



UvA-DARE (Digital Academic Repository)

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

Kleibert, J.M.

Publication date

2015

Document Version

Final published version

[Link to publication](#)

Citation for published version (APA):

Kleibert, J. M. (2015). *Expanding Global Production Networks: The emergence, evolution and the developmental impact of the offshore service sector in the Philippines*.

General rights

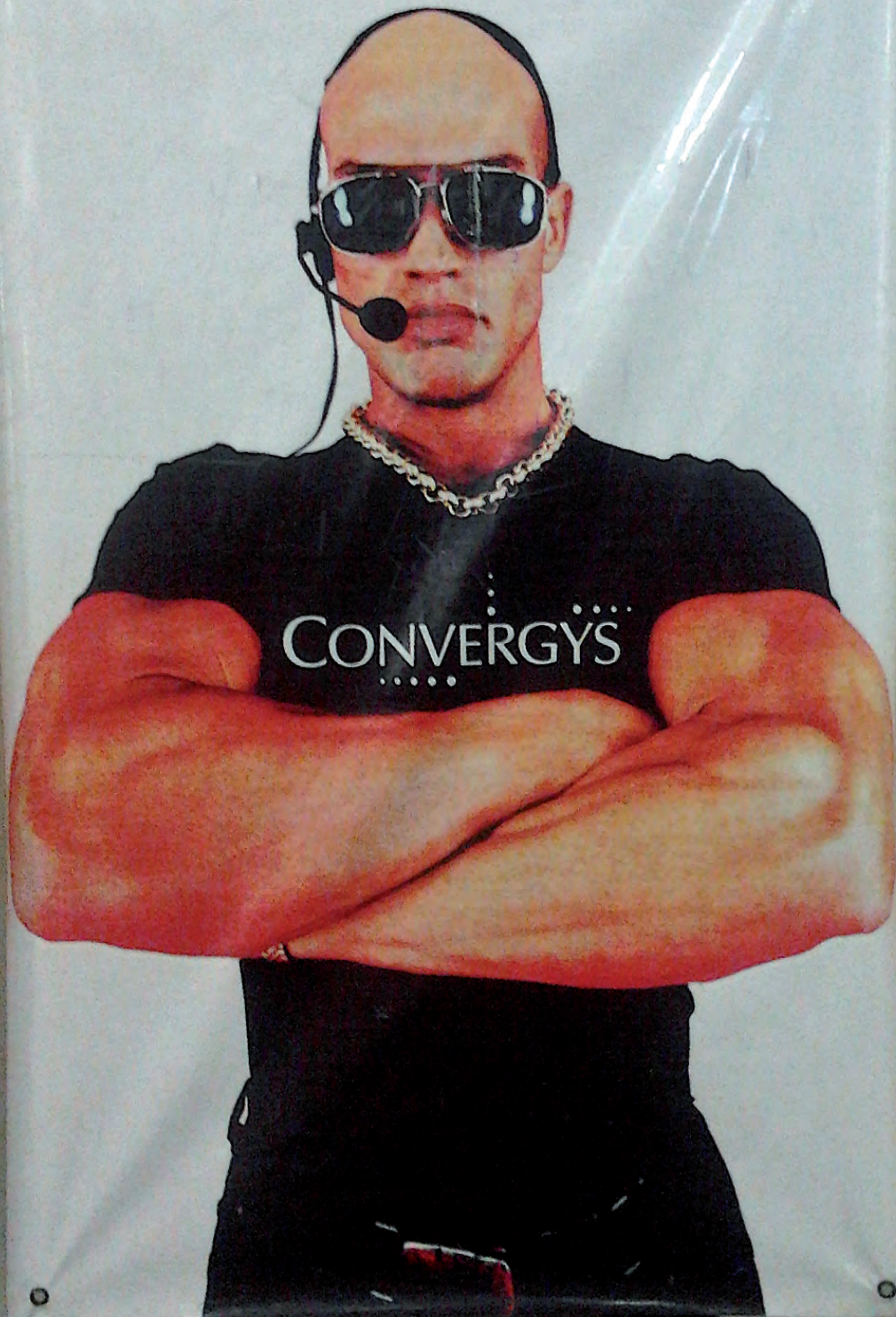
It is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), other than for strictly personal, individual use, unless the work is under an open content license (like Creative Commons).

Disclaimer/Complaints regulations

If you believe that digital publication of certain material infringes any of your rights or (privacy) interests, please let the Library know, stating your reasons. In case of a legitimate complaint, the Library will make the material inaccessible and/or remove it from the website. Please Ask the Library: <https://uba.uva.nl/en/contact>, or a letter to: Library of the University of Amsterdam, Secretariat, Singel 425, 1012 WP Amsterdam, The Netherlands. You will be contacted as soon as possible.

ENGLISH ONLY!

It's good for our jobs.



CHAPTER

5

Industry-academe linkages in the Philippines: Embedding foreign investors, capturing institutions?

This chapter was published in 2015 as a single-authored article
in *Geoforum* 59 (2), 109-118.

Awarded Best Graduate Student Paper by the Economic Geography
Specialty Group at the Association of American Geographers 2014

5.1 Introduction: offshore services and the global knowledge economy

The global sourcing of services has changed the requirements for developing countries to attract FDI. Some scholars argue that as a “new stage in the evolution of the world economy, the shift of service jobs from developed countries provides an important opportunity for developing nations to drive growth and improve both social and economic conditions” (Gereffi & Fernandez-Stark, 2010a: 6). In order to attract investment in BPO services, the availability of educated, lower-cost human resources is a prime factor, creating new demands for tertiary education in developing countries (Goswami et al., 2010; World Bank, 2002).

Offshore services are often argued to be footloose, since they require few locally sourced inputs and have only limited local linkages other than skilled labour (White, 2004; Hardy & Hollinshead, 2011). Multinational corporations have long been recognised as political actors, able to shape and influence policy in the countries they invest in through bargaining with governments. In the case of highly mobile MNCs and territorially bound state actors, power asymmetries are high, potentially resulting in the ability of MNCs to capture institutions to fulfil their own goals (Dicken, 2011). In higher-end offshore services, foreign investors engage in a strategy of “active embedding” to access skilled labour, a process defined by Manning et al. as “the ongoing alignment of local institutional conditions with global MNC strategies and operational needs” (2012: 3). This strategy can have both enabling and restricting influences on the type of relationships that can develop between universities and industry.

The debate on the role of universities in stimulating regional development has primarily focused on their ability to generate synergies, spin-offs, and innovation in the Global North (Abel & Deitz, 2012; D’Este et al., 2013; Goddard & Vallance, 2011; Ponds et al., 2012). For developing countries, industry-academe engagement is often driven by a concern for better aligning higher education with labour-market requirements to reduce an employment-education mismatch. Closer collaboration can help update curricula, introduce more relevant skills, and lead to improved employment opportunities for graduates. Moreover, upgrading the skills of the labour force is recognised to be crucial for the ability of a region to increase its competitiveness, to attract further investment, and move into higher-value-added services (Fernandez-Stark, Bamber & Gereffi, 2011; Barrientos, Gereffi & Rossi, 2011). Whereas earlier literature on offshore service workers addressed the skill development of workers *during* BPO employment and the progression of workers’ individual careers (Beerepoot & Hendriks, 2013; Vira & James, 2012), this chapter analyses the intervention of BPO firms in the education sector, changing how skills are developed also *prior* to employment. It takes as a point of departure the GPN approach, traditionally focused on the level of the firm and the sector and less on workers’ experiences (Coe & Hess, 2013).

This chapter develops an empirically grounded understanding of a developing country’s integration into GPNs of service delivery, beyond the better-known case of India. I discuss the role of multiple actors involved in the emergence of an offshore service hub, the opportunities for upgrading (skills) in offshore services, and the resulting potential for economic development from this “second global shift of offshoring” (Bryson, 2007;

Manning, 2013; Manning, Ricard, Rosatti Rique & Lewin, 2010). The empirical discussion focuses on industry-academe linkages as a form of territorial embeddedness by foreign investors in the offshore service sector in the Philippines.

Since the early 2000s, the Philippines has been exporting BPO services, such as customer- and back-office services, to the US and other countries in the Global North. Metro Manila is an advanced offshore service hub, occupying the third rank in global offshore service-delivery (Tholons, 2013). The offshore service sector employs more than 780,000 full-time employees in the Philippines as of the year 2012, and it is central to development strategies to transform the Philippines into a knowledge economy (Dumlao-Valisno, 2008).

Industry-academe linkages and changes in higher education curricula in the Philippines are used as examples to interrogate processes of territorial embedding and the institutional capture of MNCs. The theoretical contribution goes beyond the impact of different forms of industry-academe linkages and concerns wider debates on MNCs and their ability to intervene in regional institutions and 'capture' them. This relates to a gap identified by Christopherson and Clark in regional studies literature: "Missing from contemporary theory about regions is an account of how more powerful firms exercise political and economic power at various spatial scales in order to shape the labor markets and production environments in which they operate" (2007: 7). Moreover, the discussion is linked to debates on the varieties of capitalism about the emergence of dependent-market economies (Nölke & Vliegthart, 2009).

Based on 40 interviews with foreign investors, education providers and industry experts in 2012 and 2013, this chapter addresses the following questions: What kind of industry-academe linkages exist between the offshore service sector and higher education institutions (HEIs) in the Philippines, why are they formed, and what are their implications? The findings show that firms have established linkages with universities and colleges to facilitate access to qualified workers. Lower-end standardised service providers have been the most active in developing relationships and changing curricula in the realm of English-language communication skills, whereas higher-end service providers have been reluctant to engage in collaborations that advance technical and management skills. I argue that educational institutions have been captured by foreign investors to satisfy their lower-end labour demand for routine activities. This provides serious challenges for strategies to upgrade workers' skills, which are essential for the transformation into a knowledge economy.

The next section clarifies the theoretical concepts of the study, followed by the research methodology. A short introduction to the offshore service sector in the Philippines and its educational system precludes a discussion of empirical findings. The empirical section maps industry-academe linkages, discusses coordinated industry-academe-government initiatives pertaining to the education sector, and presents the rationale for actors to engage in industry-academe collaboration. Finally, the restricting and enabling impacts of foreign-investor-driven industry-academe linkages and education-policy reform are evaluated.

5.2 Territorial embeddedness and the knowledge economy: industry-academe linkages

Embeddedness can be seen as a social and spatial process: initially discussed in broader social terms (Granovetter, 1985), it has later often been reduced to a spatial concept (Hess, 2004). It is a widely used concept to assess regional economic development opportunities in the GPN framework (Henderson et al., 2002; Coe et al., 2004; Yeung, 2000). Territorial embeddedness, the main focus of this chapter, denotes the anchoring of firms in places, the (local) linkages established with suppliers and other actors. The concept “can be defined in terms of the depth and quality of the relationships between inward investors and local firms and organizations, and the extent to which spillovers provide opportunities for local economic development” (Phelps et al., 2003: 28). Increased local linkages and territorial embeddedness are believed to alleviate the threat of relocation, tying foreign companies to the regions they invest in (Henderson et al., 2002; Phelps et al., 2003).

The absence of territorial embeddedness, or ‘nonplace embeddedness’, may constrain development opportunities and lead to a higher chance of disinvestment (Markusen, 1996). Governments can try to embed firms in their regions, in the strongest form through “obligated embeddedness” (Liu & Dicken, 2006), in which the government imposes conditions of local linkages or locally sourced inputs for FDI. So far, territorial embeddedness has been mainly discussed in industrial settings, with the exception of a recent study by Coe and Lee (2013) on retailers who engage in local service-provision.

Foreign investments into offshore services are less likely to be territorially embedded (White, 2004; Hardy & Hollinshead, 2011). Low input-output linkages characterise the BPO sector in the Philippines (Magtibay-Ramos et al., 2008), and outsourced activities often remain limited to security, janitorial services, and food concessions. Due to the export orientation of the sector, few domestic companies are clients. Limited locally sourced inputs are required, and since most companies are conducting sub-contracted work, contract regulations and lack of capacity of local businesses prevent local sub-sub-contracting. This leaves industry-academe linkages as one avenue for increasing territorial embeddedness in offshore services.

5.2.1 Benefits of territorial embeddedness: increased competitiveness and development of skills

MNCs engaging in offshoring can play a positive role in upgrading human capital through their investment in training. Majluf writes that “offshoring can also have a wider systemic impact on the development of human capital in the host economy, if it serves as a driver for improvements of the national education system” (2007: 157). Arguably, these improvements can occur through industry-driven initiatives to adapt the education sector to its needs. In a similar vein, scholars have argued that universities in developing countries should engage in a more entrepreneurial role. In addition to research and teaching, they ought to fulfil a “third mission” of economic development (Etzkowitz, Gebhardt & Terra, 2000). However,

a critical examination of the type of industry-academe collaborations and the resulting developmental opportunities for the investment-recipient region is required.

The offshore service sector can be distinguished according to different sub-sectors and their positions in the value chain (Gereffi & Fernandez-Stark, 2010a). Although often classified as a knowledge-intensive sector, the BPO sector uses sophisticated technology but rarely produces it, making technical innovations, research and development, and spin-offs unlikely. A major distinction within BPO work relates to work that is voice-based (call centre) or non-voice-based (mainly back-office work). Call-centre work entails primarily soft skills necessary to perform ‘distantiated emotional labour’ (Bryson, 2007). Non-voice-based services can require specific expertise in fields such as finance and accounting, or HR. The higher-end back-office services are often referred to as knowledge process outsourcing. Beerepoot and Hendriks (2013), focusing on individual BPO workers’ employability and skills upgrading, described two distinct routes for skill development: a lower-end route of generic and transferable skill development through routine service work, and a higher-end specialisation of occupation-specific skills in professional knowledge-work.

Going beyond individual worker’s skills, this study investigates human capital development on a sector- and institutional level. In order to assess the potential spillovers of collaborations between foreign BPO investors and local universities and colleges, I introduce a differentiation of the types of industry-academe collaborations on three levels, based on their rationales: (1) facilitating recruitment (2) lower-end, entry-level skills development, and (3) advanced professional skills development. In a ‘hotspot’ environment like Metro Manila, with almost half a million employees in the offshore service sector, it can be expected that some form of coordination of industry-academe collaboration exists on a higher level, by the industry body or the government. Scholars have advanced a “triple-helix model” involving government, industry and universities to create innovation systems also in developing countries (Saad & Zawdie, 2011; Saad, Zawdie & Malairaja, 2008). Many higher-education institutions in developing countries still lack the capacity for such collaborations (Datta & Saad, 2008; D’Costa, 2006). Moreover, support for industry-academe linkages may be taken up by large firms in mature industries, not helping the emergence of new industries or supporting smaller firms in developing countries (Bodas Freitas, Marques & de Paula e Silva, 2013).

5.2.2 Risks of territorial embeddedness: institutional capture and dependency

The cost of initiatives to increase foreign investors’ embeddedness is generally borne by public resources, thereby allowing MNCs to find “social and cultural settings that shift the cost of reproducing labour power onto local societies and states” (Hudson, 1997: 473). Christopherson and Clark have warned that, while MNCs are dependent on local assets, such as skilled labour, they “can exercise power [...] over regional labor markets, even those composed of highly skilled workers” (2007: 7). Instead of making location decisions based on existing conditions, they are able to intervene and change local conditions. Foreign electronic manufacturing companies in the Philippines have similarly embedded themselves using “strategic localization” to shape institutions and labour markets to their advantage (McKay, 2006).

From the perspective of firms, active embedding and localisation strategies through industry-academe collaboration are driven by the aim to acquire high-end knowledge and innovation through close linkages with the research and development facilities of universities. In the case of relatively standardised service delivery, it is access to qualified labour that drives the development of university linkages through “the institution-harnessing tendency of vertical investments, which forged links with universities to ensure a supply of suitable labour and to elicit specific technical knowledge” (Hardy et al., 2011b: 439). The ability of foreign-owned firms to create linkages and influence education reform depends on two factors: 1) on the recognition of existing weaknesses in the current education system (such as an education-labour market mismatch), and 2) on the relative bargaining power of investors in relation to the public sector.

If foreign companies are able to pivot national education policies to their needs, the reforms can also lead to an increased dependency of the region on the investors. The ‘dark side’ of integration into GPNs is that regions may lose some control to global actors (Coe & Hess, 2011; Phelps et al., 1998) or become locked-in into rigid specialisations (Grabher, 1993). The opportunity for manufacturing firms to capture institutional resources has been recognised by scholars (Phelps, 2000; 2008). This often involves the securing of tax incentives, subsidies and other benefits, permissions, and access to infrastructure.

FDI attraction policies often necessitate low taxation, which can lead to underinvestment in education by the state and to a low-skill, low-productivity equilibrium and a dependent-market economy, as observed in Eastern Europe (Cimpoaia, 2011). The dependent-market economy (DME) paradigm is characterised by three factors: (1) it relies on moderately to highly skilled but relatively cheap labour; (2) technology transfers occur within MNCs; and (3) capital provision occurs via FDI (Nölke & Vliegthart, 2009). It is a hybrid form between coordinated and liberal models of market-led economies, as defined in the varieties of capitalism approach (Hall & Soskice, 2001). Though the political economy and the institutional background of post-communist countries in Eastern Europe and the Philippines differ in many respects, they have both been the recipients of FDI in offshore services and have developed into strong service hubs within production networks of MNCs (Hardy, Grzegorz & Capik, 2011a; Hardy et al., 2011b). This makes a discussion of the DME approach apt for the case of the Philippines, with the proviso that the varieties of capitalism approach does not relate to one sector but the institutional set-up of a country²⁵. Moreover, previous studies have pointed at the possibility of occupying a dependent position in the international division of labour based on the delivery of call-centre services (Breathnach, 2000).

²⁵ The categorisation of countries relates to innovation systems: in coordinated market economies incremental innovation occurs, in liberal market economies, radical innovation (see Hall & Soskice, 2001 for a more detailed discussion). In the DME no real innovation occurs but is only passed on from the foreign investor’s headquarters.

5.3 Research methodology

This research is based on a qualitative case study of foreign offshore service companies in the Philippines. In total, 40 qualitative in-depth interviews were conducted between April 2012 and April 2013. Of these, 20 were conducted with BPO companies, focusing on the concept of territorial embeddedness, and more specifically, industry-academe linkages. All interviewed firms were foreign-owned BPO companies, mainly stemming from the US, which dominate the sector in the Philippines. The companies in the interview sample can be differentiated according to three features: (a) the nature of their activities: 12 contact centres, eight back-office service providers; (b) their ownership structure: 11 third-party (outsourced) BPOs and nine captive (in-house) service providers (all foreign-owned); and (c) their size: two small (< 100 FTE), six medium (< 1000 FTE) and 12 large (≥ 1000 FTE).

In addition, 14 interviews were conducted with representatives of the education sector, consisting of three top-ranked universities, five medium-ranked universities, two colleges and four training institutions. Six further interviews were held with representatives of business associations and relevant government agencies, including: BPAP; the Commission on Higher Education (CHED); the Technical Education and Skills Development Authority (TESDA); the ICT-Office at the Department of Science and Technology; and the National Competitiveness Council (NCC). Interviews were, in most instances, recorded. A few interviewees did not permit audio recording of interviews due to data security concerns, in which case notes were taken by hand. Subsequently, interviews were transcribed and analysed with the help of a qualitative software program (Atlas.ti).

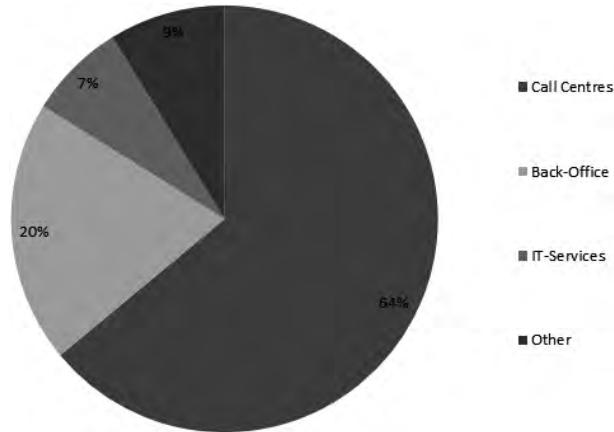
In order to substantiate the interview findings, a question on industry-academe linkages was included in an online survey (conducted in collaboration with BPAP) of BPO companies in the Philippines. The survey ran from May to July 2013 among all BPAP members, which represents the majority of offshore service firms operating in the Philippines. Only the answers of foreign investors were used for the study to triangulate the interview responses with a larger sample ($n=41$).

5.4 Offshore services and the employment-education mismatch in the Philippines

The Philippines has been integrated in manufacturing GPNs through FDI since the 1980s, transforming in particular the provinces surrounding Metropolitan Manila (Kelly, 2013). More recently, cost-saving considerations have led MNCs to offshore the ‘production’ of services to developing countries, such as India, and more recently the Philippines (see Chapter three). English-language skills and “cultural affinity” with the US, from where the dominant share of BPO investors hails, have provided a main incentive for relocating voice-based customer services to the Philippines (DoST-ICT Office & BPAP; 2012). Most large offshore service firms are foreign-owned and foreign equity participation in the sector is high. The majority of firms still provide lower-end call-centre services, though

the number of back-office service providers is rising. **Figure 5.1** shows that voice-based BPO services alone constitute two-thirds of total offshore service sector employment in the Philippines (see also Chapter two).

Figure 5.1: Offshore service sector employment in the Philippines, per sub-sector



(Source: data by BPAP, 2012)

5.4.1 The paradox of simultaneously overqualified and underqualified workers

Some authors have argued that the relatively high remuneration offered by BPO firms entices young graduates to take up employment in the sector, but drains their skills from the local labour market. “The contact-centre industry attracts college graduates whose training has been directed toward other highly skilled professions, and thus may have created an employment-education mismatch” (Magtibay-Ramos et al., 2008: 42). This is referred to as a paradox (Beerepoot & Hendriks, 2013), similar to overqualified call centre workers in developed countries.

A more surprising paradox emerges when looking at the hiring rates of candidates for BPO jobs, which interviewees confirm to be as low as 3%, due to applicants lacking the entry-level skills required²⁶. Firms need large HR departments to administer the process of résumé- and background checks, several exams, and different rounds of job interviews, before offering a contract. The managing director of a large call centre calculates that to hire sufficient staff for his operations across the Philippines, his company had to screen 30,000 applicants in one month (Interview 130320a). On top of this, high attrition rates of up to 60% annually lead to constant hiring and training needs for companies to secure a large enough workforce. Some workers see their employment as a temporary activity and leave

²⁶ Many candidates do not fulfil the entry requirements, especially with regard to English-language skills, and few applicants are able to master the intake exams and fulfil the entry requirements for the job.

the sector; the majority however transfers for higher incentives, ‘sign-on bonuses’ or career advancement to a different company within the same sector (Bird & Ernst, 2009). Given the high cross-firm job-to-job mobility of employees, firms express reluctance to invest in their human resources and shoulder pre-employment training.

The low hiring rate is remarkable considering that the main reason for companies to offshore work to developing countries has been the presence of a (lower-cost) skilled labour force. One explanation for the low passing-rate is that the skill level involved changes when the task is offshored to a different country. English-language skills, combined with neutral accents and cultural understanding of the customers’ host environment, exist only among the highest-educated strata of Filipino society. Another explanation for this skills-labour market mismatch of graduates can be found in the education system in the Philippines.

5.4.2 Higher education in the Philippines: quantity over quality

The Philippines’ education system has been influenced by colonialism, first by Spanish-introduced Catholic institutions, and second through the introduction of English-language tertiary education by the US in the first half of the twentieth century. The result has been an overdeveloped college education and an underdeveloped vocational training, modelled according to the American system. This has led to relatively high enrolment rates and high gender balance but simultaneously low quality among the majority of education providers (Welch, 2011). Several studies have argued that processes of globalisation necessitate changes in the education system to transform the Philippines into a knowledge economy (Di Gropello, Tan & Tandon, 2010; Paprock, Yumol & Atienza, 2006; Symanco, 2013). Unemployment among tertiary education graduates is high, and even surpasses the rate of less-educated workers (Bitonio, 2007). Several reasons can explain the low quality of education and the resulting education-labour market mismatch.

First, private sector HEIs make up 90% of the total, many of which operate for profit, leading to a proliferation of popular studies based on demand alone (Welch, 2011). Second, a lack of binding accreditation limits the oversight by the state over education providers. Only a minority of HEIs pursued voluntary accreditation with the Philippine Commission on Higher Education (CHED), limiting scrutiny of the quality of education and leading to a situation where “a large majority of institutions have low or even zero passing rates in all programs” (Tullao, 2003: 245). Third, the insufficient qualifications of teaching staff limit the quality of tertiary education²⁷. Fourth, due to the short schooling period of only ten years, colleges and universities fulfil to some extent the function of European high schools, teaching general subjects, including literature and mathematics. A newly introduced so-called K+12 (Kindergarten plus 12 years of school) initiative will add two additional high-school years and align the Philippines closer with global education standards. Fifth, the education sector is severely underfunded (Quismundo, 2012).

²⁷ Those who possess higher-ranked degrees are hard to retain since they prefer to work abroad, according to interviewed deans at various universities, though this problem of brain drain is not unique to the Philippines (World Bank, 2002).

Education scholars have argued that the failure of the state to exercise control and authority over the education system is due to its capture by special interest groups of local elites, thereby inhibiting the economic development of the Philippines (Maca & Morris, 2012).

Given these problems of low-quality education, underfunding and the apparent mismatch between skills and labour-market requirements, companies have to invest heavily in training their workforces. The in-house company training of the sampled companies takes between six to eight weeks, with the exception of higher-end back-office services, which can take up to 16 weeks. Training consists of two parts: competence training and account- (or client-) specific training. The first involves general English communication skills (including accent neutralisation), and knowledge on the culture and geography of the US. The second depends on the sector-specific task profile and the complexity of the task, ranging from relatively easy order-taking for shopping catalogues, to technical knowledge for troubleshooting of consumer electronics. The rationale for high spending on training by one of the largest call centres operating in the Philippines is the realisation by BPO managers that “we don’t have a product, our product are [sic] our people” (Interview 120606b).

5.5 Increasing embeddedness: Offshore service sector-academe linkages in the Philippines

Most foreign BPO investors engage in university collaborations, confirming the importance of human-resource linkages. **Table 5.1**, based on qualitative interviews and a survey question, depicts the types of industry-academe linkages at three levels. Level one, recruitment-related activities, make up the largest share of activities with up to 68%. Level two, teaching or curriculum-development activities, which focus on entry-level skill development, are used by 15% of surveyed firms. Level three, advanced skills-development

Table 5.1: Types of industry-academe cooperation by foreign investors

Level	Type of collaboration	Interviews (n=20) in %	Survey (n=41) in %
0 No collaboration	No linkages	25	22
1 Recruitment-related activities	Campus recruitment	75	68
	Special recruitment activities	60	56
	Internship positions	45	56
2 Entry-level skills development (teaching and curriculum development)	Curriculum development	30	15
	Teaching course	25	15
	Training teachers	25	12
3 Advanced skills development (continuing education)	Facilitating continuing higher education (scholarships/university fee-subsidy, offering university courses at company)	15	2

(Source: Interviews and survey)

initiatives through continuing education, occur in only 2% of surveyed firms but in 15% of interviewed firms. In general, the survey findings confirm interview findings, though interviews consistently identify more collaboration at all levels. This may be the result of interview sampling aimed at including active firms in university-academe linkages, which are not necessarily representative of the total firm population.

Level 1: Recruitment-related activities

Recruitment activities usually aim at increasing the number of graduates applying for work in the BPO industry through disseminating information on job opportunities, work and remuneration, and marketing and employer branding efforts. Examples are the establishment of dedicated teams of employees for university-linkage engagement or ambassador programmes, in which current employees go back to their alma mater to give presentations about employment opportunities at their company. This is especially relevant to increase the number of potential applicants by improving the negative perception of BPO work held by many middle-class graduates.

Level 2: Entry-level skills development – teaching and curriculum development

Curricula change is largely based on pre-employment trainings conducted by companies and revolves around the skills needed for call-centre agents. In many cases this takes the form of an externalisation of company training programmes to universities. Most linkages occur with language departments, but are not limited to these. Also, several IT departments engage in close collaboration with offshore service firms; even in these cases, curriculum adaptation might not involve strengthening IT skills, as the Dean of an IT department explains: “Normally, the content of the training modules would be improving communication skills, including things like simulating actual call activity” (Interview 120517c). At the Polytechnic University of the Philippines, an entire building of the school is dedicated to customer-services and training, to facilitate the labour market entry of graduates, 80% of whom find employment in the BPO industry. At De La Salle University in Bacolod, close collaboration exists through call-centre training, integrated into a regular university course. On the campus, ‘English only’ signs are displayed to discipline students to converse only in English and not in their native tongues during class breaks. The campus thereby resembles call-centre office environments, where the same signs are used.

Level 3: Advanced skills development – continuing education

Several companies offer their employees opportunities for continued learning next to their jobs, for staff-retention purposes. A number of call centres allow flexible schedules to enable employees to combine full-time work with studies, especially to those who have not finished their degrees prior to starting work in the BPO sector. Several larger firms have opened their own ‘corporate universities’, which offer work- and non-work-related classes²⁸.

²⁸ Encouraging the development of non-work-related skills is based on the recognition that for many workers call-centre employment is a transitory job. Similar to the Indian case, many BPO employees aim at taking up non-BPO-related work in the future (Vira & James, 2012).

Though some offer professional-occupational skills development, others focus on generic skills development through personal development courses (time-planning, money-saving), to creative photography and cooking classes.

Most advanced in this regard is a Canadian-owned call-centre company, which brings in university professors to give classes on the company's premises. Subsidising liberal arts education at a top university is seen as an "engagement program", a strategic investment in education based on ideas of staff loyalty and retention, rather than teaching purely work-related skills. The firm's director of learning and development argues that by offering prestigious university education, usually costing ₱250,000 (more than \$5,500) per annum, at low rates for their employees, attrition rates are reduced. "The normal life expectancy of a call centre agent is 1.5 to two years, on average. Being able to make them stay for three or even four years is a real achievement!" (Interview 120511a). The focus on the continuous education of existing employees, rather than creating entry-level skills for narrow job-profiles, is a relatively new strategy. Several interviewed firms expressed an interest in starting a pilot project to offer advanced courses to their employees. Facilitating continuing education for workers who are already in employment, increases opportunities for employees to upgrade their skills through accredited, high-quality university degrees, parallel to their employment in BPO. It remains to be seen to what extent workers are able to endure the double burden of full-time employment during the night with daytime study.

5.5.1 Active embedding by companies: the rationale behind private-sector initiatives

Companies are the initiators and main drivers of local linkage creation with HEIs. Which types of companies engage in industry-academe linkages and why? Table 5.2 shows that mainly large, third-party-owned call centres engage in industry-academe linkages. Interviewees reveal that size is the most important explanatory factor determining companies' collaboration with universities, since the investments required may be beyond

Table 5.2: Types of industry-academe cooperation by type of company

Type of firm	Firms (n= 20)	Cooperation by level (in percentages)			
		No linkages	Level 1	Level 2	Level 3
Small (less than 100 FTE)	2	100	0	0	0
Medium (100 – 999 FTE)	6	50	50	10	5
Large (1000 FTE or larger)	12	0	100	75	15
Voice-based (call centre)	12	8	92	58	15
Non-voice-based (back office)	8	50	50	25	5
In-house captive provider	9	44	56	22	5
Outsourced to third-party provider	11	9	91	64	15
Total	20	25	75	45	20

(Source: Interviews)

small companies' budgets and hiring requirements. Call centres are more active in creating university linkages than back-office providers, because they require specific communications skills (compared to the diverse skill-sets required by back-office operators), and generally have higher attrition rates and larger workforces than most back-office providers.

Third-party providers engage more often in linkages with HEIs, because captive service-providers usually offer higher-level services and employ more experienced staff. Lateral hiring of experienced employees (instead of recent graduates) allows these firms to benefit from investments and training programs carried out by previous employers. As captive providers relocate tasks from their head-office positions abroad, they compare training costs with their home-country prices, and are under less pressure to save costs. Moreover, operating under their global brand name, they are more concerned about their branding and image. Therefore, these firms are more inclined to conduct their own training. Another reason for lower linkages is the fact that several in-house providers have established offices in the Philippines quite recently and might still decide to create linkages at a later stage.

5.5.2 Engaging in industry initiatives: the rationale of educational institutions

The main reasons for universities and colleges to collaborate with industry partners can be summarised as, on the one hand, a desire to increase the employment rates of their graduates and, on the other hand, a recognised lack of knowledge of labour-market demands. The first point is especially crucial for private institutions, which are dependent upon high graduate-hiring rates in their competition for students. In the absence of reliable quality controls, the number of graduates finding employment is an important metric. Creating graduates with relevant skill-sets for employment in the offshore service sector is seen as “win-win situation” by some education institutions (Interview 120516d). A lack of experience makes it difficult for HEIs to develop the necessary skills and curricula independent of industry input (Interview 130219a). Both public and private HEIs engage in industry collaborations.

However, arguments against engaging in industry collaborations are also expressed. First, the BPO industry in the Philippines, especially the voice-based sub-sector, has a negative perception by school officials and faculty members, who do not want their graduates to become call-centre agents (Interview 130405). A more general reluctance to have industry take over educational policies is expressed by one professor at a top-ranked university in Manila:

There are vested interests on the part of the industry. They want an easy return on their money, and will train instructors that will suit their immediate needs, not that of the country [...] I have a reservation against the education being dictated, though this is a strong word, and shaped by the business sector. There is nothing wrong with getting input on how we craft our curriculum, but there is too much emphasis being put on employment that we forget the real meaning of education, which is to equip people for life-long learning (Interview 130304b).

These more fundamental reasons against excessively close collaboration between business and schools can be found in the top-tier schools in Metro Manila. Tier-one universities in

Metro Manila are less likely to engage in formal relationships for teaching and education of a future workforce. However, they have a larger share in knowledge exchange and scholarship collaborations, providing higher education for BPO employees. More-extensive linkages in recruitment, teaching and curriculum development can be found in lower-tier institutions as a result of a perceived need to do so, either due to lower quality education and low hiring rates of their graduates, or as a result of their peripheral locations.

5.5.3 Hotspot-coordination and government support

The fact that the industry is maturing in Metro Manila and the city has advanced to a global hotspot location in offshore service delivery requires a coordination of efforts, in which the business association BPAP takes a leading role. The rationale for concerted action lies in the danger of a ‘talent war’ in which new investors resort to poaching competitors’ employees, leading to wage escalation and thereby rising labour costs for existing companies. This can be prevented by keeping the talent pool large. The threat of relocation by companies in case of rising labour costs means that the government is responsive to providing subsidies for education and training. This goes beyond individual academe-linkages but takes the form of triple-helix collaboration between industry, education institutions and government to make the workforce ‘BPO ready’, as shown in **Table 5.3**.

Three initiatives have been organised bilaterally between industry and academe: (1) marketing efforts to increase the number of people who consider BPO employment, (2)

Table 5.3: BPAP-coordinated education-sector linkage programmes

Type of relationship	Type of activity	Description	Rationale
Higher education-industry linkage	Marketing	Lobbying, disseminating information, branding activities	Enlarge pool of labour through marketing
	Testing	General Competence Assessment Test (GCAT), to test BPO-required skills of 20,000 students at 75 schools	Filtering of existing skills of workforce, prove education-skills gap to create rationale for education change
	Teacher training	Advanced English-proficiency training, Summer classes for English teachers in American pronunciation and business English	Prevent the pronunciation mistakes of English teachers to be taught to students
Triple-helix structure (higher education-industry-government linkage)	Vocational education	“Near-Hire Training” (post-graduate vocational training of 100 hours at TESDA institutes), Government funding ca. \$10 million in 2006 and 2011, Ca. 65.000 – 70.000 students trained	Practice and reviewing of existing skills, to get ‘near hires’ (20-30% of applicants) to pass the entrance exams of companies
	University curriculum development	Service-management course, 21 elective units (BPO 101 and 102, communication skills, service culture)	Shift focus to practical, work-related skills, mainly for call centres, Extension of internship programmes

(Source: Interviews)

general competence-assessment tests of the student population, revealing that skills in all but three top schools are below industry requirements, exposing a skills-labour market mismatch and creating a rationale for intervention in the existing education system, and (3) advanced English-proficiency training aimed at correcting teachers' English pronunciation and increase teachers' awareness and understanding of the sector.

Two initiatives have also involved government and are therefore considered triple-helix strategies. First, a large-scale, government-funded training programme for TESDA courses relevant to BPO employment was set up and administered by BPAP. Originally a vocational mid-level training facility, offering courses in fields like welding and construction through a network of training institutions, TESDA has become a post-graduate training provider. Though courses exist for transcription and game-development, the lessons focus "mostly [on] Americanisation of English and culture" (Interview 120601a). Candidates for the trainings are pre-screened by BPO companies and, if classified as 'near hires', receive ₱5,000 (approx. \$110) vouchers with which they can receive free training, and subsequently return to the company for another job interview.

Second, an initiative for tertiary education has been implemented, which includes 21 units of elective courses in regular Bachelor's degree programmes (CHED, 2012). Technically open to be filled in by the universities themselves, the units can also be adapted to fields such as health transcription or technical skills for IT, but again mostly focus on call-centre training. According to a CHED commissioner, the lowest-end spectrum of the value chain is targeted for government intervention because it requires the least amount of training (Interview 120525a). The subjects taught largely overlap with the in-house training conducted within the companies, such as geography of the US, accent neutralisation and service orientation. Moreover, subjects include "some behavioural competences like adaptation, tolerance to pressure, because the employees in the industry are facing that pressure as they transact with customers. The extreme would be verbal abuse. So they are trained how to cope, coping mechanisms" (Interview 120525a).

The courses can be offered by any university or college but 17 public HEIs signed a special Memorandum of Agreement for implementing the curriculum in 2013. An important part of the curriculum is a prolonged internship period (up to 600 hours from the regular 150 hours), which allows firms to recover their investment in training, as students work in the company for an allowance. This can be seen as a reorientation to skills-based education, determined by current market demand for graduates.

Programmes to encourage employees to undergo further studies, as propagated by individual companies, have not become institutionalised on a larger scale. Though industry respondents stress the need for higher-qualified mid-level managers, little progress has been achieved in offering higher-level training or post-graduate management courses. No concerted effort has been undertaken yet to ameliorate the shortage of scholars and scientists needed for the country to move up the value chain in offshore services. Moreover, little encouragement and training for entrepreneurship seems to exist, and the universities that offer specific entrepreneurship courses see most of their graduates choose to open

small-scale, traditional food businesses, instead of becoming entrepreneurs in offshore services. A teacher at a college offering a degree in game development opines that their graduates are more likely to become employees in foreign-owned BPO companies than to open their own game development studios (Interview 130402).

5.6 Impact of industry-academe linkages and triple-helix collaboration

The impact of industry-academe linkages and triple-helix collaboration of industry, government and universities has led to an increased territorial embeddedness of firms, increasing the competitiveness of Metro Manila as an offshoring hub. Through a narrow focus on the skills required for entry-level (call centre) positions in vocational courses and university electives, a workforce to reach the first rungs of the employment ladder has been created. Faster curriculum change has been introduced and subsidised training opportunities have been created for applicants who would like to find employment in Manila's expanding call-centre sector. In particular, the short 'finishers' courses, have been successful in increasing the talent pool and BPAP estimates that 70% of the students taking these courses, or 49,000 people, will find employment afterwards. Companies evaluate this intervention positively, arguing that the initiative helped them continue their operations and grow.

The labour-market-education mismatch, however, has not been fully solved. Many BPO companies complain that employees are not able to "think out of the box" and only carry out prescribed tasks. A second mismatch concerns the lack of management staff for BPO operations, which has been noted for some time (Beshouri & Farrell, 2005). Only a few higher-management institutes exist and general business courses have limited places only²⁹. The lack of trained managers leads to a policy of internal recruitment for management positions from agent level, leaving management responsibilities frequently tasked to inexperienced, young staff. The implemented education reforms and triple-helix strategies can be seen as part of the FDI attraction 'package' of footloose offshore service investment. Several problems arise out of the leading and coordinating role of the 'triple-helix' structure by the private sector, because conflicting goals are held by the private and public sectors. While foreign investors want to achieve cost savings through lower-cost labour, the aim of the public sector should be to develop the national economy. The operations director of the National Competitiveness Council recognises that it is the role of government, and specifically CHED, to coordinate and interact "with the schools to provide us with the necessary skills for moving up the value chain. But it has to be part of a deliberate government policy and plan" (Interview 130228).

A discourse on the importance of "moving up the value chain" exists in the Philippines since the lowest end of the offshore service value chain is facing much cost competition and threats of automation (Phadnis, 2013). An upgrading of skills is required to move

²⁹ Out of 10,000 applicants for business and accounting courses at the University of the Philippines, only 200 students are admitted every year due to limited institutional resources (Interview 130213b).

up the value chain (Fernandez-Stark et al., 2011). More knowledge-intensive activities require more highly educated individuals, but most initiatives so far focus on low-end talent supply. Literature on BPO work suggests positive spillovers from workers' increased employability beyond the offshore service sector, based on transferable skills gained during BPO employment (Beerepoot & Hendriks, 2013; Vira & James, 2012). From the perspective of individual BPO workers in the Philippines, a focus on English-communication skills can facilitate overseas labour migration or employment in the tourism industry. The move into knowledge-process services, requiring specific skills, however, remains often restricted by the need for formal training.

5

From the perspective of the industry, the ability to attract higher-value-added offshore service functions and sectoral upgrading, remain limited if high-end professional skills, including technical and management skills, continue to be lacking. A faculty member of Asia Pacific College, which has close industry-academe linkages, explains: "What we are producing right now, in essence, would be the people who are problem-solvers and immediately can do solutioning [sic] to certain problems. We're not looking at producing people who will become scientists or the scholarly type" (Interview 130219a). While this keeps foreign investors' operations running, it will do little in helping to achieve upgrading.

Another conflict of interest between foreign investors and the public sector results from their different time horizons. Whereas companies want to achieve a return on investment within short periods, the educational sector is slower to change, and the effects of changes take considerable time to bear fruit. The pressures of foreign investors, however, prioritise short-term goals over long-term ones. BPAP's executive director for talent development argues: "If [they] can't hire today, our investors will go away. We can't tell them: Wait! We're doing something with the K +12 program. That will give us a more qualified pool in six years. They can't wait for six years!" (Interview 130405).

The result of closer academe-industry linkages and coordinated education policy-change driven by foreign investors' interests reflects institutional capture. The capturing occurring in the education sector is even stronger than identified by Phelps (2000; 2008) in a developed-economy context. The Philippines' government has actively subsidised call-centre training institutions and reformed university curricula, shifting internal training costs partially from firms to the state, especially when this occurs through public universities. This confirms earlier findings on the "institution harnessing strategies" of offshore service investors to access labour (Hardy et al., 2011b) and further sheds light on the role of foreign investors in actively embedding themselves, changing the local labour market and education policies (Manning et al., 2012; Spar, 1998). This development can be read as a step in the transformation of the Philippines into a dependent-market economy, similarly to Eastern European countries, which depend on moderately skilled but low-cost labour, and foreign investors to transfer technology and provide capital (Cimpoca, 2011; Nölke & Vliegthart, 2009).

5.7 Conclusions

This research has highlighted some of the problems of transforming into a service-exporting country, a 'knowledge economy' based on foreign BPO investment. On the basis of this research, a few theoretical conclusions can be drawn. Industry-academe collaboration has been identified as a way to increase territorial embeddedness in the foreign-investment-dominated 'footloose' offshore service sector. What emerges from this study is that industry-academe collaboration can be seen as part of an active embedding and localisation strategy of foreign investors to access the human resources needed for their operations, confirming and providing more empirical detail to earlier findings (Manning et al., 2012; Hardy et al., 2011a).

The interventions by foreign investors have primarily focused on lower-end skills for routine job tasks. Back-office providers, who require specific professional-occupational skills for their operations, have been reluctant to establish linkages with HEIs. Despite some specific efforts by call-centre providers to retain employees through opportunities for continuing education, industry-academe collaboration has not generally advanced to higher-end technical or management skills. In the short-run, the existing industry-academe engagements can have positive outcomes in terms of employment creation, narrowing an education-labour market skills gap, and increasing national and regional competitiveness to attract further investment. However, this study cautions against overly optimistic accounts of industry-academe collaborations, due to the often-conflicting goals held by the private and public sector. Labour-market reproduction as a driver of industry-academe linkages can limit upgrading into higher-value-added functions. Longer-term national economic development goals are not realised through current industry-academe collaborations and curriculum changes, and may even be ill-served by them in the long run.

This research has linked debates on (territorial) embeddedness with political economy approaches of dependent development, yielding insights into how companies shape the institutional settings of the countries they invest in. It has highlighted how powerful MNCs, mainly standardised, lower-end service providers, such as third-party call centres, have been most active in establishing university linkages. These MNCs are among the largest employers in the country and are active agents in shaping the environments and labour markets they invest in, confirming points raised by Christopherson and Clark (2007). Given a weak Philippine state, new special interest groups (this time, comprised of foreign investors) have been able to capture the education sector (Maca & Morris, 2012). Institutional capture by foreign investors' interests can lead to a dependent, low-end road of skill development. Future research on the offshore service sector in the Philippines could further analyse the potential for upgrading into higher value-added services and how this process can be facilitated.