# Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines

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# CHAPTER 3

## Strategic coupling in 'next-wave cities': Local institutional actors and the offshore service sector in the Philippines

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## 3.1 Offshoring of services to developing countries: an introduction

The outsourcing and offshoring of services to developing countries has created new opportunities for economic development for countries in the Global South. The fragmentation and unbundling of service production chains and the ensuing commodification of services, in combination with innovations in ICT, have led to a "tradability revolution in services" (UNCTAD, 2004) and, arguably, to a "next wave of globalization" (Dossani & Kenney, 2007; World Bank, 2007). By portraying globalisation as an overwhelming natural force that sweeps over countries and is driven by powerful multinational corporations, the role of local actors in influencing and shaping these processes at regional and local levels tends to become obscured (Kelly, 2000). The rather simplistic understanding of processes of economic change and the implications of an ever-changing international division of labour needs to be challenged by a closer reading of these processes on a sub-national scale.

Through receiving FDI, countries are becoming integrated into GPNs (Coe et al., 2004; Coe et al., 2008; Henderson et al., 2002; Yeung, 2009a). In the GPN framework, regional actors are understood to play a significant role in investment attraction through the process of 'strategic coupling': the idea that regional actors will attempt to link the strategic assets of their region with the GPN, thereby leading to regional development (Coe et al., 2004). Using this "middle-ground interpretation that is both structural and actor-centric" (Coe et al., 2004: 482), this chapter examines the role of local and regional actors (such as local government units, investment attraction organisations, and so forth) in second-tier cities in the Philippines, to advance the understanding of structural factors vis-à-vis the actions of regional actors in attracting FDI.

This empirical study analyses how the insertion of second-tier cities into GPNs is taking place and identifies to what extent local institutional actors have engaged in efforts of strategic coupling and what their scope for agency has been in negotiations with investors. To what extent is strategic coupling taking place in the case of service offshoring, and in the context of a power relationship between local governments and transnational companies that is arguably highly uneven? This chapter aims to contribute to a better understanding of contemporary processes of the global sourcing of services and strategic coupling, and the role of local institutional actors in developing countries.

The offshore service sector is dominated by foreign MNCs and is highly concentrated in Metro Manila and to a lesser degree in the second-largest urban agglomeration, Cebu City. This spatial concentration has led to cost pressure for investing companies, and recently investments have increased in second-tier cities. This chapter focuses on the integration of so-called 'next wave cities' (NWCs), a term coined for promotional purposes by the Business Processing Association of the Philippines (BPAP, 2009; 2011), into global production networks of BPO companies in the Philippines. BPO is the common abbreviation given to a diverse group of business services, such as customer-service-related tasks (either voice- or non-voice based), human resource management (e.g. payroll administration) and enterprise resource management (e.g. finance and accounting). The Philippines are largest provider of voice-based services (IBM Global Business Services, 2010), which are conducted in call centres and encompass the lower-end of the continuum of BPO tasks (Gereffi & Fernandez-Stark, 2010a).

Based on 40 interviews conducted in the Philippines in 2012, this study examines the role of local institutional actors in attracting inward FDI and strategically coupling their regional assets to the needs of multinational service corporations. It discusses the scope for agency of actors on the lower spatial scales in shaping and creating (pre)conditions for territorial development, by contrasting the case of Baguio City (weak local institutional involvement) with the case of Bacolod City (high level of local institutional support).

The following sections elaborate on location-choice factors for companies that are offshoring, as well as the role of local institutional actors in attracting FDI. Subsequently, the research methodology and case study selection is presented. A concise introduction to the context of the case precedes the presentation and discussion of empirical results of the study. The conclusion addresses the implications of the findings for theory and for policy-makers.

## 3.2 Location-choice factors for offshoring service companies

The terms outsourcing and offshoring are often used synonymously; however, they describe two different processes. Outsourcing relates to the transfer of ownership of a task that was previously conducted in-house to a third-party provider. Offshoring relates to the place in which a task is carried out: the spatial relocation of a task across national borders. If both processes happen simultaneously (the relocation of a task across borders to another firm) offshore outsourcing is occurring (see also Section 1.2). As this chapter deals with the issue of FDI attraction, offshoring – which can also be termed the "global sourcing of services" (World Bank, 2007: 148) – is of primary importance here. Specifically, location-choice factors following the initial decision to relocate service production are discussed below.

The location-decision patterns of voice-based BPO services in the form of call centres have received a substantial amount of scholarly interest (see e.g. Bristow, Munday & Gripaios, 2000; Richardson & Marshall, 1996). Call centres first moved *within* developed countries, for example to lower-tier cities of the American Midwest; subsequently, they were transferred across borders to other developed countries, such as Ireland, before relocating to developing countries like South Africa (Benner, 2006) and India (Dossani & Kenny, 2007). These relocation patterns suggest that voice-based BPO services appear to be rather footloose with relatively low fixed investments (Bristow et al., 2000).

The most important input required for call centre operations is human capital. Research reveals that location-choice factors for BPO companies tend to be primarily shaped by the availability of a skilled labour force, or 'talent', as it is referred to within the industry (Couto et al., 2007; Lewin et al., 2009). The availability of college graduates with good English language abilities (at relatively low cost) is mentioned as one of the most important factors for location choice (Sass & Fifekova, 2011). This is especially the case for the higher end, knowledge-intensive services, on which much of the recent publications on offshore services have focused (Couto et al., 2007; Currie, Michell & Abanishe, 2008; Manning, Sydow & Windeler, 2012; Massini & Miozzo, 2010).

Important intermediaries informing the location choice of companies are business consultancies (see e.g. AT Kearney, 2011) which rank places according to various factors. These rankings influence the perceived attractiveness of a place, but few rankings go beyond using states as their unit of analysis to include second-tier cities (an exception is Tholons, 2013). The forces that impact upon the decision for a specific location can be seen as the result of a combination of push- and pull-factors. Location-specific advantages, as suggested as part of Dunning's eclectic framework (2001), make it possible for a given region to pull in FDI. Call centres looking for lower-cost production of services are therefore part of what Hardy et al. (2011b) identify as vertical-efficiency-seeking FDI in services.

Several features of the business model of call centres affect location choice. First, call centres require the availability of large volumes of call centre agents for their operations in order to obtain economies of scale. Second, business continuity is crucial for the operation of offshore service companies, which makes a spreading of risk (e.g. of natural hazards) over multiple locations an appealing option. Third, the location decisions of offshore outsourcing firms are not only taken by the companies' management abroad, but are often determined by the end-client of the service. Often clients decide on 'proven' destinations, leading to a clustering of companies. Fourth, it can be argued that call centres are part of the most standardised, lower-end spectrum of BPO services and fall into the last stage of the product life-cycle theory (Vernon, 1966); therefore, they are likely to be shifted more easily to low-cost destinations. The apparently footloose nature of the sector might have implications for strategic coupling; it would make it relatively easy for second-tier cities to attract investment, while simultaneously making it harder to retain them.

Looking at the factors affecting companies' decisions on the location-decision for service exports, Goswami et al. (2012) confirm that human capital is the most important factor. In addition, the quality of telecommunications infrastructure, local institutions and government policies seem to play a role, though the actual weight of the latter component as a factor in companies' decisions is hard to estimate (ibid.: 33).

## 3.3 Conceptualising the role of local institutional actors in attracting investment in services

While many national governments are aware of the strong potential for economic development that FDI offers, academic literature on FDI is rather sceptical of the ability of states to bargain with MNCs, due to the power differential between both actors (Dawley, 2011; Dicken, 2011; Phelps, 2008). Arguably, competition between countries leads to locational tournaments (Mytelka, 1999), which play out to the benefit of the MNCs, which are less less-territorially bound than states. Existing research has often focused on the role of *national* governments and institutions in this bargaining process. Lower territorial scales in the process, especially in developing countries, have been less subject to empirical research[21].

[21] In the context of FDI attraction in manufacturing, attention has been paid to the role of local states engaging in territorial competition (e.g. Rodriguez-Pose & Arbix, 2001).

FDI occurs in specific localities and requires intense interactions between investors and a variety of actors on the receiving end. As a result of tendencies towards decentralisation in many countries, these interactions increasingly include local and regional actors (as opposed to national actors), which heightens the need to investigate their actions in global processes. The GPN framework explicitly tries to captures these dynamics. A major contribution has been the focus on multi-scalar and trans-regional processes, through which regions become integrated into international networks (Henderson et al., 2002). These processes shape local and regional development in a globalised world.

Of particularly explanatory value of the GPN framework is the notion of strategic coupling, in which regional institutions act as "glue", tying regional assets with foreign investors (Coe et al., 2004: 474). Yeung defines strategic coupling as a "dynamic processes through which actors in cities and/or regions coordinate, mediate and arbitrage strategic interests between local actors and their counterparts in the global economy" (2009b: 213).

As the central actors for achieving strategic coupling, local institutional actors can also be conceptualised as coalitions or "inward investment regimes" (Phelps & Wood, 2006). These include local actors, who translate foreign investors' interests to the local level by acting "as intermediaries or coordinating agents on behalf of inward investors in their dealings with local interests" (ibid.: 503). While these local institutional actors have been discussed in the context of private and public sector actors in the US and UK, their existence, form, and function in a developing country context is not clear yet. Similarly, while several studies on strategic coupling exist (e.g. Yang, 2009), strategic coupling has, up to now, not been empirically studied under the specific conditions of service offshoring in developing countries. Nonetheless, the concept has been criticised for being overly optimistic of the power of local actors to reach positive territorial development outcomes through bargaining with MNCs, noting the high differential in power that both agents possess (Dawley, 2011; MacKinnon, 2012). To what extent strategic coupling is taking place in second-tier cities in the context of even more asymmetric power relations between governments in developing countries and MNCs, and the arguably more footloose nature of investments in services (compared to manufacturing), requires a better understanding.

It is important to note that strategic coupling ultimately aims at understanding regional economic development, which is conceptualised as value creation, enhancement and capture. While investment attraction and strategic coupling might be necessary conditions for this form of value creation, they are by no means sufficient in determining the impact on a region's development (Coe et al., 2004: 481). Hardy et al. (2011b) found that strategic coupling occurs between efficiency-seeking foreign companies and local and national formal and informal institutions in Eastern Europe; however, the result was mainly "institutional harnessing" by foreign investors. Other scholars argue that the attraction of MNCs and inward investment can lead to the creation of branch-plant economies with few linkages with the rest of the host economy (Phelps, MacKinnon, Stone & Braidford, 2003) and a 'lock-in' in low-value-added activities.

## 3.4 Research methodology and case selection

To address the research questions, this chapter uses a qualitative case study design, investigating two Philippine cities comparatively. First, I discuss the city of Baguio, the capital of the Cordillera Administrative Region in Northern Luzon and second, the city of Bacolod, in Negros Occidental in the Western Visayas (see **Figure 1.4**). Both are identified as potential locations for BPO companies in the NWC ranking by BPAP. The cities are roughly evenly matched in terms of their skilled labour pools; however, they diverge in the category of *business environment and risk management*[22] (which is linked most closely to policy-making by local actors). Baguio receives 62% and Bacolod 97%; the lowest and highest scores respectively in the overall ranking (BPAP, 2011: 5). This leads to the assumption that there is a strong difference in local/regional government support for the industry and the involvement of local actors in investment attraction. Comparing and contrasting the emergence of the BPO industry in both cities is therefore useful in analysing the role of regional assets and 'regional' actors in terms of successful coupling processes with foreign MNCs.

For this research, primary data was collected through 40 semi-structured interviews in the Philippines between April and June 2012. The majority of interviews were conducted in the two case study locations with BPO companies (covering about three-quarters of the total sector in both cities), and local institutional actors, such as local government units, members of the ICT council, investment-attraction agencies and local chapters of Department of Trade and Industry (DTI). Respondents were identified through the attendance lists of BPO working group meetings organised by the local ICT councils as well as recommendations by interviewees. Since not all high-level decision-makers are permanently located in the second-tier cities, a further 12 interviews were conducted in Metro Manila. These respondents were identified as key informants or relevant actors in the process of investment attraction in both cities during the first round of interviews in Baguio and Bacolod.

Quantitative data on the industry is derived from secondary sources: business and news reports, data published by the Philippine Board of Investment (BOI), the Philippines Economic Zone Authority (PEZA), and publications of the business associations of the sector. All interviews were conducted in English and lasted on average one hour. The interviews were transcribed, thematically grouped and subsequently analysed. A triangulation of data was achieved through a careful cross-comparison of the collected primary data in itself and with the responses of key industry informants and available secondary data.

## 3.5 The Philippine BPO industry

Since the 1990s, the Philippines has embarked on a policy of deregulation and liberalisation, attuning the country to the needs of foreign investors by creating SEZs for export-oriented

[22] Factors measured for this category are "number of PEZA-approved sites, existence of a local ICT council, vulnerability to natural disturbances; as well as security issues […]" (BPAP, 2011: 4).

manufacturing (Kelly, 2000). Increased international competition in textiles and electronics manufacturing, however, led to a declining share of manufacturing and an increased share of services as measured through national GDP. FDI attraction to the Philippines has been hampered due to its poor business environment; as of 2013 it is ranked 138 out of 183 countries on *ease of doing business* (World Bank & International Finance Corporation, 2013). Despite improvements over the past years, the Global Competitiveness Report shows that the top two problematic factors for doing business in the Philippines continue to be corruption and inefficient government bureaucracy (World Economic Forum, 2012: 292), leading to low transparency and increased costs for companies investing in the country.

Despite such disadvantages, widespread English-language skills and cultural affinity with the US (the Philippines were a US colony from 1898-1946) have created opportunities to attract FDI from BPO companies. The sector directly employed 640,000 people and earned $11 billion in revenue in 2011, translating to about 5% of GDP (DoST-ICT Office & BPAP, 2012). The dominant share of the BPO sector is in voice-based services, provided from call centres. Since 2009, the Philippines are the leading provider of voice-based services globally, placing India second (IBM Global Business Services, 2010: 7). The Philippine BPO industry has benefited from support from national institutions and a proactive private sector, in which business association BPAP played a vital role (Yi, 2012).

In 2007, 80% of the Philippines' BPO employment was located in the National Capital Region of Metro Manila, where the sector remains heavily concentrated (BPAP, 2009). The highly uneven spatial distribution of economic development in the Philippines, due to the uneven impact of globalisation, has been discussed by Kelly (2000) and, more recently, by Clausen (2010). In addition to the problems of attaining regional balance and inclusive growth for the archipelago, BPO companies now face an increasingly tight labour market in Metro Manila. The high growth scenario for the industry, forecasting 1.3 million employees in the sector by 2016 (DoST-ICT Office & BPAP, 2012: 19), can only be achieved if more investments occur outside of the capital region to meet the labour demand of call centres.

In order to stimulate investment in second-tier cities, a coalition of national actors (BPAP together with the ICT Office, DTI and BOI of the Philippines) convened in 2007 to identify NWCs, which are promoted as investment opportunities for expanding offshore service companies[23]. The National ICT confederation of the Philippines provides a platform for 30 ICT councils located in provincial cities, who share best practices for attracting investment outside of the country's established hubs.

FDI attraction to the Philippines is managed by PEZA, which initially created public SEZs providing benefits and incentives for manufacturing companies. In September 2012, 174 IT business parks and centres (including individual buildings) were in operation throughout the country, hosting exporting BPO companies (PEZA, 2012). Since the devolution of

[23] This strategy of a ranking has been successful; for companies the ranking resembles investment consultancies' reports, which usually influence their investment decisions and the cities themselves are stimulated to compete for higher rankings (e.g. by reforming bureaucratic procedures).

decision-making powers in 1991, the institutional framework of the Philippines grants increased competencies to local government units (LGUs). The decision to declare land or buildings available for PEZA incentives rests on the LGUs, making them influential actors: "Local government support […] will be a critical factor that will determine whether an *ecozone* will achieve long term viability" (PEZA, 2012, unpublished presentation). Part of the incentives package granted by PEZA is the suspension of all local government taxes and fees for a period of four years, seen as a powerful tool for a national agency in influencing the local government's ability to collect taxes.



### 3.5.1 Baguio – the educational hub in the northern mountains

The city of Baguio in the mountainous region of Northern Luzon is the educational centre of the north. It is a former US colonial hill station and used to be the centre of the American government during the hot summer months. Today, Baguio is an important tourism destination due to its relatively mild climate. It has about 300,000 inhabitants and hosts the Baguio City Economic Zone (BCEZ) in the southeast of the city, where electronics and textiles are produced for export. The BPO industry has grown here despite a supposedly low local government intervention, as seen by the lowest ranking on the NWC's report on this indicator (BPAP, 2011).

The call-centre industry in Baguio started with the opening of one site by Client Logic (now Sitel) in 2004 in the BCEZ. Sitel is by far the largest BPO firm in Baguio, employing close to 3,000 staff at three sites – making it the largest employer in the city (and indeed the entire Cordillera Autonomous Region). It employs three-quarters of Baguio's voice-based BPO industry, which consists of 4,243 full-time employees, in 2011, according to the Baguio City Planning Office. Moreover, there are three BPO firms with 100–999 employees and two smaller call centres with less than 100 employees. Except for one company, an international hotel chain's in-house reservation centre, all call centres are outsourced to third-party providers.

### 3.5.2 Bacolod – from sugar production to offshore services

Bacolod is located in the Western Visayas and is the capital of the administrative region of Negros Occidental. Bacolod's economy traditionally depends on sugar plantations: 70% of the entire country's sugar production is harvested in the province. Lacking significant industrial development, the city today is much poorer than Baguio. It has about 500,000 inhabitants and signed in 2010 a twin-city agreement with the larger, neighbouring city of Iloilo, which has also attracted a sizeable BPO sector.

In the NWCs ranking, Bacolod has received the highest score for business environment and risk management, in contrast to low-ranking Baguio, and has been very aggressive in attracting the BPO industry. The call-centre industry in Bacolod started in 2006 with the investment of three large companies; since then it has grown to employ 8,204 full-time employees, in 2011, according to the City Planning Office. Six large call centres with more than 1000 employees and two smaller ones with less than 100 employees are operating in Bacolod, all of which are run by third-party providers.

### 3.5.3 Comparing and contrasting the BPO landscapes

The BPO sector in Baguio started earlier but is much smaller and largely dependent on one single, large-scale investor. Bacolod is considered to have been more successful recently in attracting FDI from offshoring companies; its BPO employment is almost twice as large as Baguio's. It is important to note that almost all BPO companies already have operations in Manila, which suggests that few companies have chosen a second-tier city directly, but first set up in the capital region. Moreover, operations in Manila are not relocated to these lower-tier cities but instead are the result of expansions and extensions of GPNs beyond metropolitan areas. This has important implications for how FDI attraction is conceptualised. While being greenfield investments in Baguio or Bacolod , these are based on previous experiences of the investor in the country and possibly the result of a combination of push factors out of Metro Manila and pull factors of the second-tier cities.

## 3.6 Regional assets as pull factors in NWCs

Several push factors are driving companies out of Manila and making them look for alternative locations for their expansions. Most frequently mentioned by interviewees are cost pressures due to rising salaries (Baguio's and Bacolod's non-agricultural minimum wage is 40% less than Manila's), high staff turnover rates, rising rental rates, and traffic jams in Metro Manila. Another important issue for offshore service companies is the spreading of risk. By not 'putting all eggs into one basket' but instead operating from multiple locations within one country, business continuity can be ensured in case of localised natural calamities, such as floods and typhoons.

The regional assets of second-tier cities can be considered additional pull factors for attracting investment; therefore, the differences in assets between both cases are considered in the following. If Baguio were less equipped with favourable structural conditions for attracting investment, this might explain the difference in inward FDI, rather than the role of local institutional actors. According to BPAP (2009; 2011) the major pull factors for companies to relocate to second-tier cities can be summarised as talent, infrastructure, business environment/risk, and cost.

The skilled labour pool, measured in the number of annual tertiary graduates, is almost equal, with a slight advantage for Baguio (11,500 graduates in 2008) compared to Bacolod (10,000 in 2008), (BPAP, 2009). However, Baguio also has other advantages. First, contrary to Bacolod, which does not have a large manufacturing sector, Baguio has an industrial zone hosting several American companies. Therefore, a history of US investment exists, with Texas Instruments having been the largest employer of the city, prior to the arrival of the BPO investors. This can promote further investments through a demonstration effect, explains the mayor of Baguio: "These companies are some of our advertisers that tell people outside of the Philippines that there is Baguio city in the Philippines for you" (Interview 120528b).

Second, Baguio's location in the Cordilleras, the mountainous region in North Luzon, endows it with cooler climates than those found elsewhere in the Philippine archipelago, leading to lower electricity costs (estimated to be 10% of total operational costs due to savings on air conditioning (Beerepoot & Hendriks, 2013). Only the absence of a commercial airport, which is available in Bacolod, is a negative factor for Baguio. On the basis of its regional asset base alone, Baguio should, in theory, not receive less investment than Bacolod.

## 3.7 Actions undertaken by local institutional actors: from hesitant to aggressive



The push by national actors for turning Baguio into a centre for BPO investment has been very strong. Former President Gloria Macapagal-Arroyo declared Baguio in a state-of-the-nation address as one of the identified ICT hubs of the Philippines, and Baguio received BPO investors as early as 2004. However, its overall investment has remained low compared to Bacolod. No concerted effort was undertaken by local institutional actors to form an ICT council and little promotion by the investment-attraction bodies was undertaken. Local actors have been hesitant in supporting the industry and engaging in the attraction of BPO investment.

The local government envisions its main role as securing peace and order, which does not suggest an active promotion of the sector. The local branch of the national DTI is indifferent about promoting the sector and creating investment, arguing that it has been a top-down decision to attract the BPO industry to Baguio:

> It's a new sector, we do not know the impact yet, but it creates employment. This is important so we have to promote it. The government dictates us that we shall promote it, by all means we need to promote it (Interview 120508a).

Despite efforts to create an ICT council with local stakeholders for the investment attraction of BPO companies in 2011, it was not yet operational at the time of writing. The most pressing problem for potential new investors in the city is the lack of office space for setting up a call centre. The local government has to agree to the location and currently two proposals for new IT business parks in the central business district of Baguio are being evaluated. The fact that, to date, only one inner-city location has been granted the status as a PEZA building, a choice that rests ultimately with the city mayor, shows that investment attraction in offshore services has not been a high priority for the local government.

In general, the attitude towards attracting inward investment seems rather negative. Rapid urbanisation and inward labour migration into the city, due to employment opportunities in the BPO sector, appear to cause multiple concerns. Local actors interviewed for this research mentioned heightened traffic congestion, shortages of water, increased levels of garbage, and social concerns (such as changing lifestyles and declining family values) as negative effects on the liveability in the city. Creating more employment opportunities in Baguio is only desired for existing residents of the city and is not intended to encourage inward migration. In negotiations, the city of Baguio was able to include a clause determining that 80% of the call-centre labour force must be hired locally (Interview 120507a).

Bacolod, on the other hand, has been very much engaged in attracting investments from the BPO industry. Being an agricultural-based economy, the urgency for economic diversification was realised and the need "to do something for the city" (Interview 120515b) led local actors early on to commission a study on the potential for inward BPO investment and on the potential economic benefits for the city, showing a potential positive economic impact of the offshore service sector on local employment. In addition to promoting the city via information brochures, the city had a presence at the annual E-Services Global Sourcing Conference and Exhibition in Metro Manila as early as 2004.

To negotiate directly with investors, rather than wait for them to come to Bacolod, local actors from Bacolod's DTI office flew to investors' offices in Manila:

> It was not so easy attracting investors. In fact, during that time, prior to [the investor's] decision to put a call centre here, we met some of their top officials in Manila. We really went to Manila just to meet their top officials. We started the meeting at 10 o'clock in the evening and we were done with the meeting at 3 o'clock in the morning. So, of course, we're not used to that, because, well, Bacolod City is just small compared to Manila ... (Interview 120515a).

A task force called IT-Focus Team was founded in 2005. Additionally, the IT Schools Network of Negros Occidental, Inc. was created in order to strengthen the talent pool – the key asset of the city. Moreover, collecting and presenting an overview of relevant information on the labour pool and infrastructure for potential investors, a value proposition, was another crucial factor. Lastly, the creation of the ICT council, the Bacolod-Negros Occidental Federation for ICT (BNEFIT), was formalised. This proactive alliance with strong leadership by local and regional actors produced a critical juncture for attracting BPO investment to Bacolod. The ICT council functions as a one-stop-shop contact for potential investors, with representatives from government, academia, real estate, telecommunications, and existing BPO investors, thereby providing an arena for local institutional actors and MNCs to meet.

While providing a conducive investment climate, the local institutional actors did not agree blindly to all requests from BPO companies but successfully engaged in bargaining with them. In one situation, an MNC approached the city government early on, asking for an exclusivity clause for its operations. Although the city of Dumaguete had granted the company this extra incentive, Bacolod refused:

> So, of course, there were some negotiations, because they were asking for some favours […] for example they will be investing here in Bacolod City but for a specific period, we will not accept other investors to invest here… Some sort of exclusivity for them. But at that time we were actually weighing the pros and cons of that proposal. The members of the ICT task force were not agreeable to that proposal, so we lay down our card on that proposal and despite of our negative response to that proposal, yet they invested here in the city" (Interview 120515a).

This example shows that the bargaining power of an informed government, aware of its key assets and economic potential due an informed ICT council, held considerable bargaining power against the MNC.

Recently, the local government of Bacolod has taken a step further and has become an active developer of an IT business park, Negros First Cyber Park. The park is currently under construction at the site of a former sports complex, aimed at receiving more BPO investment in the future and to increase income for the local government, rather than for private developers, through the collection of office rents.



## 3.8 Investors' evaluation of the role of local institutional actors

Foreign BPO investors need local institutional actors for several reasons. First, they can address the information gap on local investment conditions, such as the available labour pool, and costs and availability of office space, electricity, and internet connectivity. Second, the building of trust is especially important in the context of the Philippines, a business environment where investors frequently voice concerns over high corruption and a lack of transparency, which is worrying for investors. Through an early engagement with local institutional actors, the long-term viability of a company can be ensured. Third, the transaction cost for recruiting labour can be slightly lowered by establishing connections between the educational institutions supplying the skilled labour force and investing companies. Fourth, the city needs to be supportive of the new type of economy that the investments in offshore services require, as they do not operate in a sociocultural vacuum. Institutional actors can, in this regard, facilitate and organise the supporting infrastructure desired by investors.

In the case of Baguio, investors voiced a concern about a lack of government support, arguing that they had had "not the best experience with [the] government" and that "some politicians are clearly not in favour of the BPO industry" (Interview 210528d). The city is perceived as "laid back and provincial", juxtaposed with the "global" mind-set of the BPO industry. All interviewees representing BPO companies stressed the need to "educate" local stakeholders and the city about their "new" industry (Interview 120517a). This demonstrates that companies are driving the process of integrating Baguio into GPNs with minimal action undertaken by local actors. The level of agency by the local government is low and its efforts at investment attraction are limited.

BPO investors in Bacolod also mentioned the necessity to introduce a change in the city in order to fulfil the demands of global firms operating 24/7, such as installing improved street lighting and increasing public transportation at night. Most of all, the investors appealed to create a better understanding among stakeholders and citizens of the workings of the BPO industry, to *educate* the city about their needs. One respondent of a BPO company explains that "[y]ou come into a city where probably only in hospitals people work at night time and they're quite unfamiliar with our territory" (Interview 120516a). However, companies argue that they received help in this process of changing local settings by local actors:

> BNEFIT, for one, in Bacolod has been very helpful to us, especially with our linkages with universities and colleges and with other business sectors too, because you'd have to tap investors for not only real estate, so you're also

> looking at restaurants being put up to help support the business, maintenance companies, security agencies, and whatnot. So basically BNEFIT has helped us link to all those different investors that can help us support our business, even transportation […] In early 2006 we only had a few taxis, right now there's several hundreds of them (Interview 120516a).



Clearly, local institutional support was seen as an important factor for location choice for the BPO firm, recognising that the building of trust between local government and the investing firm is vital for future operations: "And so we've looked at different cities and eventually decided on Bacolod, mainly because of the support of the government and the ICT group on ICT industry" (Interview 120516a).

## 3.9 Strategic coupling in Baguio and Bacolod

No 'strategic' coupling took place in the case of the multinational call centres in the city of Baguio. Instead of a planned and concerted action by regional actors to tie the existing regional assets to potential investors, the investment process has been primarily driven by MNCs themselves. In this case, coalitions translating the interests of foreign investors have been absent. This seems to confirm the idea of a top-down process of globalisation, in which local actors are regarded as passive investment recipients. However, a closer analysis shows that the reasons for Baguio's hesitation to attract the sector were problems caused due to a feared influx of workers from surrounding provinces. Indeed, a clause to employ local labour was negotiated, which illustrates the leverage local actors can have on foreign investors. Despite of the local actors not engaging in concerted efforts to attract inward investment, the call-centre industry has seen some growth, albeit limited, due to Baguio's key asset of a large and educated labour pool.

By contrast, the efforts of crucial individuals and locally formed organisations to support the BPO industry in Bacolod have led to a strategic coupling of the city's main assets, its English-speaking graduates, to the needs of globally operating service providers. Most notably, they were able to present relevant information for investors that was key, due to the prevailing information asymmetry about local investment conditions. This convinced investors of the viability of their investments. Second, the local actors signalled government support and built trust in a political setting in which investors regularly face the burdens of corruption and bureaucratic red tape. Moreover, the linking of educational institutions with investors reduced the transaction costs of hiring skilled labour.

Bacolod has received a significant amount of BPO investments and has become integrated into the GPNs of these MNCs. Conducting research into the needs of potential investors, creating awareness of their key assets and successful bargaining with MNCs made it possible to attract investment. In the case of Bacolod, the ICT council can be interpreted as a coalition for investment attraction. However, it is important to realise that Bacolod's local institutional actors were not simply captured by investors' interests. Local institutional actors did not fall into the trap of promising an exclusivity arrangement to any one investor, which ultimately would limit the economic development opportunities of the city and create dependency on a single investor. This discussion has shown that the scope for agency of local actors in shaping processes of globalisation should not be underestimated.

It is important to notice that the concept of strategic coupling is dynamic (Coe et al., 2004; MacKinnon, 2012). Local governments can change and also the power balance can shift after an MNC investment to the benefit of local institutional actors, as their leverage increases over the MNC once investments have been made. Even in the situation of more flexible investment in offshore service facilities, the MNC's decision to disinvest will be costly for the firm, so its bargaining power vis-à-vis local institutional actors is reduced. To evaluate these processes in detail would require more research, but in the case of Bacolod, some controversies have arisen on the issue of taxation between investors and the national government, on the one hand, and local government, on the other hand.



## 3.10 Conclusions

This contrasting case study of BPO investment has evaluated the role of local institutional support for attracting investment. Despite Baguio's marginally more favourable initial conditions and assets, Bacolod managed to attract twice as much BPO employment as Baguio, which can be attributed to the role of local institutional actors. Though structural factors are essential, they are not the only reason for companies to invest in a given location. Local institutional actors have had an impact in attracting the sector and linking it to regional assets. This shows that there is a strong role for local agency in co-shaping processes of foreign-investment attraction, creating opportunities for policy-makers willing to integrate their cities into GPNs.

For policy-makers in other lower-tier cities, opportunities exist to employ similar strategies. Whereas existing regional assets can only be modified in the long run, the strategies used by local institutional actors can be implemented relatively quickly. The successful case of Bacolod shows that it is vital to first understand the needs of the industry and identify the regional assets, in order to link the two. Furthermore, the establishment of an ICT council, a one-stop-shop contact for potential investors with representatives from all relevant stakeholders, has been crucial in informing, building trust and ultimately convincing companies to establish offshore service operations.

In the case of Bacolod, we can see strategic coupling as a concerted and planned effort undertaken by institutional actors to create a linkage. It is important, however, to realise that all coupling processes are dynamic. The roles of actors do not remain fixed over time. Local government units are subject to the electoral cycle and previously fervent supporters of an industry can be replaced by more critical ones, leading to drastic changes in local policy-making over time. It is too early to assess the durability and depth of the coalitions formed among local institutional actors for strategic coupling in the cases discussed above. More research will be needed to assess how the relationships between local actors and foreign investors play out over time.

On a theoretical level, this study shows that discussions on FDI attraction need to focus not only on actors at the national level but also take into consideration the actions of actors at lower geographical scales. The concept of strategic coupling has been applied to services in a developing-country context. Despite the fact that investments can be considered more footloose, and asymmetric power relations exist between local territorially-bound actors and transnational corporations, it has been shown that local institutional actors, in at least one case, played a vital role in coupling their region's assets to the needs of MNCs and attracting BPO investment.

The choice of where to carry out their operations rests with decision-makers within MNCs. In the case of BPO companies, access to a skilled labour pool remains the main driver in terms of which location is chosen. Nevertheless, multi-level institutions are involved in the strategic coupling processes and the role of local institutions is seen to constitute an important factor for inward investment attraction. The power configurations and resources given to local actors within the institutional framework of the Philippines allow actors from the lower geographical scales to have the scope for agency to co-shape these processes, despite uneven power relations between actors. This corroborates Coe et al.'s (2004) middle-ground view of structural and agency factors, with the proviso that local actors can indeed play a role.

It is crucial, however, to see what this attraction of investment means in qualitative terms for the recipient cities. The integration into a GPN is not in itself a guarantee for successful territorial development, but contingent; the so-called 'dark side' of GPNs (Coe & Hess, 2011; MacKinnon, 2012). A branch-plant economy (Phelps et al., 2003) with low embeddedness of firms, locked into low-value-added production, is one of the potential pitfalls identified by scholars.

More research is needed to evaluate the role these second-tier cities perform within wider GPNs, in order to analyse their options for value enhancement and capture. Future studies could focus on the interrelationship between second-tier cities and tier-one cities, and the way functions are geographically divided within the countries in receipt of investment. Moreover, it seems important to analyse the longer-term implications of offshore service investment and to see to what extent increased territorial embeddedness and upgrading into higher-value activities is taking place in second-tier cities.