

TAX TALKS

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44 | Offshoring to the Philippines

Offshoring to the Philippines: If this is what you wanted to do, how would you start? Where would you go? And why would you do this in the first place?

Offshoring to the Philippines

Offshoring has a negative connotation. We think of shoddy work, complete miscommunication, disaster. And it is true that this is what many business experienced when first venturing overseas. But it doesn't have to be this way. There are also many business who nailed it. And offshoring, if done well, might even save your accounting practice if you are sailing close to the edge.

We interviewed Mike O'Hagan who runs several businesses in Australia, all using staff based in the Philippines. Mike is on a mission to educate Australian businesses about the do's and don'ts of offshoring. Here is what Mike told us.

To listen while you drive, walk or work, just access the episode through a podcast app on your mobile phone.

How Outsourcing Started

"Twenty years ago, large international companies transferred some of their voice/phone processes to low-wage countries such as Poland and India. They soon added office processes. Because incorporating a company in most of these countries is difficult, the concept of a third party provider evolved, wherein the provider would be the legal entity, employ and fully train the workers, and manage them while they run the set structured processes. I call these providers "Corporate BPOs".

BPO stands for Business Process Outsourcing although today it is more often used as a general term for the Offshoring Industry. Today, many of these providers are large in size, with staff strength of 50,000 quite common across the industry. This formula worked really well and for many years drove the competitiveness of large businesses over small business.

How Outsourcing Got a Bad Name

About five years ago, cloud computing, coupled with the efficacy of the internet, opened doors for businesses – irrespective of their size – to access offshore workers. Some approached the corporate providers.

The elephant in the room was the "set structured processes". Corporates had honed these – that's how these Goliath's function.

Small and medium business (SMEs), however, use part process mixed with tacit knowledge to drive their business models. If you ask the corporate BPOs, they will say these smaller businesses had poor processes and systems. On the other hand, if you ask these smaller business owner who tried using a corporate BPO, they would often compare themselves to a small fish in a big ocean, lacking guidance and help needed to navigate through. This gave outsourcing a bad name.

Corporate BPO Today

Today, the Corporate BPO market is being squeezed. I'm still finding occasional cases of ill-fitting providers. There's an 'outsource everything' mantra that unsuspecting business owners get involved in – without the set structured processes.

If you are big (starting with more than 20 seats), have proven set systems which you don't need to change, then you should check out these corporate BPOs. If you are not or you are experiencing rapid changes, then you better avoid this part of the industry.

Above all, it's NOT about outsourcing – it's about offshoring!

Tacit Knowledge

Many Australian SMEs today start offshoring with 2 or 3 'all-rounders' (general office/back office workers). The SMEs then teach themselves "how to develop and manage" offshore people while they train them. After about three months, they seem to 'get it' then we often see these businesses rapidly expanding their Filipino work force. Typically they place roles in one office so their people are all 'together'. What primarily drives their productivity is their staff experiencing hearing and exchanging issues and successes. It generates an 'internal knowledge' – the tacit knowledge within the business. The sharing of tacit knowledge is a major factor in the development of SMEs.

Building a team in a shared office is the most common structure that is driving high returns on investment.

Philippine Accountants

A similar trend can be seen in specialised services. A Manila-based accountancy used to provide back-end services for Australian accountants. They have been now switched from this 'wholesale' model to direct 'retail'. They are now servicing Australian businesses directly. I am one of these businesses. Where I was paying \$300 an hour for routing accounting in Australia, today I'm paying \$20 an hour in the Philippines. I'm seeing very little difference in the standard of the services. FYI, I still use an Australian for tax planning!

Engagement Structures

You have seven different options to set up shop in the Philippines.

1 Freelancers

You find online virtual providers (freelancers) through websites designed to match workers with employers either for projects or hourly rate workers. The standout in this field, among several is oDesk. It features workers, mostly home-based "virtual" individuals (occasionally very small teams) with skills ranging from basic to the top end of town. They are not all in low-wage countries; many western workers have chosen to work via oDesk. I once hired an amazing marketing person who lived in a remote town in the south of New Zealand. She has risen to the top of her career in a big city, married a guy who lived in this remote town, started a family and was happily working for flexible hours earning extra income, all this while watching the kids.

This brings us to an issue to watch out for. Teams of online virtual workers often become a problem as they grow. I have dismantled two large oDesk teams – one of 40 and the other of over 60 people – and put them into an office / staff leasing situation. The difference in productivity when workers are able to share and help each other in an office space is huge.

2 Staff Leasing

A relatively new solution is “co-managed” or “staff leasing”. This solution which emerged around 2010 is growing rapidly. In brief, these businesses provide the legal entity to employ the worker, along with the office space, desk and computer. They typically offer recruitment (often free), HR, and often middle management who manage “behaviour”. YOU need to assess and select the best workers for your roles. YOU need to train your workers, install your processes and instil your company’s culture. After all, they should become YOUR people. Typically, you can start with 1 or 2, learn how to train them and integrate them into your team. Then, you can ramp it up so you end up in a designated office space. Your team, your space, your processes, your culture – this is where a huge gains in productivity are occurring.

There are a myriad of such staff leasing offers around, I believe you need to understand exactly what each does and doesn’t do and ignore silly promises around selection and training. Look at the location with an eye on competitors poaching staff (corporate BPOs in Manila consider 60% annual staff turnover as low!) and suitability of skills you need compared to where they live or want to live. Staff leasers need not just good internal processes to handle the different requests and situations but also a caring helpful attitude. Bigger isn’t always the best, neither is shiny and glossy. Filipino workers have a completely different idea of the ideal workplace that western workers.

Staff leasing works for SMEs, with productivity appearing to soar over five workers. You still, in my opinion, need an expat overseeing your operations – a Filipino managing Filipino.

3 Seat Leasing

You set up a company to employ you own staff but have them working out of an office managed by a staff leaser. So the service provider just gives your staff a desk, computer, maybe phone and maybe even some HR services but you are the legal employer.

You would do this to be able to say that all work is done by your own employees. You just don’t mention where these employees are based.

4 Specialised Services

No discussion on offshoring would be complete without highlighting another prospect that is growing rapidly. I call it “specialised services”. In short, it’s the type of business services most western businesses typically outsource. At the top of the list would be accountants, followed by IT networking and marketing. The latest trend is for these services to be countrified and provided from the likes of the Philippines. A good example is accounting. In Australia, I pay \$300 an hour to my external accountant. In Manila, exactly the same service costs me \$20 an hour, sometimes \$30 if it’s higher end CFO or cost management accounting. There’s a massive positive in these services – they are getting better and more countrified by the day.

5 Corporate BPO

This brings us to third-party providers providing corporate business process outsourcing (BPO). A third-party provider is a local (Philippines) incorporated company that provides support services to offshoring businesses. They are the “go between”. They legalise your activities and they have a tendency to keep the local politics and issues (read: corruption) away from you. Of course, you cannot hire directly. Employers and workers in every country must be registered and comply with a stack of tax and employment related laws. It’s reasonably common for Westerners to get caught employing directly – the authorities don’t mess with you. Furthermore, you need real good legal advice about the Australian end as well. Australia has many different definitions of what an employee is – a few do not mention that the worker has to be in Australia.

At the top of the tree, as I described earlier, are the corporate BPOs. If you wish to hand your processes to a third party who returns just the outcome, doing everything for you, at a premium and you are starting with about 20 seats, you should talk to these people. However, be careful! You must have very structured tried and proven systems with no missing bits that require your workers to “think”.

6 Incorporating a “normal” entity

In the West, you typically start a business by registering the name, incorporating a company, leasing premises and hiring people. In a low-wage country, this is a strict no! You have no idea of the bureaucracy and frustrations involved. You may come across people who might tell you that you can incorporate a company in the Philippines in a mere six weeks. What they don’t tell you is that for several parts of the process the documentation or pre-approvals will extend that 6-week period for many months. In other words 6 to 12 months is the norm. Then after you become incorporated there is a massive bureaucracy involved in ongoing compliance. Not surprisingly even the big companies avoid incorporating.

7 Setting up shop in a special zone

When you listen to the interview, you will hear that I am a big fan of the Clerk Free Port Zone. That is where all my staff is based in the Philippines. But it doesn’t have to be Clerk. There are plenty of other zones.

The advantage of a special zone is that you can set up a company without the usual corruption and paperwork that usually comes with incorporating.

Language

Over 100 years ago, Philippines became a colony of the United States and remained so for 50 to 80 years (depending on when you say their influence stopped). The Americans set up their education system and made it compulsory – of course, in English. Filipinos speak their local dialect and the national language Tagalog at home and then in grade one, they learn English. All Filipinos are multilingual. What this means is that they pick up and learn speaking skills very quickly. Their English, while being good, is very American. As an Australian employer, your challenge is Americanism as opposed to “English”.

Filipinos walk on a “sidewalk” and don’t know what “footpath” is. Their cars have hoods and trucks instead of bonnets and boots. All Australian workplaces in the Philippines have long PowerPoint presentations designed to “Australianise” their Filipino staff.

We also have to modify some of their common language terms as they brand their speech as ‘non-Australian’. The two biggies are Sir and ma’am. Filipinos are raised with a very (compared to us) strict sense of respect. They use Sir and Ma’am all the time. Banning words in the workplace is usual.

Furthermore, Australians speak much quicker with a tendency to run words together, besides using lots of slang, when compared to Americans. Filipinos who have not been exposed to Australians talking struggle to understand exactly what we are saying.

US America

Around 75% of the 1.2 million Filipinos employed in the BPO industry work for American businesses. Most third party providers have only Americans as clients.

Many “industry terms” have different connotations. This is common trap when you first get exposed to the Philippines.

Philippines

At this juncture, I should mention the “yes” frustration. Filipinos have immense respect for Westerners. They also have a “saving face culture” where what “others” (everyone around them) think of them really matters. If you talk fast and they don’t get what you want or are saying, to avoid disappointing you, they will say “yes”. The absolutely worst thing that can happen to any Filipino (comparable to the demise of a parent) is if somebody gets angry or disappointed with them. It’s a lot worse if this happens in front of their peers. When this happens, they flee – yes literally! I once found four employees walk out on the spot and never came back after I made derogatory remarks about their culture in front of their work colleagues.

Mike’s tips

A skill you must acquire if you spend a lot of time with Filipinos is to ask questions that cannot be answered in yes or no. “Is the bus late?” becomes “When will the bus get here?” Also, you must never raise your voice – the trick is to quietly reason. To average Filipino, Australians are loud, brash and harsh. We swear a lot (they find swearing very offensive) and talk fast using funny terms that we don’t mean.

On the flip side, Filipinos are a very Christian-based society. Most attend Church 2-3 times a week. In fact, every major shopping centre has a large chapel. Culture-wise they are closer to Australians than any Asian country. We share a similar “take the Micky out of each other” humour.

Security

I believe security is about the same as Australia. Employees are focused on doing the right thing. Activities such as stealing data bases do not enter their minds – what would they do with it? of course, common sense would prevail. However, I still believe it’s much the same as Australia.

Bottom-line: We are very similar, so we “connect”.

Qualification

University (college) is the number one priority (of course after shelter, clothing and barely enough food to live) of every Filipino family. They have a very structured hierarchy where the eldest work and pay the schooling fees for the next sibling down. It’s extremely rare to find a worker in the BPO industry that does not have at least one, if not two university degrees.

To those of you (yes, I get several such request) who ask for a person who knows the Australian tax code, can build websites and answer phone calls, I simply say if you cannot find someone like this in Australia then why do you think you could find that person here in the Philippines?

Mike’s tips

A big key to success is to employ them by testing their core competencies and then training them according to your needs and ways of doing things. In these days of free audio visual and screen sharing apps such as Skype, remote training has become a lot easier. We all have fundamental systems and processes which are often passed along from the experienced to new worker. In my experience, it's this type of training that still works best. A path to failure is to rely on written-only instructions.

Think “Branch Office”

Of all the Australian business owners I see doing well, it's those who take the view that “their Philippine operation is a branch office” are the ones who achieve the most.

I strongly urge you to appoint an expat (based in Australia or in the Philippines) to oversee your operations. He/she should connect with your workers, and know their names, family situation, birth dates, etc.

To directly manage, you need a Filipino. In other words, Filipino managing a Filipino. If you start small (say 2-3 seats), try hard to find a potential “trusted Filipino”, then develop the trust and the person into a managerial (staff overseeing) role.

Philippine Industrial Relations

Philippine Industrial Relations laws are very strict. I know how much that scares Australians. In the Philippines, there is one set of conditions for all workers and those are fairly black and white. Every worker also has a “contract”. In the Philippines, you can expect all your workers will read and consider the contract prior to accepting the position. In simple words, your third party provider will have a contract. It's always a fairly simple read – you should be aware of the conditions and agree. They will always follow this to the letter.

Mike's tips

Filipinos are familiar with the American way of thinking. Your Filipinos will expect a clear set of KPI's to achieve. Set your expectations and outcomes and measure the results. This type of management works a treat.

Summary

If you want to hire just one or two people, disconnected from each other, with you closely managing their work, home-based “virtual” freelancers from the likes of oDesks can work.

If you want to grow a team, a staff leaser is the way to go if you need less than 25 to 30 seats.

Once you reach over 30 seats, it might make sense to incorporate your own entity in a port free zone like Clerk.

If you are big enough and have tried and tested systems, want arms length quality-assured processes run for you, then a corporate BPO could be the right choice for you.

In addition, many westerners have started using specialised services, such as accountancy.

But whichever option you choose, it's YOU who should still control and manage your outcomes. A core part of this is understanding all the traps and issues. “

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