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ESTABLISHMENTS ENGAGED IN SUBCONTRACTING

Recent Trends and Practices

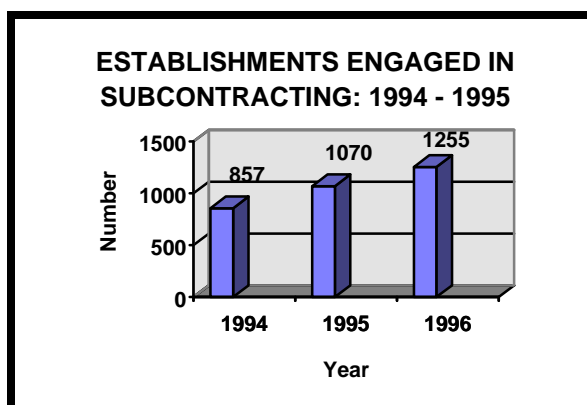
One of the salient trends that emerged in recent years is the practice among business establishments of subcontracting part of their activities or production process to other business firms or small enterprises in the informal sector. While subcontracting in the past were confined mainly to security and janitorial/maintenance services, a growing number of subcontracting activities now involved production and related services such as marketing, packaging and transportation services which are traditionally performed by the workers of the establishments. Considered as a response to the increasing competition in both the domestic and global markets, subcontracting is generally viewed as a form of labor flexibility measure adopted by most establishments to cope with the fluctuations in the market demand for their products and to lower production cost by maintaining a lean regular workforce.

This report presents statistics on establishments engaged in subcontracting activities based on the **sample data** generated from the **1996 DOLE-Survey of Specific Groups of Workers (SSGW)**. The SSGW is an annual survey of establishments covering establishments employing 10 workers and over. One of the objectives of the survey is to capture emerging employment practices in the formal labor market sector.

NUMBER OF ESTABLISHMENTS ENGAGED

IN SUBCONTRACTING UPPED BY 17.3 PERCENT

Sample data from the 1996 SSGW revealed an increase in the number of establishments engaged in subcontracting. Over the three-year period 1994-1996, the number of establishments resorting to subcontracting went up steadily from 857 in 1994, 1,070 in 1995 and 1,255 in 1996.



Accordingly, their proportional share to total respondents also grew from 21.1 percent in 1994, 24.1 percent in 1995 and 28.1 percent in 1996.

Nearly half (49.1%) of establishments with sub-contractors were based in the National Capital Region. Relatively large numbers were reported in Region IV (10.0%), Region VII (8.6%) and Region XI (6.0%). By sectoral distribution, the practice of subcontracting is predominant in manufacturing (33.9%); community, social and personal services (23.0 %); financing (12.6%); and wholesale and retail trade (13.1%).

Indicator	Year			Percent Change (%)	
	1994	1995	1996	1994-1995	1995-1996
1. Total Establishment Respondents	4,067	4,447	4,464		
2. Sample Establishments with Subcontractors					
- Number	857	1,070	1,255	24.9	17.3
- % share	21.1	24.1	28.1	3.0	4.0
3. Number of Subcontractors Engaged	1,914	2,578	2,972	34.7	15.3
4. Type of Subcontractor					
- Company/Agency	1,378	2,135	2,522	54.9	18.1
- Individual with Homeworkers	486	411	421	- 15.4	2.4
- Others	50	32	29	- 36.0	-0.9
5. Type of Jobs Subcontracted					
- Production Process	672	830	853	23.5	2.8
- Marketing	15	31	31	106.7	-
- Packaging	33	27	52	-18.2	92.6
- Transport	43	68	76	58.1	11.8
- Security Services	653	886	1,127	35.7	27.2
- Janitorial/maintenance	365	582	655	59.4	12.5
- Others	133	154	178	15.8	15.6

MAJORITY OF SUBCONTRACTORS WERE COMPANY/AGENCY

Some 2,972 subcontractors were engaged by establishments in 1996. This represents **an increase of 15.3 percent** from the number of subcontractors reported in 1995 at 2,578. The large majority (84.8% or 2,522) of the subcontractors hired during the period were **company/agency** as was the case in the previous two years.

Individual subcontractors with homeworkers were engaged by 421 establishments, upped by 2.4 percent compared to 411 reported in 1995. Hiring of subcontractors with homeworkers were concentrated mostly in the **manufacturing sector** (57.2% or 241) indicating its strong linkage with the informal sector. A good number were also observed in construction (55) and wholesale and retail trade (54).

The **National Capital Region**, where most of the establishments are located, accounted for a little more than half (1,585 or 53.3%) of the total subcontractors engaged during the period. The rest were found mostly in the growth areas comprising of Region IV (289), Region VII (272), Region XI (125) and Region III (124).

Subcontracting is a common practice in the **manufacturing sector**. Of the total 2,972 subcontractors reported during the period, 1,196 or 40.2 percent were engaged in this sector. Other sectors with relatively large shares were community, social and personal services (15.7%), financing (13.8%) and wholesale and retail trade (12.6%).

Region/Sector	Sample Establishments	Establishments Engaged In Subcontracting		Subcontractors Hired	
		Number	Percent	Number	Percent
PHILIPPINES	4,464	1,255	100.0	2,972	100.0
Region					
NCR	1,789	616	49.1	1,585	53.3
ONCR	2,675	639	50.9	1,387	46.7
- Region III	217	58	4.6	124	4.2
- Region IV	426	125	10.0	289	9.7
- Region VI	395	88	7.0	186	6.2
- Region VII	381	108	8.6	272	9.2
- Region XI	252	75	6.0	125	4.2
Sector					
Agriculture	234	37	2.9	68	2.3
Industry	1,653	553	44.1	1,532	51.5
- Manufacturing	1,291	425	33.9	1,196	40.2
Services	2,577	665	53.0	1,372	46.1
- Trade	229	167	13.3	373	12.6
- Finance	584	158	12.6	409	13.8
- Community	1,153	289	23.0	466	15.7

JOBS SUBCONTRACTED CONSISTED MAINLY OF SECURITY SERVICES, PRODUCTION PROCESS AND JANITORIAL/MAINTENANCE

The bulk of the jobs contracted out by the establishments comprised mainly of security services (1,127 or 37.9 %), production process (853 or 28.7%) and janitorial/maintenance services (655 or 22.0%). Other type of jobs contracted out were: transportation services (76 or 2.6%), packaging (52 or 1.7%) and marketing services (31 or 1.0%).

Apart from the activities enumerated above, survey results also showed emerging type of activities/jobs being contracted out by the establishments some of them include: messengerial and clerical jobs, communication, bill collection, engineering/electrical works and installations.

SUBCONTRACTING PREDOMINANT AMONG LARGE ESTABLISHMENTS

More than one-third (34.4%) of **large sample establishments** in this survey were engaged in subcontracting, 787 out of 2,290. Accordingly, they accounted for the bulk of subcontractors engaged during the period (69.4% or 2,062). The type of jobs subcontracted consisted mainly of security services (35.3% or 728), production process jobs (30.1% or 622) and janitorial services (23.0% or 475). Other services reported were marketing, packaging and transportation and other services (11.5% or 237).

The incidence of subcontracting were lower among medium-sized establishments (24.0%) and small-sized establishments (15.8%).

Indicator	Total Sample Establishments	Establishments with Subcontractors	
		Number	Percent (%) Share To Total Sample
EMPLOYMENT SIZE	4,464	1,255	28.1
10 - 19	647	102	15.8
20 - 99	1,527	366	24.0
100 and over	2,290	787	34.4
TYPE OF MARKET	4,464	1,255	28.1
Export Oriented	686	281	41.0
Domestic Market	3,778	974	25.8
OWNERSHIP	4,464	1,255	28.1
With Foreign Equity	586	288	49.2
Without Foreign Equity	3,878	967	24.9

PERCENT SHARE OF ESTABLISHMENTS INVOLVED IN SUBCONTRACTING HIGHER AMONG EXPORT-ORIENTED ESTABLISHMENTS AND ESTABLISHMENTS WITH FOREIGN EQUITY

Classified by type of market, the percent share of establishments engaged in subcontracting was found higher among **export oriented establishments** (41.0%) as compared to those not engaged in exports (25.8%). Data also showed that a large majority of the jobs they subcontracted during the period involved production process jobs, packaging, marketing and transportation services (62.4%). This ratio is substantially higher compared to the figure recorded for establishments not engaged in exports (30.49%). This imply that export oriented establishments have higher degree of flexibility in terms of control over their production level and resources.

The incidence of subcontracting were also prevalent among **establishments with foreign equity** (49.2%). Likewise, a larger proportion (44.3%) of the jobs they contracted out were production related jobs. In comparison, only one-fourth (24.9%) of sample establishments classified without foreign equity engaged the services of subcontractors during the period. Of the type of jobs contracted out, only 38.3 percent were production related as the larger share involved security services and janitorial/maintenance.

Indicator	Number of Subcontractors	Type of Jobs Contracted Out			
		Production Related		Other services *	
		Number	Percent	Number	Percent
EMPLOYMENT SIZE	2,972	1,190	40.0	1,782	60.0
10 - 19	191	59	30.9	132	69.1
20 - 99	719	272	37.8	447	62.2
100 and over	2,062	859	41.6	1,203	58.4
TYPE OF MARKET	2,972	1,190	40.0	1,782	60.0
Domestic Market	2,080	633	30.4	1,447	69.6
Export Market	892	557	62.4	335	37.6
OWNERSHIP	2,972	1,190	40.0	1,782	60.0
Without Foreign Equity	2,131	817	38.3	1,314	61.7
With Foreign Equity	841	373	44.3	468	55.7

* Include Security and Janitorial/Maintenance services