skill.

Singapore

Despite high labor costs, Singapore enjoys a comparative advantage from reliable bureaucracy, excellent technical infrastructure, superior educational systems, political and economical stability, and stringent enforcement of intellectual property laws for information and data security. Singapore outsourcers provide high-value services differentiated from low-value, back-end processes provided by other Asian countries. To take advantage of this market niche, Singapore outsourcers market advanced offshore functions such as basic research, robotics, healthcare and medical diagnostics. Singapore companies in turn outsource lower-value operations to India and China to gain cost advantage.

Malaysia

What Malaysia lacks in manpower (its population is significantly smaller than India or China and thereby cannot meet the same economies of scale) it makes up for in advanced infrastructure. Malaysia is second only to Singapore in IT competitiveness rankings between countries in Southeast Asia. Strong government support is apparent in efforts such as the Multimedia Super Corridor project, which includes the development of infrastructure in what they have called "intelligent cities" such as Cyberjaya and Penang Cybercity, where major IT leaders such as IBM and Motorola have already located their regional offshore service centers.

Latin American Countries

Latin American countries such as Brazil, Chile and Mexico enjoy the advantage of being "near-shore" destinations, or offshore servicing countries close to the served country, this being the United States. Near-shore destinations are in the same time-zone as most customers, thereby lessening the need to arrange multiple 8-hour shifts in the day as well as the need to invest in additional expenses for hazard pay, safety insurance and the like. The A.T. Kearney study found Brazil has the best labor skills in the region, Argentina has the cost advantage, while Chile has the best business environment (e.g. it has, for instance, supplemented agreements with US and European companies with IP infringement penalty clauses). Nonetheless, perhaps the primary advantage of the region in general is the vast availability and incomparable quality of its bilingual (English and Spanish) call centers, much in demand in the United States.

Eastern European Countries

Eastern European countries such as the Czech Republic, Poland, Romania and Hungary are possible choices for Western European countries as a near-shore destination. Eastern European call centers provide cost, language skill, and time-zone advantages. Multilingual call centers for the multilingual European market can be easily and efficiently set up in Eastern Europe more so than in Latin America or Asia. Customers from Germany and the United Kingdom moreover may prefer Eastern European call centers most particularly for its bilingual workforce: citizens in most Eastern European countries can speak both German and English. Reportedly, however, Eastern European countries, most particularly Russia, need to upgrade telecommunications infrastructure to compete with the other regions as well as to comply with European Union requirements.

V. CONCLUSION

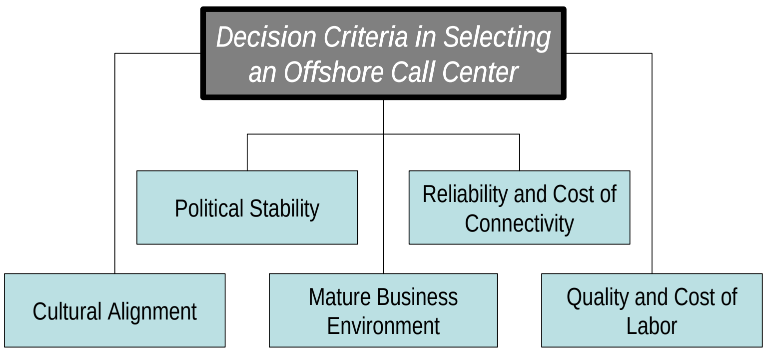
The factors affecting firm strategy, structure and rivalry involve the services offered by local firms, and how competitive locally provided services are against those provided by other countries. Primarily, this involves why the Philippines is chosen by call center companies when making the call center location decision. The factors involving demand conditions involve the evolving needs of the global market for call center services, ranging from the basic service of answering inquiries based on pre-defined scripts to the more complex service of providing technical assistance and support. The sufficiency of related supporting industries will involve the state of local educational institutions, real estate, transportation and retail sectors and how these sectors contribute to sustain the growth of the local call center industry. Finally the conditions affecting the key factors of production, such as local skilled labor and mission-critical technology, will also be discussed.

Firm Strategy, Structure and Rivalry

As earlier mentioned, the first factor affecting competitiveness is firm strategy, structure and rivalry, which primarily contributes to why the Philippines is chosen by call center companies when making the call center location decision. The offshore location decision is influenced by a number of factors and it is against these criteria that India, China, the Philippines and other countries are evaluated. It follows that it is in these attributes that the Philippines should perform for a distinct competitive advantage over the others. These factors include the following: quality and cost of labor (including technical competency and language skills), connectivity (i.e., telecommunications bandwidth) cost and reliability, mature business, regulatory and technological environments for outsourcing operations, political stability, and cultural alignment between the offshore outsourcer, the outsourcing company, and the customers to be served by the call center.

Figure 11

Factors Affecting the Call Center Location Decision



Among these success factors, the Philippines competes strongest in (1) quality and cost of labor, and (2) cultural alignment. It is in these two factors that exponential growth in 2003 and 2004 can be attributed. The challenge of sustaining the Philippines' advantage in the industry can be discussed from two vantage points: first from the view of creating a distinct competitive advantage and second from the view of ensuring the distinct advantage created is impervious to erosion. Threats arise from deliberate attempts by competing entities to undermine it and from developments in call center operations and technology that will shift the bases of competition.

The benefit of lower cost is the Philippines' most substantial value offering to call center investors and customers. The results of the AT Kearney survey have shown that while other factors are also significant, the global competition in the call center sector continues to be driven by cost at the present: it remains to be the most important factor in the perception of the "attractiveness" of an outsourcing location. In this regard, the country's low infrastructure and compensation costs, as well as the provision of special tax concessions within specific zones have contributed significantly to making the country a preferred choice among investors. In addition, the results of the study also emphasized that in the Philippines, call centers were given most emphasis among the outsourcing sectors and likewise highlighted the efforts of the government to promote these services by establishing special economic zones that provide investors with freeport privileges, tax shields and holidays.

Among the participants in the global call center industry, India outperforms all other countries with a combination of advantages: low-cost labor as well as a progressive educational system ensuring a continuous supply of highly-skilled employees, reliable low-cost infrastructure, supportive business government, and a wealth of management experience in the call center industry, as well as in other outsourcing services. The Philippines directly competes against India by providing labor and infrastructure at comparable rates and furthermore provides the advantage of a Westernized culture and better performance in conversational English to appeal to US-and UK-based customers. Singapore has the highest compensation rates but has the advantage of good government reflected in lower costs of bureaucracy and corruption. China's major advantage is its massive pool of available low-cost talent—only China can directly compete with India in size of available labor—however labor skills are still limited in language proficiency and management experience in the industry.

What makes India a success story is the combination of multiple sources of advantage available to the call center investor. The Philippines' current competitive advantage meanwhile is in the combination of low compensation cost and high English proficiency, and while this advantage continues to bring additional revenues and employment to the sector, growth rates have also been observed to be decreasing, apparently due to two observable trends: low acceptance rates and high attrition rates. Both low acceptance and high attrition threaten the advantages of labor availability, cost and quality of Philippine call centers.

The advantage of cost over other factors, i.e., people and environment, affecting the offshore location decision is nonetheless not a perpetual one. The leveling of technical competency between the different countries through globalization and convergence of technologies as well as the homogenization of social conditions between different economies may affect the importance of cost as a success factor. The ubiquity of information available through advanced mass media and telecommunications have also brought about less cultural heterogeneity between the countries competing as call center locations. The advantage of cultural alignment is therefore not exclusive to the Philippines and, further, is one that erodes with the passage of time and the availability of communications technology.

Demand Conditions

Despite the low-cost labor advantage offered by offshore call centers, companies continue to look for ways to gain even more cost savings, if not from a more efficient and thereby cheaper workforce, then from automation technology. Meta Group's technology research services group reported an increasing number of clients choosing to implement voice-automation technology systems to handle standard, routine inquiries, e.g., account balances, product and service, payment offices, etc., instead of contracting the services of an outsourcer in a low-cost country or establishing their own call center operations offshore.

The eventual outcome of this development is that, with the existence of automation technology, only customer calls requiring more complicated assistance will be routed to offshore call centers, perhaps from the Philippines or India. This direction means that customers will have higher expectations from call center agents in offshore countries. Agents will no longer be able to rely on simplified question-and-answer instructions or "scripts" to answer more complex questions that will be asked them. Industry analysts observe that, out of 100 applicants, only three to five are hired given existing skill requirements. Support services for more complex inquiries, perhaps requiring technical information or instruction, will consequently require higher technical competency, as well as more than adequate communication and problem-resolution skills. Should such requirements be made necessary, it is expected that the hiring rate will be lower in the years to come, unless initiatives are implemented to enhance the skills and capabilities of existing as well as future workers in this sector.

Sufficiency of Related Industries

The Philippines' weakness in information technology infrastructure threatens the ability of the country to compete where value-added services require a higher telecommunications bandwidth. Despite being one of the top offshore location choices in the world, the Philippines ranks, and has always ranked poorly in network readiness surveys, seen by most investors as measures of the competitiveness of a country in information technology. In both the 2004 and 2005 Network Readiness Index (NRI) listing compiled by the World Economic Forum (WEF), the Philippines ranked in the lower levels: 67th in a group of 100 in 2004 and even lower in 2005 (70th place). Other outsourcing destinations fare similarly: India, the top location for offshore outsourcing is at 40th place while China, 2nd in the AT Kearney Index, is at 50th place. The WEF NRI is a measure of relative performance in the following areas:

a) aspects of the environment of a given nation for development in information and communications technology (ICT) such as the regulatory regime and legal framework for ICT, and the available infrastructure;
b) networked readiness of individuals, businesses and governments; and
c) ICT usage by individuals, businesses and governments.

The apparent inconsistency between networked readiness and other IT competency ratings for the Philippines and the remarkable growth of IT-based services, made plain by records of investment, revenue, and employment actually generated by the sector, is attributed by industry analysts to the observation that indices and rankings comparing countries with each other consider all the regions in the country, from the most advanced areas to the undeveloped ones. Developed countries such as the United States, Japan, and Germany have progressed to a point where the availability of telecommunications technologies and other related services in the less urbanized regions are virtually at par with that of the most industrialized areas. Developing countries are characterized by a marked difference in infrastructure and economic activity between the centers of business and the rural, residential areas.

Such is the case of India, China and the Philippines where the small portion of the population living and working in the centers of business enjoy advanced technology while the rest have very limited access to even the most basic computing technology, e.g., internet access, if at all access is given them. Nonetheless, call centers in developing countries choose to locate only in the industrialized, technology-enabled centers of business. Thus, they are able to employ, and at a cost advantage, the network infrastructure, hardware equipment, software and consulting services at a comparable technological level to those used by call centers in more developed countries. While it is valid that network-readiness surveys include locales in the Philippines which call centers are not considering to locate in, and that these call centers are eventually established in the industrialized, technology-enabled centers of business, it is still worthwhile considering that this shortcoming significantly limits the range of options for call center sites in the Philippines.

Low infrastructure development in areas outside Metro Manila also threaten the cost advantage as call centers are constrained with only a few places to locate their operations since the location options are limited, the cost of real estate in these areas increases. While on the one hand the rise in real estate prices is seen as contributing to the trickle-effects of revenue growth in the call center sectors, on the other hand it can be seen as a threat to the country's cost advantage as far as real estate and infrastructure costs are concerned.

Factor Conditions

The 2006 Asian Contact Center Industry Benchmarketing Report ranks human resource management, particularly the areas of recruitment and agent turnover, as the greatest challenge faced by Asian contact centers. In the Philippines, the consistency of supply of qualified call center personnel is threatened—as reflected in a very low 3% acceptance rate—by apparent degradation of the quality of primary and secondary education in both private and public schools. Although it has been reported that the average 10-year-and-above literacy rate in the Philippines is above 93%, literacy is not enough to ensure a position for a call center applicant. Basic English proficiency, for that matter, is considered a minimum requirement, enough for the agent to be considered for a position, but still insufficient to match the higher levels of conversational and even colloquial proficiency required for hiring. While low cost labor still works to the country's advantage, labor on the average making up 46% of the total budget of operating call centers, such an advantage will not be sustainable if the country is not able to supply as much as is needed by steadily growing demand.

While hiring is becoming more and more stringent, English proficiency in the formative levels of education remains below average. English language skills tend to diminish over time, as shown by statistics reported by the Department of Education, e.g., Grade 4 public school students show national average of 42% in English, while high school students show 30%. As English and communication subjects are required less in college, it may be expected that the level of proficiency will deteriorate more in the tertiary levels of education. Although English continues to be widely used in business, in government (at least in the high levels), and in school, programs in local mass media and entertainment are dominated by Tagalog films, making mastery of English a more difficult task for the average call center applicant. The current state is reflected in the low acceptance rate among applicants in call centers and other BPO companies. Out of every 100 new college graduates applying, only three are hired.

High attrition rates and the increase in "poaching" and "piracy" of agents on the other hand threaten the low cost of labor as companies invest in benefits and compensation packages to ensure agents will not move to a competitor. In 2006, the labor attrition rate in the Philippines is reported to be 18% for full-time agents and 24% for part-time agents. India has significantly higher attrition rates, as follows:

Table 2
Comparative Mean Attrition Percentage for Full-Time and Part-Time Call Center Agents in China, India, Malaysia, the Philippines, Singapore and Thailand

	Mean Attrition (Full-Time)	Mean Attrition (Part-Time)
China	17%	29%
India	38%	32%
Malaysia	18%	24%
The Philippines	18%	24%
Singapore	16%	21%
Thailand	15%	16%

Source: callcentres.net

At this rate, a job in a call center is already considered as a career in the Philippines, and not looked upon as merely a "temp" position as in the United States. Nonetheless, "poaching" or "pirating" of employees between call centers has already been observed because of the limited talent pool. Call centers are challenged to implement best practices in curbing employee attrition in the call center industry such as a flexible and conducive environment, high incentives, and training schemes, and more importantly, a career path development plan to convince college graduates that being a call center agent is not a "dead-end" type of job.

The Challenge of Moving Forward

The question remains as to who will bear the cost of improvements required to strengthen all factors necessary to ensure the sustainability of the Philippines' competitive advantage in the call center industry. Some call centers have shouldered the cost themselves, offering free in-house training for new hires. Still others have established joint efforts with existing universities and the Technical Education and Skills Development Authority (TESDA) to incorporate call center-oriented training requirements in their curricula and courses. Call centers have established personnel development initiatives, e.g., in-house training and evaluation, to enhance skill, and compensation and benefits initiatives, e.g., higher allowances, all-expense paid holidays and vacations, career development planning, etc., to curb attrition rates, ensure greater stability of the workforce size, and lessen the "poaching" of call center agents.

More call centers are also contributing to the development of the countryside, more specifically the locations outside Metro Manila such as Laguna, Baguio, La Union, Cebu, Davao, Cagayan de Oro, Iloilo, etc. Geographical diversification, i.e., expanding call center operations to provinces, will provide more labor supply, and breathing room to answer to the intense scrambling for office space in Metro Manila. Call center operations will also encourage infrastructure development in other metro cities, with the possibility of replicating the development in the cities of Metro Manila in infrastructure and skill to the countryside areas.

Another opportunity available to the sector is value diversification. India's move towards strengthening non-voice services was not lost on Philippine ears. In its forecast towards 2010, the Department of Trade and Industry (DTI) expressed its target to increase the share of other BPO services in the total BPO revenue pie while decreasing dependence on call centers, which might now be showing signs of decline. The semiconductor industry in its peak of growth during the mid-1980's also prompted recommendations toward diversification towards higher-value processes. At the time, the sector primarily consisted of low-level technology-supported processes, mainly automated simple assembly of semiconductor devices and product testing. Even now, industry activity in high-level technology-supported activities such as wafer production and device design are still yet to reach the growth stage.

The Philippines' competitive advantage in the call center industry may be sustained through the enhancement of supply conditions, strengthening of related industries, and geographical diversification. Whether these efforts will work will be determined by two developments industry participants should take care to observe at the close of the year: first, how the market will respond to the industry's efforts, i.e., whether the growth in demand will be sustained by continuous inflow of new contracts and whether forecasted increases in employment, facility expansion and investment will be attained or exceeded; second, how the industry will answer the demands of the market, i.e., whether the total operational capacity (as to labor supply, connectivity, technology, facility and real estate) of the call center sector will be sufficient to respond to the rise in demand.

These developments will indicate whether the call center industry can reverse the tide and halt impending decline. However, the industry should be prepared should the slowdown in growth rates persist in the coming years, indicating that the country's advantage has been weakened by the supply strength of other countries such as India or China. In this case, a prudent response that call centers should consider is to diversify into other BPO sectors such as high-value, non-voice-based services to compensate for the effects of decline in the call center industry.

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NOTES

[1] Selection of the ten top call center companies is arbitrary and not based on an objective ranking of financial performance. The subset was intended to illustrate industry concentration: how a small minority of ten call centers have contributed significantly more revenues to the sector than the other 138.