

Manufacturing to
service sector shift
impact on
employment
economics essay



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The aim of this report is to discuss how employment has been affected due to the shift of a manufacturing based sector to a service based sector. This report will demonstrate the key facts and by using the example of International Business Machine (IBM) it will illustrate different measures which an industry has had to adapt by changing from different sectors in relation with employment.

The structure of the UK economy is made up of three sectors; “ primary, secondary and tertiary” (Griffiths & Wall 2004). The primary sector is directly linked with natural resources which are used within this sector. An example of this sector could be farming or agriculture. The second sector is the secondary sector which is where all goods are linked to production and includes the processing of goods from the primary sector. Thirdly is the tertiary sector which is commonly known as the “ private sector”.

Structural change can be described in many different ways; Griffiths & Wall (2004) describes this change by changes in size of the different sectors. Over periods of time, sectors will get bigger or smaller, resulting in changes in output for products and employment rates.

Structural change is also measured by output and employment rates as a sector in decline will also have falling output and employment rate. The effect of this could be because people are being made unemployed they may not have enough money to buy luxury items which they would if money was coming into the household; they have to stick to buying low-elasticity goods in order to survive.

Main Body

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Many organisations in today's climate are moving from the secondary sector into the tertiary/ service sector and this can have negative and positive effects for the organisation as a whole; " Structure of Industry in a country is not static, and changes over time" Griffith & Wall (2004). An example of a company which has adopted this strategy is International Business Machines (IBM); the computer company. By IBM adapting this change from being a manufacturing sector to a service sector it has had some series effects on the employment rates for Greenock but also the output which the Greenock plant now produces compared to previous years. (Lam, P) states that the change in the " UK economy has become a ' post-Industrial' economy and now the service sector is dominant" which suggests that not only has the company IBM adapted this change, but many industries within the UK have also changed to service sector due to the structure of the UK economy.

The company IBM has had to cut cost such as production and reduce employment due to the change in the economy and there are many reasons for this. Some of these reasons for this change are that; demands for products are changing as peoples tastes and attitudes are changing towards the product. This will have negative affects for industries as they may experience a decline in output of selling their products as people may not show interest to the products as they are not fashionable anymore (Worthington & Britton (2006)).

Supply of labour can also be a factor which might force industries to change from a manufacturing sector to a service sector. The UK is living in a " demographic population" which means that there is a large volume of older people compared to younger people. This has affected many industries as it <https://assignbuster.com/manufacturing-to-service-sector-shift-impact-on-employment-economics-essay/>

means in order to find people to work for them; they had to hire older workers instead of younger ones. This means that in today's climate there is a strain on health services as more older people are living longer so more jobs in the service sector have to be offered which increases the employment rate in the service sector over the employment in the manufacturing sector.

Another reason which industries change from manufacturing to service industries is because of increasing technology (Lam, P). By increasing technology, machines can now take over jobs which humans could do resulting in decreased employment rates for the economy but it can also have positive affects as it can increase the levels of output, as machines can work quicker at producing the products. However if machines fail to work the industry could face severe problems resulting in a halt in production.

Natural resources are another reason why industries change sectors. As natural resources are limited it is harder for industries to source or buy these products which initiates structural change and reduces output of production and can reduce employment rates as industries maybe can't work without these resources.

One of the main reasons for this change in sectors is by international competition. International competition is a worldwide activity which results in redistributing of economic activity (Lam, P). This may involve producing products overseas as it can result in cheaper labour workforce. International competition has occurred due to lack of barriers to trade between different countries and now most of the UK economy imports goods in and exports

goods out. By redistributing economic activity it allows more choice for consumers and by the use of the internet, industries can sell goods 24/7 and gives the consumer options to buy but also source for cheaper products. This can have series affects on employment rates as if industries are moving their plants abroad, job cuts may occur in the UK as they are employing more people to do the same job but where the plant is currently situated.

IBM (2010) is a worldwide company which is a “ global enterprise” as it operates in over 170 countries. IBM in Greenock has undergone many changes over a period of time and now no longer has a manufacturing site in Greenock where computers were produced. This has had serious consequences for Greenock’s population as a whole, especially in the employment rates aspect of Greenock. As IBM does not manufacture in Greenock anymore it shows that it has become “ de-industrialised”. This statement means that they are changing domestically and changing their market conditions (Singh, A (1977)). Reasons why IBM could have been changing their structure could be for the negative profit figure which the company as whole made during 2002 - 2005 (Fame 2010). The negative profit was between £0 and -£100000 and this could have had something to do with the Greenock plant being shut down as it shows that something must have been going wrong for the company, and by restructuring, IBM are now making very high profits again. Griffith & Wall (2006) also state that de-industrialisation can be defined by the loss of industrial employment and that by IBM becoming de-industrialised the demand level may be too high and industries may not be able to cope which could result in increases to prices

of the product but also increase in importation from abroad brought into the UK.

Malone, S (2003) defines that IBM has sold their manufacturing plant in Greenock and it has been bought over by Sanmina-SCI. IBM decided to outsource its range of computer servers as it was cheaper to resource materials for production and there is cheaper labour resources abroad. In turn this has reduced employment in Greenock and a total of 6000 jobs were lost, this has put pressure on other companies throughout Greenock, as the demand for employees is a lot higher than the supply in jobs which are being advertised in this climate. (IBM 2010). Even though, the manufacturing sector for IBM in Greenock no longer exists, IBM has set up many different services within the Greenock area which offer jobs to the population. These services include application services. These application services help people with IT skills so employees must be trained appropriately in these areas in order to advise people. Another service which IBM has created is customer relationship management. (Hirschbuehler, D) believes that by this customer relationship management “ every customer experience is an opportunity to nurture a customer into a brand advocate”.

Technical Support services, IT deliveries services and Supply Chain Management services are other department which have also been set up and have brought jobs into Greenock’s society (IBM 2010). However although there are many departments set up which initiate jobs for Scotland, one of the main centre that employs is the call centres. These call centres have been set up in Greenock however they employed 600 foreign workers who can speak over 20 different languages to work in it. This reduces

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opportunities for locals to get jobs. By employing people from abroad it indicates that by speaking more languages they can reduce costs, rather than employing people in the UK that can only speak English. By doing this it reduces the amount of employees that the call centre needs to employ and also reduces costs within IBM.

Although unemployment may be the biggest consequence from the shift between manufacturing to service, there are other consequences which arise from this. Another main consequence is de-skilling of workforce; this has led to large number of job losses and these employees “ have also experienced an erosion of their relative earnings” (Hine & Wright 1998). As many jobs are lost, skills also deteriorate as people may be out of job for a while. Another factor of this is that skills required for many jobs have also changed as there are increases in the technology which industries use and operate around (Griffiths & Wall 2004). This can have negative effects for the company as if skills are not up to date, production may not be able to operate as employees won't have the necessities to produce the products. A workforce that does not have the skills to enable them to produce when manufacturing will become de-motivated to get jobs done. This in turn will be less stimulating which means that it is up to the managers within the industry to provide staff with continuous training requirements if they want production to occur with continuous technological advances. By technological advances it does create advantages for the industry, for all the jobs which used hard labour skills now most industries have adapted in technology and use high-tech machines (Wetherly & Otter 2008). This reduces task time to half so output is produced efficiently but also reduces the employment as not as

many people are needed in the day to day operations. In IBM in Greenock these job skills have dramatically changed over time. IBM started developing computers in 1981 but due to innovations of computers which has generated over time the Greenock industry is currently at a halt in the production and has led the industry to shift from the manufacturing sector to the service sector; this change has had serious implications for the employees. The change has declined the essential skills which employees gained from manufacturing jobs as they are no longer producing and now employees have to be trained to gain knowledge on new skills such as “ people skills and management skills. Employees are trained on these skills as they are used within call centres and the other services that are have been stated previously that IBM now provided within the industry throughout the world (IBM 2010)

Conclusion

The shift between manufacturing to service sector has had a large implication towards employment throughout the UK. Not only has IBM been affected by this change in sectors but large proportions of the UK are also experience this dilemma. (Economy Watch 2010) indicates this as the GPD by sectors indicates that the manufacturing sector has a very low GPD with proportion of 22. 8%, whereas the service sector shows a high GPD of 76. 2%. As for IBM in Greenock even though services have been introduced and have produced significant amounts of jobs for people, many locals from Greenock are still out of job due to the call centres as it is cheaper for IBM to have one big call centre which employees can speak all different languages rather than having loads of little call centres all over the world.
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