

# **Market Environment of SMEs in the Business Process Outsourcing Industry In Region 7, Central Visayas, Philippines**

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**Abstract** - This study provides data on the market environment of SME's in the Business Process Outsourcing Industry in Region 7 or the Central Visayas Region in the Philippines. The result of the environmental scanning activity done on the four provinces covered namely Bohol, Cebu, Negros Oriental and Siquijor. This presents not only the status of small & medium scale BPO companies in terms of supplier's sustainability, customer satisfaction, competitor's strategies and government support, but it also shows the other business opportunities and investment priority areas in the four provinces. An analysis of the external environmental factors affecting the business operations shows that the dominant factors affecting the businesses in Bohol are socio-cultural and demographic factors, while in Siquijor the development of businesses are mostly affected by legal and political factors. Cebu, and Negros Oriental businesses, however, are highly affected by technological factors despite the availability of infrastructure, since most of the BPO companies are relying on the Internet access to operate. External environmental factors are perceived to vary depending upon the nature of the sub sector

and the location of the business within the region.

**Keywords** - business process outsourcing, business operations, market environment

## INTRODUCTION

The Philippines is experiencing a very high rate of unemployment and underemployment. In Region 7 alone, the 2006 data from NEDA registered a 7.9 percent unemployment rate and a 21.2 percent underemployment rate. Although actual data shows a decrease of 5.7 percent for unemployment and 16.0 percent for underemployment in the first quarter of 2007, still that problem remains a challenge not only to the government, but to the academe, as well. It is then the mandate of higher education institutions (HEIs) to produce graduates equipped with skills that are needed by business and industry.

It is a responsibility for the schools and universities to come up with effective workable programs and course offerings that would match the needs of the times. At the same time, to provide quality instruction that would expose the students to activities and make use of materials in the classroom that would make them ready to respond to global competitiveness and play their part in nation building. Business students are not only formed to become productive contributors to economic development as employees, but as effective decision makers, as entrepreneurs, and managers.

Thus, this study is undertaken to update the students as well as existing businessmen to the wealth of opportunities that are available for them now as buyers and recipients of products and services and the kind of environment that they would be in sometime in the future, if they choose to be new entrants to the Business Process Outsourcing Industry. Thereby, it becomes a major contributor to the solution on the perennial problem of unemployment and underemployment.

As part of economic reforms of the Arroyo Administration, the government ensures the country's continual and sustainable growth and development through the development of the SMEs in the Business Process Outsourcing Industry. The Business Process Outsourcing Industry particularly is another source of opportunity for would-be entrepreneurs. The industry's market is envisioned to grow faster than

any other service market. Business Process Outsourcing operations such as call centers have generated as much as \$3.36 B for the year 2006, according to the data from the National Economic Development Authority (NEDA).

Analysts and government agencies predict a high growth rate as foreign companies realize 30 to 40 % savings from outsourcing basic, but non – core business processes. Business process outsourcing (BPO) is widely accepted in the global marketplace as a means to improve productivity, reduce cost, and foster innovation. Central Visayas is basically a service driven economy.

Reinforced by the country's bid to be the E – service Hub in Asia, Cebu particularly has 19 PEZA registered IT parks and centers. Investments in IT parks grew from P79 M in 2003 to P 3.3 Billion in 2006 and more recently, the Business Process Outsourcing Industry has been a major contributor to its growth (Sunstar Economic Forum, Aug.2007).

The outsourcing market has traditionally been divided into two major categories, IT outsourcing and business process outsourcing. IT outsourcing focuses on farming out functions specific to an organization's Information Technology group. Business process outsourcing focuses on farming out non core somewhat commodity functions common to most organizations (Call centers, payroll, payables and receivables, etc.) and is sub-categorized into Voice – based and non Voice based BPO.

Providers of BPO routinely deploy world class expertise and systems to integrate traditional cross functional business processes such as procure-to-pay or cash. A study conducted by the economists of the Asian Development Bank entitled *An Analysis of the Philippine BPO Industry* (March 2007) states the industry's intersectoral linkages and its potential impact on compensation and employment. The Philippine BPO sector's growth is largely driven by the contact center subsector due to its large share in total BPO employment and revenues, as well as by government support. The input-output linkage analysis shows that the BPO industry is not a key sector in terms of stimulating production in other sectors of the Philippine economy. If appropriate policies are enacted and with improvements in human capital, it is estimated that the Philippine BPO sector may become an important employment-generating sector.

## *Industry Overview*

Customers do not get similar service from other countries. However, the most recent developments in the industry as stated by the present BPAP Chief Executive Officer, Mr. Oscar Sanez, the industry is faced with such challenges as talents, business environment and new sites for expansion. Buoyant about the country's potential to become the BPO hub in the Asia – Pacific region, members of the Industry and the government have been keen to pursue programs that will attract more investments and increase the pool of employees for the fast growing industry. Hopefully, with such programs, the region will be able to attract and develop more BPO companies.

## *Contact Center or Call Center Subsector*

Continued and rapid growth of this sector from 72 registered companies in 2003 to 120 in 2006 made the Asian Call Center Review report the Philippines as the first in rank in the offshore call center industry for the Asian region, surpassing India at the second spot. From being an almost unexplored BPO territory in 2000, the call center sub industry has grown by 100 percent annually according to the Philippine Board of Investments. This industry aside from contributing 12 percent in to the Philippine gross national product, also experienced a growth rate of 70 percent in 2005 making it the most dynamic subsector in the Philippine BPO Industry.

While call centers in the Philippines started as simple providers of e-mail response and handling services, these have developed compatibilities for almost all types of customer interactions, ranging from travel services, financial services, technical support, education, customer care, on line business to customer support, online business to business support. For outbound calls, the services cover telemarketing, advisories, sales verification, credit and collection, reactivation/reinstatement of accounts, loyalty program benefits, customer services and order entry. Inbound calls cover a broad range of services from all types of inquiries, technical help, transcription, complaints, customer service support, sales, marketing & billing.

### *Human Resource Outsourcing*

Properly defined goals that are supported by innovative outsourcing can drive a company to the next level of enterprise effectiveness.

### *Knowledge Process Outsourcing*

From routine business processes, BPOs are seen to shift towards providing more analytical and knowledge-based services, or what is being touted as knowledge process outsourcing. KPO services include such non-voice or back office operations as market research and analysis, intellectual property management, and finance and accounting research.

### *Legal and medical transcription*

These companies do mostly medical reports, discharge summaries, operative reports, therapy/rehabilitation notes, chart notes, and hospital and clinic reports using state-of-the-art software and equipment from the U.S. They can transcribe up to 1,000 lines per medical transcriptionists per day at a 98% average accuracy rate, and they conduct training programs for their transcriptionists to continuously upgrade their performance.

### *Finance, logistics and accounting*

The Philippine is fast becoming a regional and global hub for shared corporate backroom operations, especially for financial services such as accounting and bookkeeping, account maintenance, accounts receivable collection, accounts payable administration, payroll processing, asset management, financial analysis and auditing, management consulting, inventory control and purchasing, expense and revenue reporting, financial reporting, tax reporting, and other finance-related services such as financial leasing, credit card administration, factoring and stock brokering; as well as for logistics management, and cargo shipment management.

### *Web design, Engineering designs and Animation*

There are also quite a big number of freelance and informal enterprises doing some business process outsourcing work, multi media design, animation. According to an industry study conducted by Tholons Global Services, Cebu City emerged 4th among the top 50 emerging outsourcing cities. Economic growth opportunity is vast - estimated global addressable market amounts to \$450 B.

Mr. Joel Yu, Director of Cebu Investment Promotion's Center, however said that to take advantage and sustain the growth opportunities within the global BPO industry, key issues like quality certification, ability to ensure data security and International Property protection, business continuity capabilities and continuous development of human capital must all be given importance.

Data from the National Economic Development Authority (NEDA) states that the Central Visayas region's IT and ICT – enabled industries continued to perform well in the first quarter of 2008. Teletech which is a global business process outsourcing company that provides a full range of front - to - back office outsourced solutions, also opened its Customer Management Care Center at Oakridge IT Center in Mandaue City. The continued expansion of the BPO industry was another major impetus that drove the growth of the region's service sector in the first quarter of 2007. A number of existing BPO companies contemplating expanding operations in the region proceeded with their plans. Sykes Cebu inaugurated its new building called Synergies IT center. The new Sykes building houses the company's data, telephony, and security technology facilities. Sykes Cebu began operations with 15 people in 2003. It now has 1,700 seats that assist the company to provide outsourced customer contact management solutions and services to clients.

Investments in the business process outsourcing (BPO) industry remained high. Major service providers have established their Philippine operations in Cebu and Negros Oriental like Convergys, Sykes, eTelecare, Teletech, IBM, People Support, Accenture and Wipro. This benefited the real estate industry, which saw demand for office spaces from BPO companies continue to rise. Mr Alberto Gumarao, Deputy Center Manager of Cebu Investment Promotions Center has

this to say on the role of CIPC in the enhancement of the business environment of locators in the BPO Industry.

“As of the first quarter of 2008, six companies came into the picture including one large international business solutions company which intends to align itself with the continued growth of the BPO industry.”

In general, a business unit has to monitor Key macro environment forces (demographic, economic, technological, political, legal, social and cultural) and significant microenvironment sectors (customers, competitors, distributors, suppliers) that affect its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments. For each trend or development, management needs to identify the associated opportunities and threats.

**Government support** is another micro environmental factor which refers to the type of assistance that government agencies are willing to provide to SME BPO service providers. This factor may also include the firm's perception of the adequacy and effectiveness of the government assistance that these firms are able to experience.

The macro environment of an organization consists of the external stakeholders; these are people or groups in the organization's external environment that are affected by it. The environment consists of the task environment and the general environment. The task environment consists of general groups that present the organization with daily tasks to handle: customers, competitors, suppliers, distributors, strategic allies, employee unions, local communities, financial institutions, government regulators, special interest groups, and mass media. Organizations may be able to control some forces in the task environment but not the forces in the general environment.

**Economic Forces** consist of the general economic conditions and trends—unemployment, inflation rates, interest rates, economic growth, growth of global brands, changes in disposable income, changes in prices, savings, debt and credit availability and the economic growth rates of the client countries like the U.S. and Europe which may affect the performance of an organization.

**Technological Forces** are new developments in methods for transforming resources into goods or services such as availability of technological resources, access to technology from other advanced

countries, level and rate of technological investments, degree of technological change, etc.

**Political-Legal Forces** are changes in the way politics shape laws and laws shape the opportunities for and threats to an organization such as availability of infrastructure, insurgency problems, special tariffs, fiscal and monetary policy, lobbying activities, world oil, currency and labor markets.

In general, the greater the lack of complete information about the environment, the more attention that managers of business organizations must direct towards the external environment. These factors have to be continuously monitored, studied and understood to spot emerging trends as these may pose as threats and as opportunities to the business organization.

## OBJECTIVES OF THE STUDY

The study specifically sought to determine the factors in the micro environment that are affecting the small and medium BPO service providers in Region 7 in terms of supplier' sustainability, customer satisfaction, competitor's strategies, and government support. Moreover, the study aimed to find out to what extent has the factors in the external environment affected the SMEs in the BPO Industry. The role of the government and non government agencies in the BPO Industry were also considered in this study in order to find out how they can enhance the promotion of industry in Region 7.

## METHODOLOGY

This study is both qualitative and quantitative research which made use of the descriptive research method, particularly using the purposive sampling technique as data were gathered from heads and representatives of government agencies, selected SMEs in the Business Process Outsourcing Industry and the private sector as key informants of the study. Attendance in economic fora and symposia were also undertaken by the researcher to gather first hand information from the resource speakers on the latest economic, legal, political, technological trends affecting business particularly the SMEs.



The study was conducted in the Central Visayas Region or Region 7. The region consists of 4 provinces namely Bohol, Cebu, Negros Oriental and Siquijor. There was a total of seventy seven respondents covered in the study. These BPO firms are coming from the different segments of the BPO industry in the four provinces covered in the study. The government agencies which were included in the study are the agencies providing assistance to the business sector like DOST, DTI, DENR, DOLE, LGU, PIA, NEDA, and TESDA.

## RESULTS AND DISCUSSION

**On Supplier Sustainability.** Suppliers play a vital role in a business organization. They provide the human, information financial and material resources needed by the organization in order to operate. The status of suppliers of SMEs service providers in the BPO Industry in terms of sustainability is described as High which implies that the respondent companies don't have problems with the supply of food stuff, materials, manpower and other needs.

**On the Capability of BPO Firms to Excellently Provide Outsourced Services.** Customer service may be an important source of competitive advantage when pursued relentlessly as a goal of the company. The respondents perceived their organizations as being able to provide high quality customer service. Interviews conducted by the researcher indicated a positive response from majority of the client companies.

**On Competitors' Strategies.** Competitors are specific organizations that offer the same or similar products (goods or service) to the same client group. Strategies are formulated and implemented at the organizational, corporate or business unit levels or functional level.

An interview with Ms. Erica D. Roque, Senior Human Resources Officer of SPi, Cebu and Dumaguete revealed that in their case, strategies are implemented even at the small business unit level .

Growth strategies ranked number one among the strategies as perceived by the respondents, followed by Strategic alliances which strengthens the competing companies. BPO companies are dependent on Internet access to operate as mentioned by three key informants in an interview.

**On Government Support.** Specific government agencies and representatives at the local and national levels that enforce laws and regulations affecting the organizations often pose as regulators. It's a pilot project undertaken by the agency to bridge the gap between the government, the academe and the industry. It's a twenty - day training program on English proficiency and Technical Skills. The Public Employment Service Office (PESO) facilitates the screening of applicants for this project while TELETECH provides the training based on company standards and requirements. DTI or the Department of Trade and Industry on the other hand is extending its services to provide a "One stop shop" business registration through its arm the DTI – NERBAC (The Department of Trade and Industry – National Economic Research and Business Assistance Center). The center intends to facilitate the processing and documentation of all paper requirements for the establishments of business enterprise.

The following interview results reveal the data gathered from the Provincial Directors of DTI Negros Oriental, DTI Bohol, DTI Siquijor and DTI NERBAC, DOST, TESDA and NEDA and the Philippine Information Agency on the kind of government assistance afforded to the SMEs particularly in the BPO industry.

"The BPO Industry in Bohol is just in its infancy stage. Although infrastructure is now becoming available, one reason that hinders the province to move on is the culture of people which still need to be more educated about how this industry operates and what types of jobs are available for people to explore." (Ms Nanette Arbon, Provincial Director, DTI, Bohol)

"We are trying our best to grab such opportunities from the industry by providing the manpower pool. (Ms. Nimfa Virtucio, Provincial Director, DTI Siquijor )

"A proposal has already been signed by the DOLE , NEGROS Oriental State College, TELETECH and PESO intended to provide the training to graduates to make them more ready to be accepted if they decide to start their careers in the BPO firms." (Teresa Tanquiamco , Provincial Director DOLE ,Siquijor)

"The growth of the BPO industry is so fast that we need to catch up with the demand for more skilled workers to handle specific tasks.. We at the Technical Education .and Development Authority, are providing

the necessary exposure and accreditation to allow more people to fill in the gap.”(TESDA Provincial Director))

“The Philippine Information Agency(PIA) is an agency which help promote programs of the government. Non government organizations and the private sector such as the business sector and the academe in the form of an advocacy or dialogues where issues of public concern are discussed.”(PIA Regional Director7)

“Our office does not generate data. We collate the data coming from different agencies to provide preliminary information on the performance of the regional economy to make them more relevant to investors and stakeholders. We also assist other agencies and local government units in the planning and review of programs to hasten its implementation”. (Director Marlene Catalina Rodriguez, NEDA Region 7)

### ***External Environmental Factors Affecting SME's in the BPO Industry***

**On the economic aspect.** Economic factors are considered as major sources of opportunity. Economic factors are both opportunities and threats. As indicated by the respondents, who perceived economic factors affected them but only moderately.

**On the legal and political factors.** There are so many factors under the legal and political aspect which has greatly affected the BPO firms .One of which is the capability of the local and the national government to implement programs and projects which would enhance the marketability of outsourced services to would – be clients from other countries. The respondents perceived that they were moderately affected by the legal and political factors. However, among the cited factors, changes in tax laws, world oil, currency and labor markets and import and export regulations stand out as factors, which has highly affected most of the respondents. “All of the external environmental factors may contribute an adverse effect to the business, however, we are greatly affected by legal and political factors since we are providing manpower services .We must always conform to the provisions on labor standards, clearance requirements for business process outsourcing agencies to join or participate in private or public

bidding, we must have no pending cases before DOLE and NLRC.”“We need to understand the regulatory environment, the human resource environment and the infrastructure environment (Responses from interviewees).

**On the technological factors.** The Technological Factors has highly affected the respondent companies, affecting the respondents to a great extent. Among the factors rated as affecting them to a great extent are the current trends and changes in technology, degree of technological change and availability of technological resources. Data from the interviews conducted by the researcher supports the common responses which included experiences which range from opportunity loss to high overhead costs due to unavailability of infrastructure to support operations. The BPO companies and those institutions providing IT enabled services are greatly dependent on technology to continue with their operations.

**Socio – cultural Factors Affecting SMEs in the BPO Industry.** The following socio- cultural factors affected the respondents to a great extent particularly in the province of Bohol. Described as factors which have highly affected most of the respondents are attitude toward work, levels of education, skills and competencies of workforce, view towards risk taking, attitude towards careers, waste management and attitude towards customer service and traffic congestion.

## CONCLUSIONS

Based on the findings of the study the following conclusions were reached: High sustainability of suppliers indicates the suppliers' capability to be sensitive to the customer's demand. A few problems were met by the respondents however these were deemed insignificant.

BPO companies perceive themselves as highly acceptable in terms of customer's satisfaction.

SMEs in the BPO Industry are aware of their competitor's strategies and are likely to adapt if not outperform them in terms of providing the best products and services.

As SMEs, DTI as an agency has provided them the highest volume of government assistance.

Depending on the segment of the industry, there are differences in the factors that affect the way the respondent companies are affected by the varied external environmental factors which are fast changing.

The micro and macro environmental factors that affect the operations of the SMEs in the BPO Industry varies depending upon the differences in culture and also of the government support in terms of improving infrastructure and the capability of the host country to cope with industry requirements particularly in upgrading technology and improving the human capital.

## **RECOMMENDATIONS**

In the light of the findings, the following are recommended:

1. To look into the need to improve the quality of labor supply from colleges and universities as specified by some respondents, more collaboration between the service provider and the supplier in implementing programs so as to enhance the market environment of the BPO Industry .

2. To maintain and if not improve, their level of customer's satisfaction, businesses need to be more adept with the latest trends in providing outsourced services .

3. For BPO companies to be ready with the uncertainties particularly competitor's strategies such as growth strategies and strategic alliances implemented by competing companies, as these may change depending upon other external environmental factors affecting these firms.

4. For more advocacy and information dissemination on governmental services to maximize support to the private sector.

5. To address the way BPO companies are affected with the changes in the external environment,

- 5.1 For SMEs in the BPO Industry to collaborate with academe by providing information on their training modules to be integrated in the tertiary level curriculum so as to solve the problem of mismatch of skills of graduates to the needs of the industry.

- 5.2 More synergy in the government and private sector particularly those whose services are being outsourced locally but also to other

countries as a lot of giant companies are beginning to realize cost effectiveness through outsourcing.

5.3 To support “knowledge process outsourcing”, colleges and universities should focus their programs not only on English language proficiency but competencies in doing market research, market analysis and to master the basic skills in accounting and finance administration, engineering and information technology.

5.4 Political conflicts presented through the different forms of media should be minimized as these may affect future transactions of BPO companies. Mismatch between what the industry needs and what the academe can provide should be readily addressed if the country aims to be a potential BPO hub in the Asia – Pacific Region.

5.5 Programs of the government should not only focus on assisting contact centers on manpower needs but should also be geared towards educating people on other business process outsourcing services to broaden their views on the opportunities for entrepreneurship.

5.6 An effective justice system and an improved educational system will enhance the talent pool in the country thereby allowing the business sector to explore opportunities in the external environment.

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