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# LABSTAT

## Updates

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## STATISTICS ON ESTABLISHMENTS RESORTING TO CONTRACTING OUT JOBS/SERVICES

*(Fifth of a series on Employment)*

*"The issuance of Department Order No. 1 Series of 1977, expressly allowed by law the contracting and sub-contracting activities of establishments."*

*This LABSTAT is fifth in a series of reports that focuses on employment based on the results of the 2002/2003 BLES Integrated Survey (BITS) conducted in 2003 in coordination with the DOLE Regional Offices. The BITS is a nationwide survey covering 6,818 sample non-agricultural establishments with 20 or more workers. It aims to generate an integrated data set on employment, labor relations, labor cost and occupational safety in the workplace as basis for policy planning and program formulation.*

### OVERVIEW

The practice of contracting out jobs/services emerged in the 1980's as a response of firms to deal with the increasing competitions brought about by trade globalization. This flexible measure allows establishments to cope with the fluctuating product demands and reduce labor costs by limiting the size of the core workforce. On the downside, however, this practice raises some issues on job security and labor standards compliance among firms particularly those engaged in contracting services.

This report presents a glimpse of establishments resorting to contracting out jobs/services as of June 30, 2003. As defined in the 2003 BITS, "**contracting**" is an arrangement whereby a principal agrees to put out or farm out with a contractor or subcontractor the

performance or completion of a specific job, work or service within a definite or pre-determined period regardless of whether such job is to be performed within or outside the premises of the principal.

It should be noted, however, that statistics presented in this report does not include security and janitorial services which are non-production related and considered incidental to the operations of the establishments.

### SURVEY RESULTS

Survey findings indicate that the share of establishments that resorted to contracting was placed at 17.6 percent or 4,328 out of the total 24,533 establishments covered by the survey. This suggests that this type of flexible working arrangement is not

yet common among establishments - at least not among non-agricultural establishments with 20 or more workers.

Nevertheless, a closer look at the data (Table 1) revealed that there are sub-industry groups which exhibited incidence of subcontracting that far exceeded the overall industry average. These include construction (26.5%), real estate, renting and business services (23.4%), financial intermediation (23.2%), mining and quarrying (21.6%) and manufacturing (20.9%).

In absolute terms, however, the bulk of establishments resorting to this type of flexibility arrangements were accounted for mainly by manufacturing (32.5%) and wholesale and retail trade (23.3%). This is expected since both industries comprised the largest groups of establishments among non-agricultural establishments with 20 or more workers. The share for the rest of the industries was below ten percent with the exception of real estate, renting and business activities with a share of 11.2 percent.

### **Profile of Establishments Resorting to Subcontracting**

#### **Employment Size**

Nearly one-third (30.3% or 726) of large-sized establishments with 200 or more workers resorted to contracting out jobs/services. This figure was lower among medium-sized (100 to 199 workers) at 25.8 percent and small-sized (20 to 99 workers) establishments at 15.2 percent.

**TABLE 1 - ESTIMATED NUMBER OF NON-AGRICULTURAL ESTABLISHMENTS WITH 20 OR MORE WORKERS RESORTING TO CONTRACTING OUT JOBS/SERVICES BY MAJOR INDUSTRY GROUP, PHILIPPINES: JUNE 2003**

Major Industry Group	Total Establishment	Establishments Resorting to Contracting		
		Number	% Share to Total Establishments	% Distribution
<b>ALL INDUSTRIES</b>	<b>24,533</b>	<b>4,328</b>	<b>17.6</b>	<b>100.0</b>
Mining & Quarrying	74	16	21.6	0.4
Manufacturing	6,718	1,406	20.9	32.5
Electricity, Gas & Water	433	48	11.1	1.1
Construction	808	214	26.5	4.9
Wholesale & Retail Trade	6,008	1,008	16.8	23.3
Hotels and Restaurants	2,298	361	15.7	8.3
Transport, Storage & Communications	1,571	251	16.0	5.8
Financial Intermediation	1,312	304	23.2	7.0
Real Estate, Renting and Bus. Activities	2,072	484	23.4	11.2
Private Education Services	2,156	202	9.4	4.7
Health & Social Work	525	14	2.7	0.3
Other Community, Social & Personal Service Activities	557	17	3.1	0.4

Note: Details may not add up to total due to rounding.  
Source of data: Bureau of Labor and Employment Statistics, 2002/2003 BLES Integrated Survey.

### **Ownership**

Fully foreign-owned establishments (45.3%) and establishments with foreign equity (36.6%) relied more on private contractors to perform some of their jobs/services as compared to locally-owned establishments (14.1%).

Likewise, more than two-fifths (43.8%) of multinational establishments farmed out jobs to private contractors as against 15.3 percent for non-multinational establishments.

**TABLE 2 – NUMBER OF NON-AGRICULTURAL ESTABLISHMENTS WITH 20 OR MORE WORKERS RESORTING TO CONTRACTING OUT JOBS/SERVICES BY EMPLOYMENT SIZE, OWNERSHIP, MARKET TYPE AND UNIONISM, PHILIPPINES: JUNE 2003**

Indicator	Number of Establishment	Establishments Resorting to Contracting Out Jobs/Services		
		Number	% Share	% Distribution
<b>TOTAL</b>	<b>24,533</b>	<b>4,328</b>	<b>17.6</b>	<b>100.0</b>
<b>Employment Size</b>				
20 to 99 Workers	19,839	3,010	15.2	69.5
100 to 199 Workers	2,295	592	25.8	13.7
200 Workers or more	2,399	726	30.3	16.8
<b>Ownership</b>				
Wholly Filipino	21,116	2,984	14.1	68.9
With Foreign Equity	2,336	854	36.6	19.7
Wholly Foreign	1,081	490	45.3	11.3
<b>Market Type</b>				
Wholly Domestic	20,384	3,048	15.0	70.4
Export Only	1,162	306	26.3	7.1
Both Market	2,987	974	32.6	22.5
<b>Spread of Operations</b>				
Multinational	2,025	887	43.8	20.5
Not Multinational	22,508	3,441	15.3	79.5
<b>Unionism</b>				
With Union	3,640	918	25.2	21.2
Without Union	20,893	3,410	16.3	78.8

Source of data: Bureau of Labor and Employment Statistics, 2002/2003 BLES Integrated Survey.

### **Type of Jobs/Service**

The most common type of jobs/services contracted out by establishments was related to general administrative services (41.0%), production process/assembly activities (26.3%); and transport services (20.9%).

Notably, contracting out of general administrative activities was highest in financial intermediation (82.9%); health and social work except public medical, dental and other health services (71.4%); and mining and quarrying (68.8%).

### **Market Type**

By type of market, the proportion of establishments resorting to jobs/services contracting was found higher among those serving both the domestic and export markets (32.6% or 974) than those serving the export market only (26.3%) or domestic market only (15.0%).

### **Unionism**

Unionized establishments (918 or 25.2%) utilized the services of private job contractors more than those establishments without union (3,410 or 16.3%).

As expected, contracting out production process/ assembly jobs was posted highest in manufacturing (56.0%) followed by mining and quarrying (37.5%) and electricity, gas and water supply (33.3%).

Hotels and restaurants and other community, social and personal services activities tapped the services of outside contractors for their transport activities with a considerable share of 43.2 percent and 35.3 percent, respectively.

#### **FOR INQUIRIES:**

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**TABLE 3 - DISTRIBUTION OF NON-AGRICULTURAL ESTABLISHMENTS WITH 20 OR MORE WORKERS RESORTING TO CONTRACTING OUT JOBS/SERVICES BY MAJOR INDUSTRY GROUP AND JOBS/SERVICES CONTRACTED OUT PHILIPPINES: JUNE 2003**

Major Industry Group	Total Establishments Engaged in Contracting	Type of Jobs/Services Contracted Out										
		Gen. Adm. Svcs.	Marketing/Sales	Packaging	Transport Services	Production/Assembly	Research & Dev't.	IT Services	Repair & Maintenance	Food & Catering	Construction	Others
<b>All Industries</b>	<b>4,328</b>	<b>1,775</b>	<b>587</b>	<b>339</b>	<b>905</b>	<b>1,137</b>	<b>101</b>	<b>537</b>	<b>207</b>	<b>73</b>	<b>266</b>	<b>221</b>
<b>Percent Distribution</b>	100.0	41.0	13.6	7.8	20.9	26.3	2.3	12.4	4.8	1.7	6.1	5.1
Mining & Quarrying	16	11	-	4	1	6	-	-	1	-	3	-
Manufacturing	1,406	428	99	275	358	787	22	126	72	6	7	23
Electricity, Gas & Water Supply	48	23	-	-	10	16	1	7	10	-	2	2
Construction	214	65	2	-	49	5	1	2	1	-	143	-
Wholesale & Retail Trade; Repair of Motor Vehicles, Motor Cycles And Personal And Household Goods	1,008	376	376	54	146	148	2	91	58	-	80	85
Hotels And Restaurants	361	125	34	1	156	34	-	1	1	62	-	65
Transport, Storage & Comm.	251	105	46	2	48	69	-	38	2	-	24	5
Financial Intermediation	304	252	8	-	18	-	-	65	1	-	-	-
Real Estate, Renting and Business Activities	484	269	13	3	78	70	69	163	27	-	5	36
Private Education Services	202	105	-	-	32	-	6	40	28	2	2	-
Health & Social Work Except Public Medical, Dental & Other Health Services	14	10	-	-	1	-	-	4	1	-	-	1
Other Community, Social and Personal Services Activities	17	7	-	-	6	-	-	-	3	3	-	3

\* *Type of jobs/services contracted out exceeds the number of reporting establishments due to multiple reporting of jobs contracted out by establishments.*  
Source of data: Bureau of Labor and Employment Statistics, 2002/2003 BLES Integrated Survey.