CONFERENCE ON SERVICE SCIENCE, MANAGEMENT & ENGINEERING (SSME):

Towards Philippine Global Competitiveness In Offshoring & Outsourcing

August 5-8, 2008
Audio-Visual Room, CICT Building
C.P. Garcia Ave., Diliman, Quezon City
Seven Global Shifts:
a Window of Opportunity for the Philippines

Conference on Service Science, Management & Engineering (SSME):
Towards Philippine Global Competitiveness in O&O
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Alejandro P. Melchor III
Governmental Programs Executive, IBM Philippines
Seven Global Shifts: a Window of Opportunity for the Philippines

- Globalization’s evolution has created seven global shifts of primordial significance to emerging market economies.
- Astoundingly, the convergence of these global shifts plays directly to the Philippine Advantage.
- This creates a Window of Opportunity to translate the Philippine Advantage into global leadership, generate more jobs and higher-paying jobs, and attract greater foreign direct investment.
- With a few adjustments, the Philippines can move up the value chain and compete for greater market share in high-growth slivers of the global O&O industry.
The 1st Global Shift: The Flattening of the World and the New Era of Global Integration

- The fall of communism and the rise of Information & Communications Technology (ICT) have created a Flat World and a new era of global integration.

- The Flat World means that the playing field has been leveled, and emerging economies can compete on equal footing with developed economies.

- Witness the hyper-growth of formerly backward economies, far surpassing developed economies.

- The Philippines can be globally competitive in a number of high growth markets, such as O&O.

- What is needed is “Changing the Mindset”—a change in perception that liberates us from dwelling on past misses and focuses like a laser beam on opportunities for global competitiveness.
1972
the world is round

“The Blue Marble”
Photo taken from Apollo 17
Last human mission to the moon

2006
the world is flat

Thomas Friedman’s “The World is Flat” demonstrates that the latest evolution of Globalization, Version 3.0, has flattened the world—that is, created a level playing field, where all competitors have an equal opportunity.
The World Factbook, 2007 showed that the Service Sector accounts for 60% of world GDP. The basis of national wealth creation has shifted from farming and manufacturing to knowledge.
For the 35-year period of 1970-2005, almost all of US job growth came from the Services Sector. However, the shift to services is not simply a US phenomenon, or a developed nations phenomenon – China has seen its service sector grow by 191% in the last 25 years and aims to shift 420 million workers from farms to services in the next five years. As the next slide shows, services is now the largest sector of the Philippine economy as well.
Philippine Services Sector

**As of Q1 2008**

<table>
<thead>
<tr>
<th>Services Sector</th>
<th>Value</th>
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<tbody>
<tr>
<td>Philippine GDP</td>
<td>Php. 1,684,582 million (current)</td>
</tr>
<tr>
<td>Services Sector</td>
<td>Php. 916,450 million (54.4% of GDP)</td>
</tr>
<tr>
<td>Transpo., Comm., Sto.</td>
<td>Php. 122,736 million</td>
</tr>
<tr>
<td>Trade</td>
<td>Php. 233,781 million</td>
</tr>
<tr>
<td>Finance</td>
<td>Php. 104,671 million</td>
</tr>
<tr>
<td>Occ. Dwellings &amp; RE</td>
<td>Php. 98,211 million</td>
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<tr>
<td>Private Services</td>
<td>Php. 241,070 million</td>
</tr>
<tr>
<td>Government Services</td>
<td>Php. 115,981 million</td>
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</tbody>
</table>

Source: National Statistics Office (NSO)

The Services Sector is also the largest sector of the Philippine economy, accounting for roughly 55% of GDP, and grew by 8.7% in 2007. Business process outsourcing has been the fastest growing segment of the Philippine economy, with revenue growth of 40% in 2006 and 2007.
Philippine Services Sector

Source: NSO

- Philippine Agricultural Sector has low ratio of productivity to employment; Service Science can boost agricultural productivity, alleviating poverty more effectively;

- Philippine Industry Sector has double the ratio of productivity to employment.

- Philippine Services Sector is fastest growing (8.7% growth in 2007) but productivity is not up to par; investment in a Talent Development Program geared for success in a Knowledge-Based Services Economy can double productivity and national wealth.
The Philippine Advantage in a Knowledge-Based Services Economy

- The Philippines is ranked #1 in the availability of knowledge-based jobs and workers worldwide, and ranked 4th among Asian nations in terms of labor quality, according to a survey conducted by the US-based Meta Group.

- Filipinos, who are world renowned for hospitality, and who have excellent people skills, a sunny disposition, an inherent customer orientation, a service oriented culture and high Emotional Quotient (EQ), have the right makeup to be globally competitive in the Knowledge-Based Services Economy.

- Philippine English-language skills, Western cultural affinity and service-orientation are well-known components of the “Philippine Advantage.”

- There are other less-known components, as the presentations in the SSME Conference will show, which need to be incorporated into the messaging and marketing of the “Philippine Advantage.”
3rd Global Shift: The Shift from the Multinational Corporation to Globally Integrated Enterprise

The business and societal models of the corporation have evolved

<table>
<thead>
<tr>
<th>International Trading Firm</th>
<th>Multinational Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid 19th century - World War I</td>
<td></td>
</tr>
<tr>
<td>• Joint stock company</td>
<td></td>
</tr>
<tr>
<td>• Import raw materials, export finished products</td>
<td></td>
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<tr>
<td>• Hub and spoke networks</td>
<td></td>
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<tr>
<td>• Minimal regulation and controls</td>
<td></td>
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<tr>
<td>• Maximize shareholder value</td>
<td></td>
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<tr>
<td>• Close alignment with host country military to protect trade routes</td>
<td></td>
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<tr>
<td>• Advent of generalist philanthropy</td>
<td></td>
</tr>
<tr>
<td>World War I - 21st century</td>
<td></td>
</tr>
<tr>
<td>• Production organized market by market</td>
<td></td>
</tr>
<tr>
<td>• Country based subsidiary networks</td>
<td></td>
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<tr>
<td>• Establishment of labor, environmental and financial standards</td>
<td></td>
</tr>
<tr>
<td>• Philanthropy evolves to become strategic</td>
<td></td>
</tr>
<tr>
<td>• Donations replaced with solutions, global expansion</td>
<td></td>
</tr>
</tbody>
</table>

Globally Integrated Enterprise

21st century

• Integration of production and value delivery worldwide
  – Skills-based portfolio
  – Values-based management structure
• Corporate citizenship aligned with business strategy and operations
• Corporate responsibility programs and policies create quantifiable savings and market opportunities
The International Trading Firm -- Exporting
The Multinational Era -- Replicating

20th Century
21st Century Model…the Globally Integrated Enterprise…
... business without borders

Since they do not have to replicate core functions in each country in which they operate, Globally Integrated Enterprises place work wherever it is done best.
The Globally Integrated Enterprise (GIE) is fast emerging as the dominant business model for the 21st century, supplanting the 20th century multinational corporation (MNC).

The GIE shapes its business strategy, management and operations in a global way, in order to be successful in the New Era of Global Integration.

Whereas the MNC locates operations close to the client, the GIE locates operations anywhere in the world based on the right skills, the right cost, and the right business environment.

The GIE outsources multiple functions to business partners that share globally uniform business practices, uniform standards, and ICT-based connectivity.

The single biggest consideration for GIEs is the supply of high-value skills.

As more and more GIEs wake up to the Philippine Advantage, they will work closely with academe to further develop these high value skills, and with government to shape the optimum business environment.
The 4th Global Shift: The Emergence of a Global Platform for Work

The emergence of a global platform for work is one of the genuinely new features of Globalization, Version 3.0. In a globally integrated world in which everything is connected to everything else, work flows to where it is best done, just like water finding its own level.

This is driven by the core principle of global integration: When everything is connected, work flows. Where it flows and how it gets integrated is shaped by three forces.

“Like water flows to find its level... Work will flow to places where it can best be done.”
Three Drivers of Global Workflow:

1. **Expertise:**
   - High value skills, ideas and solutions
   - Ability to innovate and collaborate

2. **Economics:**
   - Cost and profit potential

3. **Openness:**
   - “Open for business” environment

What emerging economies ought to ask is: “What will cause work to flow to me?”

The next three slides show how a Globally Integrated Enterprise would calculate where to place its outsourced operations, based on “Economics”—quality of labor vs cost.
Offshore Outsourcing Site Selection Process: IT Skills – Qualitative (2005) (India, China, Philippines, Brazil—the Four Highest Ranking Countries)

Sources: PLI and GRPO country evaluations
Offshore Outsourcing Site Selection Process: IT Skills – Cost (2005)

IT Skills Annual Cost (in 000's US$)

Sources: PLI and GRPO country evaluations (2004, 2005)
Offshore Outsourcing Site Selection Process: IT Skills – Qualitative vs. Cost (2005) (India & Philippines Closest to Ideal)

Sources: PLI and GRPO country evaluations (2004, 2005)
The Philippine Demographic Advantage - Labor Demographics: The Philippines and India will have a 10-20 year median age advantage over other countries by the year 2025

Policy Implication: Prioritizing the education of a young population will pay off handsomely for many years. Focus on a systematic Talent Development Program geared for a Knowledge-Based Services Economy.

Source: U.N. Department of Economic & Social Affairs, Population Division
Global Platform for Work: Implications to the Philippines

- The Philippines is well positioned to capitalize on the Global Platform for Work, which is one of the genuinely new features of Globalization, Ver. 3.0.

- The Philippines, with its long history of English-language education, strong liberal arts and engineering traditions, and increasing investments in IT and science & technology education, is potentially a fertile ground for producing the Global Knowledge Professionals that global and local industry need.

- As the 3 slides on “Offshore Outsourcing Site Selection Process” show, a typical Globally Integrated Enterprise may well zero in on India and the Philippines as prime candidates to place offshored outsourcing work, on a skills vs cost basis.

- As the next slide shows, the Philippines and India likewise have a very desirable demographic profile—a large, young workforce, which stands to grow wealthy and create a vibrant domestic economy, given a focused Talent Development Program to develop the high-value skills needed to flourish in the Global Knowledge-Based Services Economy.

- Service Science, Management & Engineering (SSME) is precisely designed to develop the Global Knowledge Professionals the Philippines needs to build a very strong value proposition for global competitiveness in the Knowledge-based Services Economy and capitalize on the new global platform for work.
Increasingly, both corporate CEOs and political leaders are coming to view innovation as the key to business success and national competitiveness. The United States has long regarded innovation as the source of American success. No less than 33 European countries have innovation strategies. Happily, enlightened Philippine leaders in industry, government and academe collaborated to conduct a National Innovation Summit last November 26, 2007. That event launched Filipinnovation, the National Innovation Strategy, which aims to unlock Filipino innovative talent for national competitiveness.
National Innovation Strategies


Ireland: Strategy for Science, Technology & Innovation, 2006-2013


Europe: 33 European countries have innovation strategies/policies

Canada: *Achieving Excellence & Knowledge Matters*: Canada’s Innovation Strategy

Germany: *Partners for Innovation* Initiative


Australia: *Backing Australia’s Innovation Ability* – National Innovation Program with Au $3.2 Billion in funding.

India: *Innovate India* Report.

Thailand: InnovAsia, National Innovation Roadmap.

Malaysia: National ICT and Innovation Roadmap.

Vietnam: National Innovation Strategy

Philippines: National Innovation Summit, Filipinnovation, the National Innovation Strategy, Filipinnovation Network
“The National Innovation Strategy was born out of Public-Private Partnership, the essential condition for innovation to take root and flourish.”

- Secretary Estrella F. Alabastro, 2007 Performance Report, Department of Science & Technology
### Elements of a National Innovation Strategy

**Source:** IBM briefing to National Innovation Summit Steering Committee

<table>
<thead>
<tr>
<th>Talent</th>
<th>Investment</th>
<th>Infrastructure</th>
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<tbody>
<tr>
<td>Catalyze the Next Generation of Filipino Inventors &amp; Innovators</td>
<td>Energize the Entrepreneurial Economy</td>
<td>Create National Consensus for Innovation Growth Strategies</td>
</tr>
<tr>
<td>Embed new academic disciplines for the New Economy in RP schools</td>
<td>Intensify Support for S&amp;T and Engineering</td>
<td>Create networks &amp; structures for collaboration</td>
</tr>
<tr>
<td></td>
<td>Develop Innovation Hotspots Through Incubation Strategies</td>
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</table>
6th GLOBAL SHIFT: INDUSTRY IS DRIVING THE TRANSFORMATION OF THE PIPELINE OF HOW SKILLS ARE BUILT

Industry needs more T-Shaped Professionals...Both Broad and Deep!
The 21st Century Demands Uniquely-Skilled People

- Value of education increases during times of change
- Curriculum must be transformed to meet the realities of today and tomorrow.
- Multi-disciplinary programs and degrees
- Fusing technical competency with industry-specific knowledge and business-process expertise
- Success requires open collaboration among academia, government and industry
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Service Science, Management & Engineering (SSME):

An emerging academic discipline and research area designed to develop the high-value skills needed in a knowledge-based services-led economy

Aims to create Global Knowledge Professionals—especially Adaptive Innovators, T-Shaped Professionals and Technopreneurs

SSME courses focus on multi-discipline skills that industry needs!
Service Science, Management, and Engineering

What is SSME?

Service Science or Service Science, Management and Engineering (SSME) is a growing multi-disciplinary research and academic effort that integrates aspects of established fields like computer science, operations research, engineering, management sciences, business strategy, social and cognitive sciences, and legal sciences.

Global markets are increasingly service-based economies. Employment growth will be concentrated in the service-providing sectors of the global economy. Service innovation is needed to maintain profits.

Service design, development, marketing and delivery all require methods to make service business more efficient and valuable. But this requires...
The Philippines Demands *Adaptive Innovators and T-Shaped Professionals* to Realize its Strategic Vision

- Philippines as a global power in Offshoring & Outsourcing (O&O)
- Development of ‘Next Wave Cities’
- 1M ICT jobs by 2010
- Talent pool for Philippine Cyber Corridor
- Revenues of $13 Billion in 2010
The 7th Global Shift: IT and IT-Based Services is the Fastest Growing Segment of the Global Services Economy
Worldwide IT Market 2005 = $1.46 Trillion

IT Market Growth by Segment

- **IT Services & Software**: 11.9% CAGR
- **Hardware**: 4.9% CAGR

Two-thirds of IT market now software & services

Source: Digital Planet 2000/2006, WITSA
IBM’s IT Services Curriculum: Topics

- **IT Systems Architecture**
  - Management system architecture
  - Service and component design
  - Service Oriented Architecture
  - Technology governance
  - Architectural methods

- **Infrastructure Services**
  - IT Services Operations
  - IT management system evaluation
  - Performance Management
  - Server administration
  - Backup and restore
  - Storage
  - Event
  - Availability
  - Capacity
  - Facility
  - Network
  - IT Recovery
  - Security

- **Business**
  - IT Strategy
  - Service marketing and sales
  - Service requirements management
  - Service creation
  - Service request management
  - Service Level Attainment
  - Client relationships
  - Portfolio management
  - Customer satisfaction management
  - Service pricing and contract administration
  - IT workforce management
  - Service continuity
  - Project management and service deployment
  - Solution globalization and accessibility
  - Data privacy

- **Configuration**
  - Change
  - Asset
  - Software distribution and license management
  - Electronic inventory
Translating the Philippine Advantage to Global Leadership

- Support CICT’s and BPA/P’s leadership to move the Philippines up the value chain in the global O&O Industry
- Create an Industry-Government-Academia partnership for Talent Development
- Transform the present curriculum to capitalize on opportunities for Philippine Global Competitiveness; Industry must assist the noble educators who dedicate their lives to the future of our youth
- Educate Global Knowledge Professionals through Service Science, Management and Engineering (SSME)
- Implement the IT Services Curriculum (ITSC) as part of a Multi-Stakeholder, multi-vendor system designed to develop world-class Filipino IT skills
- Understand that Globally Integrated Enterprises can bring many benefits to emerging economies, just as they have for developed economies
- Understand that many high-value jobs can be broken down to uniform pieces and outsourced. Inasmuch as SSME is accepted by 130 universities worldwide, it can fast-track the transfer to the Philippines of uniform global business practices, uniform standards, and shared ICT protocols that will allow more Philippine businesses to become reliable O&O partners of GIEs worldwide.
Translating the Philippine Advantage to Global Leadership (2)

- Understand that the entire Philippines can be harnessed for O&O, and that partnership and teamwork between Metro Manila, Cebu and the “Next Wave Cities” will lift up the entire economy.

- Develop “T-Shaped” Global Knowledge Professionals and “T-Shaped” Next Wave Cities.

- Help developed economies understand that the “Philippine brand” of O&O is inherently win-win; it does not steal jobs, but rather helps knowledge workers in partner countries move up the value chain, energizing their own economies.

- Understand that the widely recognized Philippine talent in the creative arts such as animation and gaming software development is an unmistakable sign of a vast underlying Filipino potential for innovation, which the National Innovation Strategy aims to unleash.

- Support the DOST’s leadership to implement the National Innovation Strategy, to build the Filipinnovation Network, and to create a National Innovation System.

- Supplement the messaging on the Philippine Advantage with the lesser known sources of Philippine excellence; aggressively market the “Philippine Brand.”
Translating the Philippine Advantage to Global Leadership (3)

- Understand that the National Innovation Strategy and the Filipinnovation Network are key building blocks of a National Innovation System, which will allow the tremendous Filipino innovative talent to translate to wealth creation.

- Understand that a National Innovation System is itself a key building block of a Knowledge-Based Economy, and that many of the other sub-components have already been built.

- Replicate the Public-Private Partnership for Filipinnovation in other domains.

- Replicate this competitive strategy and harness these mechanisms for Philippine Leadership in other industries where the Philippines can be globally competitive—such as tourism and health care.

- Understand that this Framework is also very effective for rapid poverty alleviation.

- Understand that the current CICT-BPAP-IBM partnership for Talent Development through SSME can become a key building block of a National Talent Development System—which is itself a building block of a Knowledge-Based Economy.

- Create the remaining building blocks and connect them with each other and with the global partners of Globally Integrated Enterprises doing business in the Philippines, to enable a decisive transition to a Knowledge-Based Development Strategy, whereby the Philippines can come into its own as the Pearl of the Orient and the Gateway between East and West.