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## *Updates*

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### STATISTICS ON ESTABLISHMENTS ENGAGED IN SUBCONTRACTING: 1996-1997



#### INTRODUCTION

Subcontracting is generally viewed as a labor response to increasing market competitions due to globalization of trade. Specifically, it is part of the flexibility measures adopted by most establishments to cope with the fluctuations in the demand for their products and to lower their production cost by maintaining a lean regular workforce. In the past, subcontracting practices were confined mainly to activities incidental to the operations of the business such as security, janitorial and maintenance services. In recent years, however, the nature of subcontracting has evolved into complex arrangements and has encroached into areas of work traditionally performed by regular workers such as production process and related activities. This emerging trend has threaten the job security of regular workforce in the establishments as well as the enforcement of protective labor standards. It is on this respect that subcontracting, while expressly allowed by law, is subject to regulations to minimize its exploitative aspects.

Since 1994, the Bureau of Labor and Employment Statistics has been monitoring the growth of subcontracting practices among establishments through the conduct of **DOLE-Survey of Specific Groups of Workers (SSGW)**. This report presents the 1997 statistics on establishments engaged in subcontracting activities **based on sample data** generated from the SSGW. Statistics presented herein include only subcontracting activities involving production process and related activities and exclude security, janitorial and maintenance services.

## **SURVEY RESULTS**

### **Establishments engaged in contracting out jobs relatively low but on the rise**

In the Philippines, the incidence of firms contracting out part of their production process or related activities to external contractors is still relatively low. Data from 1994 to 1997 indicate that less than ten (10) percent of total sample establishments included in SSGW were engaged in subcontracting. Over the last four years, however, the proportion of establishments relying on outside contractors for particular services has risen slowly from 5.0 percent in 1994 to 8.7 percent in 1997.

### **An average of 4 subcontractors hired per establishment**

For 1997, survey results indicate a total of 547 establishments with subcontractors, upped from 391 reported a year ago. Accordingly, the number of subcontractors hired during the period increased from 1,190 to 2,202. On the average, each establishment employed the services of four (4) subcontractors to perform various aspects of their business operations. In 1996, the average number of subcontractors hired was three (3) per establishment.

### **Majority of contractors/subcontractors were companies/agencies**

Most establishments preferred the services of companies/agencies. Data indicate that more than one-half (53.6% or 1,180) of the subcontractors hired in 1997 were companies/agencies. The rest were individual subcontractors with homeworkers (644) and individual persons (378).

### **Production process activities accounted for the bulk of work contracted out**

A considerably large number of subcontractors (52.1% or 1,147) were hired to perform production process jobs (i.e. jobs done by the establishments' workforce). Other jobs contracted out were related to marketing (103), packaging (82), transport (136), clerical and encoding (123) and a variety of other activities (611) peculiar to certain sector such as bill collection or meter reading in the case of utility companies.

**SUMMARY STATISTICS ON ESTABLISHMENTS ENGAGED IN  
SUBCONTRACTING: 1994-1997\***

Indicator	Year				% Change (1996- 1997)
	1994	1995	1996	1997	
1. Total Sample Establishments	4,067	4,447	4,464	6,298	
- Engaged in Subcontracting	361	336	391	547	40.0
- Percent share	5.0	7.5	8.9	8.7	
2. Number of Subcontractors Engaged	896	1,110	1,190	2,202	85.0
- Average per Establishment	2.5	3.3	3.0	4.0	
3. Type of Subcontractors					
- Company/Agency	419	568	754	1,180	56.0
- Individual with Homeworkers	458	530	408	644	57.8
- Individual person	19	12	28	378	b
4. Type of Jobs Subcontracted					
- Production Process	672	830	853	1,147	34.0
- Marketing	15	31	31	103	b
- Packaging	33	27	52	82	57.7
- Transport	43	68	76	136	78.9
- Clerical/Encoding	a	a	a	123	-
- Others	133	154	178	611	b

\* Excludes subcontracting for security/maintenance/janitorial services.

a/ Indicator not included in the 1994, 1995 and 1996 surveys.

b/ Over 100%

**Share of establishments engaged in subcontracting highest in NCR, Region IV  
and Region VII**

More than one-half (56.3%) of establishments engaged in subcontracting were based in the National Capital Region. The rest were thinly spread in regions

outside NCR with notable shares reported in Region IV (11.7%) and Region VII (7.7%). (Table 1)

### **A fairly common practice in construction, mining and quarrying and manufacturing industries**

Contracting out production and related jobs is a fairly common practice in the construction industry and to some extent in mining and quarrying and manufacturing industries. Measured in terms of the ratio of the number of establishments with subcontractor to total industry sample, results showed the highest proportion was in construction (27.4%) followed by mining and quarrying (18.0%) and manufacturing (14.8%). The shares of other industries were less than ten percent each with the lowest proportions recorded in community and social services (2.7%) and agriculture, fishery and forestry (4.6%). (Table 2)

### **Type of jobs contracted out varies by industry**

The type of jobs contracted out differed largely by industry. In the construction sector, the bulk (69.3%) of jobs contracted out was production related (mainly construction jobs). Meanwhile, production related (46.1%) and transport (26.9%) activities were most common activities contracted out in mining and quarrying. In the manufacturing sector, the jobs contracted out were more diversified to include production process (70.9%), packaging (5.8%), marketing (5.6%) and transport (5.3%) among others. Furthermore, clerical and encoding services were confined mostly among establishments engaged in financing, insurance, real estate and business services (26.4%). (Table 2A)

### **Prevalent among large establishments**

Nearly three-fourths (72.0% or 394) of establishments engaged in subcontracting were large establishments employing 100 and more workers (Table 3). Accordingly, they accounted for 81.3 percent (1,790) of the total subcontractors hired in 1997. Subcontractors were hired to perform a wide variety of jobs the bulk of which were production process-related (937). (Table 3A)

## **Common practice among export-oriented establishments and establishments with foreign equity**

As to ownership, establishments with foreign partners depended more on outside contractors than establishments without foreign partners. In this survey, 21.8 percent of sample establishments with foreign capital resorted to subcontracting. The equivalent share was only 6.8 percent for establishments without foreign capital.

Similarly, establishments engaged in export trade are more flexible relative to those which catered solely to the domestic market. Specifically, around 23 percent of export-oriented establishments resorted to subcontracting of production jobs while only a miniscule 6.2 percent was recorded for the latter group.

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**TABLE I - DISTRIBUTION OF ESTABLISHMENTS WITH SUBCONTRACTORS  
BY REGION PHILIPPINES: 1997**

(Based on Sample Data)

Region	Total Respondent Establishments	Establishments with Subcontractor		
		Number	Percent	% to Total Respondent Establishments
<b>PHILIPPINES</b>	<b>6,298</b>	<b>547</b>	<b>100.00</b>	<b>8.69</b>
National Capital Region	2,630	308	56.31	11.71
Cordillera Administrative Region	114	8	1.46	7.02
Region I	218	8	1.46	3.67
Region II	133	4	0.73	3.01
Region III	335	26	4.75	7.76
Region IV	616	64	11.70	10.39
Region V	191	6	1.10	3.14
Region VI	453	16	2.93	3.53
Region VII	442	42	7.68	9.50
Region VIII	129	6	1.10	4.65
Region IX	178	8	1.46	4.49
Region X	271	11	2.01	4.06
Region XI	420	31	5.67	7.38
Region XII	149	9	1.65	6.04
ARMM	19	-	-	-

**TABLE 1A - DISTRIBUTION OF SUBCONTRACTORS HIRED BY REGION  
AND TYPE OF JOBS CONTRACTED OUT  
PHILIPPINES: 1997**

(Based on Sample Data)

Region	Number of Subcontractors	Type of Jobs Contracted Out					
		Production/ Services Process	Marketing	Packaging	Trans- portation	Clerical/ Encoding	Others
<b>PHILIPPINES</b>	2,202	1,147	103	82	136	123	611
National Capital Region	1,345	672	82	57	85	106	343
Cordillera Administrative Region	27	17	-	2	-	-	8
Region I	22	7	-	2	1	1	11
Region II	12	12	-	-	-	-	-
Region III	96	73	-	1	13	2	7
Region IV	211	136	3	11	21	4	36
Region V	19	16	-	-	-	1	2
Region VI	49	16	3	-	5	5	20
Region VII	160	128	1	-	3	-	28
Region VIII	111	6	-	3	-	2	100
Region IX	13	8	-	-	1	-	4
Region X	27	12	4	-	2	-	9
Region XI	90	33	10	2	1	2	42
Region XII	20	11	-	4	4	-	1
ARMM	-	-	-	-	-	-	-

TABLE 2 - DISTRIBUTION OF ESTABLISHMENTS WITH SUBCONTRACTORS  
BY MAJOR INDUSTRY GROUP. PHILIPPINES: 1997

(Based on Sample Data)

Major Industry Group	Total Respondent Establishments	Establishments with Subcontractor		
		Number	Percent	% to Total Respondent Establishments
<b>ALL INDUSTRIES</b>	<b>6,298</b>	<b>547</b>	<b>100.00</b>	<b>8.69</b>
Agriculture, Fishery and Forestry	327	15	2.74	4.59
Mining and Quarrying	61	11	2.01	18.03
Manufacturing	1,756	260	47.53	14.81
Electricity, Gas and Water	222	18	3.29	8.11
Construction	208	57	10.42	27.40
Wholesale and Retail Trade	902	61	11.15	6.76
Transportation, Storage and Communication	373	31	5.67	8.31
Financing, Insurance, Real Estate and Business Services	805	50	9.14	6.21
Community, Social and Personal Services	1,644	44	8.04	2.68



TABLE 2A - PERCENT SHARE OF SUBCONTRACTORS HIRED BY MAJOR INDUSTRY GROUP  
AND TYPE OF JOBS CONTRACTED OUT. PHILIPPINES: 1997

(Based on Sample Data)

Major Industry Group	Number of Subcontractors	Type of Jobs Contracted Out					
		Production/ Services Process	Marketing	Packaging	Transportation	Clerical/ Encoding	Others
<b>ALL INDUSTRIES</b>	2,202	52.09	4.68	3.72	6.18	5.59	27.75
Agriculture, Fishery and Forestry	30	70.00	-	-	-	-	30.00
Mining and Quarrying	52	46.15	-	-	26.92	-	26.92
Manufacturing	1,089	70.89	5.60	5.79	5.33	2.94	9.46
Electricity, Gas and Water	212	8.02	-	-	1.42	0.94	89.62
Construction	251	69.32	-	1.20	1.20	-	28.29
Wholesale and Retail Trade	131	35.88	15.27	6.87	5.34	8.40	28.24
Transportation, Storage and Communication	179	15.08	3.91	2.79	18.99	11.73	47.49
Financing, Insurance, Real Estate and Business Services	159	21.38	1.89	-	8.18	26.42	42.14
Community, Social and Personal Services	99	31.31	12.12	2.02	4.04	15.15	35.35

**TABLE 3 - DISTRIBUTION OF ESTABLISHMENTS WITH SUBCONTRACTORS  
BY TYPE OF MARKET, OWNERSHIP AND EMPLOYMENT SIZE  
PHILIPPINES: 1997**

(Based on Sample Data)

Indicator	Total Respondent Establishments	Establishments with Subcontractor		
		Number	Percent	% to Total Respondent Establishments
<b>TYPE OF MARKET</b>	<b>6,298</b>	<b>547</b>	<b>100.00</b>	<b>8.69</b>
Export Oriented	934	214	39.12	22.91
Domestic Market	5,364	333	60.88	6.21
<b>OWNERSHIP</b>	<b>6,298</b>	<b>547</b>	<b>100.00</b>	<b>8.69</b>
With Foreign Equity	798	174	31.81	21.80
Without Foreign Equity	5,500	373	68.19	6.78
<b>EMPLOYMENT SIZE</b>	<b>6,298</b>	<b>547</b>	<b>100.00</b>	<b>8.69</b>
10 - 19	926	20	3.66	2.16
20 - 99	2,139	133	24.31	6.22
100 and over	3,233	394	72.03	12.19

TABLE 3A - DISTRIBUTION OF SUBCONTRACTORS HIRED BY TYPE OF MARKET EMPLOMENT SIZE AND OWNERSHIP. PHILIPPINES: 1997

(Based on Sample Data)

Indicator	Number of Subcontractors	Type of Jobs Contracted Out					
		Production/ Services Process	Marketing	Packaging	Transportation	Clerical/ Encoding	Others
<b>TYPE OF MARKET</b>	2,202	1,147	103	82	136	123	611
Export Oriented	1,112	795	19	22	51	34	191
Domestic Market	1,090	352	84	60	85	89	420
<b>OWNERSHIP</b>	2,202	1,147	103	82	136	123	611
With Foreign Equity	843	414	25	31	63	67	243
Without Foreign Equity	1,359	733	78	51	73	56	368
<b>EMPLOYMENT SIZE</b>	2,202	1,147	103	82	136	123	611
10 - 19	42	14	3	0	4	1	20
20 - 99	370	196	16	17	31	12	98
100 and over	1,790	937	84	65	101	110	493