Table of Contents

Twelve General Legal Guidelines
Work Arrangement Charts

Chapter I

Introduction: The Practice and the Problem

1. Outsourcing: The Essence 5
2. Outsourcing Abounds 6
   2.1 Old Practice 7
3. A Cause of Disputes 8
4. Facts Make the Difference 10
5. Judicial Notice 11
   5.1 Requisites of Judicial Notice 12
6. "Contracting" and "Outsourcing": Interchangeable Terms 13
7. Offshoring 15
8. International Concern 16
9. This Book: Purpose and Organization 17

Chapter II

A Vexing Basic Issue: The Employment Relationship

1. Employer-Employee Relationship: Futile Definitions 21
2. Judicial Definitions; U.S. Pattern 22
3. A Question that Bedevils 23
4. In Management Terms 25
5. Outgrowth of American Concept "Master-and-Servant" 26
   5.1 Partial Surrender of Physical Freedom; the First Fundamental 27
6. Elements or "Tests" of Employment Relationship 28
   6.1 *Viana vs. Al-Lagadan* 29
   6.2 Adoption in the Philippines 30
7. The Four Elements 31
   7.1 Hiring, the First Element 31
      7.1a Creation 32
      7.1b Requisites of Contract 32
      7.1c Casual Hiring 33

7.1d Tenure of Employment 35
7.1e What Law Governs 36
7.2 Compensation, the Second Element 36
7.2a "Boundary" as Wages of Jeepney Drivers 38
7.2b Seasonal Work 39
7.3 Power of Dismissal, the Third Element 40
7.4 Power of Control, the Fourth and Most Important Element 40
7.4a Reserved Power 43
7.4b Absence of Control: Partner, Not an Employee 44
7.4c Presence of Control: Employee, Not a Partner 45
7.5 A Non-employee is Not Necessarily a Contractor 46
7.6 Control over an Employee versus Control over a Contractor 47
7.6a Employee: Regularity of Work 48
7.7 Why is Control the Most Indicative Element? 49
7.8 The Economic Dependence Test 51
8. Question of Law, Question of Fact 53
8.1 Employment Relationship, Case-specific 54
9. Evidence of Employment 55
10. Who may be an Employer 56
11. More Illustrative Cases 58
11.1 Consultant-Engineer as an Employee 58
11.2 Insurance Agent as Employee 59
11.3 Fishermen as Employees 61
11.3a Fishermen in Joint Venture, not as Employees 62
11.3b Joint Venture 64
Trend Toward Outsourcing 66

Chapter III

Legitimate Contracting

1. Juridical Background: Labor Contracting Before the Labor Code 70
1.1 Judicial Definition of Independent Contractor 72
2. Under the Present Labor Code 75
2.1 The Principal Governing Law: Articles 106 to 109 76
2.2 Other Directly Related Laws 78
2.2a Other Labor Code Provisions 79
2.2b The Civil Code 79
2.2c Special Laws 80
2.2d Jurisprudence 80
2.2e Contract 80
3. The Implementing Rules 80
3.1 1975: The First Set of Implementing Rules Defines "Permissible Job Contracting" 81
3.2 1997: The Second Set of Implementing Rules (D.O. No. 10) Defines "Legitimate Contracting" 81
3.3 2001: The Third Set of Implementing Rules (D.O. No. 3) Revokes D.O. No. 10 82
3.4 2002: The fourth and Present Set of Implementing Rules: D.O. No. 18 Defines "Contracting" and "Contractor" 82
3.4a Guiding Principle 82
3.4b Current Definitions of Labor "Contracting" and "Contractor" 83
3.4c Legitimate Contracting has Three Elements 83
3.4d Non-elements 84
3.4e Still Legitimate and Permissible 84
3.4f Qualifications of Legitimate Contractor 85
3.4g Old Definition of Labor Contracting Remains 86
3.4h Burden of Proof 88
4. Management and Subcontracting Emerged Together 89
5. "Independent Contractor" in U.S. Jurisprudence 90
6. Which Kind of Control? 92
6.1 Continuity from the Pre- to the Post-Labor Code Rulings 98
6.2 Requiring Attendance at Seminars 102
6.3 Inspection 102
7. Extent of Control: U.S. Illustrations 103
7.1 "Control" is Management 104
7.2 Supervision or Inspection of Work 105
7.2a Control Exists Although Not Actually Exercised 106
7.2b More U.S. Illustrative Cases 106
8. "Employee" Distinguished from "Agent" 109
9. Independent Contractor Distinguished from Agent 110
9.1 Independent Contractor, Not Agent 110
9.2 Agent, Not Independent Contractor 111
9.3 Summarized Comparison 112
10. Independent Contractor and Employee, Generally Incompatible 113
10.1 Exceptions: Dual Character of the Relation 114
11. U.S. Twenty-Factor Test 115
Competitiveness by Outsourcing 121
Global Outsourcing 121
Offshoring: Old Game, New Name 122
Offshoring Roadmap 122
Global Outsourcing Will Level Wages 123
Developing World's Plea 123
Outsourcing in the Philippines: A Growing Success 124

Chapter IV

False Contracting and Other Restrictions to Outsourcing

1. Labor-Only Contracting (L.O.C) 127
   1.1. Original Codal Definition Untouched 128
   1.2 First Implementing Rules, 1975: LOC has Two Concurrent Elements 129
   1.3 Second Implementing Rules, 1997: Definition of LOC Stresses its Essential Activity 130
   1.4 Third Implementing Rules, 2001: The Preceding Definition of LOC Unchanged 131
   1.5 Fourth and Present Implementing Rules, D.O. No. 18, Series of 2002: LOC Definition is Maintained but Absence of Control by the Supposed Contractor is Added 131
2. Lack of Control: Composite Control 133
3. Lack of Capital 134
4. Others Factors 136
5. "Labor-Only Contracting" Results from Official Findings 139
6. Control Test Defines Employment Relationship 141
7. The Kind of Control that Defeats Alleged Contracting 144
   7.1 Former Employees as Contractors 145
8. Facts of Work Arrangement Prevail Over Contract Provisions 146
   8.1 Principal's Control Indicated in the Contract 146
9. Facts Differentiate Cases 148
10. A Cooperative as Labor Contractor 149
   10.1 A Cooperative as Labor-Only Contractor 150
   10.2 Cooperative as Employer-Contractor 153
   10.3 Summing up 154
   10.4 Labor Contractor-Cooperatives Need to Register with DOLE 155
11. Distinction Between Job Contracting and Labor-Only Contracting 156
12. Distinction Between Contractor and PRPA 158
13. Other Varieties of Prohibited Contracting 159
   13.1 Outsourcing that Displaces Regular Employees, if not Done in Good Faith 160
   13.2 Outsourcing with a "Cabo" 161
   13.3 Outsourcing to an In-House Agency 161
   13.4 Outsourcing Because of Work Stoppage 163
   13.5 Outsourcing Jobs held by Union Members 163
14. Prohibited Exploitative Acts 164
15. Outsourcing Prohibited by Statute 165

16. Outsourcing Restricted by Contract 166
17. Summary of Prohibited Contracting 167
18. Effects of Labor-Only Contracting 167
   18.1 Liability to Third Persons 168
19. Effect of Violating the Other Prohibitions 169
20. Persistent Challenging Questions 170

Chapter V

Job Contracting versus Labor-Only Contracting: Cases in Contrast

Set 1. Contrasting Cases Involving Security Guards 176
   1.1 Legitimate Contracting 176
   1.2 Security Guards under False Contracting 180
Set 2. Contrasting Cases Involving Janitorial or Utility Workers 185
   2.1 Under False Contracting 185
   2.2 Janitorial Under Labor-only Contracting 190
   2.3 Utility Workers in Legitimate Job Contracting 192
   2.4 Janitors Under Legitimate Contracting 194
   2.5 Janitorial and Radio/Telex Operator in Legitimate Labor Contracting 196
      2.5a *Neri* contrasted with *Fuji Xerox* 199
Set 3. Contrasting Cases Involving "Promodisers" 200
   3.1 Promodisers Under False Contracting 201
   3.2 "Promodisers" in Legitimate Job Contracting 202
   3.3 Promotion Merchandisers Under False Contracting 206
Set 4. Contrasting Cases Involving Dealers 207
   4.1 Dealers as Independent Contractors 208
   4.2 Dealers as Labor-only Contractors 217
Lesson from these Contrasting Cases: Precedents as Highly Relative 221
Important Do's and Don'ts in Job Contracting 223

Chapter VI

Legitimate Contracting: Scope and Procedure

1. What Jobs to Outsource 227
2. May Regular Jobs be Contracted Out? 228
3. How Many Jobs to Outsource 231
4. Reasons to Outsource 234
5. Outsourcing of Union-Held Jobs 235
   5.1 Does Contracting Out Require Union's Conformity 237
6. Outsourcing Steps 238
7. Compliance with the Law on Redundancy 239
   7.1 Redundancy Defined 240
   7.2 Requisites 241

7.3 Fair and Reasonable Basis of Redundancy 242
7.3a "LI-FO" not a Prescription of Law 242
7.3b Seniority Cannot be Disregarded 242
7.4 Two-Notice Requirement 243
7.4a Individual, Not Collective, Notice 243
7.4b When Notice not Needed 243
7.4c Pay, Not a Substitute 244
Strategic Outsourcing 245
Offshore Nation 246
BPO Projection 247
The Folly on Incentives 248
Offshoring Destination 249

Chapter VII

Legitimate Contracting: Effects

1. Effects of Employment Relationship: Fundamental Rights of Employer and Employees 253
2. Rights of Contractor as Employer 254
3. Limitations to Stipulations 255
3.1 Right to ROI 256
3.2 Right to Prescribe Rules 256
3.3 Right to Select Employees 257
3.4 Right to Transfer or Discharge Employees 257
4. Rights of Employees 257
4.1 General List of Rights of Employees 258
4.2 Employee's Status: Regular or Non-regular 262
4.2a Regular Employment 263
4.2b Casual Employee: Regular Employee by Year(s) of Service 266
4.2c Project Employment 267
4.2d Seasonal Employment: "Regular Seasonal" After One Season 269
4.2e Fixed-Period Employment 270
4.2f Effect of Extension of Fixed Period Employment 271
4.2g When "Five-Month Contractuals" Considered Regular Employees 271
4.3 Security of Tenure 273
4.3a Right to Separation Pay 276
4.4 Wages 276
4.4a Contractor Primarily Liable as the Employer 277
4.4b Indirect Employer Equally Liable 277
4.4c In Construction and Service Industry: Principal's Liability Limited to Wage-Only 280

4.5 Principal's Solidary Liability for "Any Violation" 281
4.5a *Deferia*: Comprehensive Solidary Liability 282
4.5b *Rosewood* Modifies *Deferia*: Qualified Solidary Liability 285
4.5c Divergent Rule, Consequent Question 286
4.5d Solidary Liability Applies to Government Corporation 287
4.6 Posting of Bond 288
4.6a Contractor's Bond Relieves the Principal 288
4.7 Principal's Liability Summarized 289
4.8 Enforceable Against Foreign Employers? 290
4.9 Labor Law Beyond Borders 291
Outsourcing Trend 293
The Name of the Game 293
Service Hub 294
Outsourcing: The Wave of the Future 294
Closing the Debate 295

Chapter VIII

Administrative Enforcement

1. Authority 299
2. Registration Requirements 300
3. Supporting Documents 300
4. Filing and Processing 300
5. Duty to Produce Copy of Contract 301
6. Annual Report 301
7. Delisting 302
8. Renewal 302
9. Enforcement of Labor Standards and Working Conditions 302
9.1 Solidary Liability 303
10. Exclusions 303
11. Effect of Registration 304

Appendices

Appendix 1 – Republic Act No. 5487 309
Appendix 1.1 – Department Order No. 14, Series of 2001 315
Appendix 2 – Department Order No. 19, Series of 1993 326
Appendix 3 – Excerpt from The General Banking Law of 2000, Chapter IV (R.A. No. 8791) 333
Appendix 3.1 – BSP Circular No. 268, Series of 2000 334
Appendix 4 – Act No. 3959 340
Appendix 5 – Sample Service Contract 342
Appendix 6 – ILO Proposed Recommendation Concerning Employment Relationship 349