



The influence of the economic crisis on call center development in metro Cebu



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Executive summary

Background

In the last decades, our world has developed into a global village. Regions and countries, people and businesses all over the world are almost instantly connected to each other. The globalization of the world has helped to connect locations that previously were unknown in the global economy. New industries and sectors have evolved due to the rise of information technology, call centers are a specific example of this development. This research focused on the call center development in metro Cebu, the Philippines, under the influence of our current economic crisis. The framework in which this research was carried out is the rise of the information age, which altered our economy.

The reason for choosing the theory by Castells is the notion of technology and information, which are important features in the rise of the information. The relevance of rise of the information age, towards this research, lies in the fact that the call center sector is based upon the new technological paradigm and therefore the information age in relation to the network society. The call center sector is often labeled as a technologic empowered sector (Belen, 2008). The technologic empowered sectors in metro Cebu have their roots in the technologic intensive manufacturing, and trade & industry sectors which are significant sectors in the Cebuano economy. Metro Cebu has ever been a center of trade and export. Miguel Lopez de Legazpi, a Spanish explorer, formed in 1565 the first European settlements in Cebu. Metro Cebu being a center for trade and export has to do with its supreme location within the Filipino archipelago. The manufacturing sector came to the Cebu area primarily in the 1980s and simply formed an extension of the already existing trade and export sector. The big difference between technology intensive companies and technology empowered companies is the following: Technology intensive companies not only use technology as a tool to manufacture a certain product but the product itself is often technology based. Technology empowered companies merely use technology as a tool to provide a specific service, like the call center sector.

The call center sector is part of an umbrella sector call the BPO sector. The BPO sector stands for *Business Process Outsourcing* sector. The outsourcing industry is approximately 20 to 25 years old. For example, services outsourcing started in India in the mid 1980s (Sourcingline, 2009). Outsourcing came to metro Cebu around the start of the new millennium. Sykes Asia was the first company to open up a call center facility in 2001.

Research structure

The main objective of the research was to gain insight on the influence of the economic crisis on the call center sector in metro Cebu. With this objective, the research aims to contribute to the debate of economic development in third world countries, like the Philippines. To tackle the objective, the main theme of analysis of the research will be to look at a contradiction that lies within the development of this sector in relation to the economic crisis.

The main research question is: *To what extent did the economic crisis influence the development of the call center sector in metro Cebu and in what way?*

The empirical side of this research includes primarily qualitative data collected during interviews with key informants of the call center sector in metro Cebu. The main goal was to interview as many, and with the greatest variation, as possible in order to get the most objective insight on the sector situated in metro Cebu. Therefore, interviews were conducted with local organizations related to the call center sector, local governmental institutions, one of the local newspapers, large call center companies, medium and small size call center companies. All interviews took place on the actual locations of the organizations, companies and governmental institutions in metro Cebu. Tracking the development of the call center sector in metro Cebu, under the influence of the economic crisis, is surrounded with a certain vagueness. In fact, much more vagueness than beforehand assumed. It was therefore a difficult research to carry out.

Summary of the findings

Results show that the economic had in general little influence on the development of the call center sector. The sector showed even during the global downward economic trend positive growth. However, various key informants have the notion that the sector is making a change from wide-ranged growth into a deepening of the sector. Deepening stands for the enormous growth of large call center companies while small call center operator faced multiple issues. The economic crisis could have enhanced this process due to the fact that trust, stability, and competitiveness are even more important features of the global economy during a general downward trend. This resulted in a negative influence of the crisis on small call center operators, who lack the capital, knowledge and awareness to attract foreign companies to their activities. A positive influence of the economic crisis is pointed out in the fact that companies in the developed world want to outsource even more due to the downward trend. The search for cost reduction fixed the eyes of companies even more on possible locations in the developing world such as metro Cebu. However, these positive and negative influences have been difficult to verify because local governmental and private organizations have little factual data to provide answers. The conclusion could be that the summation of positive and negative influences led to a general perspective in metro Cebu of status quo regarding the influence of the economic crisis. There are no signs of any evidence that the economic crisis had a significant influence, positive or negative, on the development of the call center sector in metro Cebu. This notion of status quo could be retraced to the nature of this particular business. Embedded in our new economy and based on cost reduction, the call center sector is a technologic empowerment sector which helps to established a degree of flexibility towards short-term influences of the market such as the economic crisis.

Table of content

Acknowledgements	3
Executive summary	4
Table of contents	6
Abbreviations	8
List of tables, figures, boxes, and annexes	9
Chapter 1: Introduction	10
Chapter 2: Theoretical framework	14
2.1 Introducing the theoretical framework	14
2.2 The information age in a global network society	14
2.3 Winners and losers and comparative advantage in the global shift	17
2.4 Global Value Chains	20
2.5 Clusters	22
Chapter 3: Methodology	24
3.1 Research objective & questions	24
3.2 Conceptual framework	25
3.3 Procedures	27
Chapter 4: Regional and thematic setting	31
4.1 Introducing the regional and thematic background	31
4.2.1 Country profile	31
4.2.2 Regional profile	35
4.3 The call center sector defined	37
4.4 The geographical distribution of the call center sector	37
4.5 The historical & economical development of the call center sector	39

Chapter 5: The call center sector of metro Cebu	42
5.1 Introducing the call center sector	42
5.2 Characteristics of the call center sector in metro Cebu	43
5.3 Clusters and collaborations	49
5.4 The economic crisis and its influence on the call center sector in metro Cebu	52
5.5 The role of outsourcing in metro Cebu	56
Chapter 6: Conclusions	59
References	61
Annexes	65

Abbreviations

ADB	Asia Development Bank
BPAP	Business Promotion Association Philippines
BPO	Business Process Outsourcing
CEDF-IT	Cebu Educational Development Foundation for Information Technology
CIA	Central Intelligence Agency
CIPC	Cebu Investment Promotion Center
DTI	Department of Trade and Industry
EPZ	Economic Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRDP	Gross Regional Domestic Product
GVC	Global Value Chain
IDS	International Development Studies
IMF	International Monetary Fund
IT	Information Technology
NEDA	National Economic Development Authority
NSO	National Statistics Office
PEZA	Philippine Economic Zone Authority

List of tables, figures, boxes, and annexes

Figures

Figure 2.1 The five GVC governance types	21
Figure 3.1: Conceptual model	26
Figure 3.2 USC logo and Fr. Louie A. Punzalan	30
Figure 4.1 The Philippines	31
Figure 4.2 Central Visayas	35
Figure 4.3 Important economic locations in Metro Cebu	36
Figure 4.4 Development of the IT (BPO) sector in Cebu	40
Figure 5.1 BPO Cluster metro Cebu	51

Tables

Table 4.1 Estimated economic statistics of the Philippines	33
Table 4.2 Estimated labor force statistics of the Philippines	34
Table 4.3 Gross Regional Domestic Product (GRDP) by industrial origin central Visayas	35
Table 4.4: BPO subsector definition	37
Table 4.5 Top ten outsourcing countries in 2009 by sourcingline	38
Table 4.6 Location of the biggest call centers in metro Cebu	39
Table 4.7 Exponential growth of Call Centers in the Philippines since 2000	41
Table 5.1 Distribution of origin call centers in metro Cebu	43
Table 5.2 Growth of employees by several call centers and the sector as a whole	45
Table 5.3 Development of the call centers in metro Cebu registered with PEZA	45
Table 5.4 Basic factors call centers in metro Cebu took into account	47
Table 5.5 Employment growth 2006-2010 metro Cebu vs. Philippines as a whole	54
Table 5.6 Employment status central Visayas	57

Boxes

Box 2.1 Employment, positive and negative effects of globalizing processes	18
Box 4.2 Additional information about the marked locations on figure 4.3	36

Annexes

Annex 1: Map of the Philippines	65
Annex 2: Map of the island of Cebu	66
Annex 3: Questionnaires	67

1. Introduction

In the last decades, our world has developed into a global village. Regions and countries, people and businesses all over the world are almost instantly connected to each other. The globalization of the world has helped to connect locations that previously were unknown in the global economy. New industries and sectors have evolved. Call centers are a specific example of this development. In- and outbound voice operations, nowadays often located in the developing world, can reach nearly any customer in need of a certain service, and against low operation costs. This makes it an attractive industry for investments by companies in the developed world. However, in the last years our economy has been trembling on its foundations due to a worldwide economic crisis. The question is, to what extent is the call center sector in the developing world influenced by this worldwide economic crisis and in what way? This research focused on the call center development in metro Cebu, the Philippines, under the influence of our current economic crisis. In order to find answers, this research looked at the characteristics of the companies, sector, how the sector is linked to the world economy, and the actual development of the sector in metro Cebu.

Call centers are part of a larger sector, the *Business Process Outsourcing* (BPO) sector. Although regions in India are best known for their outsourcing activities, metro Cebu has proven to be one of the top emerging regions for outsourcing in the world in terms of capacities (Tholons, 2009). In fact, local news papers described the emerge of the BPO sector in metro Cebu as 'a frenzy of growth' (Cebu daily news, 2008). Therefore, metro Cebu represented an interesting region for this research to find answers.

Since the end of 2007, the world has been confronted with an economic crisis. The economic crisis started out as a financial crisis with its roots in the American banking sector. Much of the world has been confronted with a downward trend in terms of economic growth. The worldwide stagnation of growth resulted in doubt and uncertainty among companies and customers. Some optimists, including the *International Monetary Fund* (IMF) in their 2009 annual outlook, said that the crisis is coming to an end in the year 2010, others like Roubini predict a slower process of recovery (IMF, Roubini, 2009). In fact, the current issues in Greece, and possible issues in other European countries, show that our economy system is far from stable at the moment. The uncertain future implies that companies have to keep up a flexible way of doing business. One of the solutions to cope with our current negative growth is the concept of outsourcing activities to developing countries to cut back on costs. However, outsourcing is not something that was created due to our current economic crisis.

The explosion of new technological possibilities in the late 1990s is often referred to as the rise of the information age, a concept that sociologist Manuel Castells defines in his trilogy 'The Information Age' (Castells, 1996). Information and data are moving across the world in less than seconds and physically our world is shrinking as well. This development has altered us into one global network society where the concept of distance is diminishing and

people and information can move more flexible. Even in remote areas of developing countries, there is a good chance that nowadays you will find people with a mobile phone and even Wi-Fi internet is common in some areas of developing world. Some refer to this development as the 'Global Shift' (Dicken, 2007). The new technologies and possibilities, to connect people and places, provided opportunities for developing countries to develop.

In general, outsourcing can be a positive solution for both the recipient country as well as the companies that outsource activities. Companies in the developed world enhance their cost reduction while recipient countries in the developing world benefit from the job creation as well as higher education possibilities and higher wages. BPO is a sector that only in recent times, in the last 15 to 20 years, has really developed into a worldwide phenomenon. The World Bank defines 'outsourcing' as "the contracting of a service provider to completely manage, deliver and operate one or more client's functions (Rodolfo, 2005). Call centers are by far the biggest subsector within the BPO sector.

One of the few countries in the world that actually shown resilience towards to economic crisis has been the Philippines. The Philippines was one of a mere handful of countries in the world to have recorded a positive economic growth in the year 2008 and 2009 (IMF, 2009). One of the emerging sectors in the Philippines that has shown significant growth annually in the last 10 years is the BPO sector. The BPO sector is mostly concentrated around the capital Manila. But '*the queen city of the south*', officially known as metro Cebu has proven to be one of the top emerging outsourcing regions in the world. Metro Cebu is the combining name for Cebu City and the surrounding cities, Mandaue City, Lapu-lapu City and Talisay City. The primary market for outsourcing in metro Cebu is the United States of America. This is quite typical for the Philippines as a whole. Almost 30% of the total American outsourcing market has the Philippines as recipient, call centers being the most important subsector for the American market. (Sibal, 2006).

The call center sector in metro Cebu was studied in relation to the influence of the economic crisis on the development of the sector. The interest of studying the call center sector comes forth out of the dynamic and flexible nature of the sector (formed by the rise of the information age) in relation to the influence the economic crisis has on the sector. Our current economic times show that the rise of the information age and the economic world crisis are important factors that define today's economic growth all over the world. The theme of analysis is the contradiction between the widespread stagnation of the global economy, due to the economic crisis, and the presumably positive influence of the crisis on the call center sector. The main research question:

To what extent did the economic crisis influence the development of the call center sector in metro Cebu, the Philippines and in what way?

In order to answer the main research question, this research will focus on several aspects of the call center sector in metro Cebu. First of all, the characteristics of the call center sector will be explained. The explanation of characteristics will help to understand how the call center

sector works (local, national and its position in the world market) and how these characteristics may help to counter or enhance a further influence of the economic crisis. In addition, this research will look at possible clustering and collaborations within the call center sector in metro Cebu. This will help to explain the additional reasons why metro Cebu is such a good location for call centers to establish their businesses. Second, this will help to explain how the sector as a whole works in metro Cebu, and how the call centers in the local business environment interact and react on worldwide developments like the economic crisis.

The objective of the research was to gain insight on what the influence of the economic crisis is on the call center sector in metro Cebu. To tackle the objective, the main theme of analysis of the research will be to look at a contradiction that lies within the development of this sector in relation with the economic crisis. The challenge for development of the sector is situated between the downward going economical trends in the countries of crisis on the one hand and the remaining positive economic growth in the call center sector. The two sides of this contradiction can be defined as, one side negative, the other positive and are embedded in a globalizing world.

The negative side reveals to what extent the economic crisis has a negative influence on the call centers companies. The demanding areas for outsourcing activities, such as the United States of America, are highly effected by the economic crisis. This could have several implications for recipient countries of outsourcing. In economically difficult times, companies as well as customers tend to cut back on costs. In addition, stability and trust are for many companies and customers keywords when it comes to investing/purchasing in economic difficult times. These keywords are quite difficult concepts for locations, situated on the other side of the world in terms of being recognizable for these customers that seek trust and stability. Another aspect, related to stability and trust, is the urge to support the home country. People tend to buy American goods and services, companies rather invest in America then elsewhere.

The positive side looks at the structural adjustments companies make to cut back their costs. The economic crisis may work as generator of extra awareness among companies, that the outsourcing of activities is a great cost reduction tool. One way to cut back costs is by outsourcing or off shoring (sub-contracting) relatively simple manufacturing jobs and service jobs to the developing world. The focus on cutting back costs in the developed world could subsequently led to more job opportunities and higher employment rates in recipient outsourcing regions like metro Cebu.

This research aims to contribute to the debate on economic development in third world countries, like the Philippines. Especially looking at the development of specific sectors in the developing world and how they can contribute to put, in this case, the Philippines on the economic world map, to encourage investments and helping the country develop its economy in a sustainable way.

This research is structured in the following way:

Theoretical Framework (ch 2)

Methodology (ch 3)

Regional and thematic setting (ch 4)

The call center sector of metro Cebu (ch 5)

Conclusions (ch 6)

Chapter 2 will provide the theoretical framework in which this research is embedded. The methodology (chapter 3) will present the main research question, the additional sub-questions and the conceptual model that form the foundation of this research. Chapter 4 will provide the setting on the research, introducing the Philippines, metro Cebu, the call center sector and a small introduction of the host organization. Chapter 5 functions as core of this research. The main research findings will be presented and will be analyzed based on the research questions provided in chapter 3. The conclusions will be presented in chapter 6.

2. Theoretical Framework

2.1 Introducing the theoretical framework

This chapter provides the theoretical framework of this research. It consists of five major theoretical concepts that can help to understand the theme of analyses and explain the research questions and its possible answers. This paragraph will briefly introduce the theoretical concepts and their link to the theme of analyzes, which is the influence of the economic crisis on the call centers sector in metro Cebu.

Companies in the developed world use outsourcing to cut back on their costs. One of the options to do so is to relocate activities to the best (lowest costs) location possible. Theoretical concepts that can play a role in defining the best location to relocate to, is clustering and comparative advantage. The outsourcing of services to the developing world would not have been possible if we were not technological capable of doing so. The technological paradigm therefore plays a role in the development of outsourcing around the world. This paradigm is related to the rise of the information age and global network society by Castells. Another notion that is often mentioned in this context is the 'Global Shift'. The global shift has created winners and losers in our new global economy. These globalizing developments can help to understand the characteristics of the call center sector. These characteristics on their turn can help to understand the influence of the economic crisis. The rise of the information age and the formation of a global network society have implication for the value chain in which companies do business. Value chains have developed into *Global Value Chains* (GVC), creating opportunities for companies in the developing world play a role in the worldwide economy. The GVC theories can help to understand and explain questions related to the dynamic geography of any industries, in this case the call center sector. Thus, the theoretical framework of this research consists of five major parts: the information age related to Castells's network society, the development of clusters and the concept of comparative advantage related to the highly competitive call center sector, the global shift , and the development of GVC's.

2.2 The information age in a global network society

The trilogy 'The Information Age' by Castells provides the theoretical background and foundation for the rise of the information age and the global network society (Castells, 1996). One of the reasoning for choosing this specific theory by Castells rather than 'globalization', which is a more general concept, is the notion of technology and information, which are important features in the rise of the information age.

The relevance of rise of the information age, towards this research, lies in the fact that the call center sector is based upon the new technological paradigm and therefore, the information age in relation to the network society. The call center sector is often labeled as a

technologic empowered sector (Belen, 2008). Paragraph 3.5 will more specifically explain the technologic empowerment of the call center sector.

In his trilogy 'The Information Age', Castells explains the social structures of our evolving society. According to Castells, our society developed into a network society. The network society is the social structure characteristic of the information age (Castells, 2000). The rise of the information age started in the last two decades of the twentieth century. This has led to a social transformation of societies into the new social structure of the network society. This society is constructed around flows. These flows can be flows of information, flows of technology, flows of capital, etc. According to Castells flows are not just one element of the social organization: they are the expression of processes dominating our economic, political and symbolic life. Thus, the enhancement and acceleration in which humans can process and produce knowledge and information has altered our social system including our economy. The new economy of our society is characterized by three specific features (informational, global and networked). The three features of our new economy are visible in all parts of society but it they are especially visible in newly formed sectors, such as the call center sector.

- The informational aspect of our new economy is based on the capacity of generating knowledge and process information that determines the output and competitiveness of economic entities, such as firms, regions, and nations. The informational part of our economy has importance of the call center sector to the extent that call center services generate knowledge and process the information involved. For example, when a customer in the United States of America calls a call center about a certain product or service, the customer will provide the call center with information about a problem he or she is facing. The call center operator will process that information and provide the customer with other information on how to counter the problem. In addition, the information provided by the customer will help to generate knowledge on what problems frequently occur, why they occur and how the problem can be prevented. This can help to raise productivity and competitiveness of the call center company.
- The global aspect of our new economy is visible around the world. The concept of distance has lost its meaning, strategic activities can take place on a global scale. Call center activities can be moved to basically any location around the world. Locations that in the past were limited by distance. The differences in global distribution have consequences for the way companies operate in their specific value chain. Paragraph 2.4 will elaborate on the change from value chain to *Global Value Chain* (GVC). Another feature that shows the globalization of our economy is the fact that nowadays a customer in the United States of America can call a call center operator, situated in the Philippines. The enormous distance between the customer and operator does not affect the quality of the service while trying to solve an issue the customer is facing at his/her home.

- Networking is an aspect of our new economy that can be defined as a new form of economic organization which has developed, the network enterprise. A call center in metro Cebu cannot work alone. In order to reach the customers in the developed world, call centers will have to be linked to e.g. the telecommunication network. Another example is networking in which customers actually get in contact with the call center via other third party firms.
(Castells, 2000)

In addition to the three features of our new economy, another key element of the theory by Castells is what he calls the 'space of flows'. Castells proposes the idea that there is a new spatial characteristic of social practices that dominates and shapes the network society: the space of flows (Castells, 1996, p 442). This space of flows comes into three layers according to Castells. Layers of material supports that, together constitute the space of flows. First layer of the space of flows, which defines the importance of information technology is most significant for this research, the development of the call center sector is based on this layer. Without the new technological possibilities it would have been impossible to outsource activities to the other side of the world, information technology is fundamental in today's economy. In fact, the increasingly global remit seems to apply on almost every field of work as well as social life because it involves connections between people and places. The call center sector is an excellent example of this notion because call centers use technology to provide customers with certain information. This first layer of the space of flows is particularly of importance with regard to this research because the call center sector is embedded in this layer. The three layers as described by Castells are:

- The first material support is constituted by a circuit of electronic exchanges all based on information technologies. Interactions are made possible by these information technology devices, like computers, mobile phones, and the internet. This network of communication is the fundamental spatial configuration. This is also a key element of call center services. Positions in the network are defined by the exchanges of flows. This technological paradigm consists around all micro-electronic-based information and/or communication technologies and genetic engineering. Without the technology, call centers would not be able to operate the way there are currently doing around the world.
- Nodes and hubs: Positions within the network can change but the space of flows is not placeless. The network links up specific places with each other. These places are bound to a location but the structure of the network can change and is placeless. Hubs are the exchangers, communication hubs playing a role of coordination for smooth interaction. All the others places within the network are nodes.
- The space of flows refers to the spatial organization of the dominant, managerial elites. The elites all have their own interests and practices and they will have specific spatial requirements. (Castells, 1996, p 442 – 446)

The information age theory can provide insight on how the world is developing and more specifically on how sectors are developing which are rooted in the information technology such as the call center sector. Understanding the roots of the sector, helps to understand the characteristics of a sector. The theme of analysis of this research is the contradiction between the widespread stagnation of the global economy, due to the economic crisis, and the presumably positive impact of the economic crisis on the call center sector. Explaining the different characteristics of the call center sector, via the rise of the information age and the development of a global network society can help understanding to what extent and in what way (positive/negative) the call center sector is influenced by the economic crisis.

The rise of the information age and development of a global network society, as explained by Castells, forms the descriptive layer in this research. It is the framework in which activities, developments and other actions in the call center sector take place. In order to look more specifically at the research area, metro Cebu, this research will look at notion of 'global shift', the value chain, clustering and comparative advantage theories are used to provide more insight and detailed explanation of the development in relation to the impact of the economic crisis.

2.3 Winners and losers and comparative advantage in the global shift

Globalizing processes like the rise of the information age and the development of a global network society illustrate possible opportunities for developing countries in terms of economy development. In general, outsourcing could be a positive solution for both the recipient country as well as the companies that outsource activities, this research will analyze is possibility. An important notion on why the 'global shift' takes place is comparative advantage. Locations in the developing world meet the specific skills, materials, efficiency and/or competitive cost wanted by companies in the developed world. Within this geographical research, the perspective on comparative advantage is based on the locations rather than looking from the perspective of companies in need of a certain location.

Even so, comparative advantage is not something that can only be geographical, it basically runs through all layers of our society, internally and externally, and can be pinpointed on anything. Looking at the call center sector, comparative advantage can presumably occur in multiple ways. An example of comparative advantage is the already mentioned, cost reduction, this can be established by cheap labor, low-priced secondary needs like electricity, real-estate, phone-costs etc. Call centers are positioned in a fierce competition for these types of cost reduction, every call center wants their building in the best possible location. It seems less likely that call centers experience competition in terms of their actual products, since each company has different types of services. Another feature of comparative advantage is the geographical comparative advantage where competition between regions takes place. This research will try to give some insight on issues related to comparative advantage in the call center sector and the location, metro Cebu. For example, to see what actually motivates call centers to come to metro Cebu (even Indian based

companies), in what ways do they work together with their competition and/or other institutions. Cost reduction is especially a considerable aspect of the call center sector. It often puts the companies in a fierce competition with other regions/countries striving to keep outsourcing activities fixed within their region and their company by providing the lowest price. Comparative advantage plays an important role to keep ahead of the fierce competition regional, national and global.

However, the notion that ‘a rising tide will lift all boats’, according to Dicken (2007), ignores the enormous variations that exist between countries and economies. While Dicken speaks mostly of labor-intensive manufacturing, the last years more and more services related companies, often quite labor-intensive, have moved to the developing world (The Economist, 2010). Hence, the concept of winners and losers, by Dicken, is interesting for industries like the call center sector. It is particularly interesting to look at what extend the call center sector, under the possible pressure of the global economic crisis, can have a positive effect on economic development. In fact, the outsourcing of call centers has the potential to be a win-win situation for developing countries and developed countries. On the one hand, cost reduction helps the developed world to counter negative influences of the economic crisis. On the other hand, outsourcing the developing world can help to increase job opportunities, higher wages and a general upgrade of the local economy. Dicken states that it is primarily the developed world that will turn out to be winners of the globalizing processes while the developing world will mostly hold the losers. For the developing world as a whole, problems like poverty, and lack of employment opportunities explains why it holds most of the losers (Dicken, 2007). However, Dicken defines the globalizing processes as a double-edged sword for developing countries and he explains it via employment. Box 2.1 shows several positive and negative effects of the globalizing processes on employment in the developing world.

Box 2.1 Employment, positive and negative effects of globalizing processes

Positive effects	Negative Effects
1) Higher export-generated income promotes investment in productive capacity. 2) Employment growth in relatively labor-intensive manufacturing of trade able goods causes an increase in overall employment. 3) Increases in employment and/or wages have a potential effect on reducing inequality if the social structure and political institutions play a favorable role. 4) Exposure to new technology leads to improvement of skills and productivity and the absorption of technological capacity, which can help to upgrade industries.	1) Increase in employment is unlikely to be sufficiently large and widespread to reduce inequality. 2) The relocations of relatively mobile, labor-intensive manufacturing from the developed world to developing countries can have disruptive social effects. The positive effects are short-term while the social negative effects are long-term. 3) International competition pressures the local creation of employment, which helps international companies into a powerful position in terms of negotiate about labor standards and management.

(Dicken, 2007, p 507)

While Dicken looks primarily at labor-intensive manufacturing employment, in recent years, the movement of services to the developing world makes the concept of winners and losers interesting for these industries as well. The way in which companies changed their operations in recent years says something about the way companies changed their value chains to a global scale. Operations are sliced up into small pieces, distributed around the globe, which developed global value chains.

However, Dicken places an important 'if' in one of the positive effects of globalizing processes in the developing countries. The 'if' is based on the social structure and political institutions that have to play their role positively in order to make positive effects happen. This is in line with several theorists that discuss the role of the state on economic development especially in developing countries. The relevance for this particular research lies in the role the state plays to enhance further development of the call center sector even under the pressure of a global economic crisis. States and complementary institutions play a role in how economic activity takes place. Because the social context can differ, firms and other actors are influenced by the dominant norms (Whitley, 2005). There are two ways to look at institutions within society; you can look at them negatively and positively. Theorist Douglass North (1989) looks at institutions as being constraining via laws, rules and norms. Another theorist, Mark Granovetter (1985) looks at institutions as enabling structures that work positively via networks, social cohesion, trust and social capital. One of the biggest institutions in society is the state. The embedded feature of the call center sector in the local state says something about the positive or negative development of the call center sector. In other words, the way in which the state handles its economy has influence on the call center sector development. To what extent the call center sector is embedded in the local state is something this research will try to clarify. In his classic comparative political economy perspective on the 'Third World' state, Peter Evans (1995) identifies three archetypes of the state:

- The predatory state: Predatory states extract at the expense of society, undercutting development.
- Intermediate state: Many states are fragmented intermediate states where inconsistencies reign.
- Developmental state: The key characteristic of the developmental state is embedded autonomy. An embedded state possesses a variety of institutionalized channels where the state apparatus and the private sector continually interact in a constructive manner via a joint project of fostering economic development (Cypher and Dietz, 2009).

2.4 Global Value Chains

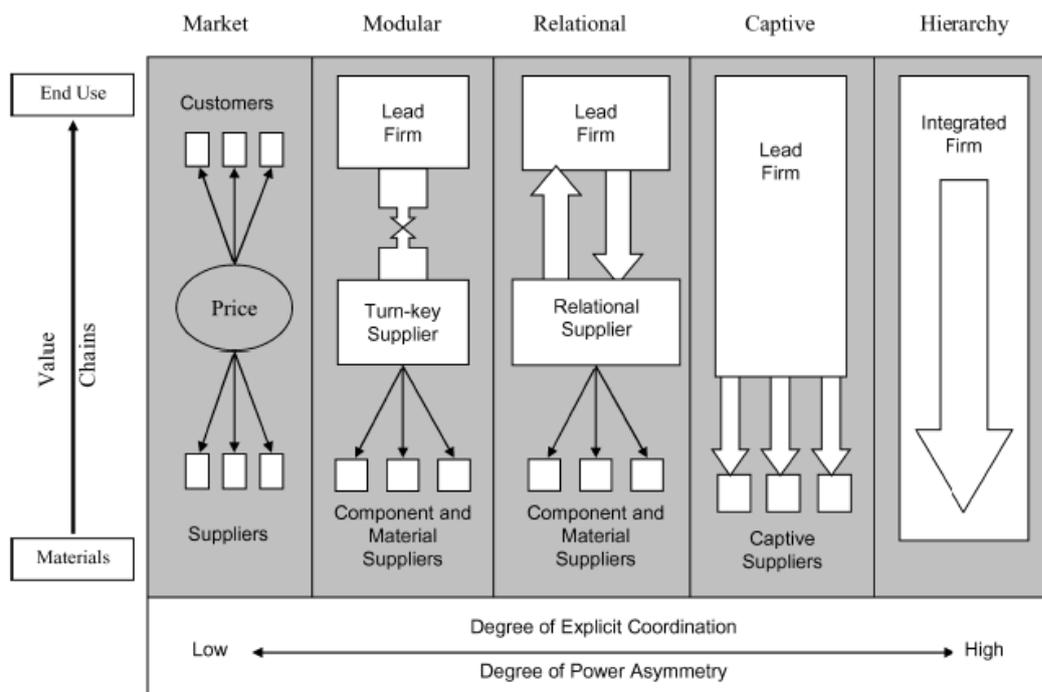
The concept of global value chains is a rather universal concept that can work as a framework to answer questions related to the dynamic geography of any industries (Sturgeon, 2008). However, it can also analyze industries in a more specific way. Analyzing a GVC can emphasize on three different features. First of all, the geographical nature and character of the chain gives insight on distribution of tasks, stages and activities. Second, it gives insight on the distribution of power in the value chain among firms and other actors. Third, the role institutions play in structuring the business relations in a specific GVC. These three features can help to explain and understand why and how industries and locations evolve and how they may develop in the future (Sturgeon, 2008). As stated, in this research specific focus will be on the development of the call center sector in relation to the influence of the economic crisis. The theoretical context of GVC's will help to understand how the value chain works from a local perspective, how the sector has developed as an industry, and as a specific geographical area, metro Cebu. The globalization processes, which made outsourcing of call center activities possible, also leave a mark on how value chains developed into GVC's. The whole process of producing goods and/or services has increasingly been sliced up in multiple small pieces that are carried out at locations that meet the specific skills, materials, efficiency and/or competitive cost (OECD, 2007). These are all elements of comparative advantage.

However, not every GVC is based on the same characteristics and GVC's look specifically at the relation between the lead firm and the supplier. Gereffi, Humphrey and Sturgeon provide in their article "The governance of global value chains", a set of five GVC's, based on the relation between the lead firm and the supplier. (Gereffi, Humphrey & Sturgeon, 2005). Linking the call center industry to a specific GVC is complicated. The five different GVC's are designed to provide a general notion of differences that can occur in GVC's. However, elements of the different GVC's can help to understand how call center activities are 'sliced up'. Looking at a specific industry makes it complex because of the enormous amount of variations that can occur in terms of transactions, the relation between lead firm and supplier, geographical locations and the information and knowledge that goes around in the chain. Therefore, it is likely that the call center sector has characteristics that occur in the five different types of GVC's:

- GVC Markets: Markets are the simplest form of GVC governance. The interaction between actors that buy and sell goods or services, in a specific value chain, is quite limited. Exchanging the goods and/or service for money is the main interaction.
- Modular GVC: The specifications of customer's are central to suppliers that make certain products or provide services in modular value chains. Suppliers in modular value chains generally take full responsibility for process technology and often use basic machinery that spreads investments across a wide customer base. This helps to keep costs within the value chain low and it helps to limit the amount of transaction-specific investments.

- Relational GVC: Relational value chains are based on a networking style where mutual dependence within the GVC runs through multiple aspects. Reputation, social and spatial proximity, family and ethnic ties, and similar aspects. Trust and mutual dependence are two features that take a long time to build up, therefore, switching to new partners is a difficult, costly, and time-consuming procedure.
- Captive GVC: This network-style GVC governance pattern is based on small suppliers which depend on large and quite dominant buyers. Being dependent on a dominant firm within the GVC raises the costs of switching for suppliers. The small suppliers are 'captive' within the GVC. Such networks are frequently characterized by a high degree of monitoring and control by the lead firm.
- Hierarchy GVC: This pattern is characterized by vertical integration, where transactions take place within a certain firm (Gereffi, Humphrey & Sturgeon, 2005).

Figure 2.1 The five GVC governance types



(Gereffi, Humphrey & Sturgeon, 2005)

The most obvious GVC from a call center perspective is the modular value chain which puts the specifications of customers central. This is essentially what call center do as a service. Another aspect is the fact that call center companies work out of small cubicles with basic machinery (computers, head-sets) and take full responsibility for the technological process in order to provide the services. These aspects are in line with the modular value chain. The other type of value chain related to some other call centers is the hierarchy value chain. In any case, the call centers are in contact with customers of the mother company or company that hired the call center. Basically, companies either invest offshore/outsourcing directly within a division of the company or buy services from third party call centers.

2.5 Clusters

Clustering theories were chosen to provide more detailed picture of the research area. In other words, being more specific about the actual influence of the economic crisis on the call center sector in metro Cebu. The following paragraph will explain the reasons behind choosing for these theories and their link to the research.

Clusters are not a new phenomenon in our economic landscape. Geographic concentrations of firms in certain industries date back for centuries. Porter defines a cluster as “a geographic concentration of interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions in a particular field that compete but also cooperate” (Porter, 2000). Location is a very important aspect of the cluster theory. This seems to collide with the notion by Castells that location is no longer a important factor in terms of economic development. Castells states ‘the global economy as an economy whose core components have the institutional, organizational, and technological capacity to work as a unit in real time, or in chosen time, on a planetary scale’ (Castells, 2000 p 101-102) However, the notion of location is somewhat different looking at the cluster theory in comparison to the rise of the information age.

Indeed, it is true that location no longer has the same impact as it had before the rise of the information age but it still has importance looking at ‘location’ from a different perspective. The range of available locations in the economic world has just grown sky high, virtually any location is possible to start a new business. But, companies still look for specific locations, which have certain advantages, to start up activities. Thus, although a specific location is still of importance, the actual location in the world has a far smaller impact then e.g. 100 years ago. This is in line with the notion that the production environment (which is space) increasingly becomes a means of production for companies. Regions therefore compete with one another on a global market for the favors of companies. The fact that economic activities are more arranged within global networks, extend the importance that productivity can be raised due to possibilities (which other locations may not have) in the proximity of the location (Atzema et al., 2002 p 65).

Clusters represent a new line of thinking, where comparative advantage is not only something you seek by looking inside the firm. Clusters suggest that a large part of comparative advantage lies outside the actual firm. The clustering of companies is often explained in terms of the economies of agglomeration which stands for the spatial concentration of companies and/or people to gain advantages like cost minimization (Atzema, et al., 2002). In current times, the nature of economies of agglomeration shifted towards the globalizing cluster level and away from narrower industries (Porter, 2000). Being located within a cluster can e.g. help to provide access to specialized inputs and employees against lower costs. According to Porter, clusters have the potential to influence competition, in that particular sector in which the cluster is situated, in three ways. The three ways in which clusters can influence the competition depends, to some extent, personal relationships, face-to-face communication, and personal networks within the cluster (Porter, 2000). The three ways in which clusters can influence the competition are:

- Increasing the current productivity of firms: Working in a cluster can help to access certain inputs/employees, information, institutions, and public goods as well as complementarities by working together e.g. in marketing the region. Making a region attractive to do business in is something that all firms within the cluster are keen on. Working in a cluster also helps to gain bargaining power to gain access in information or ask the support of local institutions and public goods. All these possibilities help to gain productivity for the entire cluster.
- Increasing the capacity of firms within the cluster to innovate/upgrade. Working in a cluster can help to provide upgrading the region. For example upgrading the infrastructure that is needed to provide top-quality services or in perceiving other types of new technological possibilities to increase capacity. If a firm works isolated from other firms, all the costs for upgrading its activities will be for that firm instead of sharing the costs with other firms. Clustering can lead to a local-buzz which function as a catalyst for innovation and upgrading. But clusters also have a dangerous downside.
- Stimulate new business formation within the cluster that will help further innovation and expansion of the cluster (Porter, 2000).

Ever since the call center sector emerged in India (1980s) it has been clustering. The same type of clustering is visible in metro Manila, metro Cebu and other regions around the world. The question is why the call center sector develops into clusters. This is something the research will try to answer in the specific area of metro Cebu. The clustering of this particular sector may have to do with the nature of the business. A cluster of related businesses may be one of the advantages a certain area can have. Before scoping down on the research area and the questions raised in this chapter, first of all the methodology of this research will be explained in the following chapter. While the theoretical part of the research functions as framework, it is the methodology that functions as foundation. The methodology will present the main research question, the additional sub-questions and the conceptual model which are central to this research.

3. Methodology

3.1 Research objective & questions

The following chapter will present the methodology of this research. First of all, the main research questions will be presented, followed by the conceptual framework and then the procedures taken to complete this research. The main objective of the research was to gain insight on the impact of the economic crisis on the call center sector in metro Cebu. With this objective, the research aims to contribute to the debate of economic development in third world countries, like the Philippines. To tackle the objective, the main theme of analysis of the research will be to look at a contradiction that lies within the development of this sector in relation with the economic crisis.

The general perspective of this research is the geographical distribution of call center activities between the developed and developing world. This is an interesting topic especially for geographers and since the master *International Development Studies* (IDS), under which this research was accomplished, has its origin in the geosciences faculty at the University of Utrecht it is an evident perspective.

The following main research question and sub questions are formulated to meet the main objective

- ***To what extent did the economic crisis influence the development of the call center sector in metro Cebu and in what way?***

In addition to the main research question, several sub-questions were formulated to help further understanding and enhancement:

- *What are the main characteristics of the call center companies and the sector in metro Cebu in the light of the rise of the information age?*
- *What is influence of the economic crisis on dynamics of global value chains in which call centers in metro Cebu tend to operate?*
- *To what extent does the call center sector in metro Cebu cluster, and do collaborations between actors take place in the call center sector to cope with the possible influence of the economic crisis?*
- *What role does the call center sector play in the development of the economy in central Visayas?*

Regarding the first sub-question: Before going in-depth with the research it is important to get a clear picture of the local situation. This first sub-question is designed to get a better understanding of the local call center sector in the light of the Castells theory. It will also help to find out what the influence is of the economic crisis because its influence will partly be defined by the characteristics of the sector. Sub-question two and three are pointed towards the actual influence of the crisis and how the local companies in the sector develop. Sub-question four is designed as an attempt to capture the extent in which the call center sector is beneficial for the regional economy in general. This question functions as a future perspective, with the aim to help the debate on economic development in the developing world.

3.2 Conceptual framework

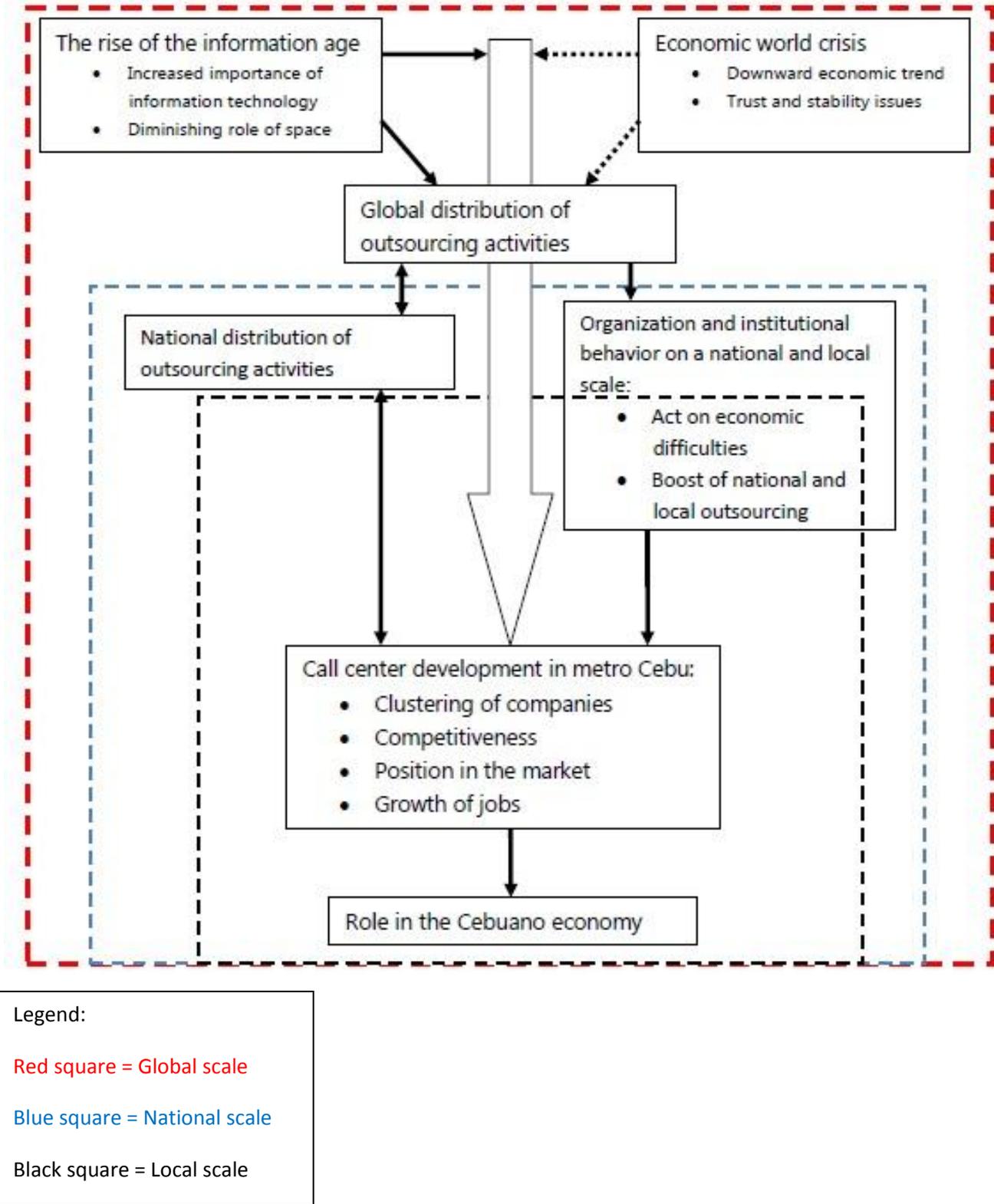
The conceptual model is based on 3 layers (Red, Blue and Black). The 3 layers represent the local, national, and global scale. All three layers play a significant role in the call center sector. The global market (the outer square, marked in red), has influence (direct and in-direct) on the call centers. The rise of the information age and global network society has influence on the scale of all three layers (global, national, local) because this concept has such a worldwide impact. The impact, in this particular research, aims more towards the global distribution of outsourcing activities, which has impact on the national distribution, as well as a direct influence on the local scale. As mentioned, technological possibilities are an important aspect of these concepts. In addition, the economic crisis is situated in the global scale. However, the influence, of the economic crisis, on the call center sector remains to be seen and is the main objective of this research.

On a national scale, the distribution of outsourcing activities and the role organizations and institutions is covered. Just like the global scale, the rise of the information age has impact on the national distribution of outsourcing activities, primarily through technological possibilities. The economic crisis and distribution of outsourcing defines partly how the national and local organizations and institutions act on developments, primarily the government. These organizations and institutions strive for economic development and improvement of the sector (BPAP, 2010).

On a local scale, the national distribution of outsourcing has influence on the development of call centers in metro Cebu. In other words, metro Cebu needs to have certain advantages for the national distribution to turn their way. With the distribution turned towards Metro Cebu, the influence is just as much visa versa and similar on a national scale towards the global scale. Having certain advantages towards other regions will presumably attract more call center activities (NEDA, CIPC, 2010).

The development of the call center sector in metro Cebu will presumably, on the long term, have an influence on the regional development. The growth of companies leads to growth in job opportunities, increase in income of local employees, which will presumably have a positive influence on the regional economy.

Figure 3.1: Conceptual model



3.3 Procedures

This research is based on two parts of methodology, first of all the theoretical side and second the empirical side. The theoretical side defines the different concepts that are used to describe and explain elements of the main topic of this research in the Philippines. The empirical side of the research is primarily based on the gathering of data via interviews that were conducted with primary actors of the call center sector in metro Cebu. In addition, secondary data is used to support or bring contrast in the findings of the interviews. Third, participatory observation in the research area is used to the extent possible. The central research area is metro Cebu. However, this research may very well have been carried out in other regions around the world, similar to metro Cebu and its conditions. For example, Manila (the Philippines), Chennai (India) and/or other regions around the world.

As mentioned, the most important method to gather data has been to conduct interviews with important actors in the call center sector. A qualitative method is used for several reasons with regard to this research. First of all, because of the size and possibilities of the research. In a relative short amount of time, data needed to be gathered in a quite difficult sector. The regional sector is surrounded with a certain vagueness with regard to its factual data. Companies are quite reserved to provide outsiders with factual data other than the attrition rate of the local division. As researcher I tried to contact the companies in three different ways. First of all by going to their front office and explain my intentions. None of the companies wanted to help in any way. Second, I tried to persuade them by showing them a letter of recommendation by both the University of Utrecht and the University of San Carlos. Companies still had no intention to work with me. After these major issues, I tried to persuade local people in organizations and the university of San Carlos to contact companies for me. This way a few companies felt more comfortable and agreed to set up an interview.

Regarding the lack of information, even local organizations related to the sector do not have a clear factual picture of the sector as a whole nor on the performance of single companies in the area. After getting familiar with the research actors and locations, several reasons for these data gathering issues became more clear. The lack of data has a lot to do with the fact that the organization that is able to collect factual data situated in metro Manila. The organization BPAP, the Business Process Association Philippines, does have research data and reports. However, reports are only provided to members of the association or against high prices. Gathering data about individual companies has been very hard as well. Local division of major companies seldom have permission to provide data. Often the local manager redirects to a country manager, situated in Manila. To tackle this problem on gathering factual data, a qualitative method seemed to be the only realistic option, that way the aim will not primarily be at precise measurement of predetermined hypotheses which will help to avoid possible difficulties with call center companies. Second, the flexibility in terms of question development will help to find the answers to quite complex issues and processes which play their part around this research topic.

The sample size in this research contains the following actors of the call center sector which have been interviewed. The main goal was to interview as many, and with the greatest

variation, as possible in order to get an the most objective insight on the sector situated in metro Cebu. Therefore interviews were conducted with local organizations related to the call center sector, local governmental institutions, one of the local newspapers, large call center companies, medium and small size call center companies. All interviews took place on the actual locations of the organizations, companies and governmental institutions in metro Cebu. The line of questions asked to the various key informants will be provided as attachment to this research.

With regard to the local organizations and local governmental institutions: Interviews were conducted with the Department of Industry and Trade in Cebu (DTI/NERBAC), National Economic and Development Authority (NEDA) Regional Office Visayas (7), Cebu Investment Promotions Center (CIPC), Cebu Educational Development Foundation for Information Technology (CEDF-IT).

- The role of the DTI in the Cebuano economy is the following: *"The Department of Trade and Industry shall be the primary coordinative, promotive, facilitative and regulatory arm of the Executive Branch of government in the area of trade, industry and investments"* (www.dticebu.net.ph, 2010).
- NEDA (7) The country's independent economic development and planning agency mandated by the Philippine government. Each region has its own regional department. The central Visayas is named region 7 (www.neda7.net.ph, 2010).
- CIPC is a regional organization focused on the attraction of investments towards metro Cebu. The organization provides a comprehensive range of services to promote investment (<http://ccebu.net/cipc/>, 2010).
- CEDF-IT is a local organization which tries to bridge the gap between the educational system in Cebu and IT related companies in the area. Graduate students from the universities in the area more and more choose one of the call centers as employer. However a gap between the knowledge graduate students obtain during their stay at the university and the actual knowledge needed as employee of a call center still remains (CEDF-IT, 2010).

These organizations and institutions were chosen with the aim to gather data in a broad sense around the sector. In other words, data specifically about the metro Cebu area from an overview perspective. Beforehand, I had reckoned that these institutions and organization would have gathered a large amount of data related to the last 10 years of outsourcing activities in metro Cebu. But, after being in contact and conducting the interviews, it became clear that organizations and institutions shared my issues in terms of gathering data, very little factual data was available. The interviews were aimed to gather data on multiple aspects including structure of the sector, development of the sector, potential of the sector, comparative advantage regarding Cebu, amount of companies, amount of employees, position of the sector in the local economic, influence of the economic crisis, outsourcing

market, worldwide clients, the role of institutions, collaboration possibilities, role of the organization, perspective of future development and multiple questions related to the interviewed person and his/her specific role in the organization.

In addition, an interview was conducted with the local newspaper. The editorial department related to economics of the Sun Star newspaper was contacted. The Sun Star newspaper was chosen on the assumption to get an objective point of view on the situation, development and growth of the call center sector. It helped to determine the value of the data provided by local organizations and institutions. In addition, Sun Star newspaper helped by the gathering data via the opening of their news archive, located in their main economic building in metro Cebu.

Furthermore, interviews were conducted with companies. The aim was to interview as many companies as possible. This turned out to be a real challenge, multiple companies refused to cooperate due to possible problems with secrecy from their perspective. The only factual data that a few companies were willing to provide was the development of the companies in terms of employees and attrition rates, this is obviously quite limited data. Nonetheless, interviews were conducted with large and medium size companies, including Aegis People Support, Qualfon and EliGlobal inc. Aegis People Support proved to be an excellent example of call center in development. Aegis and People Support merged on October 30, 2008 to create a global business process outsourcing leader (www.peoplesupport.com, 2010). Aegis people support has links all over the world but has roots in both India and The United States. Qualfon is another large call center company, with links all over the world with roots in Latin & North America. EliGlobal is a medium size call center company which only recently moved to Metro Cebu.

- Aegis People Support is a large size call center with 3000 employees in metro Cebu at this point. It has connections all over the world and has roots in both the United States of America and India. The People Support part of Aegis People Support, has been one of the few family owned businesses. 95% of the activities consists of inbound calls, mainly from North-American customers (Tagamolila, 2010)
- Qualfon is another large size call center with around 2300 employees currently working in metro Cebu. Qualfon is part of the Qualfon group. Today the group is still privately held, with its shareholder operating most of the companies. The group has direct or indirect presence in almost every country in Latin America. In 2006 it expanded towards the Philippines (Canon, 2010).
- EliGlobal is a medium-size call center and not located in one of the cluster areas in metro Cebu. The company in Cebu was established in 2009, has its origin in the United States of America and has about 200 employees. Before coming to the Philippines, it already had activities in India (Rodriguez, 2010).

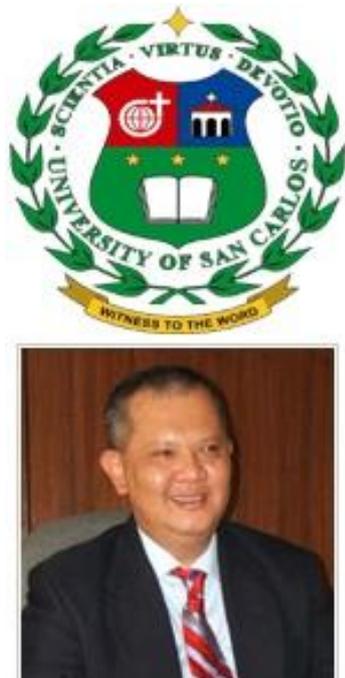
Other organizations/companies that have been contacted during the research period are e.g.: BPAP (Business Processing Authority Philippines), PEZA (Philippines Economic Zone

Authority), Convergys company, WIPRO company, Sykes company, Stream company, Cebu Holdings inc., JPMorgan/chase company et. al. Some information was provided by these actors, however they were never willing to provide data via a interview with one of their key-informants. Thus, most information regarding these companies and organizations/institutions is based on secondary data.

The host organization for the research

The host organization for this research in the Philippines is the University of San Carlos in Cebu. It is known as one of the oldest catholic schools in Asia, established by Spanish Jesuits in 1595, and nowadays ranked as one of the top universities outside Manila (University of San Carlos, 2010). The university has educational programs on all levels and a wide range of departments. The official host of this research goes through the office of external affairs, this office is responsible for all international linkages of the university. Head of the office of external affairs is Fr. Louie A. Punzalan. As head of the office of external affairs he was in charge of providing us with contacts within the local university.

Figure 3.2 USC logo and Fr. Louie A. Punzalan



(USC, 2010)

4. Regional and thematic setting

4.1 Introduction

The following chapter will provide the national and regional context in which this research has taken place. First of all, a general country profile of the Philippines will be provided on how the country developed historically and economically. In addition, the regional context of metro Cebu will be explained. Metro Cebu is situated in the Central Visayas region (region 7). Paragraph 4.3 will categorize the call center sector. Next, the call center sector and its development, historically and today will be clarified. Furthermore, the geographical distribution of the call center sector will be summarized. It is important to define the sector first in order to be clear on what companies are specifically interviewed in this research. The development, historically, and currently, is important to understand with regard to the characteristics of the sector and the influence of the economic crisis on the call center sector in metro Cebu.

4.2.1 Country profile

The Philippines is after Indonesia the second largest archipelagic state in the world. The Philippines is a country in Southeast Asia, situated in the western Pacific Ocean. North across the Luzon Strait lies Taiwan. West across the South China Sea is Vietnam. The Sulu Sea to the southwest separates it from the island of Borneo and to the south the Celebes Sea from other islands of Indonesia. It is bounded on the east by the Philippine Sea. The Philippines consists broadly out of three main geographical divisions: Luzon, Visayas, and Mindanao (CIA, 2009). The capital city of the Philippines is Manila, situated on the island Luzon. The Philippines has a republic political system and the official languages are Filipino and English. The population is relatively young, with a median age of 22.5 years. This is significantly younger than the Netherlands e.g., which has a median age of 40.8 years (CIA, 2010). The focus of this region is on the island Cebu, situated in the Visayas

Figure 4.1 The Philippines



(iguide.travel.com, 2010)

of this region is on the island Cebu, situated in the Visayas

region. Together with Negros Oriental, Bohol and a few smaller islands is Cebu part of the central Visayas. The republic of the Philippines, as it is officially known, has a population exceeding 97 million people in total (CIA, 2009). The majority of the population (62%) lives on 11 of the bigger islands with huge concentrations in both Manila and Cebu (Balisacan & Hill, 2006). Historically the Philippines has gone through several distinct phases which all left their mark on the economy, ethnicity, and culture. The Philippines can historically be divided into four different phases in time. The four phases are: the pre-colonial time, the Spanish colonial time, the American colonial time, and the post-colonial time of independence.

The pre-colonial time dates back to more than 20.000 years ago. The first evidence of this are the human remains of three individuals that were found on the island of Palawan. Later on, Malaya people arrived from the south (Borneo/Sumatra) making their way over then-existing land bridges and on large boats. The earliest economic activity are known to take place with Chinese merchants and traders arrived and settled in the ninth century, but also Arab traders arrived, introducing Islam in the south and extending some influence even into Luzon. This remained till the Spanish arrived in the early 16th century (US state department, 2009).

The Spanish colonial time Started with the arrival of Spanish explorer Miguel López de Legazpi, in 1565 he formed the first European settlements in Cebu. In 1571, the Spanish occupied the kingdoms of Maynila and Tondo and established Manila as the capital of the Spanish East Indies. But already in 1521 the first Spanish explorer arrived (Ferdinand Magellan). The objectives of Spain with colonizing the Philippines were simple: acquire a share of the spice trade, develop contacts with China and Japan, and to extent Christianity around the world by converting the Filipinos (countrystudies.us, 2010). Among the most significant changes under Spanish rule was that the indigenous idea of communal use and ownership of land was replaced with the concept of private ownership. When the Spanish rule came to it end, these local elite had already obtained a strong economic base which would only expand during the American time (van Helvoirt, 2009).

The conquest of the Philippines, by the Americans, started around 1899. The arrival of the Americans meant an expansion of the power by the local elite in the Philippines. Their power increased politically and economically due to the American colonizers who sought after winning over the local leaders, intended to undermine support for independence (Hutchcroft, 2003). The Philippines became independent in 1946 after elections which made Manuel Roxas the first president of the independent republic of the Philippines. The first 2 decades of independence were an enormous struggle with the powerful oligarchy. A significant event took place when the first 'ordinary Filipino' become the 10th elected president of the Philippines. Marcos won the elections in 1965. Marcos dominated politics for the next two decades, first as the elected president in 1965 and 1969, and then as virtual dictator after his 1972 proclamation of martial law (countrystudies.us, 2010). Marcos was removed from power in 1986 and Aquino took over. President Aquino strived for a more decentralized democratic political system.

During the office of president Arroyo, the situation seems a little more stable although a crisis seems always to be around the next corner. President Arroyo was vice-president under former president Estrada but when he got arrested in 2001, Arroyo became head of state. Arroyo, a trained economist, has made the economy one of the main focus points of her presidency, another focus point by Arroyo is the focus in her administration on a 'strong republic'. In 2004 she was re-elected after a close call in the elections with her opponent Poe. This was possible because the law states that every president can have a full term of presidency. And Arroyo did not make a full term when she took over from Estrada. Therefore, Arroyo was in power for almost 10 years, the 2nd longest period in office behind Marcos. One of the major initiatives by Arroyo is to push for institutional reform (Abinales, 2005). During the research period (February 6th till the 1st of June) new elections were held on multiple governmental levels on the 10th of May, 2010. The elected president Benigno Aquino III, son of former president Aquino, became the 15th president of the Philippines, succeeding president Gloria Macapagal-Arroyo. The historic development of the Philippines shows inconsistency in terms of political rule. One of the main promises by Aquino was to fight the corruption, bring better education, housing, and to develop a better economy. In general, the Philippines shows characteristics of a developing country trying to keep up with the global economic developments. The Philippines could be defined within the archetype of intermediate states.

Although this extraordinary diversity is often used by travel agencies and tourist promotion programs, there is also a counter side to this promotion of its beauty. The diversity has brought economically highly uneven and diverse activities. Most of the economic activity is situated around metro Manila (van Helvoirt, 2009). Table 4.1 shows the estimated economic growth of GDP between 2007 and 2009. Economic growth in terms of gross domestic product has averaged 4.5% during the Arroyo presidency from 2001 up to the first quarter of 2008 (NEDA, 2009). Philippine GDP grew a little more than 1% in 2009 according to the World Bank. However, taking into account the economic heavy weather during 2009 and onwards, due to the economic crisis, the Philippines did better than its regional neighbors (CIA, 2010). Although the Philippines did economically better than some of its neighbor countries, poverty is still a huge issue. The high population growth and inequitable distribution of income are part of the poverty issues.

Table 4.1 Estimated economic statistics of the Philippines

	2007	2008	2009
GDP per capita	\$3,300	\$3,400	\$3,300
GDP growth rate	7.1%	3.8%	1.1%
GDP	\$310.2 billion	\$322 billion	\$327.2 billion

(CIA, World bank, 2010)

It is interesting to see how the growth rate of the Philippine economy remained slightly positive even under the pressure of the economic crisis. The question is, which industries and sectors helped to achieve this. Table 4.2, on the next page, shows the estimated current GDP composition and labor force occupation. As a developing country, the Philippines has been trying to make the transition from a economy based on agriculture to one based on industry and services. In the last ten years, outsourcing activities, like call center, have been growing enormously in the Philippines. This is one of the sectors that represent the transition towards a service economy.

Table 4.2 Estimated labor force statistics of the Philippines

	Agriculture	Industry	Services
GDP composition	14,9%	30,9%	54,2%
Labor force occupation	35%	15%	50%

(CIA, 2009)

Aspects that are mentioned, which may have helped the economic situation are the following according to the Central Intelligence Agency (CIA) and National Economic Development Authority (NEDA), 2010.

- Minimal exposure to securities that were issued by global financial players and institutions. This has obviously to do with the fact that the Philippines, as developing country, is not ranked among the biggest economies in the world. The Philippines is ranked as the 48th biggest economy in the world, even though in terms of population, the Philippines is the 12th most populous country (IMF, 2009).
- A lower dependence on exports and a resilient domestic consumption are aspects, for a large extent, fueled by the enormous support from a large population living abroad via remittances. Remittances represent in 2010 an estimated 11% of the total economy of the Philippines (Economist, 2010).
- The growing BPO industry. This is obviously quite interesting for this particular research. The BPO industry in the Philippines is for a large extent represented by the call center subsector. This will explained in paragraph 3.3 – 3.5.

(CIA, 2010)

4.2.2 Regional profile

The scope of this research will now zoom towards the central Visayas region, with special attention for the island of Cebu and metro Cebu as main city. The central Visayas region consists of four islands. Negros Oriental, Cebu, Bohol, and the smaller island Siquijor.

Figure 4.2 Central Visayas



(Iguide.travel.com, 2010)

The region is also known as Region VII (7). The region of central Visayas is situated in the middle of the Philippines. Cebu city is the regional center. Metro Cebu, which is the combining name for Cebu City and the surrounding cities, Mandaue City, Lapu-lapu City and Talisay City, is the center of economic activities, the city and metropolis around it counts around 2.4 million inhabitants (cebucity.gov.ph, 2010).

The main ports of the region are the harbor of Cebu and Mactan-Cebu International Airport, located in Lapu-Lapu City (metro Cebu), is the country's second busiest airport (after Ninoy Aquino International Airport in metro Manila) and the only airport in the Visayas serving international flights. The region is relatively a small region in the Philippines however, it is one of the most densely populated regions in the country. The majority of the population resides in rural areas nevertheless, economic activity is mainly focused on services and industry (van Helvoirt, 2009). The distribution of these activities is not even as is pointed out in table 4.3. The focus is making a shift towards the services related businesses.

Table 4.3 Gross Regional Domestic Product (GRDP) by industrial origin central Visayas

	2004	2005	2006
Agriculture	12,2%	11,7%	10,7%
Industry	29,6%	29,5%	29,5%
Services	58,2%	58,8%	59,8%

(National Statistical Coordination Board, 2010)

While Bohol is mainly focused on its local agricultural activities, and Negros Oriental is focused on agricultural activities on a national scale, it is the island Cebu that provides much of the industrial and service activities. Metro Cebu, with its urban economy, dominates the region contributing more than 80% of the total GRDP of the region (van Helvoirt, 2009).

Metro Cebu has ever been a center of trade and export. As stated, Miguel Lopez de Legazpi, a Spanish explorer, formed in 1565 the first European settlements in Cebu. Metro Cebu being a center for trade and export has to do with its supreme location within the Filipino archipelago. Being in the center of the archipelago, Metro Cebu has access to basically any point of the country. Not only on a domestic scale is metro Cebu very well accessible, with Cebu's deep water port, nowadays the largest outside the nation's capital (Manila), and the modern Mactan Cebu International Airport, metro Cebu has become a major international gateway for the Philippines (DTI, 2010). Cebu's export growth rate was on average 20% higher than in the rest of the Philippines during the first 5 years of the 21st century (CIPC, 2006). However, exports was among the hardest hit industries by the global economic crisis. E.g. the total number of containers shipped by exports dropped from 17.952 in 2007 to 8.537 in 2009 (NEDA, 2009). Figure 4.3 and Box 4.2, on the next page, show multiple significant locations for the Cebuano economy.

Figure 4.3 Important economic locations in Metro Cebu.



(Google maps, 2010)

Box 4.2 Additional information about the marked locations on figure 4.3

Location and specifications

Asia town IT park: Asia town IT park, is one of the two cluster area for IT related businesses including the call center sector. The biggest call centers are situated here. Close above the Cebu business park, the area is full of additional economic activities like bars, restaurants.

Cebu business park: Cebu business park, the other cluster area for businesses, not only IT or BPO related. Additional to the business environment, Cebu business park provides one of the two main shopping malls in metro Cebu including bars, restaurants, cinema's, and a large shopping area.

Deep water port area: Cebu's deep water port, nowadays the largest outside Manila, and one of the foundations of the trade and export related businesses in metro Cebu. As stated, this export area was hard hit by the economic crisis.

Mactan Export Processing Zone 1: Being reached from the main city by 2 bridges, mactan's EPZ 1 functions as one of the main business area within metro Cebu.

Mactan/Cebu International Airport: The international airport forms the main international gateway for the southern Philippines. The availability of international flights is every important for the region, including the call center sector.

Mactan Export Processing Zone 2: Mactan's EPZ 2 functions as second business area.

Educational institutions: The red dots on figure 4.3 represent the multiple universities situated in metro Cebu. The potential labor force is a very important feature of the Cebuano service economy. One of the main universities in the area functioned as host organization for this research, the University of San Carlos.

(DTI, 2010)

4.3 The BPO sector defined

The BPO sector stands for *Business Process Outsourcing* sector. The outsourcing industry is approximately 20 to 25 years old. For example, services outsourcing started in India in the mid 1980s (Sourcingline, 2009). BPO is defined by the Philippine Department of Trade and Industry (DTI, 2003) as the “*delegation of service-type business processes to a third-party service provider*”. It covers services related to information technology, business administration, sales, marketing, and customer care (DTI as cited in ADB, 2007).

The range of services which are included in the BPO sector can subsequently lead to a distinction between the services. There are multiple sub-sectors within the BPO as stated in the following table 4.4. The contact center or call center subsector is by far the biggest subsector and this subsector will be the main focus of this research as pointed out earlier.

Table 4.4 BPO subsector definition

Subsector BPO	Definition
Contact/Call center	In- and outbound voice operation services for the purposes of sales, customer service and technical support. Multiple employees working in small cubicles.
Back office	Services related to finance & accounting and human resource administration (payroll processing, benefits administration, human resources data management).
Software development	Analysis and design, prototyping, programming and testing, customization, maintenance, education and training of systems software, middleware and application software.
Data transcription	Provision of transcription services for interpreting oral dictation of health professionals, dictations during legal proceedings, and other data encoding services.
Animation	Processing of cinematographic drawings, models, or inanimate objects through 2D, 3D.
Engineering development	Includes engineering design for civil works, building and building components, ship building, and electronics.

(ADB, 2007).

4.4 The geographical distribution of the call center sector

The following paragraph will provide an overview about the geographical characteristics of the call center sector. The geographical global scale in terms of the call center sector is all about supply and demand. However, a simple supply/demand value chain is not always the case as will become apparent in chapter 5.

In general the question is, what are top locations for outsourcing and from where are jobs/services being outsourced? Most of the demand for outsourcing comes obviously from developed countries in Europe and North-America. Nowadays there are developments at this front in the developing world as well. Several companies based in India e.g. have outsourced

certain activities to the Philippines including metro Cebu. The reason why companies in the west often are eager to outsource has to do with cost-reduction. But there are other factors that play a part as well because cost-reduction can not necessarily guarantee the same quality and speed of the services that are provided. The following list shows the top 10 outsourcing countries in 2009. India is among the top outsourcing countries in the world. Asia in general is represented enormously in the top 10 for top outsourcing locations, with 6 out of 10. The list is based on sourcingline database. Sourcingline is part of an American internet services firm. The ranking is based on several statistics that can be divided into cost competitiveness, resources & skills and business & economic environment. The average score determines the end ranking, which is provided in table 6. The highest rank (1) stands for the best possible scores with respect to the specific column. The lowest rank, represents that a certain country scored bad in terms of statistical data that sourcingline covered. The overall rank covers the average score of a country. For example, the Philippines has a high score in terms of cost competitiveness worldwide (rank 3 in the world), but the Philippines have a rather low score in the world in terms of resources & skills available and business & economic environment (22 and 18). For example, the Philippines is known as a country with relative low labor productivity in comparison with e.g. Singapore and Malaysia. However, the labor productivity in the Philippines is higher than in e.g. India and China (Miyagawa, 2010).

Table 4.5 Top ten outsourcing countries in 2009 by sourcingline

Overall Ranking	Country	Cost Competitiveness	Resources & Skills	Business & Economic environment
1	India	10	2	19
2	Thailand	6	13	8
3	Mexico	11	5	13
4	China	19	3	14
5	Indonesia	2	18	22
6	Malaysia	8	20	4
7	Philippines	3	22	18
8	Jordan	7	21	10
9	Egypt	1	24	21
10	Bulgaria	9	15	15

(sourcingline, 2009)

The Philippines is in this list ranked number 7 in total. When you focus more on the national scale of the country, Manila seems the major hotspot for outsourcing in the country but other city and regions like e.g. Cebu are emerging (Belen, 2008). According to sourcingline: *“The Philippines is a leading country in the business process outsourcing (BPO) market, both in call center services and the non-voice sector. It is an emerging player in the IT services market (web design, software development, application maintenance, etc.) with companies focusing on niche segments such as animation.”* The demand for outsourcing in the Philippines is mainly

coming from the United States of America. More specifically, the west and east coast states like California, New Jersey, New York among others. United States companies often choose the Philippines for their outsourcing activities because the Philippines is among the countries with the highest cost-reduction (sourcingline, 2009).

On a local scale the focus is on metro Cebu. Metro Cebu has the biggest number of call center companies outside metro Manila (Cebu daily news, 2008). According to the Department of Trade and Industry (DTI), the Philippine BPO sector grew annually with 160% between 2001 and 2004 (Rodolfo, 2005). This is no different when you look specifically at metro Cebu. Within metro Cebu there are multiple significant locations with respect to the local economy. Concerning the call center sector, Asia town IT park is clearly the most important location, however the sector is more scattered throughout the city than assumed beforehand. Accurate data on the amount of call center companies in metro Cebu is difficult to obtain. Estimations by local authorities assume that there are around 60 call companies. The biggest, and perhaps most important, companies are basically situated in Asia town IT park, some are situated in Cebu business park or outside both business clusters.

Table 4.6 Location of the biggest call centers in metro Cebu

Asia town IT park	Cebu Business park	Outside the clusters
Convergys Stream Aegis-People support Qualfon JPMorgan chase	Wipro	Sykes Bigfoot solutions

(Peter Verhagen, based on observation at locations, 2010)

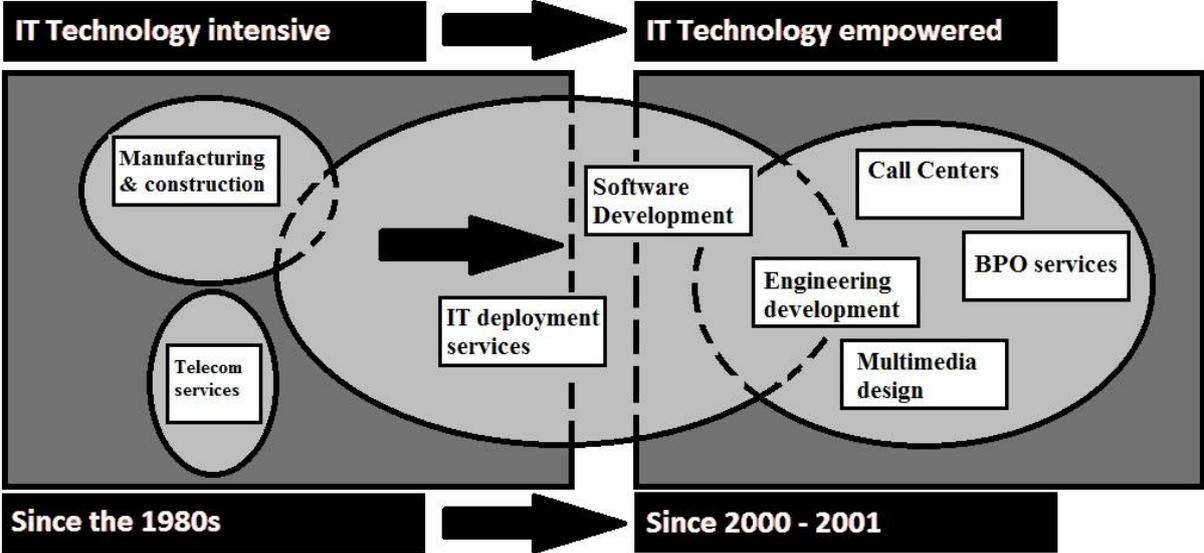
Most companies are affiliated with an American ‘mother-company’. In terms of growth, in both Asia town IT park, and Cebu business park there is still a lot of construction going on. Cebu business park is a far more divers business area than the IT park. Certain projects are being constructed for residential purposes while others are being constructed for expansion of companies like Aegis People Support. But there are also companies with their origin India (Wipro & Aegis People Support). To understand the development of the call center sector in metro Cebu, it is important to understand something of the historical development of the sector. This is important even though the sector is fairly new and therefore only has a short history.

4.5 The historical and economical development of the sector in Metro Cebu

Paragraph 4.2 explained that since the arrival of the Spanish, trade and export have always been important features of the Cebuano economy. Nowadays, not only trade and export are big sectors in the Cebuano economy. Another part of the Cebuano economy is the manufacturing sector. This sector came to the Cebu area primarily in the 1980s and simply formed an extension of the already existing trade and export sector. This development has

been part of the 'Global Shift' (see chapter 2). Companies, primarily in the developed world, moving their activities to developing countries. The attraction of Foreign Direct Investment (FDI) in the manufacturing sector to the Philippines, Cebu specifically in this case, was mainly coming from countries like Japan (CIPC, 2010). These companies brought electronics manufacturing to Cebu along with other technology intensive manufacturing and construction companies. According to Cebuano organizations like the DTI & CIPC, these technology intensive companies formed the first step in providing a good environment for the arrival of technology empowered companies (CIPC, 2010). Companies such as call centers and other business process outsourcing companies Started to come to Cebu at the beginning of the new millennium. Many of these companies have American roots but there are also companies from Europe and later on even companies from India (Wipro & Aegis people support). The arrival of Indian companies is a significant development because India itself has an enormous outsourcing sector. The big difference between technology intensive companies and technology empowered companies is the following: Technology empowered companies merely use technology as a tool to provide a specific service. Technology intensive companies not only use technology as a tool to manufacture a certain product but the product itself is often technology based. Figure 4.4 provides a graphic presentation of the development from technology intensive to technology empowered.

Figure 4.4 Development of the IT in metro Cebu



(Peter Verhagen, 2010 based on Belen, CEDF-IT)

The historical development shows that the technology intensive companies paved the way for technology empowered companies like call centers. The following part will describe the development of the call center sector in the most recent years.

As stated above, the first call center companies came to metro Cebu with the turn of the millennium. This is not something that only holds true for metro Cebu, the arrival around the new millennium accounts for the Philippines in general. With respect to other BPO

developing countries, e.g. India, the emerge of the BPO in Philippines is rather late. The BPO sector emerged in India already in the mid 1980s and 1990s. The fact that the Philippines has such a short BPO history is a much emphasized fact by local authorities, with the belief that the BPO sector in the Philippines as the opportunity to by-pass mistakes made in e.g. India (DTI, 2010). Whether or not this holds true remains to be seen. However, since its arrival, the sector has grown exponentially in the following years. Table 3.7 shows the exponential growth of call centers in the Philippines between their arrival in 2000 and 2005. More recently factual data has been quite difficult to obtain, as stated in the Methodology.

Table 4.7 Exponential growth of Call Centers in the Philippines since 2000

Year	Number of Call Centers	Estimated number of seats	Estimated number of employees	total	Estimated Revenue (US\$ Millions)
2000	4	1500	2400	24	
2001	13	3500	5600	56	
2002	31	7500	12000	120	
2003	60	20000	32000	320	
2004	72	45000	67000	800	
2005	108	75000	112000	1800	

(ADB, 2007)

Total revenue grew in 2006 up to 2680 US\$ Million and a revenue by the end of 2009 of 5000 US\$ Million (Villafania, 2009). In terms of employment the metro Cebu data is quite similar to the nation-wide data. The PEZA registered call center in 2009 (25) have a total number of 22,692 employees. This is in line with research on the BPO sector by the Asia Development Bank in 2007 which states that on average call center firms employ around 1000 workers. This is in fact far larger than companies in other BPO sub-sectors. For example software development companies have on average 100 workers employed at most (ADB, 2007).

This chapter tried to define and explain the call center sector in the Philippines and metro Cebu, in order to provide a overview. The following chapter will close down on the actual research that was carried out in metro Cebu. Regarding, the influence of the economic crisis on the call center in metro Cebu.

5. The call center sector of metro Cebu

5.1 Introducing the call center sector of metro Cebu

This chapter will present and analyze the gathered data in order to answer the research questions which are stated in chapter 3, in addition the analysis will be linked to the theoretical framework of chapter 2. The goal is to explain and answer questions on the characteristics of the call center sector, the comparative advantage metro Cebu has for companies to start up activities in the area and the position of the sector in the world, in order to accomplish the main goal of this research, which is finding answers to analyze and explain the influence of the economic crisis on the call center sector in Metro Cebu. The main research question is: *To what extent did the economic crisis influence the development of the call center sector in metro Cebu and in what way?*

First of all, the characteristics of the call center sector will be explained in the light of the rise of the information age. The explanation of characteristics will help to understand how the call center sector works, and how these characteristics may help to counter or enhance a further impact of the economic crisis. Sub question 1 and 2 will be general in this paragraph (5.2). Next, paragraph 5.3, will look at the clusters and collaborations of the call center sector in metro Cebu. This will help to explain the additional reasons what the comparative advantage of metro Cebu is for companies to establish their business, something that the theories on clustering suggest. Second, this will help to explain how the sector as a whole works in metro Cebu and how the call centers interact in the local business environment. Sub question 3 will be central in this paragraph (5.3). The chapter continues with an explanation of the influence the economic crisis may have or has had on the call center sector and to what extent actors in the sector try to coop with possible effects (Paragraph 5.4). The main research question, as stated above, will be central in this paragraph. Furthermore, paragraph 5.5 will try to explain the role of the call center sector in the local Cebuano economy, in light of the winners/losers concept by Dicken. This relates to sub question 4 as explained in the methodology. This paragraph aims to provide a perspective in terms of future development of the sector in the regional economy.

Tracking the development of the sector statistically is in metro Cebu surrounded with a certain vagueness. In fact, much more vagueness than beforehand assumed. There are several authorities or associations where call centers companies can register themselves. Some are registered at multiple authorities and/or associations, some are not registered at all (DTI, 2010). Most of the call center firms are registered at one of the national semi-private associations like BPAP. However, BPAP does not provide information to non-members of the association unless considerably paid for it. Their member list is primarily filled with companies. Second, the information that is provided to public authorities is often incomplete or not accurate. Companies do not like to share precious information. And third, there is no

specific local authority for the call center industry in metro Cebu itself. Information that is actually available through e.g. BPAP, tends to focus more in metro Manila and the Philippines as a whole (CIPC, 2010).

5.2 Characteristics of the call center sector in metro Cebu, located in a global network society

The reasons for most companies to make their way to Cebu were the accumulating positive features of the location, in other words the comparative advantage of the location. Some of these positive features are based on a global scale while others show differences on a national scale. These features, which are primarily interesting for American companies and the American market, will become apparent in this paragraph, concerning the main characteristics of the call center sector and its companies. The sub question central in this paragraph is the following: *What are the main characteristics of the call center companies and the sector in metro Cebu in the light of the rise of the information age?*

The call center sector started around the year 2001 in metro Cebu with the arrival of Sykes Asia (NEDA, 2010). Therefore the sector in metro Cebu could be labeled as a rather new sector. In the next 9 to 10 years, multiple big call center companies like Convergys, Stream and Aegis-People support followed.

The call center sector in metro Cebu can not only be defined as a new sector but also a highly international sector with specific links to the American market. Geographical distribution is an important part of the sector which e.g. is defined by the aspect of cost reduction. First of all, because the sector can be found in an enormous amount of different locations around the world, as stated in paragraph 4.4. Second, the main activities of the call centers, in- and out-bound calls, are very much international as well. The actual service can link places that are geographically half way across the world. When it comes to the call center sector in metro Cebu, the majority of the service activities by the call centers, the demand for outsourcing, and the customers are focused around the American market (CEDF-IT, 2010). This is especially the case for the bigger call center in metro Cebu. The target market for these companies often relates to the origin of the call centers. Table 5.1 shows the distribution of origin of the 10 biggest call centers (+1000 employees) in metro Cebu. These companies represent around 65% of the total call center sector in metro Cebu in terms of employees.

Table 5.1 Distribution of origin call centers in metro Cebu

Origin 10 call centers with +1000 employees in Metro Cebu	Percentage in terms of origin	Percentage in terms of main activities
America	85%	100%
Europe	-	-
Japan	-	-
Other	15%	-

(Tagamolila et al., 2010)

Although the metro Cebu call center sector is focused mainly on the American market, this does not imply that the entire corporations, of which the some call centers are part, accommodate only the American market. For example, Qualfon started activities in metro Cebu in 2006 (Canon, 2010). The Qualfon group was already big in South-America, the United States of America, and has activities in Europe (Qualfon, 2010). Wipro and Aegis-People support are companies which started and still have activities in India. Other markets, which more and more see the potential of metro Cebu as call center region are Australia and the United Kingdom and Japan (Rodriguez, 2010). In terms of activities, almost all the big companies in metro Cebu, like Aegis-People Support, Stream, Qualfon and Convergys have the United States of America as primary market (Sun Star, 2010). In general this is quite typical for the Philippines as a whole.

Being said that the American market has the main focus, does not mean that there is always the same and simple supply/demand value chain between the call centers in metro Cebu and the American market. The majority of call centers in metro Cebu operate within two types of value chain which show similarities with the hierarchy and modular value chain, as characterized by Gereffi et al. in the theoretical framework. In general all call centers in metro Cebu take into account the aspects of a modular value chain regarding the specifications of customers central in their services. Essentially all call centers try to provide services to accommodate customer specific questions related to certain services. Furthermore, call center companies can be related to the fact that they, as supplier of a certain service, take full responsibility for the process of technology. Call centers set up the ability, via technology, for customers to call. The technologies used are often relatively basic, involving phones and the telecommunication networks. This helps to keep costs low and it helps to limit the amount of transaction-specific investments. These are all elements of what Gereffi et al. define as a modular value chain.

However, call centers in metro Cebu work within the notion of accommodating customer specific questions, from two different perspectives, as third party or within the hierarchy of a larger company. The foreign-owned call centers are usually owned by companies in the United States of America like Convergys, Aegis-People support, Stream et al. In-house call centers in metro Cebu are companies that are dedicated to the parent companies like JPMorgan-chase, which opened a new facility in Asia IT Park. Additionally you have the Filipino-owned call centers, these are often the smaller and medium-size companies which seek to find clients and customers all over the world (Alava, 2006). While being part of the first of call center chain, the primary company, which basically hires the call center as third party, is defined as client. The people that make use of the call center as a service are defined as the actual customers (Tagamolila, 2010). Other call centers operate within a mother company and provide activities for the mother-company itself. Subsequently, there is no client – third party relations with this type of call center.

In the last 10 years of call center development in metro Cebu, the sector has shown significant growth and a fast emerge. Technological opportunities are obviously the foundation of this emerging sector. The fact that our world is developing rapidly due to the

enormous amount of technological possibilities these days, has several implications for technology empowered sectors like the call center sector. Foremost, this provides huge opportunities for the companies in terms of growth in emerging markets like metro Cebu. The significance and scale of the emerging market can be seen in different ways. For example, based on the enormous growth of the specific call centers in only a few years. Second, in the enormous growth of the sector itself. Table 5.2 shows the growth of several companies and the sector as a whole, based on the amount of employees, between the time they started out in metro Cebu and current times. These figure say something about the demand for call center activities, the flexible nature of call centers indicated by its rapid growth. The current labor force of the call center sector in metro Cebu is around 25.000 employees, and the number is expected to more than 50.000 employees by 2012 (Cebu daily news, 2008). This significant growth is seen in the Philippines as a whole. The estimated amount of employees by the end of 2010 for the Philippines as a whole is 400.000 employees (BPAP, 2010). This assumes a market share of the call center sector in metro Cebu of around 8% to 9% in terms of employment.

Table 5.2 Growth of employees by several call centers and the sector as a whole

Companies	Start (year)	May 2010	Target
Cebu sector	+/- 1000 (2001)	25.000	50.000
Aegis People Support	450 (2003)	3.000	+10.000
Qualfon	400 (2006)	2.300	5.000
Eli Global	6 (2009)	200	Unknown

(Rodriquez et al. 2010)

Table 5.3 shows the development of call centers in metro Cebu that are registered with PEZA. In fact when the local authorities like the NEDA and CIPC were asked for an estimation of the total number of call centers in Metro Cebu, often a figure close to 60 was mentioned. However, this could not be verified based on factual data due to various complications in terms of data gathering and within the sector of metro Cebu itself, which will become apparent later on in this chapter. But, secondary data, mainly on the world wide web strengthens the idea of around 60 call centers in metro Cebu (callcenterdirectory.net). Although the secondary data seems somewhat inaccurate as well at times.

Table 5.3: Development of the call centers in metro Cebu registered with PEZA

Year	Number of Call Centers
2000	1
2004	10
2006	20
2009	25
2010	35

(CIPC, 2010)

Perhaps the most important characteristic of the call center sector is the fact that it is highly based on cost reduction. This is often the primary reason why companies in the developed world outsource to a third party which has a location in the developing world or move a division to a cheap location themselves. Cost reduction is not only based on wages, although lower wages is the most significant aspect which companies take into account before starting activities in a certain area like metro Cebu.

So far, important characteristics of the call center sector in metro Cebu can be summarized as a quite new sector, highly international, rapidly emerging sector in metro Cebu, and a sector based on cost reduction. In addition it is a technological empowered sector, providing informational services via technology. These are all elements in line with the rise of the information age and development of a global network society as defined by Castells. The call center sector in metro Cebu is therefore a good example of a sector embedded in what Castells points out as our new economy. It is therefore perhaps the development into global network society, and the rise of the information age which helped this sector development as it has done it the last 10 years in metro Cebu. However, the theories by Castells do not provide answers for this explanation. These theories are too general to make assumptions on the call center sector solely based on Castells. The globalizing theories by Castells can merely provide the context in which developments take place. Hence, the question remains whether or not these elements enhanced or reduced possible influences of the economic crisis on the sector. This will be elaborated on in paragraph 5.4.

As stated, cost reduction is an important characteristic of the call center sector. Cheaper operational costs are primarily company specific however, there are other elements to cost reduction. Most of the other cost reduction aspects are characteristics of the location rather than the companies. There are so many places in the world that could be chosen when the only criteria would be cost reduction. Therefore, the actual reason for choosing a specific location is defined by more than just the element of cost reduction. Looking at the actual location of a call center (metro Cebu in this case), there are several basic factors which call centers took into account while choosing this particular location. Furthermore, the actual location is in our current global economy not necessarily of significant importance. The accumulating comparative advantages, via these basic factors, which metro Cebu as location has to offer, are for these companies often the main reason to establish their activities.

The basic factors can be summarized in 5 main factors: costs, human capital, business environment, infrastructure and risks. These are all factors that were brought up during interviews with the key informants in metro Cebu. Table 5.4, on the next page, provides a summary of the basic factors which played a role in picking metro Cebu as outsourcing location for the majority of the call centers. These factors are based on a certain comparative advantage metro Cebu has or lacks.

Table 5.4 Basic factors call centers in metro Cebu took into account

Basic factors	Main characteristics
Costs	Wages Real estate Telecommunication costs Power costs
Human capital	Labor pool availability Attrition levels
Business environment	Governmental support Social environment (quality of life)
Infrastructure	Telecommunication Power Physical connectivity
Risks	Political situation Natural disasters

(NEDA, CIPC, DTI, 2010)

Two costs factors were specifically highlighted during most of the interviews were power costs and wages. Power issues are a significant problem in metro Cebu which has the potential to stain the business environment. During the research and working at various call center location, power outage was known to be a problem that occasionally happened. Therefore, most companies situated on the cluster areas in the metro Cebu have their own independent power supply (Canon, 2010). One of the worse problems for a call center could be a power outage during in- and out-bound activities, call centers in metro Cebu avoid these problems by generating their own power, obviously this creates some extra costs.

Wages are a very important aspect of cost competitiveness in metro Cebu, which is more and more getting international exposure. In general, wages in metro Cebu are 50% to 80% lower than the wages for the same activities in the United States of America (DTI, 2010). In terms of real state, costs in metro Cebu are quite low for companies as well as employees. The cost of life is on average 75% lower than in the United States of America. The rent on buildings outside the main outsourcing areas is particularly low both for companies like EliGlobal and employees. E.g. office lease rates in the city are on average around 300 pesos (\$6.7 US dollar) (Globalservicemedia.com, 2007). This is one of the reasons why employees and companies do not move to a much bigger market of outsourcing, situated in Makati City (metro Manila). Mr. Rodriguez from EliGlobal stated that this is one of the reasons that smaller players on the outsourcing markets in metro Cebu are able to compete with big players and why the metro Cebu area is able to compete with metro Manila.

In terms of basic human capital factors, one of the major issues in metro Cebu is the lack of skilled and qualified man power. The front office recruitment area of these companies receive many potential employers on a daily basis. The recruitment is based on interviews, all potential employees wait in a big waiting room while they get called out, one by one, to

speak with a recruitment interviewer in one of the smaller rooms nearby. The entrance of the companies is rather strict, camera's and other technological devices e.g. laptops are not allowed inside. Recruitment areas at the front office of almost all the major call center companies were full of potential employees during the research. However, within this aspect lies the biggest disadvantage of the metro Cebu area. This is recognized by every key informant. Metro Cebu produces an average of 23 thousand graduates a year (CIPC, 2010). Only 4% to 5% of the potential employers has the direct quality to actually get a job at one of the big companies (Canon, 2010). This has to do with the gap between in the educational level of 'fresh' employers coming out of the many universities in metro Cebu and the actual knowledge needed to carry out a call center job (CEDF-IT, 2010). Big companies such as Aegis-People support tend to provide the employers that get through the recruitment stage even extra courses to bridge the gap in knowledge (Tamagolila, 2010). However, this is a cost worthy affair because of the poaching nature of the sector in metro Cebu. It tends to be difficult for the big companies to hold the employers for a longer period of time (Rodriguez, 2010). Due to the actual work, as well as the possible opportunities employers get by other companies. The big call centers companies tend to work with relative short term projects, hiring a certain set of employers for 6 to 12 months for a project before switching. This has to do with the flexibility of the market, products, services and clients change (update) products or their services often rapidly. Call centers have to adapt on these circumstances. These issues are less significant for medium size companies which often work on a more long term basis with their employers and they often puts this even into the agreements with employers to ensure continuity and to counter possible poaching (Rodriguez, 2010). These labor market issues in the call center sector of metro Cebu are not only the concern of the companies themselves. Local governmental institutions and organizations, as part of the business environment in metro Cebu, try to facilitate these issues on several aspects. However, this is not always an easy task due to the fact that the companies are seldom willing to cooperate in upgrading the labor market of Metro Cebu (NEDA, 2010).

Another factor to which companies really pay attention is the aspect of risks (political, environmental, terrorists). For example, after the terrorist attacks in Mumbai (2008). CB Richard Ellis stated a month after the attacks: *"India is the Philippines' main rival in the business process outsourcing (BPO) sector, and last month's attacks on Indians financial hub would have forced multinationals to rethink their policies"* (Sun Star, 2008). There is no clear evidence that companies moved activities due to these terrorists attacks, however, Indian companies are more and more interested in starting a division in the Philippines. In the metro Cebu, the clear examples of this are Aegis People Support and WIPRO, Indian companies who started call center activities in metro Cebu to accommodate the American market.

Infrastructural, metro Cebu has a quite international and good connection with the rest of the world via its seaport and international airport. A good level of physical infrastructure is especially important for the management level (Rodriguez, 2010). Management level tends to be structured in a way that local management are in charge of daily routine but occasionally high level managers within the mother company come to the

location to assist ensure activities are carried out as planned. A good airport connection to the world is crucial to anticipate on changes and differences that can occur in the market. The local management is often taken care of by Filipino employees in addition to all the call center agents doing the actual voice operations. These functions summarize the far majority of all call centers employees working in the metro Cebu area. Higher level managers are often based and from abroad (United States of America) (NEDA, 2010). The distribution of male and female workers in the call center activities is around 53% male and 47% female, according to the national statistics office in the Philippines (NSO, 2010).

Another characteristic of metro Cebu, but in fact this accounts for the entire Philippines, is the quality of English spoken by employees, the attitude of the employees towards customers and the affinity of the employees with western cultures, more specifically the north-American culture. This, for a large extent, explains why the American market is such a big market for the Philippine outsourcing sector. This has obviously to do with the historical development of the region under the rule of America and the already existing trade and export industry which depended on accessibility. During the colonial rule, the Philippines quickly absorbed and associate itself with the American way of living (Rodriguez, 2010). With regard to the quality of spoken English by employees. The main point that stands out is that Filipino employees, in general, are able to speak English without a strong accent (neutral intonation) and with a soft tone. This makes the spoken English quite mutual for American people to listen to. Furthermore, Filipino employees are known for being quite accommodating towards customers. The Philippines has a culture of 'malasakit' which basically states that Filipinos are able to treat, e.g., foreign colleagues almost as family, showing generosity without looking for favors in return (Rodriguez, 2010). This is not something that is seen in all other Asian countries that are involved in call center activities. This is one of the reasons why the aspect of culture plays such a important part in the differences which are made between outsourcing activities to India compared to the Philippines. In the last couple of years, these aspects have been much highlighted by companies and organizations (NEDA, DTI, 2010). These are one of the main reasons why companies outsourcing call center activities (In- and out-bound voice operations) to the Philippines, for the American market (DTI, 2010). In addition, the Filipino employees have an advantage operating in a call center focused on the American market due to their affinity with the actual American culture. The association of Filipino employees with the way the American culture thinks, does things and says things helps to provide a complete service. Furthermore American television, radio, food, music, movies, shopping malls are all integrated in the major cities like metro Cebu.

Metro Cebu showed several characteristics which define the comparative advantage of the area and therefore, why companies would want to establish a call center business. First of all, the region is fairly good accessible via the international airport, something which is important of the attachment of the local activities with the rest of the global value chain in which the call centers function. Second, metro Cebu is a large city with 2,4 million inhabitants. This helps to create an environment in which all luxuries are available, not only in terms of

real estate for businesses and employees but also in terms of the whole lifestyle around the call center operators, restaurants, bars, cinemas and other luxuries. In perspective of metro Manila, metro Cebu is considered as less hectic, less dirty, cheaper in terms of real estate & quality of life, and in close range of 'quiet' rural areas (Rodriquez, 2010). These features are often recognized to translate into better quality workers and lower employee turnover (Globalservicesmedia.com, 2007) However, the most important feature is the availability of potential employees via the multiple educational institutions in the area. The potential employees in metro Cebu have three distinctive aspects which make them highly attractive for especially American companies. This is obvious something metro Manila will have to offer as well, but taken into the other positive features, makes it metro Cebu overall an attractive residence of call center activities.

5.3 Clustering and collaboration in the metro Cebu call center sector

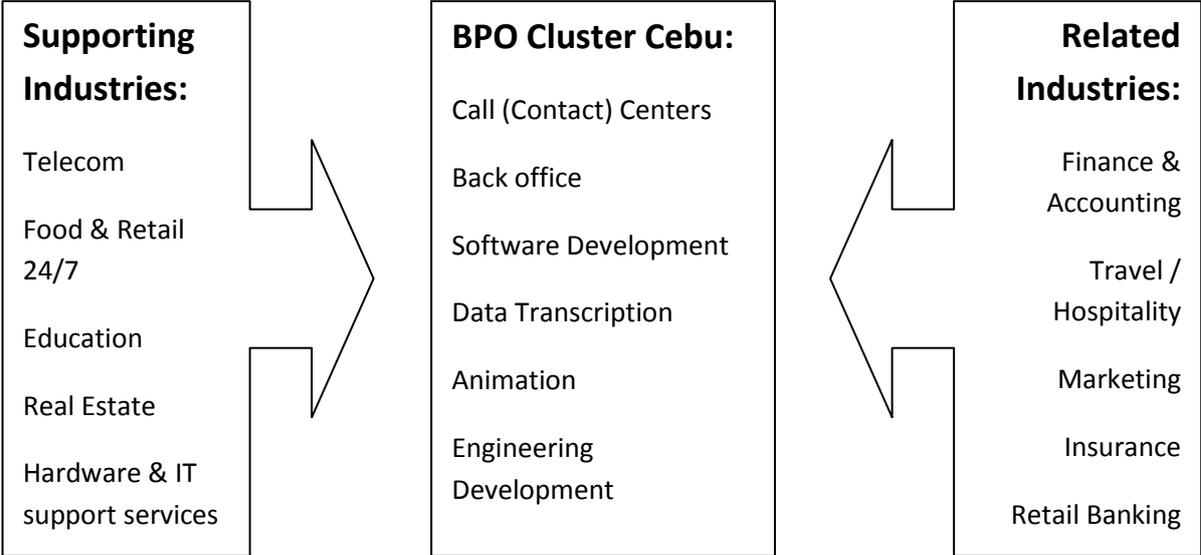
The following paragraph will further elaborate how the call center sector in metro Cebu is related to other economic activities in the area, how individual companies are related to the sector and the global market. This will help to understand the ability of the sector to counter possible influence of the economic crisis, positive or negative. The sub question which is central in paragraph is: *To what extent does the call center sector in metro Cebu cluster, and do collaborations between actors take place in the call center sector to cope with the possible influence of the economic crisis?*

Clusters of call center activities are clearly visible in metro Cebu. However, as stated in chapter 4, not every company is situated in a cluster. The call center sector has multiple companies scattered in metro Cebu. The main cluster is within Asia town IT park which consists of a variety of IT companies. Call centers are among the biggest companies in this cluster. Clustering in this particular area is a development which came together with collective work from national and local governmental organizations and real estate companies, conceived as a special economic zone for IT/BPO business and related industries (Cebu Holdings, 2010). In addition, many restaurants, bars and other supporting companies got attracted to the area as well to facilitate the employees and companies who work in the 24 hour economy of call center activities. These supporting industries like the food/retail industry seem to be of major importance, especially for the employees. Being in a 24hour industry, employees work in shifts and tend to get together before, during and after working. This facilitating food and retail industry is often located on the ground level of the towers in which call centers are situated. In the recent years, the employees of call center companies, created their own community which gets together at the restaurants, bars and cafes. This does not mean that the community is without problems. The working hours are often a heavy burden to bare. Psychological problems, the use of drugs among others things are a problem.

Figure 5.1, on the next page, shows a summary of all the related and supporting industries involved along side of the entire BPO cluster, of which call centers are the biggest subsector (paragraph 4.3), in metro Cebu. All these industry are within the geographical

location of the cluster or close by the cluster. Asia town IT park is a well known area in the metro Cebu, close to other economic facilities like the Ayala shopping mall, which houses a lot of industries in the mall and around it. In addition, Asia town IT park is in close proximity of educational institutions, e.g. the University of San Carlos. Ayala shopping mall is situated in the Cebu business park. Cebu business park holds several other call center companies including WIPRO. Cebu business park and Asia town IT park are in close proximity to each other, this makes it overall an attractive area which is in line with Porter’s theory on clustering.

Figure 5.1 BPO Cluster metro Cebu



During the interviews it became clear that many of the bigger companies, like Convergys, Aegis-People Support and Qualfon choose to be in the Asia town IT park to gain clear access to potential employees. The clustering of big companies created awareness on the global call center market that Cebu is a potential hot spot for these activities (Rodriquez, 2010). The Asia town IT park cluster is known for its IT related companies which attracts loads of graduate students looking for jobs. The growth of the companies has been enormous and the amount of employees needed to support the growth is difficult to obtain. Therefore, access to potential employees is the main priority for the majority of the call center companies. This is in line with the cluster theory of Porter in chapter 2. Porter stated that a cluster can help to increasing the current productivity of companies. Working in a cluster can help to access certain inputs/employees, information, institutions, and public goods as well as complementarities by working together e.g. in marketing the region. Making a region attractive to do business in is something that all firms within the cluster are keen on. Many of these companies are in dire need for great sums of employees. For example, Aegis-People Support is expecting to growth up 11.000 employees in the first quart of 2011, while currently around 3000 employees work for the company in Cebu (Tagamolila, 2010). Metro Cebu is a hot spot for potential employees due to its wide range of educational institutions. Employees

are of such importance due to the three elements Filipino employees have, good quality of spoken English, affinity with the North-American culture, and a accommodate nature which is embedded in the culture of the Philippines.

Although big call center companies tend to cluster together, in order to gain access to potential employees, it does not mean that these companies tend to function in any collaboration. In terms of the actual services that call centers provide no collaboration takes place. Companies tend to be self-centered, in terms of their own specific services. They are not in any way connected to other call centers companies in metro Cebu. However, in terms of infrastructure such as energy and internet connections, collaborations, to upgrade the region, would be more logic but they do not take place. Companies often provide their own power to avoid outage during operations (Canon, 2010). The second part of the Porter theory on clusters suggests that companies in the cluster can work together to upgrade the area to avoid being singled out in costs. In terms of power costs, companies in the metro Cebu clusters do not tend to share, in contrast with what the theory suggests. Paragraph 5.2 explained one of the downside of metro Cebu, which is power outage. Other infrastructural aspects, such as good roads, have importance for the call centers. However, call centers do not pull any weight for their creation, which is much more a matter of local government and real estate companies.

It is primarily due to the fierce competition and poaching why very little collaborations takes place within the cluster. This has obviously to do with the desire most of the companies have to keep information about activities and development internal. The economic crisis and its influence did not change the way companies think about possible collaborations. This makes a difficult sector to penetrate from the outside, something this research observed firsthand. Local organizations and institutions like the DTI, NEDA and CEDF-IT recognize. Nonetheless, with the encouragement of organizations like NEDA and CEDF-IT a few meetings have been set up with several companies to tackle the main threat of the Cebu area, which is qualified employer shortage (NEDA, 2010). During this research, the only major collaboration that took place was the sponsoring of a job fair. Multiple call center companies, including Qualfon, Stream and Convergys presented themselves to attract extra employees. The 'Shop a Job: IT/BPO career fair' was set up by the Cebu Educational Development Foundation for Information Technology (CEDF-IT). This event took place at the SM shopping mall on the 24th of April. SM shopping mall is the biggest mall in metro Cebu and obviously a strategically location to attract as much potential employees as possible.

5.4 The economic crisis and its influence on the call center sector in metro Cebu

The general perception of the worldwide economic crisis is that it has a negative influence on the world economy. This paragraph will elaborate more extensively on the influence of the economic crisis on call center companies in metro Cebu. The following main research question will be answered.

'To what extent did the economic crisis influence the development of the call center sector in metro Cebu, the Philippines?'

Answering a question on the influence of the economic crisis has to take into account multiple elements which can play a role. In addition, this research will show that the perception that key informants of the call center companies in metro Cebu have can be somewhat diverse. This is one of the reasons why, as stated in the Methodology, this research aimed to contact a variety of key informants. On the other hand, it shows that the call center sector in metro Cebu is surrounded with certain amount of vagueness, which made it a difficult research to carry out. The biggest challenge of this research was to get call center companies themselves to participate. Speaking with companies about the influence of the economic crisis on their businesses is a delicate topic for the call center sector, which are in the middle of fierce competition. Companies are very hesitant to really give detailed information on their strategic decisions and/or factual data related to their performance as a company. This is not only the case of individual researchers but also for local organizations, governmental and private. (DTI, NEDA, 2010). In order to keep track of all the elements that play a role in the actual influence of the economic crisis on the call center in metro Cebu, this paragraph will look at the presumable positive influence, the negative influence and a status quo situation separately. First of all, possible negative influences will be elaborated on.

A negative influence of the crisis would suggest that customers and companies on the demand side are less attracted to outsourcing activities due to e.g. a lack of trust and stability in the economic world. In fact, this was often mentioned regarding a specific part of the call center sector in metro Cebu. During the interviews, it were primarily the key informants of the bigger companies that suggested a negative impact of the economic crisis on the medium and small size call centers in the area. This resulted in a deepening of the call center sector rather than a broad growth of call centers companies. The reason behind assuming a deepening of the sector was mainly based on the element of trust and stability. Big companies, with an extensive history and good reputation based upon that history, seem to have no problem with getting new orders in economic difficult times, these companies are a stable force in the market. With regard to the trustworthiness of companies, it is clear that in economic difficult times this aspect is even more significant for call centers to clients and call centers towards customers. Trust is also a big word in economics, and call centers recognized that this is even important in times of a downward trend.

Small size companies had trouble getting new orders due to the overseas lack of trust and knowledge about these small call centers. This notion was amplified during the research where I had multiple informal conversations with small home-based call center operators. These home-based operators often work with a staff of 1 to 5 persons. An example is Mr. E. Gok-ong sr., who asked me if I could set up contacts with small companies in the Netherlands in need of small call center companies. Large companies, who have already an established name, tend to have less problems with the aspect of trust than the upcoming new players in

the market. Exciting companies have more outsourcing activities while new and especially small players have a difficult time finding clients. But, regional governmental organizations such as NEDA and DTI have no substantial evidence that the lack of trust and knowledge about small call centers, by customers and clients in the developed world, has hampered their growth. Therefore it is difficult to verify a negative influence on the crisis. This has for a large part to do with the fact that many of these really small call center companies are not always registered. Furthermore, based on the quarterly economic situationer by the NEDA 7 it can be recognized that certain call centers had to streamline operations and tweak business strategies because of lower consumer demand (NEDA, 2010). Companies like Aegis people support and Qualfon do affirm that their strategies have intensified especially in terms on employer recruitment and being trustworthy towards clients in the developed world (Canon, 2010).

The assumption that the call center sector in metro Cebu has deepened can, to some extent, be put in line with the new economy. A core element of the new economy is being informational. Castells states: *"the capacity of generating knowledge and process information determines the productivity/competitiveness of all economic entities"* (Castells, 2000). It could be suggested that this statement would be even more significant in economic difficult times. The core element, informational, is also a important feature of the call center sector. In general, big companies can be assumed to be more capable of generating knowledge and processing information due to their extensive capital. Small companies, with only a handful of employees cannot effort nor break into extensive capital, needed to win over trust and exposure for the company. Therefore it seems that the economic crisis has had a negative influence on the small call center companies in metro Cebu.

The situation for medium size call center companies seemed to be somewhat different. They too acknowledge the problems small operators have. But, medium size call centers themselves, were not so much hit by this negative influence because they have more opportunities in terms of capital. Medium size call centers found a way to tackle this problem by focusing on small niche markets and special services. For example EliGlobal (a call center with around 200 employees), is mainly focused on the American sports and healthcare industry. By providing specialized services in niche markets, medium-size call center companies found a way to distinguish themselves from bigger, companies (Rodriquez, 2010).

A positive influence of the economic crisis would imply that clients and customers in the developed world are, more than usual, looking to cut down their costs and use outsourcing as a tool to do so. This could assume that more and more clients and customers would be interested in outsourcing which would generate more demand and work for call center companies. In order to confirm a positive impact of the economic crisis it would suggest a even more significant growth of the sector and individual companies than before the crisis. Table 5.2, in paragraph 5.2, showed several examples of growth in terms of employees in metro Cebu. Pointing out the actual growth of a sector and/or for individual companies based on employment growth is perhaps not the strongest data it use. However, it does say something about the demand call center companies. Almost every large call

center company in metro Cebu has similar growth figures in terms of employees (Tagamolila, 2010). Stream for example, aimed to recruit another 1500 employees while this research took place (Stream, 2010). Qualfon came to Metro Cebu in 2006 and Started out with around 400 employees. In may 2010 it had around 2300 employees, with a excepted growth to about 5000 employees at the end of 2010 (Canon, 2010). This shows an expected growth of more than 10 times the amount of employees with which the company started in metro Cebu. On average, the outsourcing market in the Philippines as whole has expanded with 46% annually since 2004 (BPAP, 2010). Although this double-digit expansion is based on the Philippines as whole, it is in line with the way metro Cebu has developed in the last years in terms of revenue, according to the local organizations like DTI. However, 2009, and 2010 showed a reduction in the tremendous growth in the years before, nonetheless its remains highly positive., According to BPAP, the Philippine outsourcing sector shown great resilience to the negative economic trend worldwide. An average growth rate of 19% in terms of revenue demonstrated this resilience in 2009. The World Bank is forecasting a growth level of 26% for 2010 (BPAP, 2010). Although this data is related to the Philippines as a whole, it does say something about the situation in terms of the growth of the metro Cebu sector. The estimated total revenue of the Philippine call center market hit US\$ 5 billion in 2009, metro Cebu contribution was estimated to be US\$ 450 million in the same year (Villafania, NEDA, 2009). This equals a market share of around 9%, this is line with the market share in terms of employees as stated earlier.

Table 5.5 shows the general employment growth of the call center sector in metro Cebu versus the estimated employment growth for the Philippines as a whole. An interesting feature is the growth between 2008 and 2010 in metro Cebu, while under the crisis, the call center sector in metro Cebu managed to double its amount of employees. These numbers would perhaps advocate an enhancing influence of the economic crisis in terms of demand. On the other hand, metro Cebu was in 2008 and 2009 often mentioned as number 1 emerging outsourcing city by several rankings, which could have generated more awareness for the region in general (Tholons, 2009).

Table 5.5 Estimated employment growth 2006-2010 metro Cebu vs. Philippines as a whole

Year	2006	2008	2010	Annual growth %
Employment call centers Cebu	8.000	12.500	25.000	32,9%
Employment Philippines	168.000	262.000	400.000	24,2%

(NEDA, BPAP, 2010)

As stated, a less tangible positive influence of the economic crisis could have been the enhancement of extra awareness. Awareness was often mentioned by key-informants in metro Cebu as an important feature of the Philippines. Unlike India e.g., the Philippines was never known to be a great outsourcing destination. This is e.g. shown in the fact that the sector only has a very short history in the Philippines. However, more generic factors could have enhanced the awareness as well, like the globalizing development itself. There is no real

evidence of data available that the economic crisis enhanced extra awareness for the call center sector in metro Cebu. Nonetheless, metro Cebu was in 2008 and 2009 ranked as number 1 emerging outsourcing city, according to BPAP and Tholons (2010).

The question remains if these growth levels would have been met without a economic crisis in the picture. Companies like Aegis-People Support and Qualfon do not think that the economic crisis played a significant role in terms of extra growth. This is in line with a survey by BPAP which revealed that only 5% of the providers, who participated in the survey, declared a very significant effect of the economic crisis on growth (Gereffi & Fernandez-Stark, 2010). Growth figures, according to several of the key players in the call center sector of metro Cebu are in line with estimations made in the past on expansion plans. For example, Convergys sourcing manager for the Visayas and Mindanao, Jose Castillo said: "We are on track with our expansion plans. There is no slowdown in Convergys. For us, the demand is still there and proof of that is in our expansion. We are confident that we will be able to take care of that expansion. Business is good for us,"(Sun Star, 2009).

So far, several aspects suggest a possible negative influence, primarily on small call center operators, as well as a positive influence on the large call centers. However, if the economic crisis in general has had little influence, like the majority of call center providers assumed, according to the BPAP survey. The influence of the economic crisis could be defined as a status quo situation. The status quo situation would suggest little significant influence of the economic crisis on the call center sector both negative and positive.

Although there is little factual data to back up the information provided by key informants in metro Cebu, there are several reasons both in theories and empirical to consolidate this notion. First of all, the call center sector is embedded in what the theory of Castells defines as our new economy. The new economy with information technology as cornerstone has helped this particular sector to develop into a flexible, rapid growing industry. The flexible nature of the call centers, both in operations as well as costs, and location has made the sector resilient for short-term economic difficulties. At least more resilient than the old industries that have been around for decades and showed a enormous downward trend. Second, the empirical side shows on the locations themselves, even under the pressure of the global economy, tremendous growth. Companies are expected to expand within the year with about 10 – 15 % and some with even higher double-digit growth rates (BPAP, 2010). Companies are expanding businesses and the sector is growing in terms of employment. Annexes 4 and 5 show several illustrations of the growth and development of the sector in metro Cebu. However, there is no substantial evidence to shows significant influence of the economic crisis on these growth rate. In fact, the sector showed similar growth rates before the economic crisis. It can therefore be assumed that the economic crisis did not have any significant effect. This can be acknowledged based on the key informants as well as the empirical data and observations. Furthermore, this notion seems most viable taken into account the theoretical framework.

5.5 The role of call center companies in central Visayas

This paragraph functions as a perspective of the call center sector in relation to the total regional economy of the central Visayas. In paragraph 5.2 the amount of employees currently working in the call center sector of metro Cebu was mentioned. A figure of around 25.000 employees seems the most reliable figure, although exact figures are missing or surrounded with some vagueness. The sub question central in this paragraph is the following: *What role does the call center sector play in the development of the economy in Central Visayas?*

The number of 25.000 employees in the call center sector are a relative small number with regard to the total workforce. Metro Cebu is situated in the central Visayas. Table 5.6 shows the total labor force, the participation rate, employment rate, unemployment rate and underemployment rate for the region.

Table 5.6 Employment status central Visayas

Central Visayas	2008	2009
Labor force	2.833.000	2.969.000
Labor force participation	64,4%	64,1%
Employment rate	93%	92,5%
Unemployment rate	7%	7,5%
Underemployment rate	15,1%	14,8%

(National Statistics Office, 2010)

In this respect, figures show that the call center sector is a quite small industry in the region. Far smaller than e.g. the manufacturing (furniture) industry which has a labor force in metro Cebu only of more than 200.000 (van Helvoirt, 2009). However, the call center did leave a positive mark on the economy in the region as a whole. It were primarily the major exporting sectors, the most important industries in the region, that were hit hard by the economic crisis. The continued growth of the call center sector, to some extent, made up for the negative or zero growth industries like export had to face even though the sector is relatively small. The job opportunities in the sector itself and the surrounding businesses of the cluster have stimulated the overall growth on the regional economy. With a predicted growth to 50.000 employees in 2012, the sector will slowly become more important. In addition to the job opportunities, wages are relatively quite good. On average wages are 10% higher than in other sectors like trade & industry (Rodriquez, 2010). This means an increase in purchasing power for employees in the area. This is often regarded as a good thing for the local economic development of an area. Another advantage for the region is the employers of the companies need a certain education level. Although there is a gap between the educational level after graduating at universities and the knowledge to work at the call centers, employees often are provided with extra courses to meet the standards needed. This helps to prevent brain drain to some extent. Both the current growth of the sector and the predictions about future growth are encouraging for the region to invest more into the sector.

These points above are all in line with the positive effects, as stated by Dicken in chapter 2 on the concept of winners and losers during the global shift. Perhaps the most important positive effect, with regard to this sector, is the exposure to new technology which leads to improvement of skills and productivity and the absorption of technological capacity, which can help to upgrade industries. On the other side, the sector seems to be too small at this point in time to actually make a difference. Which is in line with point Dicken made, increase in employment is unlikely to be sufficiently large and widespread to reduce inequality. However, it does not mean that the sector has the potential to become sufficiently large. In general, the notion can be that outsourcing is a positive solution for both the recipient country as well as the companies that outsource activities. Companies in the developed world enhance their cost reduction while recipient countries in the developing world benefit from the job creation as well as higher education possibilities and higher wages. In other words, the call center sector has the potential to be a win-win situation instead of the notion of winners and losers. The current growth and expected future growth is something the governmental institutions recognize as well. As stated in paragraph 5.2, the gap between fresh graduated students and the knowledge needed for the call center sector is a major issue in metro Cebu. The national government helps e.g. by means of providing subsidies to short-term training for employees (Sanez, O. 2009).

Other problems in terms of coordination, collaboration and development of the call center sector as a whole is the lack of regional/local institute that can function as a monitor and umbrella for the regional sector. The regional vagueness can in the future become a disadvantage in terms of sustainable development of the sector and therefore a potential negative effect on the regional economy. On a national scale, BPAP is the umbrella organization which covers all the off shoring and outsourcing. However, BPAP is situated in Manila and is in general only interested in providing its members. This leaves room for a lack of transparency and vagueness on a regional governmental scale with regarding to companies that are not members or still have to become member, especially for the small call center operators. Regional and local organizations like NEDA (region 7), DTI and CEDF-IT all face difficulties to bring companies in the region together. A regional umbrella organization for this particular sector or at least a regional department of the BPAP organization located in metro Cebu could help companies and the sector as a whole to benefit from the advantages clustering and collaborations have to offer. Which can ultimately have a positive effect on the regional economy. Now that an answer has been given on the research questions that beforehand were determined, the following chapter will provide some conclusions.

6. Conclusions

To summarize the findings of the chapter 5, on the research that was carried out in metro Cebu on the call center sector, the economic crisis seemed to have little significant influence on the general development of the sector, according to the key informants. Several characteristics on the call center sector show that the sector can be defined as a sector embedded in the new economy, due to the rise of the information age. These characteristics have had a positive influence on the resilience of the sector towards downward economic trends due to e.g. the flexible, and cost reduction nature of the business.

Furthermore, metro Cebu showed several characteristics which define the comparative advantage of the area and therefore, why companies would want to establish a call center business. The region is fairly good accessible via the international airport, something which is important of the attachment of the local activities with the rest of the global value chain in which the call centers function. Second, metro Cebu is a large city with 2,4 million inhabitants. This helps to create an environment in which all luxuries are available, not only in terms of real estate for businesses and employees but also in terms of the whole lifestyle around the call center operators, restaurants, bars, cinemas and other luxuries. In perspective of metro Manila, metro Cebu is considered as less hectic, less dirty, cheaper in terms of real estate & quality of life, and in close range of 'quiet' rural areas (Rodriquez, 2010). These features are often recognized to translate into better quality workers and lower employee turnover (Globalservicesmedia.com) However, the most important feature is the availability of potential employees via the multiple educational institutions in the area. The potential employees in metro Cebu have three distinctive aspects which make them highly attractive for especially American companies. The quality of English spoken by employees, the attitude of the employees towards customers and the affinity of the employees with western cultures, more specifically the north-American culture. This, for a large extent, explains why the American market is such a big market for the Philippine outsourcing sector. This had to do with the historical development of the region under the rule of America and the already existing trade and export industry which depended on accessibility. During the colonial rule, the Philippines quickly absorbed and associate itself with the American way of living (Rodirguez, 2010).

Clusters and collaborations do take place in metro Cebu, however it does not take place in the full extent of the theory. Issues related to clusters and collaborations are mainly caused by the fierce competition and the fear for poaching of employees. Fierce competition has for a large extent to do with the fact that companies, situated in a sector which is based on cost reduction, have the desire to keep information about activities and development internal. The economic crisis and its influence did not change the way companies think about possible collaborations. This makes a difficult sector to penetrate from the outside, something this research observed firsthand.

With regard to the economic crisis, it had little influence on the actual development of the call center sector. Beforehand, the influence could have been negative, positive, or a status quo situation. During the research it became clear that key informants assume that the economic crisis has had a somewhat negative influence on the small call center operators. Although this assumption was difficult to verify due to lack of factual data and vagueness on a local scale. The notion on small call center operators is that, due to the downward economic trend, trust and stability became of even more importance. Small call center operators have more problems with regard to trust and stability than large call centers. This has to do with the difference in capital possibilities, the capacity to generate knowledge as well as the history of the companies in the global market. Which is an aspect of the new economy as defined by Castells. The result of this notion is that the local market changed from wide-ranged growth into a deepening of the sector. Deepening stands for the growth of large call center companies while small call center operator faced difficulties.

The enormous growth of the large call center in metro Cebu is clearly visible. Companies like Aegis-People support, Qualfon, and Convergys all showed double-digit growth in the last years (Canon et al., 2010). Furthermore, companies are expecting enormous expansion in terms of employees in the last part of 2010 and/or the first quarter of 2011. However, large call centers in metro Cebu do not think that the economic crisis played a significant role in terms of extra growth. This is in line with a survey by BPAP which revealed that only 5% of the providers, who participated in the survey, declared a very significant effect of the economic crisis on growth (Gereffi & Fernandez-Stark, 2010). Growth figures, according to several of the key players in the call center sector of metro Cebu are in line with estimations made in the past on expansion plans. However, several key informants in metro Cebu assume that the economic crisis may have had a less-tangible positive influence on the sector in metro Cebu, which is awareness. However, more generic factors could have enhanced the awareness as well, like the globalizing development, rise of the information age, and global network society itself. There is no real evidence of data available that the economic crisis enhanced extra awareness for the call center sector in metro Cebu. This is supported by the numerous rankings which are produced every year. Metro Cebu was in 2008 and 2009 ranked as number 1 emerging outsourcing city, according to BPAP and Tholons. These rankings are defined by multiple generic variables rather than short-term difficulties like the economic crisis (Tholons, 2009).

Therefore, the most logic answer on the question of influence is an overall status quo situation between the economic crisis and the development of the call center sector in metro Cebu. The economic crisis may have had some negative influence on the small operators and positive influences on the trustworthiness of the large call center and awareness towards the region, but in general no significant influence of the crisis is measurable in metro Cebu. The resilience towards negative influences seems to be based on the nature of the business, embedded in the new economy. Positive influences like awareness are hard to track because of their intangible character and can therefore not necessarily be traced to the economic as source.

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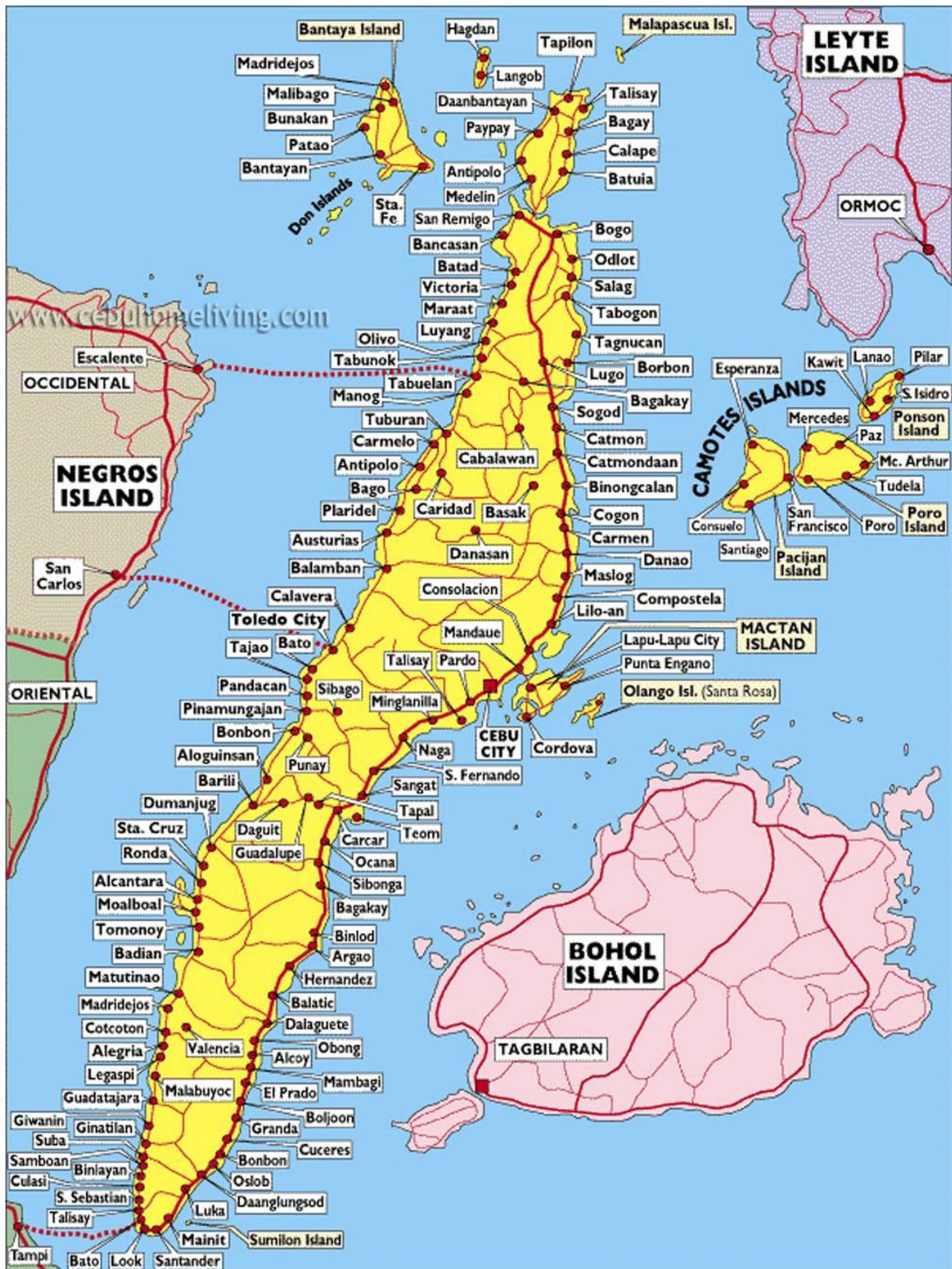
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Annexes

Annex 1: Map of the Philippines



Annex 2: Map of the island of Cebu



Annex 3: Questionnaires

Introduction

- Myself are graduated researcher
- The research that I'm doing in Cebu.

All questions are semi-structured and therefore, interviews may have changed to some extent, related to the specific company, organization, and/or institution. However, this set of questions was the basic setup.

Introduction questions (8) for the company/organization and spokesperson

- What are the core activities of the company/organization?
- How many people work for the company/organization in Cebu?
- How big is the company/organization in terms of revenue?
- Is the company/organization related to other firms/organizations worldwide?
- When did the company/organization start in Cebu?
- Why did the company/organization move to Cebu?
- What is the work of the representative?
- How long has the representative been working for the company/organization?

Descriptive questions (7) in relation with the first sub question of the thesis:

- How is the company/organization structured?
- How is the progress in terms of growth of the company/organization in the last years in Cebu?
- How does the company/organization think about the outsourcing market worldwide of the last years?
- How does the company/organization think about the sector in Cebu in terms of growth, opportunities and possible dangers?
- What are the comparative advantages of being in Cebu?
- What link does the company/organization have with the rest of the world?
- Are there any links with other companies/organizations here in Cebu?

Questions (7) related to the second sub question of the thesis:

- Does the company feel influenced by the economic crisis?
- How is the company influenced?
- When did the company/organization first notice any changes in the market with respect to the economic crisis?
- How does the company look at the development of the economic crisis in relation to the market?
- What is the general effect of the crisis on the market in Cebu?

- If the company is effected, did the company restructure its strategy?
- What business strategy does the company have to cope with the impact of the crisis if there is any impact?

Questions (7) related to the third sub question of the thesis:

- Is there any collaboration between call centers companies in Cebu?
- Is there any collaboration with affiliated sectors in Cebu?
- Which sector organizations is the company affiliated with?
- What linkages does the company have with the rest of the world?
- What is the role of the local government?
- What is the role of the national government?
- What is the role of the global market?

Questions (2) related with the fourth sub question of the thesis:

- What role does the company see for the call center sector in relation to the development of the Cebuano economy?
- How does the representative see the future of the company in metro Cebu?