Chapter 13
Evaluating the Internal Capabilities and External Linkages of the Philippine IT-Enabled Services (ITES) Industry

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ABSTRACT

Over the past five years the Philippine IT-enabled services industry has grown tremendously, fuelled primarily by strong global demand. The main competitiveness drivers of the Philippines as an attractive location for offshore IT-enabled services are well documented: highly skilled, English proficient workforce; low labour costs; cultural affinity towards the United States; reliable telecommunications infrastructure; and business-friendly policies. It is this rare combination of resources that has attracted many FDIs to locate their outsourcing operations in the Philippines which has made the country a prime location for customer contact service centres and business process outsourcing. This chapter examines the internal capabilities and external linkages of the Philippine ITES industry based on an empirical study. It focuses on how these various capabilities and linkages play a significant role in facilitating the ITES industry’s growth and long term sustainability.

INTRODUCTION

Globalization has enabled the seamless delivery of information technology and business process services across borders, through time zones, and over oceans. It has transformed our world into more of a global village than it has ever been. The demand for outsourced services, particularly in offshore destinations, is growing exponentially. In today’s highly competitive global market, outsourcing is increasingly seen as a strategic management option to reduce costs while allowing the enterprise to focus on its core competencies, thereby achieving efficiency within the organization. McKinsey and Co. forecasts demand for outsourcing services to
reach US$180 billion by 2010, with the customer contact services, finance and accounting, and human resource sub-sectors taking up the largest shares (Reloc8 Asia Pacific Group, 2007). Therefore, a fierce race in becoming a leading offshore destination has inevitably been set into play and driven by global competition.

Many countries are now starting to develop their IT-enabled services (ITES) and business process outsourcing (BPO) industries to cater to the growing demand in outsourced services. The market leaders in supplying services at present are India and Canada. India’s early software services firms have been able to leverage their earlier head start in software services into capabilities for other ITES sectors such as BPO and call centres. Canada has historically been a significant outsourcer because a significant portion of the U.S., the largest client of BPO services at present, is a major trading partner. Ireland is also a big player in IT services exports. However, 2003 witnessed a significant growth in services exports in other countries such as China, Russia, and the Philippines. At the same time, countries such as the Czech Republic, Poland, Hungary, and Mexico emerged from relatively insignificant markets to legitimate contenders for market share in the growing ITES market (neoIT, 2004). In addition, many countries have had some success in attracting such work, or have the potential to do such work. These include Malaysia, Jamaica, South Africa, Ghana, and Costa Rica (Tschang, n.d.).

Over the past five years the Philippine IT-enabled services industry has grown tremendously, fuelled primarily by strong global demands. The rapid growth of the ITES industry can be attributed as a result of two forces: 1) the information revolution, which has made the movement of information fast and cheap; and 2) the dramatically lower costs of carrying out some business operations in developing countries due to relative abundance of cheap educated manpower. This enticed businesses in industrialized countries to outsource certain backroom operations in the Philippines, leading to the expansion of such service activities in the country like call centres for customer relations, medical and legal transcription, financial and personnel management, engineering design, animation, development of web and software programs, and other services powered by information and communications technology. The Philippine government has already identified the ITES industry as one of the ten industries that will bring in huge revenues for the country under the Philippine Export Development Plan (PEDP). In 2007, the sector has reached a size of about US$4.9 billion from just about US$350 million in 2001. The Philippine outsourcing industry is projected to generate US$12 billion in annual revenues and employ over 1 million workers by 2010 (Locsin, 2006). The Philippines is now increasingly being recognized as one of the locations that companies are seriously looking into as a major outsourcing destination. In 2005, the Philippines was voted by IT Executives around the world as one of the Top Four Leaders in the Outsourcing Market, next to India, China and Malaysia (Our Corporate Bureau, 2005). In July 2007, the International Data Corporation (IDC) released a report about the new Global Delivery Index (GDI) which compares cities in the Asia/Pacific as potential offshore delivery centres, based on a comprehensive set of criteria such as cost of labour, cost of rent, language skills, and turnover rate. In the report, Bangalore and Manila ranked numbers one and two respectively out of 35 Asia/Pacific cities studied (“China to topple India”, 2007).

Indeed, the Philippine ITES industry has an opportunity to play a profound role in the Philippine’s economic development directly and indirectly through spillovers. Evidently, the industry has done a lot to ease the country’s unemployment problem because of the thousands of jobs it is generating. However, this industry is also a very dynamic sector that is growing by leaps and bounds. Inevitably, various challenges and issues emerge. At this point, the Philippine ITES indus-
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