O_2P and BPA/P Periodic Survey III
The Business Environment

Summary of Results
November, 2007

The Periodic Surveys

Outsource₂Philippines (O_2P), in partnership with the Business Processing Association of the Philippines (BPA/P), conducts and publishes periodic surveys on topics of relevance and interest to the IT-enabled services (ITES) and business process outsourcing (BPO) industry. The surveys are meant to provide an indication of business sentiment among senior BPO executives, and draw attention to emerging industry trends and issues. The third in the series of surveys focused on the business environment and its impact on Philippine BPO sectors.

Background: The survey, The Business Environment, was conducted from September 12 to September 25, 2007. It was available exclusively online. A total of 351 invitations were sent to senior executives representing a broad cross-section of the outsourcing industry. A total of 72 respondents, or 21% percent, participated in the survey. The survey could be taken only once per workstation, and the results do not include four partial completions.

Survey Results

Executive Summary

1. English proficiency is an important concern, but less critical than in previous surveys.
2. Hiring rates are generally higher than popular myth suggests, and steady. Turnover is incrementally higher.
3. Respondents remain largely enthusiastic with respect to prospects for growth, and forecast significant expansion both in workforce and real estate requirements.
4. Most BPO industry employees who resign do so to accept an offer within the industry, or overseas. Industry tenure is two to three years. There is no difference in performance between new graduate hires and new hires with previous experience.
5. Positive country image remains an important concern to respondents, and influences investment decisions and client acquisition.
6. Investment incentives influence investment decisions. Current incentives offered by the Philippine government are reasonably competitive.
7. The Philippines should work to improve country image, political stability, and English proficiency.

Basic Information

Profile of companies: All sectors of the outsourcing industry were represented among the 72 respondents. About 34% of the companies represented by respondents are in the contact center sector, compared to 20% in the previous survey in June 2006. Third party BPO and in-house BPO were eight percent and 11% respectively. Fifty-nine percent of respondents indicated software development and services. Medical and legal transcription, animation, and engineering services combined were 18%. Twenty-nine percent of respondents indicated that they also operate in other sectors. The chart below provides sector breakdown.

1. Please indicate the sectors in which your firm operates.		
Primarily Inbound Contact Center	9	12%
Primarily Outbound Contact Center	3	4%
Inbound and Outbound Contact Center	13	18%
Third Party BPO (primarily non-voice processing services)	6	8%
In-House BPO (shared services)	8	11%
Software (IP development, licensing & implementation)	19	26%
Software (outsourced services)	24	33%
Medical Outsourcing Services	2	3%
Legal Outsourcing Services	1	1%
Animation and Graphics	4	6%
Engineering Services	6	8%
Other, Please Specify View Responses	21	29%

Employee Base: Almost 50% of respondents' companies employee less than 100, 24% employ more than 500, and 13% employ from 2,501 to more than 10,000. There was a notable increase in the number of mid-range (1,001-5,000) companies (13 or 19%) responding to the current survey compared to the June 2006 survey (0). The responses indicate better representation of mid-range organizations, and excellent representation of smaller firms.

2. How many people do you employ in the Philippines?		
1-100	35	49%
101-500	20	28%
501-1,000	3	4%
1,001-2,500	5	7%
2,501-5,000	4	6%
5,001-10,000	4	6%
More than 10,000	1	1%
Total	72	100%

Growth Rate in Workforce: There was an optimistic picture of employee growth, with more than two-thirds of the respondents projecting a growth rate in the range of 11-75%. These results are generally aligned with results in the June survey, indicating that respondents remain enthusiastic with growth prospects.

3. By what percentage do you expect to increase the size of your workforce for the year 2007?		
0-5%	10	14%
6-10%	8	11%
11-25%	22	31%
26-50%	15	21%
51-75%	10	14%
76-100%	3	4%
101-200%	4	6%
Other, Please Specify	0	0%
Total	72	100%

Hiring Rate: More than half of the respondents hire between five percent and 20% of applicants considered for employment. And 13% hire 21-30%. A number of "Other" responses indicated hiring rates of 35-50%. Generally, hiring rates appeared to be steady when compared with the June 2006 survey, and higher than popular myth suggests.

4. What percentage of interview applicants do you hire?			
1%		4	6%
2%		5	7%
3%		5	7%
4%		1	1%
5%		7	10%
6-10%		16	23%
11-20%		16	23%
21-30%		9	13%
Other, Please Specify View Responses		7	10%
	Total	70	100%

Turnover Rate: Turnover appears, as in the June 2006 survey, to be lower than popular myth suggests as well. Two-thirds of the companies indicated a rate below 20%, and 30% indicated a turnover rate of 5-10% compared with 38% in the previous survey. However, turnover rates were incremental higher in the current survey.

5. What is your average annual employee turnover?			
5-10%		21	30%
11-15%		15	21%
16-20%		11	15%
21-25%		7	10%
26-30%		4	6%
31-40%		0	0%
41-50%		6	8%
51-75%		3	4%
76-100%		0	0%
Other, Please Specify View Responses		4	6%
	Total	71	100%

Reasons for Resignation: BPA/P introduced this line of inquiry for the current survey. Most employees leave their companies due to higher wages and benefits offered by other companies in the industry (67%) and because they are offered jobs abroad (47%).

6. What are the principal reasons employees give for resigning?

Better offer within the industry	48	67%
Better offer outside the industry	9	12%
Better offer outside the country	34	47%
Dissatisfaction with the nature of the work	5	7%
Dissastisfaction with the hours of work	9	12%
Dissatisfaction with a supervisor	6	8%
Dissatisfaction with lack of professional growth opportunities	6	8%
Other, please specify View Responses	8	11%

English Proficiency

Impact on Growth: Slightly more than half of the respondents indicated that English proficiency is a constraint to growth, and most of the respondents thought it was a serious problem. However, of those indicating English proficiency is a constraint, only 15% said it had a very significant impact, compared to 51% in the June survey. In the current survey, 24% of respondents indicated significant impact and 42% indicated relative impact. These results suggest that while English proficiency remains a concern, that it is less a concern than a year ago.

Only 19% of respondents test proficiency using online tools, and almost half evaluate proficiency on the basis of an interview. About 40% use written exams to test proficiency.

7. In general, is poor English proficiency of applicants a constraint to your organization's capacity to grow?

Yes	39	55%
No	32	45%
Total	71	100%

8. If poor English proficiency is a constraint to growth, on a scale of 1-5, with 1 indicating no impact and 5 very significant impact, to what extent does poor English proficiency hamper growth?

No Impact	4	7%
Some Impact	7	13%
Relative Impact	23	42%
Significant Impact	13	24%
Very Significant Impact	8	15%
Total	55	100%

9. How do you test English proficiency? Select all that apply.

Online Solution	13	19%
Interview by Recruitment Executive or Trainer	61	90%
Written Examination	28	41%
Other, Please Specify View Responses	7	10%

Remedial Training: Two-thirds of respondents provide free remedial training for new hires, and 29% provide no remedial training.

10. Do you provide remedial traning for new hires?

Yes, for free.	45	66%
Yes, for a fee.	5	7%
No.	20	29%

Work Ethic & Tenure

New Graduate Hires Compared to New Hires with Previous Experience: This series of questions was also introduced by BPA/P in this survey, based on inquiries from the industry. Although most of the companies thought there was a difference in work ethic between new hires and transferees from other companies, it was reported that there was no real issue in either case. Regarding tenure, generally one-half of employees resign after less than two years of employment, and one-third resign in the third year.

11. On a scale of 1-5, how would you rate the work ethic of new graduate hires versus new hires with previous experience outside the industry?

No Difference	5	7%
Some Difference	18	26%
Noticeable Difference	28	41%
Significant Difference	15	22%
Very Signficant Difference	2	3%
Total	68	100%

12. On a scale of 1-5, how would you rate the work ethic of new graduate hires?

Poor	3	4%
Fair	15	22%
Good	32	47%
Very Good	16	24%
Excellent	2	3%
Total	68	100%

13. On a scale of 1-5, how would you rate the work ethic of new hires with previous experience outside the industry?

Poor	1	2%
Fair	12	18%
Good	32	48%
Very Good	21	32%
Excellent	0	0%
Total	66	100%

14. On a scale of 1-5, how would you rate the length of tenure of new graduate hires versus new hires with previous experience outside the industry?

No Difference	6	9%
Some Difference	20	30%
Noticeable Difference	25	37%
Significant Difference	13	19%
Very Signficant Difference	3	4%
Total	67	100%

15. On average, what is the length of tenure of new graduate hires?

Less Than One Year	12	18%
Less Than Two Years	21	31%
Two to Three Years	22	33%
Three to Four Years	8	12%
More than Four Years	2	3%
Other, please specify View Responses	2	3%
Total	67	100%

16. On average, what is the length of tenure of new hires with previous experience outside the industry?

Less Than One Year	11	17%
Less Than Two Years	24	36%
Two to Three Years	22	33%
Three to Four Years	3	5%
More than Four Years	4	6%
Other, please specify View Responses	2	3%
Total	66	100%

Real Estate

Availability & Location: Most respondents indicated that there is not a problem regarding the availability of suitable office space, although seven did indicate that they have a severe problem. Thirty-nine percent of respondents said space is “not a problem” compared to 15% in the June survey. Four-fifths of the respondents have sites outside Metro Manila. Reflecting the profile of the respondents, more than half of the companies occupy less than 1,000 square meters, while about 18% occupy between 1,000 and 3,000 square meters. There was an even spread of plans for office space expansion from less than 10% growth to more than 75% growth. Fifteen percent of respondents said they would expand from 101-200%, the same percentage as the previous survey.

17.	On a scale of 1-5, is finding suitable office space a constraint to growth?		
Not a Problem		27	39%
Somewhat a Problem		23	33%
A Problerm		8	11%
A Significant Problem		10	14%
A Very Signficant Problem		2	3%
	Total	70	100%

18.	Do you operate a facility outside Metro Manila?		
Yes		9	13%
No		49	69%
If yes, please indicate how many and where. View Responses		13	18%
	Total	71	100%

19.	How much office space do you currently occupy (square meters)?		
100-1,000		39	54%
1,001-3,000		13	18%
3,001-5,000		4	6%
5,001-10,000		2	3%
10,001-15,000		2	3%
15,001-20,000		3	4%
20,001-25,000		0	0%
25,001-30,000		6	8%
Other, Please Specify View Responses		3	4%
	Total	72	100%

20.	By what percentage do you expect your space requirements to grow over the next two years?		
0-10%		21	29%
11-20%		16	22%
21-30%		5	7%
31-40%		6	8%
41-50%		6	8%
51-75%		2	3%
76-100%		4	6%
101-200%		11	15%
Other, Please Specify View Responses		1	1%
	Total	72	100%

Country Image & Investment Incentives

Country Image: When asked, “How would you rate the image of the Philippines to investors?” Fifty percent indicated positive. Another three percent responded very positive, and 29% said the Philippines’ image to investors is neutral. Only 18% said the Philippines’ image is negative – and no one responded that the Philippines’ image is very negative. Nevertheless, respondents indicated in subsequent questions that country image remains a priority concern.

21. On a scale of 1-5, how would you rate the image of the Philippines to investors?		
Very Negative	0	0%
Negative	13	18%
Neutral	21	29%
Positive	36	50%
Very Positive	2	3%
Total	72	100%

Country image is an important issue for respondents. When asked, “Please indicate whether positive perceptions of the Philippines facilitates client acquisition,” 92% of respondents said a positive country image is at least something of an issue. And 66% said image is an issue, a significant issue, or a very significant issue. So while it appears that the Philippines’ image has improved within the BPO industry, it is important to extend and enhance positive perceptions.

22. On a scale of 1-5, please indicate whether negative perceptions of the Philippines makes acquiring clients more difficult.		
Negative Image Is Not an Issue	18	25%
Negative Image Is Something of an Issue	22	31%
Negative Image Is an Issue	19	26%
Negative Image Is a Serious Issue	9	12%
Negative Image Is a Very Serious Issue	4	6%
Total	72	100%

23. On a scale of 1-5, please indicate whether perceived safety and security concerns associated with the Philippines makes acquiring clients more difficult.		
Not an Issue	18	25%
Something of an Issue	25	35%
An Issue	18	25%
A Serious Issue	7	10%
A Very Serious Issue	4	6%
Total	72	100%

24. One a scale of 1-5, please indicate whether positive perceptions of the Philippines facilitates client acquisition.		
Image Is Not an Issue	6	8%
Image Is Something of an Issue	18	25%
Image Is an Issue	16	22%
Image Is a Significant Issue	23	32%
Image Is a Very Significant Issue	9	12%
Total	72	100%

Impact of Investment Incentives: O_2P introduced this question for the current survey due to recent debate on the relative contribution of investment incentives on investment. When respondents were asked, “Please indicate the impact of investment incentives on investment decisions,” 94 percent indicated that investment incentives have some to very significant impact. And 80 percent indicated that investment incentives have relative, significant, or very significant impact on investment decisions.

When respondents were asked, “Please indicate whether investment incentives provided by the Philippines are competitive,” only 14 percent indicated current incentives are uncompetitive. Another 77 percent of investors, however, indicated incentives are somewhat competitive or competitive. These results suggest that the Philippines’ investment incentives as currently structured, in the view of investors, are reasonably competitive, but that they are not compellingly so. Only eight percent of respondents said incentives are very competitive or highly competitive.

25. **On a scale of 1-5, please indicate the impact of investment incentives on investment decisions.**

No Impact	4	6%
Some Impact	10	14%
Relative Impact	21	29%
Significant Impact	20	28%
Very Signficant Impact	17	24%
Total	72	100%

26. **On a scale of 1-5, please indicate whether investment incentives provided by the Philippines are competitive.**

Not Competitive	10	14%
Somewhat Competitive	24	35%
Competitive	29	42%
Very Competitive	5	7%
Highly Competitive	1	1%
Total	69	100%

Yet when respondents were asked, “Please indicate if you support efforts to rationalize investment incentives,” 50 percent of respondents indicated they are neutral on this issue. Sixteen percent indicated they are absolutely not supportive or not supportive. Only 19 percent of respondents indicated they are somewhat supportive or very supportive.

27. **On a scale of 1-5, please indicate if you support efforts to rationalize investment incentives offered by the Philippine government; for example, limiting fiscal incentives to exporters and investors in the Philippines' poorest provinces.**

Absolutely Not Supportive	5	7%
Not Supportive	11	16%
Neutral	35	50%
Somewhat Supportive	11	16%
Very Supportive	8	11%
Total	70	100%

The survey does not provide direct insight into the reason for the large number of neutral responses, but it may be suggested that the high number of neutral responses may indicate that respondents are not familiar with efforts to realign incentives.

Areas for Improvement: Respondents indicated that overall country image, English proficiency, and political stability are the most important areas for improvement for the Philippines. While other priorities also ranked high, such as management skills, the results suggest that country image, which is in significant part determined by perception of political stability, is a critical issue for the Philippines. On-going concerns with respect to English proficiency were not surprising.

28. **In the view of clients and potential clients, in what areas does the Philippines need to improve?**

English proficiency	46	64%
Management skills	36	50%
Technical expertise	32	44%
Scalability	30	42%
Telecom infrastructure	21	29%
Investment incentives	31	43%
Political stability	43	60%
Overall country image	46	64%
Other, Please Specify View Responses	10	14%

Actions to Improve Country Image: Accordingly, 69% of respondents indicated that the Philippines should undertake a public relations initiative to improve country image. Other priorities include participation in international trade shows, an improved online presence, ad more industry conferences.

29. **Are there things the Philippines should do to improve its image? Please indicate all that apply.**

Advertise in major newspapers and magazines	20	29%
Advertise in major trade publications	18	26%
Undertake a public relations program	48	69%
Participate in major international trade shows	38	54%
Provide a better online presence	35	50%
Conduct more industry conferences	33	47%
Other, Please Specify View Responses	10	14%