

Economics for managers assignment

[Profession](#), [Manager](#)



Why is demand forecasting essential? What are the possible consequences if a large scale firm places its product in the market without having estimated the demand for its product? Q. 5. Discuss the various steps involved in a managerial decision making process. Explain, in detail, any two group decision making techniques. Assignment: B Q. L . Why a firm is price taker and not a price maker under perfect market conditions? Q. 2. Profit minimization is theoretically the most sound but practically unattainable objective of business firms.

In the light of this tenement critically appraise the Bamboo's sales revenue minimization theory as an alternative objective of the firm. Q. 3. Distinguish between skimming price and penetration price policy. Which of these policies is relevant in pricing a new product under different competitive conditions in the market? Case Study Michael Wolfs, a computer programmer had a decent job with the financial powerhouse Bear, Stearns & Co. Now, he refurbishes computers at the basement in his house and sells it through e-bay. He plans to join as a school teacher. Michael lost his job in 2003. He was told that his job is being outsourced to India.

Paul Schwartz, a mainframe programmer, who was earning \$ 80, 000 a year was told that his services were no longer required. He suspects that his job has been outsourced to India. There is growing dissent among the Americans against the increasing practice of outsourcing. It has become an electoral issue in the coming presidential elections in the US. The Democratic candidate, John Kerry has made it an emotive issue, despite economists trying to portray the positive aspects of outsourcing. There are numerous

reasons[(#)]University page 3 Economics for Managers Assign
meet or the growing apathy towards outsourcing.

The prevailing economic situation and the increasing joblessness in the US have added fuel to the fire. However, many analysts feel that joblessness in the US is cyclical in nature resulting from the recession of 2001 and hence, a recovery will create job opportunities. Moreover, according to the U. S. -Linda Business Council, the increasing unemployment is also due to corporate restructuring and just a quarter of the job loss is due to outsourcing. Since, the beginning of 2001, the real job loss in US is estimated to be 2.3 million.

In comparison, the actual job loss due to outsourcing is estimated to be only 200,000. Thus, it can be said that there are various other reasons for joblessness in the US. The outcry against outsourcing seems to be driven more by politics rather than economics. Outsourcing forms a small proportion of the jobs that are regularly churned in the US economy. On an average, 24 million jobs are churned in the US every month. In the process, resources are allocated, for more productive purposes. To come out of the recession and raise the standards of living, higher productivity seems to be the only solution.

The debate on outsourcing gathered momentum only in the recent past. A study by Forrester, a research group, in the year 2002, brought the issue into limelight. The report claims that by 2015, 3.3 million white-collar jobs in the CSS would be transferred to countries like India. The Economics of Outsourcing
But is outsourcing so bad for the US economy? Gregory Manama, professor of economics at the Harvard University and head of

President Bush's Council of Economic Advisers, recently told us that outsourcing of jobs is in the better interest of the US.

According to him, outsourcing lowers the cost for nonusers, making the corporations more efficient. There were a series of articles in *The Economist*, highlighting the advantages of outsourcing. There are many influential groups in the US who are perturbed by the recent outcry against outsourcing. Says Charles E Morrison, President, East West Center, a CSS based think tank, "Off-shoring is not an economic problem, but an economic opportunity". Many analysts in the US feel that anti off-shoring bills in the US would prove to be ineffective.

Similar views were echoed by Michael T Clark of US-India business council. He says that, "Jobs lost to offshoring are less than a quarter of all jobs lost in the US in 2002. The rest were lost due to corporate restructuring. The current debate in the US on off-shoring is informed by lack of facts". In an article, 'Why Your Job Isn't Moving to Bangalore' in the *New York Times*, Anish Backchat, a senior fellow at the Council on Foreign Relations and professor at Columbia University writes that the panic and furor over outsourcing is completely unwarranted.

He further says that no jobs are being taken away from America. He says that the effect of changes in technology is being felt in the labor intensive industries. According to him, the loss of jobs in the US is due to technological changes. Professor Backchat is also critical about politicizing the whole issue. He says that outsourcing will strengthen the competitiveness of the US companies. Firms ignoring the cheaper supplies would lose out. Professor

Backchat further says that outsourcing service jobs is nothing different from importing of labor-intensive textiles and other goods.

According to him, all empirical studies in the US over the last two decades suggest that wage stagnation in the manufacturing industry is more due to automation of the processes, not the cheaper imports. The same is applicable to service industry as well. Sensitivity page 4 Jane Linden of Accentuates Institute for Strategic Change says that companies outsourcing the traditional back-office work have more control and discipline over their operations. Moreover, employees of the company can concentrate on framing strategies. Further, outsourcing also results in greater efficiency and lowering costs.

This allows companies to offer better services to customers. A study done by McKinney Global Institute reveals that for every dollar of work outsourced to the US, it gets back \$1.4 as income, and the countries to which the work is being outsourced gains 35 cents. This shows that outsourcing is a win-win situation for both the countries. Benefits for US Savings to US investors or customers Imports of IIS goods and services by providers in India Transfer of profits by US based providers in India back to US 0.58 0.05 0.04 Net direct benefit retained in IIS 0.67 Value for US labor reemployed 0.45 0.7 Benefits for India Labor Profits retained in Suppliers 0.1 0.09 Central government 0.03 taxes State government 1. Net benefit to India 1.14 Source: McKinney Global Institute Potential net benefit for US 0.01 0.33 There is a definite cost advantage in off-shoring work to India. These advantages are a result of lower wages in the developing countries along with the development of

telecommunications in these countries. A report published by HASH, which has off-shored more than 4,000 jobs to India, says that the telephone costs from India to America and Britain has decreased by almost 80%, since January 2001.

The wage difference between these countries is also a factor that forces the companies to outsource their business processes to India. A study done by MASCOT, says that the average salary of an IT professional in UK is \$96,000, in US it is \$75,000, whereas in India it is just \$26,000. The wage difference between the low end call center jobs of both the countries is also very wide. An average call center employee in UK earns \$20,000 on the average. Whereas, a call center professional in India barely manages to earn one tenth of the earnings of their British counterparts. Page 5 Offspring allows companies to work round the clock.

It gives ample time to the companies to think about their IT problems. Recently, American Express paid \$5,000 to a group of software programmers in India, to develop a cage for them. The same would have cost them several million dollars in US. The benefits of outsourcing go much beyond the cost advantage. An article in McKinney quarterly suggests that the companies need to look beyond cost savings. The article says that “Companies are merely replicating what they do at home, where labor is expensive and capital is relatively cheap, in countries in which the reverse is true. Alan Greenspan, US Federal Reserve Chairman, is a staunch supporter of outsourcing. He is of the opinion that any move to curb outsourcing of work to countries like India and China, might give just a

temporary relief. Reacting to the proposed legislations in the US banning outsourcing, Greenshank said, “ A new round of protectionist steps is being proposed against outsourcing. These alleged cures will make matters worse”. Greenshank feels that any effort to protect US jobs through legislation would backfire. Not all companies have taken full advantage of outsourcing.

According to Harris Miller, president Of the Information Technology Association of America (IOTA), a lobby group, so far only 3-4 % of all American companies outsource their processes. The remaining still rests with American firms. A report published by Forrester, in December 2003, says that 60% of the Fortune 1000 companies have a negligible or near nil presence in off- shoring. Report also suggests that 40% of the work of these companies could be outsourced. Thus, the potential for growth in outsourcing is still immense. Advancement in the technology can give a further push to the off-shoring activity.

The inflexible architecture of the current technologies is acting as a hindrance in off-shoring says Simon Heap of Ban & Co, a consultancy firm. The advancement in software and hardware would enable the companies to if-shore even small activities. Firms would be able to off-shore the activities of the entire department, say billing of customers. However, not everyone seems to agree with the supporters Of outsourcing. Stephen Roach, the chief economist at Morgan Stanley, says that it is only the wage difference that is encouraging companies to outsource work to India or any other developing country.

He further says that joblessness is taking away the charm of recovery in the US. Many analysts also feel that companies should take some concrete steps to minimize the affects of outsourcing. Companies should make the recess of job transfers to offshore destinations more smooth. British Telecoms exhibited a process of outsourcing that can be used as a model by other companies. In 2003, when BET announced that it is planning to open two call centers in India, with a capacity of 2200 people, it was criticized from all corners. It was said that BET was not acting in a socially responsible manner.

Realizing the gravity of the situation, BET approached Sustainability, an international consultancy, specializing in business strategy and sustainable development. The consultancy firm was asked to find whether or not outsourcing and corporate social responsibility (CARS) co-exist. Sustainability noted that the immediate impact of outsourcing would be job loss for the employees, and the resulting affect on the society. The consultancy firm was of the opinion that before outsourcing, companies should address the negative impact of outsourcing.

In order to check the negative impact Of off-shoring, firms should[(#)]University Page 6 consult with employees, trade unions, communities and other key stakeholders. Employees should be involved in the process of any such decision making. Sustainability also suggested that firms should be reentrant and make the employees know the services that are being outsourced. Firms should also make an attempt to redeploy the employees in some other departments. This would minimize layoffs. An attempt should be made to retrain the redundant workers.

A part of the savings from off-shoring should be invested for this purpose. As per the suggestion made by McKinney Global Institute, 4-5% of the resulting savings from off-shoring should be used for insurance policy for employees to cover the lost wages. US was one of the prime supporters of free trade. IIS was least bothered about the concerns of any other developing countries when they raised their voices against job losses as a result of the cheap exports. But, this aggressiveness seems to have mellowed down in recent days.

It always propagated that inefficient industries should be closed. One of the primary tasks of the U. S. Trade Representative's office was to keep a check on the world markets. It assesses the markets which are opening up and which are getting closed as a result of high tariffs and other quantitative restrictions. Now, with the growing efficiency of developing countries in the service sectors, many jobs in these sectors are being transferred to developing countries (of which a major chunk is coming to India). US is worried about the increasing joblessness but that seems paradoxical.

It hails globalization but when it comes to the developing countries trying to reap the benefits of globalization, it raises all sorts of issues. Recently the US government has tightened the visa norms. The number of H-1 B visas issued to Indian software programmers fell to 65, 000 from 1, 95, 000 in 2003.

Analysts feel that this would increase outsourcing of jobs further, particularly to India. According to Craig Barrett, the chief executive of Intel, granting of fewer visas would force the companies to shift their jobs to countries like India, where there is no dearth of qualified engineers.

Despite no ban from the federal authorities on outsourcing, many States have initiated the process of putting restrictions on outsourcing government work to foreign countries. The lawmakers in the state of New Jersey have proposed a bill that stops firms to outsource any government related work to a foreign county. Succumbing to the public pressure, the government was forced to bring back a helpline for welfare recipients that was being outsourced to India. Similarly, the state of Indiana withdrew a \$ 15 million contract from an American subsidiary of an Indian IT firm.

Commenting on the move, the Indiana governor said that contract was not in tune with Indian's vision of providing better and more job opportunities to local companies and workers. However, analysts feel that these decisions have been influenced by political pressure in the backdrop of coming presidential elections in the US. The Indian Response The Indian BOP industry is not taking the outcry against outsourcing in the US seriously. Indian BOP firms are no longer just call centers. Their activities now cover marketing and knowledge based services.

These companies are now aspiring to become strategic partners for US companies. There is a sudden spurt in the number of venture capitalists willing to invest in different areas. Though, some software companies can't hide their concern over the legislations banning government related off-shoring in the long-run but, for now they are clear that, these legislature will have negligible effect on the current contracts with the private companies. Reacting to the whole Page 7 issue, Marinara Murphy, Chairman and Chief Mentor of Informs said that here is no issue to worry about.

He termed the outcry as normal. He suggested that rather than getting worried and agitated, Indians should put forward their point of view and explain the advantages of off-shoring. He said that the present uncertain economic situation is responsible for the concern over the job losses in the US. Many analysts feel that the opposition to outsourcing may not end with the US presidential elections. With many of the American States, coming out with legislations banning government contracts to other countries, the issue of offshoring is going to be alive.