МИНИСТЕРСТВО ОБРАЗОВАНИЯ РЕСПУБЛИКИ БЕЛАРУСЬ
Минский государственный лингвистический университет

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ПРОБЛЕМЫ В ОБЛАСТИ ЭКОНОМИКИ

CHALLENGES IN ECONOMIC INDUSTRY

*Рекомендовано учебно-методическим объединением
по лингвистическому образованию
в качестве сетевого электронного пособия
для студентов учреждений высшего образования,
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Г52 Проблемы в области экономики = Challenges in Economic Industry : сетевое электронное пособие для студентов учреждений высшего образования, обучающихся по специальности 1-23 01 02-05 «Лингвистическое обеспечение межкультурных коммуникаций (внешнеэкономические отношения» / М. А. Гладко. – Минск : МГЛУ, 2020. – 2,90 Мб.

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Пособие выполнено в рамках курса «Практикум по культуре речевого общения». Основной целью издания является развитие умений иноязычного общения, необходимых для успешного осуществления профессиональной деятельности специалиста по внешнеэкономическим связям. Книга включает 4 раздела: «Цикл деловой активности», «Качество жизни», «Дигитализация экономики», «Заработная плата и нематериальные поощрения». Каждый из разделов содержит тексты, затрагивающие актуальные вопросы экономической тематики, вопросы для обсуждения, викторины, деловые игры, практические задания для аудиторной и самостоятельной работы.

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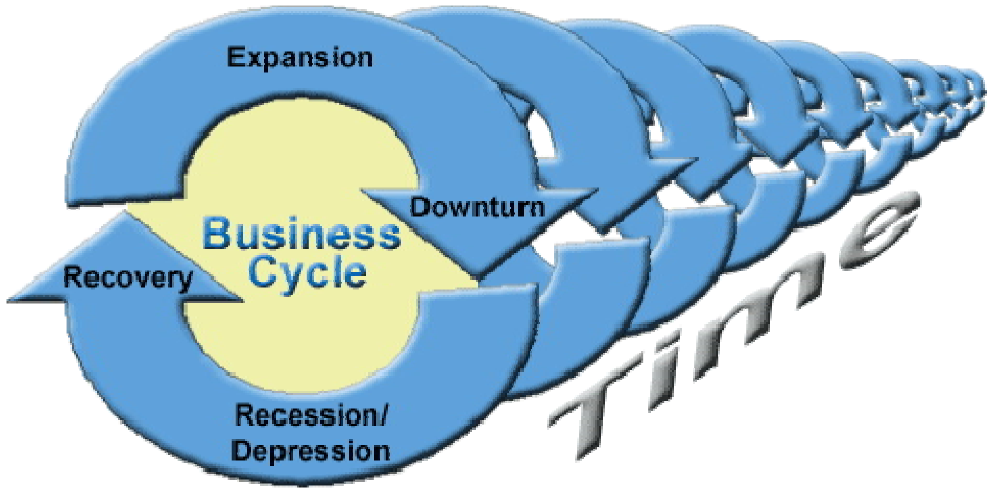
Section I

UNDERSTANDING BUSINESS CYCLE



You will know

- Stages of business cycle and why it is of paramount importance for business.
- Business cycle investing.
- How to manage firms throughout a business cycle.

Discuss the questions in pairs. Report back on your findings to discuss with your other peers.

Student A's questions 1. How would you describe the economy in your country? 2. What are the biggest economic problems in your country? 3. Do you think economics is the most important thing people care about in an election? 4. What is the effect of economics on society?

Student B's questions 1. What are the biggest economic problems in the world? 2. Do you think economic aid and economic sanctions work? 3. Which people in this world care most about economics? 4. What do you think 'happiness economics' is?

W o r k i n g   w i t h   w o r d s

1. Study the target vocabulary list below and group the words and phrases into the following categories.

downward and upward movement
a single boom and contraction
in sequence
boom-and-bust cycle
a sustained period
work at full capacity
a surge in
shrink
yield the best results
pick up from (the trough)
in a bid to
telltale signs of
a whopping percent
face rough times
come to a halt
risky borrowers
layoffs

2. Drawing Session. Pair up: Student A says a word/phrase, Student B draws a picture of it. Then compare Student A's list of words and Student B's drawings.

BE IN THE KNOW

Study the article. How many words from the target vocabulary list can you find? Study the words and phrases in bold.

What Is the Business Cycle?

The **business cycle** or **economic cycle** is the downward and upward movement of gross domestic product (GDP) around its long-term growth trend. The length of a business cycle is the period of time containing a single boom and contraction in sequence. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth (expansions or booms), and periods of relative stagnation or decline (contractions or recessions). The cycle is a useful tool for analyzing the economy. It can also help you make better financial decisions.

The common or popular usage boom-and-bust cycle refers to fluctuations in which the expansion is rapid and the contraction severe.

Boom

A boom is a sustained period of strong economic growth. During this time confidence n the market is high. This leads to high levels of demand and consumer spending.

Businesses increase their output and may be **working at full capacity**. It is during this phase that existing businesses tend to increase their spending on new capital. Many new firms also start up. Due to the level of business activity during a boom, employment levels are high.

This makes it more difficult for companies to attract and employ staff. They may need to offer higher wages to attract skilled workers. The boom can be an exciting part of the business cycle for organisations. However, high levels of demand, plus the increasing costs faced by organisations, can lead to high inflation. Inflation is the name given to the rise in the general level of prices. Boom periods therefore need to be as carefully managed as the other stages in the business cycle. A **boom** occurs when real national output is rising at a rate faster than the trend rate of growth. Some of the characteristics of a boom include:

- A fast growth of **consumption** helped by rising real incomes, strong confidence and a surge in house prices and share prices
- A pick up in **demand for capital goods** as businesses invest in **extra capacity** to meet strong demand and to make higher profits
- More jobs created and **falling unemployment** and higher **real wages**
- High **demand for imports** which may cause the economy to run a larger **trade deficit** because it cannot supply all of the goods and services that consumers are buying
- **Government tax revenues** will be rising as people earn and spend more and companies are making larger profits – this gives the government money to increase spending in areas such as education, the environment, health and transport
- An increase in **inflationary pressures** if the economy overheats and has a positive output gap.

Slowdown

- A slowdown occurs when the rate of growth decelerates – but national output is still rising
- If the economy grows without falling into recession, this is called a **soft-landing.**

Recession

A **recession** means a fall in the level of real national output i.e. a period when growth is negative, leading to a contraction in employment, incomes and profits.

A simple definition:

- A fall in real GDP for **two consecutive quarters** i.e. six months

A more detailed definition:

- A recession is a **significant decline in economic activity spread across the economy**, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and retail sales.

There are many symptoms of a recession – here is a selection of key indicators.

1. A fall in purchases of components and raw materials (i.e. intermediate products).

2. Rising unemployment and fewer job vacancies available for people looking for work.

3. A rise in the number of business failures and businesses announcing lower profits and investment.

4. A decline in consumer and business confidence.

5. A contraction in consumer spending & a rise in the percentage of income saved.

6. A drop in the value of exports and imports of goods and services.

7. Large price discounts offered by businesses in a bid to sell their excess stocks.

8. Heavy de-stocking as businesses look to cut back when demand is weak – causes lower output.

9. Government tax revenues are falling and welfare benefit spending is rising.

10. The budget (fiscal) deficit is rising quickly.

A downturn can lead to a recession which is defined as two successive quarters of negative economic growth. During a recession, demand in the economy is low and markets shrink. There are pressures for businesses to reduce costs, which can lead to increased unemployment as companies lay off workers. The resulting higher unemployment means people have less money to spend, thus contributing to the downturn in the economy. Some businesses may have to close down. In 2009 a number of well known businesses closed in the UK, for example, Woolworths. Other businesses reduced the number of outlets or stores they operated.

During a recession, the Board of Directors of a company needs to consider various options of managing lower revenues and therefore profits. Management accountants can provide analysis to help focus on core profitable activities and identify where costs can be cut. They may provide detailed figures relating to options such as making redundancies, closing offices, shrinking capacity or even selling off assets like machinery and buildings. However, the problem in making **cutbacks** is that it reduces the ability of a business to respond when the economy **takes an upturn**. Management accountants may also help identify opportunities for immediate or future growth during a recession. Good deals may be available at this time. Investment in equipment or acquiring another business during a recession is likely to be cheaper than during a boom.

This can **put a company in a strong position** to deal with increasing demand when the economy begins to recover. Management accountants are able to explore every way to reduce the impact of a recession, without resorting to impulsive decisions which may harm recovery.

The difference between a recession and a depression:

- a **slump** or a **depression** is a prolonged and deep recession leading to a significant fall in output and average living standards;
- a depression is where real GDP falls by more than 10 % from the peak of the cycle to the trough;
- an example of a country that has suffered a depression in recent years is Greece. National output has fallen in six successive years and real GDP is more than 25 % lower than at the peak of the cycle.

Recovery

The term ‘green shoots’ is used to refer to the first signs of economic recovery.

Businesses respond perhaps after a short time lag by producing more goods and services. They will start to invest in new machinery. More jobs will be created or reinstated so unemployment will start to fall. The cause of recovery may be due to government actions such as reducing taxes, increasing investment in the economy or perhaps by improving **infrastructure**. A rising confidence in the economy leads to increased business activity and more spending by consumers. Although some uncertainty will undoubtedly remain, businesses are more likely to consider investment at this time. Management accountants can provide an assessment of what the expected returns might be on these investment ideas. For example, they can use investment appraisal tools to determine how long it will take to payback the cost of a new production line; or analyse which opportunities will yield the best results.

- This occurs when real GDP picks up from the trough reached at the low point of the recession.
- The state of business confidence plays a key role here. Any recovery might be subdued if businesses anticipate that it will be temporary or weak in scale.
- A recovery might follow a deliberate attempt to stimulate demand. In the UK we have seen.

1. Cuts in **interest rates** – the policy interest rate fell to 0.5 % in the Autumn of 2008 and they have stayed at this low level since then
2. A rise in **government borrowing**
3. A policy of **quantitative easing** (QE) by the Bank of England to **pump** more money into the banking system in a bid to increase the supply of loans – now worth more than £375 billion.

When economists make forecasts about the future path for an economy they have to accept the inevitability of forecast errors. No macroeconomic model can hope to cope with the fluctuations and volatility of indicators such as inflation, exchange rates and global commodity prices.

- Uncertain business confidencelevels
- Fluctuations in exchange rate
- External events e.g. **volatile** oil and gas prices
- Uncertain reactions to macro policy changes

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Ready? Steady? GO...

Get ready for an Intellectual Quiz by contemplating on the questions.

1. What is economic growth?
2. Describe the possible causes of recovery in the business cycle.
3. Explain why boom times might be difficult for firms who are trying to recruit new employees.
4. Describe the factors that might make the economy move into a downturn in the business cycle.
5. What is the definition of a recession?
6. Describe the factors that might make the economy move into a downturn in the business cycle.
7. Explain the actions firms may take during a recession.

1. Analyse why management accountants might look for growth opportunities during a recession.

2. Analyse why management accountants may promote a cautious approach to investment opportunities during boom periods in the business cycle.

3. Write down as many things as you can remember about recovery and boom in the business cycle in 60 seconds.

4. Assume that interest rates are beginning to rise, the number of hours worked per week is going up, and there is an increase in the number of new building permits. What would these indicators say about the economy? Explain your answer.

5. How might the psychological strains that many people feel during difficult economic times help prolong an economic downturn? Provide specific examples.

Study the articles and jot down the key ideas. What is your view on the ideas discussed?

Stages of the Economic Cycle

You may have heard of the NBER (National Bureau of Economic Research); they're the ones that announce that a recession has officially ended – three years after the fact. The data may be slow to develop, and a bit dry, but a little digging can provide insight into investment decisions. Here is a list of the four basic stages of the economic cycle, and some associated telltale signs of the economic stages – keep in mind that these usually trail the market cycle by a few months.

Stages

Each business cycle has four phases. They are expansion, peak, contraction and trough. They don't occur at regular intervals. But they do have recognizable indicators.

Expansion is between the trough and the peak. That's when the economy is growing. Gross domestic product, which measures economic output, is increasing. The GDP growth rate is in the healthy 2–3 percent range. Unemployment reaches its natural rate of around 4 percent. Inflation is near its 2 percent target. The stock market is in a bull market. A well-managed economy can remain in the expansion phase for years. That's called a Goldilocks economy.

The expansion phase nears its end when the economy overheats. That's when the GDP growth rate is greater than 3 percent. Inflation is greater than 2 percent and may reach the double digits. Investors are in a state of irrational exuberance. That's when they create asset bubbles.

The **peak** is the second phase. It is the month when the expansion transitions into the contraction phase.

The third phase is **contraction.** It starts at the peak and ends at the trough. Economic growth weakens. GDP growth falls below 2 percent.

When it turns negative, that is what economists call a recession. Mass layoffs make headline news. The unemployment rate begins to rise. It doesn't happen until toward the end of the contraction phase because it's a lagging indicator. Businesses wait to hire new workers until they are sure the recession is over.

Stocks enter a bear market as investors sell.

The **trough** is the fourth phase. That's the month when the economy transitions from the contraction phase to the expansion phase. It's when the economy hits bottom. The business cycle's four phases can be so severe that they're also called the boom and bust cycle.

Who Manages the Business Cycle?

The government manages the business cycle. Legislators uses fiscal policy to influence the economy. They use expansionary fiscal policy when they want to end a recession. They should use contractionary fiscal policy to keep the economy from overheating. But that rarely happens.

That's because they get voted out of office when they raise taxes or cut popular programs.

The nation's central bank uses monetary policy. It lowers interest rates to end a contraction or trough. That's called expansionary monetary policy. The central bank raises rates to manage an expansion so it doesn't peak. That's contractionary monetary policy.

The goal of economic policy is to keep the economy growing at a sustainable rate. It should be strong enough to create jobs for everyone who wants one but slow enough to avoid inflation.

Three factors cause each phase of the business cycle. Those are the forces of supply and demand, the availability of capital and consumer confidence. The most critical is confidence in the future. The economy grows when there is faith in the future and in policymakers.

It does the opposite when confidence drops. See how this worked in each business cycles since 1929.

Example

The 2008 recession was so nasty because the economy immediately contracted 2.7 percent in the first quarter of 2008. When it **rebounded** 2 percent in the second quarter, everyone thought the downturn was over. But it contracted another 1.9 percent in the third quarter, before **plummeting** a whopping 8.2 percent in the fourth quarter. The economy received another wallop in the first quarter of 2009 when it contracted a brutal 5.4 percent. The unemployment rate rose from 5.0 percent in January to 7.3 percent by December.

The trough occurred in the second quarter of 2009, according to the NBER. GDP contracted 0.5 percent. Unemployment rose to 9.5 percent.

The expansion phase started in the third quarter of 2009 when GDP rose 1.3 percent. That was thanks to the stimulus spending from the American Recovery and Reinvestment Act. The unemployment rate continued to worsen, reaching 10.0 percent in October. Four years into the expansion phase, the unemployment rate was still above 7 percent. That's because the contraction phase was so harsh.

Early Recession

This is where things start to go bad for the overall economy. Consumer expectations are at their worst; industrial production is falling; interest rates are at their highest and the yield curve is flat or even inverted. Historically, the following sectors have found favor during these rough times:

1) Services (near the beginning);
2) Utilities;
3) Cyclicals and transports (near the end).

Full Recession

This is not a good time for businesses or the unemployed. GDP has been retracting, quarter-over-quarter, interest rates are falling, consumer expectations have bottomed and the yield curve is normal. Sectors that have historically profited most in this stage include:

1) Cyclicals and transports (near the beginning);
2) Technology;
3) Industrials (near the end).

Early Recovery

In this stage, things are starting to pick up. Consumer expectations are rising, industrial production is growing, interest rates have bottomed and the yield curve is beginning to get steeper. Historically successful sectors at this stage include:

1) Industrials (near the beginning);
2) Basic materials industry;
3) Energy (near the end).

Late Recovery

In this stage, interest rates can be rising rapidly, with a flattening yield curve. Consumer expectations are beginning to decline and industrial production is flat. Here are the historically profitable sectors int his stage:

1) Energy (near the beginning);
2) Staples;
3) Services (near the end).

Business Cycle Investing: Ratios to Use For Each Cycle

Long-term investors, value investors and bottom-up approaches rarely rely on timing business cycles, but many active investors can realize value by adjusting their portfolios as cycles progress. Tracking revenue growth and profit margins can help investors identify the present state of the overall economy, and successful active investors manage sector exposure based on these observations. The most important financial ratios for analysis vary depending on the sector in question, but the focus generally moves from growth potential to valuation to financial health as the cycle progresses.

Early Cycle

The early stages of the business cycle are marked by renewed optimism and rising growth expectations. Businesses begin investing more heavily in growth, while consumers become more willing to purchase **non-essentials**. Productive stocks high up the value chain see rapid increases in demand, and lean inventories lead to strong demand and wide margins.

Investors exhibit increased appetite for risk, moving into more **speculative stocks**. The technology and industrial sectors generally **exhibit superior performance** during the early part of the business cycle, and stock market cycles tend to lead businesses cycles. Many technology companies are unprofitable and have high growth expectations, so popular valuation ratios such as **price-to-earnings** (P/E) and **price-to-book** (P/B) are not applicable. Instead, growth companies are often evaluated based on revenue growth, market share and the price-to-sales (P/S) ratio. Customer acquisition costs and research and development (R&D) as a percentage of revenue are also important metrics in industries such as software or internet information services. Industrials are generally very different from technology firms and are more often analyzed with the earnings-before-interest-and-taxes (EBIT) margin, return on invested capital, and efficiency ratios, such as inventory turnover.

Mid Cycle

The mid-cycle phase is characterized by a moderation of growth rates and broader economic stability, and the economy is still in expansion mode during this phase. Strong performance is shared across different industries and sectors, with the **bullish** signals from the early cycle **trickling down the supply chain**. **Sustained** improvements to employment and wages extend the strong performance to **non-essential goods**, and more mature technology companies that rely on strong capital expenditures also benefit.

The information technology sector has been the strongest historical performer in the mid-cycle phase, with consumer staples, utilities and materials lagging. However, the divergence among sector performance in the mid-cycle is the lowest of all phases. This makes P/E, PEG ratio, P/B, gross margin and price-to-cash-flow important, with more mature businesses performing well across more sectors.

Late Cycle

The late-cycle phase is characterized by the deceleration of growth that precedes contraction. Inventories tend to grow, corporate profit margins fall and interest rates grow high. Inflation also reaches relatively high levels due to tight labor markets and **high capacity utilization**. Equity valuations are usually relatively expensive, leading to **modest annualized returns**.

Inflation helps **drive superior results** for energy and materials sectors, the profitability levels of which are dictated by commodity prices in the short term. Utilities, telecommunications and consumer staples stocks gain the attention of **forward-looking** investors, who begin moving toward less cyclically sensitive sectors and strong dividends. **Lean years** require strong financial health, so **interest rate coverage**, **debt-to-capital** and the **current ratio** gain added importance. Dividend yield also becomes more important as growth stock demand **wanes**.

Recession Cycle

The recession phase is marked by **economic contraction**, during which time unemployment rises, consumer sentiment falters and business investment declines. Demand for goods and services **tumbles**, especially among non-essentials. Monetary policy usually leads to lower interest rates, which stimulate business activity and are expected to **induce recovery**.

Investors leave the equity market for **lower-risk asset** classes, and equity investors tend to favor more defensive sectors. The consumer staples sector has a strong historical record of **outperforming** other sectors, while utilities, health care and telecommunications are also generally stronger than industrials or information technology. Investors should monitor **leverage** and **liquidity ratios** to confirm **financial health**, and **ratios** such as same-store sales, organic revenue growth and gross margin are good indicators of recovery as the next cycle begins.

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1. In small groups, play hangman of different terms and notions related to business cycle. When someone has correctly guessed the term or notion, they have to explain what they mean.

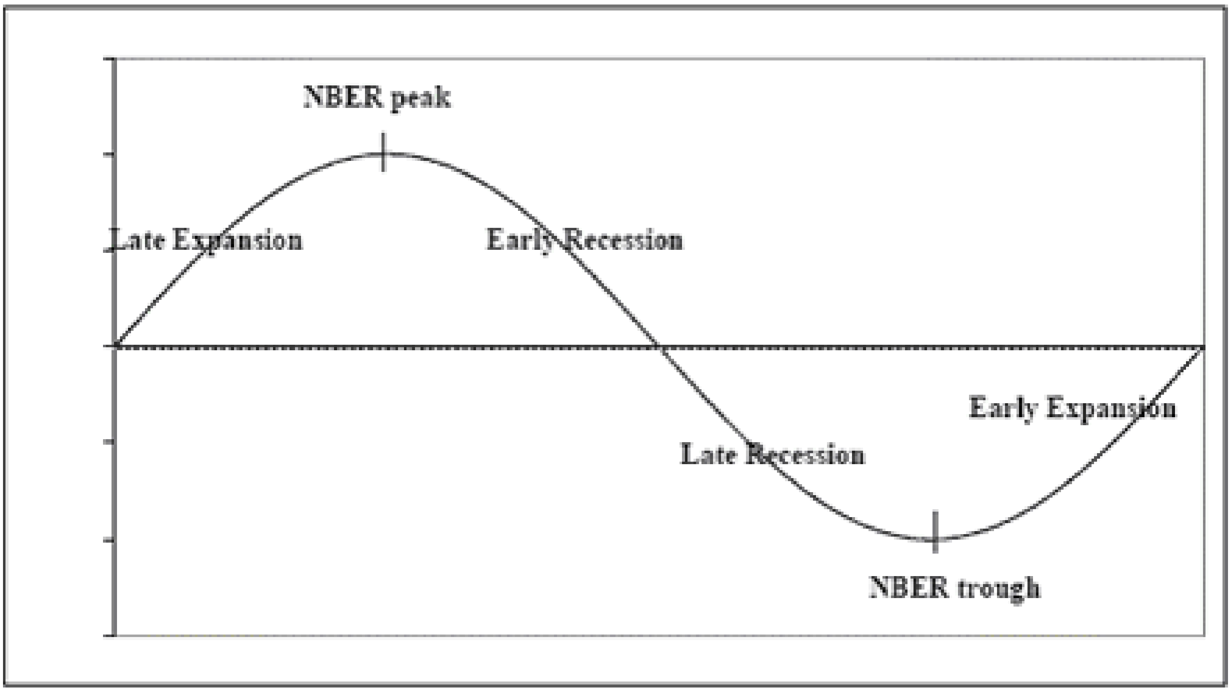
2. Discuss the following questions.

1. What causes recessions?
2. How does consumption behave over the business cycle?

3. How does consumption react to temporary increases in transfer payments or temporary reductions in personal taxes?
4. How does the trade balance behave over the business cycle?
5. How does investment behave over the business cycle?
6. In a closed economy, what are the major determinants of real interest rates?

3. Study the chart below. Write a brief description, based on what you see in the chart above, of the following phases of the business cycle.

Figure 11: Business Cycle Phases



1. Trough:
2. Expansion:
3. Peak:
4. Recession:

Managing firms throughout the business cycle

A Davis Service Group Case Study

Using the case study to help you, draw a business cycle and annotate it to how the characteristics and possible government intervention at the recovery and boom stages of the business cycle.

Introduction

The first decade of the 21st century has been a rollercoaster ride for economic activity. Business confidence was high at the start of the millennium. This was particularly **fuelled** by the growth of the internet as a means of buying and selling. A lot of companies have developed websites and there has been a rapid increase in online purchasing.

At the same time a number of countries opened up their markets to international trade. For example, Poland and the Baltic States of Estonia, Latvia and Lithuania joined the European Union. China and India have also grown to become world economic forces.

However, during 2008/9 the rapid growth of world markets came to a halt. Many of the problems **stemmed from** banks lending money to **risky borrowers**. When some of these failed to pay back this led to a rapid loss of confidence in the banking system. Banks became reluctant to lend, for example, for mortgages or business loans. This led to a sudden dip in people spending which reduced demand for products and services. The effect was catastrophic for many businesses. Many famous companies closed down. Perhaps the best known high street business to suffer was Woolworths which closed its doors in March 2009.

Sunlight	Berendsen
Sunlight is the UK's leading provider of textile maintenance services. Sunlight operates in the UK and Ireland from an extensive network of processing plants.	Berendsen is the leading textile company in Northern Europe with more than 7,300 employees at 80 service centres in 13 countries. It is a market leader in Denmark, Sweden and Norway and has a leading position in the Netherlands in work-wear and industrial wipers. It also operates in Germany, Poland, Finland, the Baltic Republics, the Czech Republic and Slovakia.

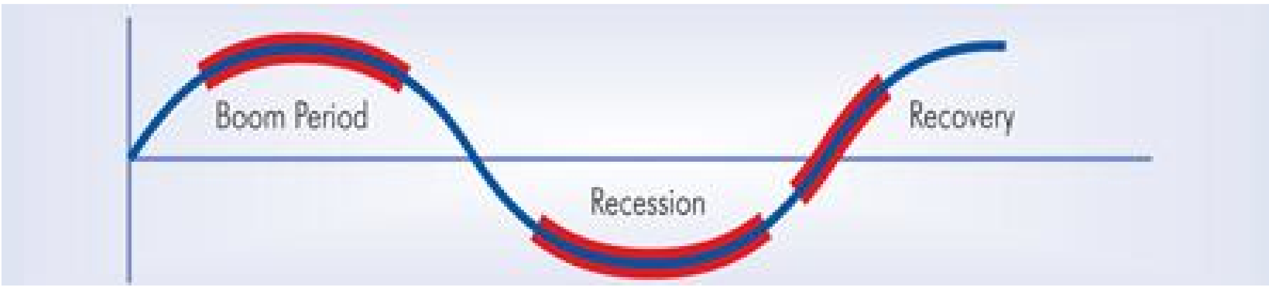
Davis Service Group provides textile maintenance services in the UK and Europe. This includes linen hire, work-wear rental, dust control mat, laundry and washroom services. The Group consists of two main operating companies each with its own directors and executive team.

These two operating companies delegate responsibility and authority to profit centres throughout the Group. Providing essential services enables the company to grow when economic activity is expanding in its various markets. For example, it has recently been growing quickly in Poland. At the same time because the services it provides are so essential to other businesses it manages to maintain sales in times of falling demand.

This case study examines how Davis Service Group, one of Britain's key service companies, has managed the recent change in the business cycle.

The business cycle

The national economy experiences periods of 'boom' and sometimes periods of 'bust'. In periods of boom most people tend to be better off. Businesses have full order books for their products so that sales and profits are high. At the same time there are high levels of employment. School leavers and graduates find it easy to get work with good prospects.



However, history shows that the good times do not last forever. This is when recession sets in a period of weakening demand for most goods and services. This can then turn into a slump when there is rapidly growing unemployment and sales and profits fall substantially.

The period of time a recession may last for is variable. Forecasters look for signs of 'green shoots'. These are signs that a recovery is taking place. The 'green shoots' include new companies setting up, development of new products and firms starting to take on more employees.

A recession occurs when for two quarters (a quarter is three months) in a row the value of all the goods sold in an economy falls. This occurred in the UK and other parts of Europe in the second half of 2008.

Economic activity is measured by Gross Domestic Product (GDP**)**. GDP is a measure of all of the goods and services sold in an economy in a particular period, for example, a quarter.

The line graph most visually shows the impact of recession at the end of 2008:

- quarter by quarter changes shown in blocks;
- four quarters (1 year) changes shown in the line graph.

How does recession affect a company like the Davis Service Group?

1. Some of the Group's activities are in sectors that are not affected significantly by recession, for example, healthcare. Governments retain this type of activity as a high priority for the population, even in times of recession. About 30 % of the Davis business is in this service sector.

2. Some of the Group's activities are in mature markets. It is inevitable that there will be some decline in demand in these markets because in a recession demand falls and customers of Davis reduce their requirements and spending levels.

Examples of mature markets	Examples of emerging markets
• UK workwear	• Poland
• European Hotels	• Baltic Republics
	• Czech Republic

However, at the same time Davis Service Group has been growing rapidly in new markets such as Poland, the Baltics, and the Czech Republic. These economies are emerging markets at a different stage of the business cycle. This means that because their economies are still developing and textile rental is a new service, the impact of recession is smaller. As Davis is developing a new market, it therefore sees its sales continuing to increase.

Recession

The way to survive and prosper in a recession is to reduce costs, such as cutting out any waste activity and to out-perform competitors. In a recession:

- demand for company products and services falls;
- jobs are lost in the economy;

- many businesses cut down on their investment in new plant and equipment;
- businesses close down.

In Davis' mature markets there has been some decline in demand. The Group has responded by cutting back on products and services that are not performing so well.

One of Davis' services is to supply and clean workers' overalls for industrial companies. As jobs are lost in the wider economy during a recession, manufacturing companies require fewer work clothes.

Davis therefore has to discuss with customers where layoffs will occur and how this will impact on its sales. For example, it will seek alternative wearers such as canteen workers. However, recession may also encourage some companies, who at present manage their textile needs within the business, to consider outsourcing their requirements. This will generate additional custom for Davis.

At the same time Davis can look to make cost savings. The Group currently sources some of its textiles products from the Far East and China. As demand falls, the Group could increase the proportions of goods supplied from such cheaper sources.

http://businesscasestudies.co.uk

1. Choose a company/a country of your interest. Thinking back to the information discussed, would you describe the economy as booming, recovering, or in recession during the last few years? Why? Which curve do you think caused the change? Explain your reasoning.

Draw a business cycle for it. Analyse the possible actions to take to boost development of the company at hand. The class act as experts and scrutinize your analysis.

2. How well would our business do during each of these phases of the business cycle?

3. What kinds of businesses would do better than others in downturns in the business cycle?

4. Are businesses themselves most to blame for business cycles?

DISCUSSION

1. Study the case, roleplay it and discuss.

Causes of Business Cycles

Assume that your VE leadership team was interested in learning more about business cycles, specifically what causes them. You bring in four economists to speak about their ideas about the causes of the business cycle.

VE President: Ladies and gentlemen, thanks for coming here today. We are interested in learning more about what causes business cycles. Having this knowledge, perhaps we can avoid their most harmful effects. Dr. Talman, will you start, please?

Dr. Talman: I believe that you, the business leaders of this country, cause business cycles by either investing or not investing in capital goods. Let me explain. Good economic times come about when you people, expecting strong future sales, purchase large amounts of new equipment and machinery or build or expand your plants. These investments lead your businesses to produce more, resulting in a stronger economy. However, after a while you stop spending on capital goods. These cutbacks lead to recessions.

VE Vice President: Dr. Jonas, do you agree with Dr. Talman?

Dr. Jonas: I have focused my studies on inventory adjustments. Quite often, your businesses start building inventories at the first sign of an upturn and start cutting back inventories when you think there will be a downturn. It's these readjustments in inventories that lead to recessions and expansions.

VE Treasurer: We are eager to hear your views on the issue, Dr. Lukas.

Dr. Lukas: It's the commercial banks and the Federal Reserve that lead to changes in the business cycle. When the Fed lowers interest rates and loans are easy to get, that stimulates the economy. Generally, when the economy really gets going the Fed raises interest rates. This eventually leads to less borrowing and eventually the economy slows down.

VE Secretary: Finally, Dr. Winters. What's your thinking on the issue?

Dr. Winters: I think my colleagues have overlooked the effects of external shocks to our economy. By that I mean actions that create sudden problems for the economy, like increases in oil prices or wars. Not all shocks are bad for the economy. For example, the unexpected discovery of huge amounts of a resource like natural gas or oil can lead to an economic boom.

Choose a role for you: VE President, VE Vice President, VE Treasurer, VE Secretary, Dr. Talman, Dr. Jones, Dr. Lukas, and Dr. Winters. Act out the play, and explain their answers to the following.

- Describe one cause of business cycles according to economists in this play.
- What are some conclusions about the business cycle that you can draw from listening to this play?
- Which is the most important cause of the business cycle?
- Suggest an action that government or business can take to prevent the harmful changes in the business cycle.

2. Business Game. You are business experts summoned to analyse the business cycle and future development prospects of a country (Belarus, Russia or any other of your choosing) and its businesses.

Make a report summarizing the results of your discussion.

3. Hot Debate.

The Economist's Open Future debate held a discussion and the majority of people have voted "yes" to the question whether businesses should be free to refuse to disseminate ideas with which they disagree. This is a surprising contrast with the British courts which have, at least up to now, found that a bakery which refused to decorate a cake with a pro gay-marriage message was acting discriminatory.

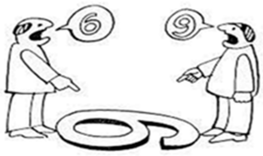
Do readers disagree that such a refusal is discriminatory? Some people have said that so long as every customer is refused a certain cake (e.g. one with a pro gay-marriage message) it's not discriminatory because there is no unequal treatment. Others vehemently disagree and say such a refusal is clear-cut discrimination. Imagine a bakery which refused to decorate a cake with two figurines of a biracial couple, again citing religious beliefs. Would that be discrimination?

What happens when freedoms collide? Can religious (or other) beliefs ever be an excuse to deny service? More specifically, can they be invoked to refuse to disseminate a message with which the business operator objects, such as a cake with a pro-gay message? Or should the law be used to overrule personal beliefs in order to fight discrimination? And what does this mean for freedom of expression?

Participate in the debate on the following topic.

Should businesses be free to refuse to disseminate ideas with which they disagree (such as baking a cake with a pro-gay message)?

BUSINESS COMMUNICATION



Raising a Difficult Point

1. Read the five extracts from conversations at work and answer questions 1–2.

2. In each case, what is the difficult point that is raised?
3. How does the person raising the point sound? How does the other person respond?

2. Study the target vocabulary.

Stating the position	**Disagreeing**
We are in a very difficult situation. We have reached the point where we have no other option than to... This is beyond our control. We are stuck with this situation. Off the top of my head, I'd say… From my perspective… Personally, I think… I'd like to point out that… It's reasonable. It (doesn't) makes sense.	I see your point, but…. Well, I see things rather differently… I agree up to a point, but… I wouldn't quite put it that way myself… I still have my doubts… Not necessarily… That's not always the case. **Being unwilling to negotiate** I have to say no to… That's out of the question.

Initiating a negotiation Could you do with ...? What would you say to doing ...? Would you consider …? **Showing a willingness to negotiate** Let's try to find a way round this. That's not out of the question. **Agreeing** I totally agree. Definitely. I couldn't agree more. Precisely. I see your point. I take your point. It's fine with me. I see what you are getting at… Sure, that's one way of looking at it… I have to side with you on this one. I suppose so. Good point. I am on the same page. (informal) Tell me about it! / You're telling me! / I'll say!	I refuse to budge on this. I have to stay firm on this. That just won't work. We can't possibly... **Being polite** I don't mean to sound rude, but ... This is a bit delicate. Please don't take offence. Please don't take this the wrong way. You see, the thing is, ... I'm not quite sure how to put this. With respect, ... Don't be offended, but... I'm sorry to have to say this, but... **Agreeing on a solution** Are we all agreed? It's a deal. Let's shake on that. I'll go along with... That sounds feasible.

3. Complete the sentences using the active vocabulary.

A. Look, … but what you could try to be a bit quieter when...

B. OK, well... Look, … . Please … , but... do you think it would be possible...

C. Look, … . I know you spent a lot of time on it. You see… it really needs a bit more work.

D. I'm not… but, well, I'm really delighted …

I. With …, Thomas, … I don't think it's quire as simple as that… there is still an enormous number of unanswered questions.

4. Rewrite statements 1–5 using phrases from 2 to make them less direct.

1. Your design for the new brochure is rubbish. We're going to ask someone else to do a new version.
2. Your laugh is really loud and annoying. It disturbs everyone else in the office.
3. The price you've quoted for this job is ridiculously high. There's no way we can afford to pay this amount.
4. Your performance over the last year has been really poor. We're not going to increase your pay until you start improving.
5. Stop leaving your unwashed mugs around the office. They always go mouldy and they're disgusting!

5. Which phrases in assignment 2 would be used by someone who

a) is trying to reach a compromise?
b) is not willing to compromise?
c) might be prepared to compromise?
d) knows that what he/she is offering is not really satisfactory.

6. Work with a partner. Have a conversation about one of these situations. Take turns to raise the difficult point using an appropriate phrase.

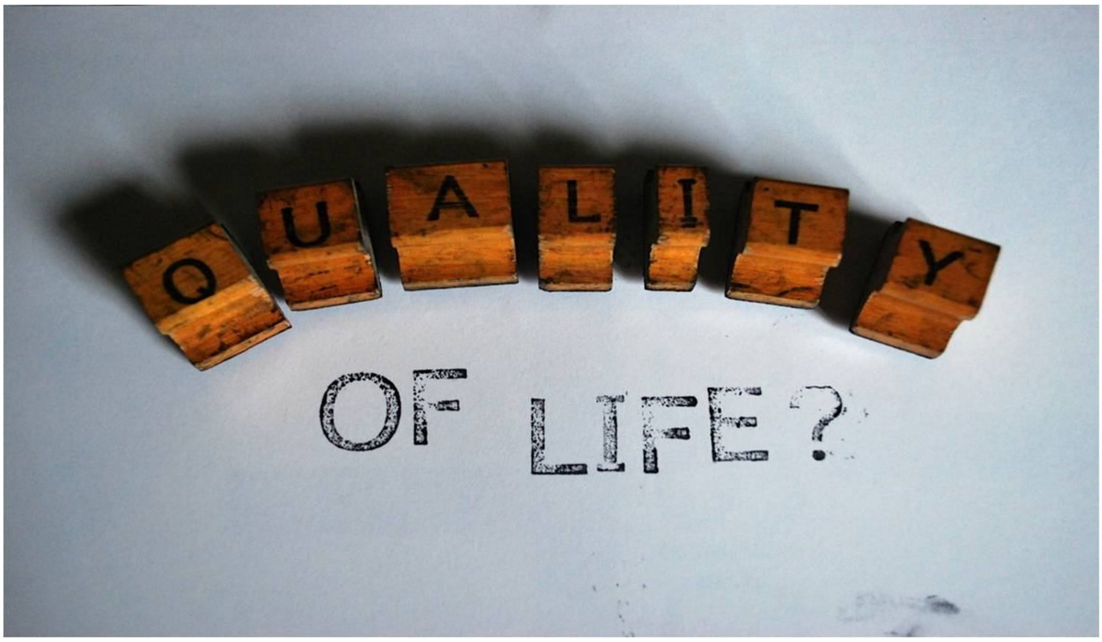
1. You share a small office. One of you constantly has meetings with other colleagues in the office. It's very difficult to work while this is happening.
2. You are in a meeting. One of your colleagues presents some facts and/or figures which you know are completely wrong.
3. One of your colleagues is taking a lot of time off work, officially because of stress, and this is increasing the workload and stress for the other team members.
4. Your colleague has produced some publicity material which doesn't match the brief they were given – you know they've worked hard on this, but it isn't, right.

7. Some health and safety rules in your company have been ignored recently, resulting in injuries to staff. You need to make an announcement to remind staff of the rules and procedures. Work with a partner and create a formal statement using the phrases and inversion. Include some of the following issues.

1. Fire drills.
2. Hot food and drink.
3. Driving and cycling on site.
4. Carrying heavy loads.

Section II

QUALITY OF LIFE:
EVERYONE WANTS IT, BUT WHAT IS IT?



You will know

- Dimensions that impact quality of life.
- What Quality-of-Life Index and Economy of Happiness is.
- Countries that have the highest quality of life.

1. In your opinion, what are the factors determining the well-being of a population?
2. Are you satisfied with the quality of life in our community?
3. Study the information below and conduct the survey (question 10 to 15 people). Present the results in class. With your groupmates try to scrutinize the data.
4. Which of the following items do you consider are key factors in measuring a country's quality of living? Which of the above items do you think could be improved in your country?

- Salary/wages
- Access to health care (private/public)
- Social services
- Poverty rate
- Life expectancy
- Transport (private/public)
- Access to education (private/public)
- Literacy rates
- Taxes (direct/indirect)
- Public services: police, fire brigades, (
  protection, etc.
- Civil rights
- Human rights
- National levels of corruption
- Employment (working hours, flexibility, paid holidays, etc.)
- R&D
- Culture
- Housing
- Political (form of government, etc.)
- Political and religious freedom
- Economics (inflation rate, GDP)
- Infrastucture (road/railway networks, airports, etc.)
- Environmental quality/climate
- Others (which?)

5. Your Personal Survey.

The following information is generally collected through a community survey, which can be conducted by telephone, in person, or by mail. This information may also be collected through focus groups, informal discussions, or other community gatherings.

Record the responses to the 12 questions below. If gathering the information through a survey, consider eliciting responses through a Likert scale (i.e., 1–5 with 1 being low and 5 being high).

If gathering the information in-person (i.e., via focus groups, informal discussions, or other mechanisms), use open-ended questions. Engage the community in an in-depth discussion (through focus groups, community dialogues, or town hall meetings) about the 12 questions. Explore the following issues for each question.

1. What is the preferred future?
2. What is the current reality?
3. What are the gaps, leverage points, or strategic opportunities?

Total of Community Residents Surveyed: ____

Quality of Life Questions	**Likert Scale Responses (1 to 5, with 5 being most positive)**
1. Are you satisfied with the quality of life in our community? (Consider your sense of safety, well-being, participation in community life and associations, etc.)	
2. Are you satisfied with the health care system in the community? (Consider access, cost, availability, quality, options in health care, etc.)	
3. Is this community a good place to raise children? (Consider school quality, day care, after school programs, recreation, etc.)	
4. Is this community a good place to grow old? (Consider elder-friendly housing, transportation to medical services, churches, shopping; elder day care, social support for the elderly living alone, meals on wheels, etc.)	

5. Is there economic opportunity in the community? (Consider locally owned and operated businesses, jobs with career growth, job training/higher education opportunities, affordable housing, reasonable commute, etc.)	
6. Is the community a safe place to live? (Consider residents' perceptions of safety in the home, the workplace, schools, playgrounds, parks, the mall. Do neighbors know and trust one another? Do they look out for one another?)	
7. Are there networks of support for individuals and families (neighbors, support groups, faith community outreach, agencies, organizations) during times of stress and need?	
8. Do all individuals and groups have the opportunity to contribute to and participate in the community's quality of life?	
9. Do all residents perceive that they – individually and collectively – can make the community a better place to live?	
10. Are community assets broad-based and multi-sectoral?	
11. Are levels of mutual trust and respect increasing among community partners as they participate in collaborative activities to achieve shared community goals?	
12. Is there an active sense of civic responsibility and engagement, and of civic pride in shared accomplishments?	

Working with words

1. Study the target vocabulary.

to encompass
a scoreboard of indicators
to aggregate
a gauge for
national accounts aggregates
benchmark
a snapshot of performance
to measure smth
money units
to inderpin
to provide a comprehensive picture
household income and consumption
a multidimensional approach
work is still on-going
net national income
household disposable income
household consumption per capita
total consumption per capita
to have a detrimental effect on
life expectancy
infant mortality
healthy life years
access to healthcare
to play a pivotal role
to plan ahead
arrears
the shaping of public policies
unadjusted pay gap
value for money
a catch-all term
upheavals
score highly
to come lower down the list
purchasing-power
(in)surmountable

2. Group the vocabulary into the following categories.

POSITIVE ACTIONS NEGATIVE ACTIONS

SLOGAN FOR BELARUSSIAN CITIZENS/BUSINESS

3. Unscramble the phrases and translate them.

- to have an effect
- life mortality
- infant expectancy
- healthy life years
- to play in line with

- value for aggregates
- to be a pivotal role
- score highly
- national accounts money
- money a comprehensive picture
- household is still on-going
- income and consumption
- net national income
- household disposable income
- household down the list
- total per capita
- consumption per capita
- to come lower

A. Imagine you are Leader of Country N. Describe the living standard and quality of life in your country. Remember to use the target vocabulary.

BE IN THE KNOW

What are the Economics of Happiness?

Study the article and get ready with 5 questions on it. After reading, discuss the questions with your partner.

Economists have begun to use research into happiness to explore questions in economics, policy, and management. Betsey Stevenson of the Wharton School of the University of Pennsylvania surveys the work in this emerging field.

Q: As an economist, what led you to research happiness?

Economists are concerned with human welfare. For a very long time, we believed the best thing to do was just look at what people do and infer their preferences from their behavior. But we've started to learn that there are some domains where that is hard to do, and simply asking people about their well-being can shed light on the situation.

Q: What particular domains are most illuminating?

I think one of the richest potential areas for happiness data is in the area of behavioral economics – in situations where the way people behave may not actually reflect their true, underlying preferences. As an example, if we were to think about raising taxes on cigarettes, we would typically say raising the price is bad for people who smoke, right? But there's a little bit more going on. Lots of people actually want to quit. So we might ask, is it possible to improve welfare by raising cigarette taxes? A pair of economists Jon Gruber and Sendhil Mullainathan found that excise taxes make potential smokers happier. The intuition is that because some people actually quit smoking when the price goes up, they are made better off. And so it is possible to improve welfare by raising a tax that encourages us to kick bad habits.

Q: How do we measure happiness?

Happiness is measured simply by asking people. Surveys ask people, “Taken all together, how would you say things are these days, would you say that you are very happy, pretty happy, or not too happy?” or “How satisfied are you with your life as a whole?”. Sometimes they’re asked on a zero-to-ten scale, either about happiness or about life satisfaction. A common question is what’s called the ladder question: interviewees are asked to imagine a ladder with ten rungs, where the top rung describes the best possible life for you and the bottom rung describes the worst possible life for you. Respondents then report the rung of the ladder that best represents their life.

The type of happiness questions I’ve studied are more evaluative and therefore are highly correlated with questions about life satisfaction, but there are other ways of measuring happiness. Daniel Kahneman, the psychologist who won a Nobel Prize in economics, really makes a distinction between how you feel in the moment and the more evaluative assessment of life satisfaction. If there’s a difference between happiness in the moment and life satisfaction, that raises questions for policymakers: What is it that we’re trying to maximize? Are we trying to maximize people’s holistic satisfaction with their life? Are we trying to maximize lots of little moments?

Q: How good are we at assessing our own happiness?

We do a pretty good job with these questions. People tend to answer the question in a similar way over time. Psychologists have spent decades showing that these questions measure something meaningful. They have compared the answers to things that we might think of as objective measures of happiness such as brain scans, heart rates, or what are called genuine smiles. The researchers then look to see if the objective data correlated with what the person says. They’ve also had people bring a friend in and while you’re filling out a survey saying how happy you are, your friend’s filling out a survey saying how happy they think you are. And it turns out people’s assessments are close to what their friends would say.

Q: Can businesspeople make management decisions based on happiness research?

Income is closely tied to happiness, but there are also smaller measures of happiness. The Gallup World Poll asked questions like, “Did you smile or laugh a lot yesterday?”, “Were you treated with respect yesterday?”, “Did you have good tasting food yesterday?”, “Did you have choices about how to spend your day yesterday?”. And what we find, not surprisingly, is that happiness is correlated with getting choice over how you spend your day, with having people treat you with respect, with laughing and smiling. And other research has shown that happier workers tend to be more productive workers. So the way you treat your workers can have effects on your workers' overall state of mind. That is the type of lesson that businesses can draw.

The other thing I would add as good news is that we can actually get a good sense of how people are doing by simply asking them. That seems very simple, but it's really important. If you want to know how happy your workers are, you should ask them.

Q: How does income impact happiness?

If we look at the relationship between happiness and income, we see a very clear relationship, where wealthier people are the happiest people in society and happiness rises quite steadily with income. Beyond that, we usually find that those living in rich countries are much happier than those living in poor countries. So if you take a zero-to-ten life-satisfaction scale, people in the poorest countries tend to place themselves somewhere around three. Mid-range countries fall somewhere between five and six. And then in developed countries, people end up somewhere between seven and eight.

Q: Are there lessons that policymakers should be pulling out of this research?

One reassuring thing is that happiness and GDP are highly correlated. There are a lot of naysayers out there who suggest GDP misses a lot. And there's the very famous Robert Kennedy quote, where he says that GDP measures everything except that which makes life worthwhile. Theoretically that's absolutely the case. GDP goes up when we have a natural disaster, and everybody gets busy trying to rebuild things. It misses the time you spend enjoying your children. It misses all sorts of great things. But, in reality, it turns out that GDP and happiness are highly correlated, so despite its theoretical limitations, GDP continues to be a pretty good barometer of social progress.

Q: There has been press coverage suggesting that happiness plateaus at a certain income level. Are you finding something different?

I haven't seen a study that actually showed that happiness plateaus. What we see is that happiness rises with the log of income. I think that's where people get confused. A 10 % rise in income is associated with a similar change in happiness at any income level. But when your income is $20,000 that 10 % is a lot less money than when your income is $200,000. As your income goes up, the extra happiness or life satisfaction you get per dollar shrinks because it is a smaller proportion of your income. But we see that happiness rises quite steadily with the log of income.

A poor individual or a poor country is going to get a lot more happiness out of a dollar than a rich person or a rich country. But a 10 % increase in income in a poor country is going to get us about the same amount of increase in happiness as a 10 % rise in income in a rich country.

A lot of economists had hypothesized that relative income is what matters, so it doesn’t matter if I get richer if everybody else is also getting richer. In that case my happiness isn’t going to change. It only changes if my station in society changes. But, in fact, we find that richer countries are happier than poorer countries and as countries get richer, their citizens get happier. I should note, however, that there is one exception. The United States has gotten wealthier over the last 40 years and we haven’t gotten any happier on average.

Q: Why is that?

We don’t have any definitive answer. Things have changed in terms of family life. Things have changed in terms of social cohesion. There have also been changes in inequality; we know that the top 1 % of the income distribution has had enormous income gains. And looking at the whole population, even if the top 1 % got really, really happy, that wouldn't affect the average happiness very much.

Q: How are various segments of the population affected?

Our research has examined differences in happiness by race and by gender. There have been enormous strides in civil rights for African Americans in the United States since the 1970s, and we’ve seen African Americans in the United States are getting much happier. They are still less happy than whites, on average, but two-thirds of a very large happiness gap that existed between blacks and whites in the 1970s has eroded over the last three and a half decades.

Our findings on gender showed that while women had higher reported happiness than men in the 1970s, that’s no longer true. Since the 1970s, women have become less happy in the United States, both absolutely and relative to men. Moreover, in 12 out of the 13 countries that we looked at, we find that the growth in happiness has been smaller for women than for men. That’s really puzzling in a period in which we think women have made substantial gains in the workplace – hiring and pay discrimination has fallen substantially. Women have gained in the home with things like having access to the birth control pill as well as having government policies in the United States and Europe that give them more room to take time off to care for children. There has been an increase in the amount of housework men have been doing over the last 40 years, and a decrease in the amount of housework that women have been doing. So with all of this, we would have thought women would be getting happier, relative to men. Instead, what we've seen is women have become less happy, relative to men.

Q: Why?

We have several theories. There may be large-scale social trends that we don’t think of as being gendered that might have disproportionately made women less satisfied with their lives. Robert Putnam’s book Bowling Alone talked about the phenomenon of decreasing social cohesion. It is possible a social trend like that could be having an impact.

It also could be women’s changed expectations. There are two ways of thinking about this. One is simply that women expect a lot today and their expectations have moved faster than society has been able to deliver, and so we have a bigger gap between expectations and what society is actually delivering. Women may have expected to be sexually harassed in the 1970s, and they got sexually harassed, so there wasn’t an expectations gap. Today, women may expect to not be sexually harassed and yet sexual harassment still occurs – at a lower rate than in the 1970s, but it definitely still occurs – and so there might actually be more dissatisfaction today, simply because the expectations moved more sharply than the actual members of society could change their behavior.

Another way to think about it is that women might be expecting themselves to succeed in many different domains, and it is simply harder to have a truly blissful life in many, many domains. An MBA student told me her mother’s idea of the perfect life was having children who are thriving and her home and garden well kept. Her mom always considered herself happy. The student added, I still want my children to thrive, and I still want to have a nice home and garden, but I also want to make a broader contribution to society. I want to have a career with work that's meaningful. To be really happy, I need to be thriving in all those dimensions, and that's just harder to achieve.

Happiness and How to Measure it

How would you suggest measuring happiness?
Study the article and jot down the key ideas. Make sure you know all the phrases in bold. After reading, discuss the issue with your peers, using at least 5 of these phrases.

Having grown at an annual rate of 3.2 % per head since 2000, the world economy is over half way towards notching up its best decade ever. If it keeps going at this clip, it will beat both the supposedly idyllic 1950s and the 1960s. Market capitalism, the engine that runs most of the world economy, seems to be doing its job well.

But is it? Once upon a time, that job was generally agreed to be to make people better off. Nowadays that’s not so clear. A number of economists, in search of big problems to solve, and politicians, looking for bold promises to make, think that it ought to be doing something else: making people happy.

The view that economics should be about more than money is widely held in continental Europe. In debates with Anglo-American capitalists, wily *bons vivants* have tended to cite the idea of "quality of life" to excuse slower economic growth. But now David Cameron, the latest leader of Britain's once rather materialistic Conservative Party, has espoused the notion of "general well-being" (GWB) as an alternative to the more traditional GDP. In America, meanwhile, inequality, over-work and other hidden costs of prosperity were much discussed in the mid-term elections; and "wellness" (as opposed to health) has become a huge industry, catering especially to the prosperous discontent of the baby-boomers.

The things you never knew you wanted

Much of this draws on the upstart science of happiness, which mixes psychology with economics. Its **adherents** start with copious survey data, such as those derived from the simple, **folksy question** put to thousands of Americans every year or two since 1972: "Taken all together, how would you say things are these days – would you say that you are very happy, pretty happy or not too happy?" Some of the results are unsurprising: the rich report being happier than do the poor. But a paradox emerges that requires explanation: **affluent** countries have not got much happier as they have grown richer. From America to Japan, figures for well-being have barely budged.

The science of happiness offers two explanations for the paradox. Capitalism, it notes, is adept at turning luxuries into necessities – bringing to the masses what the elites have always enjoyed. But **the flip side of** this genius is that people come to **take for granted** things they once coveted from afar. Frills they never thought they could have become essentials that they cannot **do without**. People are stuck on a treadmill: as they achieve a better standard of living, they become inured to its pleasures.

Capitalism's ability to take things downmarket also has its limits. Many of the things people most prize – such as the top jobs, the best education, or an exclusive home address – are luxuries by necessity. An elite schooling, for example, ceases to be so if it is provided to everyone. These "positional goods", as they are called, are in fixed supply: you can enjoy them only if others do not. The amount of money and effort required to grab them depends on how much your rivals are putting in.

Some economists think the results **cast doubt on** the long-held verities of their discipline. The dismal science traditionally assumes that people know their own interests, and are best left to **mind their own business**. How much they work, and what they buy, is their own affair. A properly brought-up economist seeks to explain their decisions, not to quarrel with them. But the new happiness gurus are much less willing to defer to people's choices.

Take work, for instance. In 1930 John Maynard Keynes imagined that richer societies would become more leisured ones, liberated from toil to enjoy the finer things in life. Yet most people still put in a decent shift. They work hard to afford things they think will make them happy, only to discover the fruits of their labour sour quickly. They also aspire to a higher place in society's pecking order, but in so doing force others in the rat race to run faster to keep up. So everyone loses.

Yet it is not self-evident that less work would mean more happiness. In America, when the working week has shortened, the gap has been filled by assiduous TV-watching. As for well-being, other studies show that elderly people who stop working tend to die sooner than their peers who labour on. Indeed, another side of happiness economics busies itself studying the **non-monetary rewards** from work: most people enjoy parts of their work, and some people love it.

As for capitalism's wasteful materialism, even Adam Smith had a problem with it. "How many people ruin themselves by laying out money on trinkets of frivolous utility?" he complained. It is hard to claim that pyramid-shaped tea-bags (developed at great expense over four years) have added much to the sum of human happiness. Yet if capitalism sometimes persuades people to buy stuff they only imagine they want, it also appeals to tastes and aptitudes they never knew they had. In the arts, this is called "originality" and is venerated. In commerce it is called "novelty" and too often dismissed. But without **the urge for** material improvement, people would still be wearing woollen underwear and holidaying in Bognor rather than Bhutan. Would that be so great?

The joys of niche capitalism

If growth of this kind does not make people happy, stagnation will hardly do the trick. Ossified societies guard positional goods more, not less, jealously. A flourishing economy, on the other hand, creates what biologists call "a tangled bank" of niches, with no clear hierarchy between them. Tyler Cowen, of George Mason University, points out that America has more than 3,000 halls of fame, honouring everyone from rock stars and sportsmen to dog mushers, pickle-packers and accountants. In such a society, everyone can hope to come top of his particular monkey troop, even as the people he looks down on count themselves top of a subtly different troop.

To find the market system wanting because it does not bring joy as well as growth is to place too heavy a burden on it. Capitalism can make you well off. And it also leaves you free to be as unhappy as you choose. To ask any more of it would be asking too much.

https://www.economist.com/node/8450035

Quality of Life: What Is It?

Study the article and find the answers to the following questions.

1. What is quality of life?
2. What is the impact of GDP on quality of life?
3. What are the indicators covering important domains in order to measure well-being of a population?

The need for measurement beyond GDP

Quality of life is a broad concept that encompasses a number of different dimensions (by which we understand the elements or factors making up a complete entity, that can be measured through a set of sub dimensions with an associated number of indicators for each). It encompasses both objective factors (e.g. command of material resources, health, work status, living conditions and many others) and the subjective perception one has of them. The latter depends significantly on citizens' priorities and needs. Measuring quality of life for different populations and countries in a comparable manner is a complex task, and a scoreboard of indicators covering a number of relevant dimensions is needed for this purpose.

National accounts aggregates have become an important indicator of the economic performance and living standards of our societies. This is because they allow direct comparisons to be made easily. Gross Domestic Product GDP, one of these aggregates, is the most common measure of the economic activity of a region or a country at a given time; many decision and policy makers use it as the standard benchmark, often basing their decisions or recommendations on it. It includes all final goods and services an economy produces and provides a snapshot of its performance. GDP is very useful for measuring market production (expressed in money units). However, although it was not intended as an indicator of social progress, it has been considered to be closely linked to the well-being of citizens. The following are a number of reasons why GDP is not sufficient for this purpose, and therefore needs to be complemented by other indicators.

Other measures of income reflect better households' situations

While GDP is very useful for measuring market production and providing an indicative snapshot of an economy at a given time, it does not provide a comprehensive picture of how well-off the citizens of a society are. Citizens' material living standards are better monitored by using measures of household income and consumption. Stiglitz, Sen and Fitoussi argue that the income of a country's citizens is clearly more relevant for measuring the well-being of citizens' than domestic production.

In many cases, household incomes may develop differently from real GDP and therefore provide a different picture of this aspect of citizens' well-being.

Increasing GDP today, depleting resources for tomorrow

Social, environmental and economic progress does not always go hand in hand with an increase in GDP. For example, if a country decides to cut down all its forests, it will dramatically increase its timber exports, thus increasing its GDP. If GDP were the only indicator of quality of life, this would mean that the population of this country would have greatly improved its well-being. However, the deforestation would have a significant impact on the population's quality of life in the mid and long term: loss of natural habitat, soil erosion and more. GDP definitely measures quantity, but not necessarily other aspects of production (such as distribution and potential impacts for the future).

Even if 'quantity' were the only relevant measure of economic performance and quality of life, GDP would still not tell us the whole story about living standards. A significant increase in a society's average GDP does not automatically translate into better living standards for most of its citizens. The increase could benefit only a small part of society, leaving many groups of citizens at the same level in terms of wealth, or even worse off than before. Consequently, overall measures of economic and social well-being must also include distribution indicators in order to provide a more realistic picture of the living standards and quality of life of a society's citizens.

GDP and other economic measures need to be complemented

Moving beyond economic performance, a more comprehensive, wide-ranging approach is needed when trying to define and measure quality of life. While it remains very difficult to provide an overall definition with specific measurable indicators, quality of life definitely includes more than just economic production and GDP figures. It should also be stressed that some of the indicators that will be included in this scoreboard are subjective. They therefore reflect the perceptions of individuals, their own assessment of different aspects of life and overall quality of life. An Expert Group coordinated by Eurostat with the mandate of developing a scoreboard of quality of life indicators was set up on basis of this recommendation.

8 + 1 dimensions of quality of life

A first set of indicators has been published and work is still on-going to fill in the gaps and possibly make recommendations for new indicators to be collected within this framework.

Based on academic research and several initiatives, the following 8 + 1 dimensions/domains have been defined as an overarching framework for the measurement of well-being. Ideally, they should be considered simultaneously, because of potential trade-offs between them:

- *Material living conditions* (income, consumption and material conditions);
- *Productive or main activity*;
- *Health*;
- *Education*;
- *Leisure and social interactions*;
- *Economic and physical safety*;
- *Governance and basic rights*;
- *Natural and living environment*;
- *Overall experience of life*.

Material living conditions

Material living standards are measured on the basis of three sub-dimensions: income, consumption and material conditions (deprivation and housing). Income is an important indicator as it has an impact on most of the other indicators in the framework. There are several different indicators within this sub dimension, taken from both national accounts and household surveys (net national income, household disposable income). The same is true for consumption, within which some aggregated indicators are taken from national accounts (household consumption per capita, total consumption per capita), and other indicators for households are taken from the Household Budget Survey. Material conditions (deprivation and housing) provide important complementary information to these money-based approaches.

Productive or main activity

A number of activities fill up citizens' lives every day, the most prominent one being their work. Indicators measuring both the quantity and the quality of jobs available (working hours, balancing work and non-working life, safety and ethics of employment) are some of the indicators used in Europe to measure this aspect of quality of life.

Health

Health is an essential part of the quality of life of citizens. Poor health can affect the general progress of society. Physical and/or mental problems also have a very detrimental effect on subjective well-being. Health conditions in Europe are mainly measured using objective health outcome indicators such as life expectancy, infant mortality, the number of healthy life years, but also more subjective indicators, such as access to healthcare and self-evaluation of one's health.

Education

In our knowledge-based economies, education plays a pivotal role in the lives of citizens and is an important factor in determining how far they progress in life. Levels of education can determine the job an individual will have. Individuals with limited skills and competences are usually excluded from a wide range of jobs and sometimes even miss out on opportunities to achieve valued goals within society. They also have fewer prospects for economic prosperity. In Europe, currently available indicators of education that are relevant for quality of life are a population's educational attainment, the number of early school leavers, self-assessed and assessed skills and participation in life-long learning.

Leisure and social interactions

The power of networks and social connections should not be underestimated when trying to measure the well-being of an individual, as they directly influence life satisfaction. In Europe, this is measured in terms of how often citizens spend time with people at sporting or cultural events or if they volunteer for different types of organisations. In addition, the potential to receive social support and the frequency of social contacts are indicators included in the framework under this dimension.

Economic and physical safety

Security is a crucial aspect of citizens' lives. Being able to plan ahead and overcome any sudden deterioration in their economic and wider environment has an impact on their quality of life. Safety is measured in terms of physical safety (e.g. the number of homicides per country) and economic safety. For the latter, wealth indicators should ideally be used, but for the moment there is no comparable data on the topic for all European countries. The ability to face unexpected expenses and having or not having arrears are therefore used as proxy variables. The crisis has shown how important economic safety is for the quality of life of Europeans.

Governance and basic rights

The right to get involved in public debates and influence the shaping of public policies is an important aspect of quality of life. Moreover, providing the right legislative guarantees for citizens is a fundamental aspect of democratic societies. Good governance depends on the participation of citizens in public and political life (for example, involvement in political parties, trade unions etc.). It is reflected also in the level of trust of citizens in the country's institutions, satisfaction with public services and the lack of discrimination. Gender discrimination measured in terms of the unadjusted pay gap is the only indicator included in this sub-dimension at the moment, but more indicators will be developed in the future.

Natural and living environment

The protection of the environment has been very high on the European agenda over the last few decades. The vast majority of European citizens believe that protecting the environment is important. Exposure to air, water and noise pollution can have a direct impact on the health of individuals and the economic prosperity of societies. Environment-related indicators are very important for assessing quality of life in Europe and in general. Both subjective (individuals' own perceptions) and objective (the amount of pollutants present in the air) indicators are included.

Overall experience of life

Overall assessment of one's life is measured using three sub-dimensions: life satisfaction (cognitive appreciation), affect (a person's feelings or emotional states, both positive and negative, typically measured with reference to a particular point in time) and eudaemonics (a sense of having meaning and purpose in one's life, or good psychological functioning.). This is in line with the OECD guidelines on Measuring Subjective Well-Being.

Conclusion

As highlighted above, it remains difficult to measure the quality of life of (European) citizens but preliminary results show it is worth going beyond GDP figures. A multidimensional approach is necessary to get a more comprehensive view of quality of life and avoid any misleading conclusions. Thus, Quality of Life is an internationally validated framework developed by Dr. Robert Schalock. It is represented by eight domains that provide an indication of an individual's quality of life in three broad areas:

a) Independence;
b) Social participation;
c) Well-being.

The QoL framework fits well with overall vision of good lives in welcoming communities and applies equally to all people – disability or no disability. The graphic below shows the relationship between the three factors, the eight domains and indicators for each of the domains.

Quality of Life Framework

Factor	Domain	Exemplary Indicators
Independence	1. Personal Development	• Education (achievements, education status); • Personal competence (cognitive, social, practical); • Performance (success, achievement, productivity)
	2. Self-Determination	• Autonomy/personal control; • Goals and personal values (desires, expectations); • Choices (opportunities, options, preferences)

Factor	Domain	Exemplary Indicators
Social Participation	3. Interpersonal Relationships	• Interactions (social networks, social contacts); • Relationships (family, friends, peers); • Supports (emotional, physical, financial); • Recreation
	4. Social Inclusion	• Community integration and participation; • Community roles (contributor, volunteer); • Social supports (support networks, services)
	5. Rights	• Human (respect, dignity, equality); • Legal (citizenship, access, due process)
Well-Being	6. Emotional Well-Being	• Contentment (satisfaction, moods, enjoyment); • Self-concept (identity, self-worth, self-esteem); • Lack of stress (predictability and control)
	7. Physical Well-Being	• Health (functioning, symptoms, fitness, nutrition); • Activities of daily living (self-care, mobility); • Physical activities including recreation
	8. Material Well-Being	• Financial Status (income, benefits); • Employment (work status, work environment); • Housing (type of residence, ownership)

http://www.communitylivingbc.ca/projects/quality-of-life/what-is-quality-of-life/

The Economist Intelligence Quality-of-Life Index

Study the article on quality-of-life index. How much were you right when discussing correlations between life satisfaction and the 8 determinants of QoL? Do you agree with the key ideas of the article? Prove your viewpoint.

The values of the life-satisfaction scores that are predicted by our some indicators represent a country's quality-of-life index, or the "corrected" life-satisfaction scores, based on objective cross-country determinants. The coefficients in the estimated equation weight automatically the importance of the various factors; the method also means that the original units or measurement of the various indicators can be used. A number of other variables were also investigated but, in line with findings in the literature, had no impact in this multivariate framework. These were: education levels, the rate of real GDP growth and income inequality. Studies have often found at most a small correlation between education and life satisfaction, over and above any impact that education has on incomes and health, and possibly other variables such as the extent of political freedom. A recent report found that an indicator of schooling and training was actually inversely related to wellbeing when jobs are poorly attuned to people's needs and aspirations.

The role of income

The aim is to supplement not supplant real GDP. We find that GDP per person explains more than 50 % of the inter-country variation in life satisfaction, and the estimated relationship is linear. Surveys show that even in rich countries people with higher incomes are more satisfied with life than those with lower incomes. In 24 out of 28 countries surveyed by Euro barometer, material wellbeing is identified as the most important criterion for life satisfaction. However, over several decades there has been only a very modest upward trend in average life-satisfaction scores in developed nations, whereas average income has grown substantially. There is no evidence for an explanation sometimes profferedor the apparent paradox of increasing incomes and stagnant life-satisfaction scores: the idea that an increase in someone's income causes envy and reduces the welfare and satisfaction of others.

In our estimates, the level of income inequality had no impact on levels of life satisfaction. Life satisfaction is primarily determined by absolute, rather than relative, status (related to states of mind and aspirations).The explanation is that there are factors associated with modernisation that, in part, offset its positive impact. A concomitant breakdown of traditional institutions is manifested in the decline of religiosity and of trade unions; a marked rise in various social pathologies (crime, and drug and alcohol addiction); a decline in political participation and of trust in public authority; and the erosion of the institutions of family and marriage. In personal terms, this has also been manifested in increased general uncertainty and an obsession with personal risk. These phenomena have accompanied rising incomes and expanded individual choice (both of which are highly valued). However, stable family life and community are also highly valued and these have undergone a severe erosion.

Quality-of-life index

The coefficients in the equation are used to forecast a quality-of-life index. Four of the indicators are forecast (GDP, life expectancy, unemployment rate, political stability); one (geography) is fixed and the remaining four, which represent slow-changing factors, are based on the latest available data.

There are differences, but they seem much less dramatic than might have been expected, underscoring the assumption of universalist values that underpins our approach.

Accounting for difference

The framework for calculating quality-of-life indices can be used to decompose and compare the sources of differences in quality of life between countries and regions (the values of the explanatory variables are multiplied by the equation coefficients).

When one understands the interplay of modernity and tradition in determining life satisfaction, it is then easy to see why Ireland ranks a convincing first in the international quality-of-life league table. It successfully combines the most desirable elements of the new – material wellbeing, low unemployment rates, political liberties – with the preservation of certain life satisfaction-enhancing, or modernity-cushioning, elements of the old, such as stable family life and the avoidance of the breakdown of community. Its score on all of these factors are above the eu-15average, easily offsetting its slightly lower scores on health, climate and gender equality.

The United Kingdom, by contrast, ranks 29th in the world – well below its rank on income per person and bottom among the eu-15 countries. Social and family breakdown is high, offsetting the impact of high incomes and low unemployment. Its performance on health, civil liberties, and political stability and security is also below the eu-15 average. The United States rank slower on quality of life than on income but it is above the eu-15 average. Italy performs well, but Germany and France do not – belying the notion that the big eurozone nations compensate for their productivity lag with a better quality of life than in America.

These Countries Have the Highest Quality of Life


Before Reading

1. In your opinion, how does this picture illustrate the countries with the highest quality of life?
2. Name these countries and give a brief description of them (use the information from the article above and the active).

Now read the article and see if you were right.

The photo is soap bubbles in Zurich – a city consistently ranked for its quality of life.

The countries with the highest quality of life have been announced by the not-for-profit organisation Social Progress Imperative.

Scandinavian nations scored highly in the Social Progress Index, but more surprising are the very large countries which came lower down the list – suggesting that a strong GDP per capita is not the only gauge for a high standard of living.

Despite this, all of the top 10 countries are developed nations – so having a strong economy clear has an impact.

The Social Progress Index collates the scores of three main indexes:

- Basic Human Needs, which includes medical care, sanitation, and shelter.
- Foundations of Wellbeing, which covers education, access to technology, and life expectancy.
- Opportunity, which looks at personal rights, freedom of choice, and general tolerance.

The index then adds the three different factors together, before giving each nation a score out of 100. You can see the 10 countries with the highest quality of life below.

T-10. New Zealand – 88.45.

New Zealand's tourist board calls it "the youngest country in the world", and it is certainly one of the most beautiful. "Opportunity" is where it scores really high, as a low population means jobs are in abundance.

T-10. Iceland – 88.45.

Speaking of beautiful countries, Iceland scores very well in social progress, particularly in the "basic human needs" index and GDP per capita. Its football team has proven itself a force to be reckoned with too.

9. United Kingdom – 88.58.

The NHS is big part of the UK's high placing, with "basic medical care" scoring almost 100 % on the report. Education scores almost as highly, with free access to quality schools.

8. Netherlands – 88.65.

The Netherlands is famously one of the most tolerant countries in the world, so its position in the top ten should be no surprise. It is one of the highest-scoring countries on "personal freedom and choice".

7. Norway – 88.70.

Get used to seeing Scandinavian nations in the top ten. Norway is big on "nutrition and basic medical care", and its "access to basic knowledge" is strong too. Many have said the Norway model is one to follow for a non-EU UK.

6. Sweden – 88.80.

"Water and sanitation" may be taken for granted in developed economies, but it is not enjoyed everywhere. Luckily it is an area Sweden nails, scoring 99.77. The country also picks up high scores in "nutrition" and "personal rights".

5. Switzerland – 88.87.

Switzerland may have some of the most expensive cities in the world to live in, but its citizens get value for money. According to the Social Progress Report, "medical", "nutritional" and "access to basic knowledge" is where the country shines.

4. Australia – 89.13.

There is a good reason so many people want to start a new life "down under". Austrailia has fantastic education, job opportunities and a strong sense of personal freedom. Its "tolerance and inclusion" score could be higher though.

3. Denmark – 89.39.

Denmark has one of the best social mobility and income equality rates in the world, so no surprise it makes it into the top three on this list. "Basic human needs" is where the country scores particularly highly, though its "health and wellness" stats such as life expectancy could be higher.

2. Canada – 89.49.

For such a huge nation, Canada only has 35 million citizens, and they are some of the best looked after in the world. Canada's healthcare is what stands it above the rest. Education and opportunity in the country are also impressively strong.

1. Finland – 90.09.

Everyone says Scandinavian nations have the highest standard of living, and now Finland has made it official. It scores highly on almost every index on the report, from basic needs, foundations of wellbeing and personal freedoms. If you move there just make sure to bring warm coat – temperatures can reach minus 50 Celsius in the winter!

https://www.weforum.org/agenda/these-countries-have-the-highest-quality-of-life

Ready? Steady? GO...

Get ready for Intellectual Show. Be sure you can complete the statements and expand the ideas below. Remember to use the target vocabulary (at least 2 per question point).

1. Quality of life is a broad concept that encompasses…
2. …have become an important indicator of the economic performance and living standards of our societies. This is because they allow…
3. Gross Domestic Product GDP, one of these aggregates, is the most common measure of…
4. The following are a number of reasons why GDP is not sufficient…
5. Social, environmental and economic progress does not always go hand in hand with an increase in GDP. For example, …
6. A significant increase in a society's average GDP does not…
7. Based on academic research and several initiatives, the following 8 + 1 dimensions/domains have been defined…
8. Material living standards are measured on the basis of…
9. Health is an essential part of…
10. The right to … is an important aspect of quality of life.
11. The vast majority of European citizens believe that… is important.
12. Security is a crucial aspect of citizens' lives. Being able to… has an impact on their quality of life.
13. …plays a pivotal role in the lives of citizens and is an important factor in determining how far they progress in life.

Talking Point

1. How do you think, to what extent are the 8 determinants mentioned in the article related to the actual well-being of the population?

2. Do the Questionnaire.

Student A's Questions

1. How much does it cost to live a quality, happy life?
2. Would you have a better quality of life if you were … (continue yourself)?
3. Do political freedom/job impact your quality of life?
4. How does education affect your quality of life?
5. How do you evaluate students', other people's social inclusion in our country?
6. Does your state of mind affect your quality of life?
7. Why don't countries copy the economic policies of the countries with the highest standard of living?
8. What do you think your standard of living will be like when you retire?

Student B's Questions

1. How do you evaluate your personal development, self-determination?
2. What single thing could you do to increase the quality of your life?
3. Can money buy quality of life?
4. What do you think is more important: quality or longevity of life?
5. Would you like to move to the country with the highest standard of living?
6. How do 8 dimensions discussed above impact your quality of life?
7. Will your quality of life get better or worse over the next few decades?
8. Is the standard of living related to the cost of living?

3. Find out about a country that has enhanced its quality of life. In mini-groups present your findings on how the country has changed the QoL and discuss what practices your country can borrow.

4. Expert Discussion "Belarus is the Country With Great Potential to High QoL". Divide into 2 groups: optimists and pessimists. Think of the compelling arguments to prove your stance. Make sure to apply the information from the articles and the target vocabulary.

Expressing Dissatisfaction

1. Study the target vocabulary.

I have to admit, I'm not getting much out of it.
It's doing my head in!
It's really testing my patience.
I think I've reached my limit
It hasn't lived up to expectations so far.
I have to say, I was expecting something a bit more.
It's just not up to scratch.
To be frank, I'm not very happy with...
I can't really see the point of...
To be honest, I'm finding it a bit frustrating that...
I just don't think this is the best use of my time.
This is ridiculous.

2. Listen to the conversations. Complete extracts 1–11, using the dissatisfaction phrases.

1. Though I have to admit, I'm not getting…
2. And the pace is so slow! It's… !

3. I know what you mean. It's really… , too
4. In fact, I think I've …
5. Well, I agree it hasn't … so far.
6. I have to say that I … professional.
7. Well, the cover for example…
8. And to be frank. I'm ... the wording either.
9. I… staying.
10. To be honest. I'm… that I have to be here at all.
11. I just… my time.

3. Match sentences 1–11 in assignment 2 to these categories.

A. The speaker says that something does not reach the right level of quality.
B. The speaker says that something is not as good as they hoped beforehand.
C. The speaker says that something isn't useful for them.
D. The speaker says that something is making them impatient or bored.
E. The speaker says that they cannot stand any more of something

5. Sometimes it's important to soften what you say to make it sound less direct. Look at sentences 1–4 and <u>underline</u> words the speaker uses to soften what they say.

1. To be honest, I think this seminar is a bit of a waste of time.
2. I can't really see the point of everyone being here if they're not contributing.
3. I have to admit, I'm not really enjoying my new job.
4. I'm afraid that this report still needs some work.

5. Work with a partner. Decide how you would soften the sentences.

1. Your performance this year has been substandard.
2. I hate the project I'm working on at the moment.
3. You need to completely rewrite your presentation.
4. This meeting is a waste of time.
5. Why are we here if there's nothing for us to do.

6. Read the situations and think of phrases from 2 that could be used in each one. Then work with a partner and practice the conversations.

1. You meet your colleague at the coffee machine. Discuss how bad the coffee at work is and how poor the canteen food is.

2. You are both attending a long presentation given by a regional manager about last quarter's turnover, but it's very boring. Find out if your partner is also finding it boring
3. You have both just seen an announcement about the annual staff bonus. It is surprisingly low. Discuss this with your partner.
4. You are both very busy, but have been asked by your boss to attend an informal presentation given by another department about their work It is not relevant to you or your current tasks. Discuss this with your partner.

Dealing with misunderstandings

1. Listen to five conversations. In which conversation(s) does the person react to the misunderstanding.

a) in a polite way;
b) in a less polite way.

2. Listen again. In which conversation (1–5) do you hear these phrases?

A. I didn't mean that…
B. I don't know what you're talking about.
C. Sorry if I didn't make that clear, I was thinking more along the lines of...
D. Look, you've got it wrong.
E. What do you mean?
F. That's not really what 1 meant. What I actually wanted to say was…
G. What I meant was...
H. ...can I put this straight?
I. The amount may seem... but actually...
J. No. That's not right.
K. No, that's not exactly what I'm saying.

3. Study the vocabulary.

Saying you haven't understood
I don't know what you're talking about. What do you mean? I don't get it.

Responding to a misunderstanding

I didn't mean that.
Sorry if I didn't make that clear.
No, you've got it wrong.
I was thinking more along the lines of...
That's not really what 1 meant what I actually wanted to say was...
What I meant was...
Can I put this straight?
It may seem... , but actually...
No, that's not right.
No, that's not exactly what I'm saying.

4. Work with a partner. Student A, make suggestions/complaints and deal with any misunderstanding. Student B, misunderstand Student A. Change roles and repeat.

1. Suggest new facilities for staff at your company (e.g. gym, canteen, TV room, etc.).
2. Suggest an idea for your partner's next holiday.
3. Make a complaint about your partner's work.
4. Suggest a task for your partner to do at work.

Section III

DIGITILISATION IN ECONOMY:
JUST ANOTHER BUZZWORD?

You will know

- Why digitization is all-important for the 21 century's businesses.
- What impact it has on economy and labour market.
- What you can gain from digitization.

Walk around the room and mingle with your groupmates to discuss the questions below

1. What digital products do you have?
2. Do you think it is difficult to keep up to date with technology in the digital revolution? How about your parents or grandparents?
3. Has the digital revolution reached all four corners of the Earth?
4. Would you like a job in the digital revolution?
5. What would our life be like without computers and other digital products?
6. What do you think of the word “digital”?
7. Do you think people who work in technology are nerds or geeks?
8. How do you think the digital revolution will change our lives from now?
9. Do you feel like a revolution is happening around you?
10. What revolution will come after the digital revolution?

Working with words

1. Look through the articles and elicit the words and phrases in bold. Get ready with a crossword with 10 vocabulary units to discuss it with your partner.
2. Find the active words in the table. Choose the “Quickest” Winner.

H	R	Z	I	M	P	E	R	V	I	O	U	S	A	U
E	T	X	N	Q	Q	M	Z	L	N	R	M	W	C	B
A	Y	C	C	W	S	B	X	K	–	T	I	S	U	I
D	U	V	E	E	D	E	C	J	H	H	T	D	M	Q
O	I	B	N	R	F	D	V	B	O	G	I	F	E	U
O	O	N	T	Y	G	S	D	F	U	H	G	J	N	I
N	A	G	I	L	I	T	Y	G	S	H	A	J	L	T
S	A	M	V	T	H	J	K	L	E	S	T	Z	X	O
D	P	R	E	C	A	R	I	O	U	S	E	J	M	U
C	I	R	C	U	M	V	E	N	T	C	V	B	N	S

3. Using the target vocabulary, design a chain story titled (of your choosing):

TOP 10 WORST BUSINESSES

HOW TO WIN THE DIGITAL MINDS AND HEARTS OF TOMORROW'S …

BE IN THE KNOW

Study the articles and jot down the key ideas. Make sure you know the phrases in bold.

Using Machine Learning To Turbocharge Financial Services Innovation

When people talk about artificial intelligence (AI), the discussion commonly turns to flashy robotics – how they support manufacturing production lines, disable explosives, or even vacuum the floors.

Major steps in AI were made in the late 1950s and early 60s, with flagship examples like the ELIZA computer program that demonstrated the superficiality of communication between humans and machines. From then until the 1980s, there was great promise that AI could revolutionize businesses, but there was no major disruption.

Today it feels as if AI is born again, and it is much more than robots. Innovative new AI technologies are delivering benefits to a wide variety of industries, including financial services.

According to the "Worldwide Semiannual Cognitive Artificial Intelligence Systems Spending Guide" from International Data Corporation (IDC), worldwide revenues for cognitive and artificial intelligence (AI) systems will reach $12.0 billion in 2017, an increase of 59.1 % over 2016. "Cognitive and artificial intelligence solutions continue to proliferate across all industries, resulting in significant growth opportunities," said Marianne Daquila, research manager, Customer Insights and Analysis, at IDC. "Some of the use cases are very industry specific, such as diagnosis and treatment in healthcare, and in others, they are common across multiple industries such as automated customer service agents. The variety, application, and nature of cognitive/artificial intelligence use cases are resulting in ubiquitous spend over the forecast period."

One of the most interesting disciplines is machine learning, a specific type of AI that allows computers to learn without being explicitly programmed to do so. Machine learning uses statistical theory and exponentially more powerful computer processing to help businesses quickly realize valuable insight from their data.

This is great news for banks and insurers. Not only are these service providers facing falling profit margins, rising customer expectations, and increasing competition from fintechs, but they also need to cut costs. With machine learning, they can extract value from huge volumes of data, cheaply and effectively.

Machine learning can help traditional global banks that operate accounts at 140 to 170 British pound sterling (GBP) to compete better with challenger banks that operate at 4 to 44 GBP.

Creating intelligent financial services

Machine learning is ideal for addressing three dominant financial services challenges, including:

- **customer front office**: Unsupervised machine learning techniques can help banks and insurers segment their customers and offer personalized, targeted products. These technologies can also improve speed and agility, helping companies compete with fintech firms through enhanced knowledge of their customers;
- **regulation and compliance**: Using automated reports, stress-testing solutions, and behavioral analysis of e-mails and phone records to identify suspicious customer or employee behavior, machine learning can boost regulatory compliance. It can also enhance fraud detection, improve anti-money laundering efforts, and more effectively detect credit risk;
- **operational efficiency**: By combining Big Data with machine learning, financial services companies can automate back-office operations, reduce errors, and accelerate process execution. Insurers can improve and automate claims handling by recognizing patterns in pictures or individuals involved in damages, for example. Machine learning algorithms can also elevate talent management and recruitment by evaluating the resumes of successful employees while searching for online candidates with similar traits and experience.

Financial services challenges addressed by machine learning

1. Automating front-office applications

One of the most interesting machine learning applications helps financial services companies segment customers and offer targeted products or services. Let's look at how the technology works.

Cluster analysis discovers distinct groups within the customer base and identifies similarities over several dimensions. Because this process is unsupervised, banks or insurers do not need to define the characteristics. The technology discovers these on its own.

Once the customer base is segmented, the technology builds predictive models. Algorithms help identify the most suitable products for each customer. And because the algorithms learn as they go, they can recognize changes in customer preferences in real time and automatically adjust product recommendations and provide the right advice at the right time.

The benefits can be significant. Personalized offerings make customers feel understood, increasing satisfaction. Successful cross-sell and upsell efforts can increase revenues. Service speed increases when banks and insurers can automatically recognize a change in behavior and respond instantly, without human intervention.

2. Choosing the right AI functionality

Traditional database technologies and analytics tools are not powerful enough to support machine learning. Fortunately, a new generation of innovative solutions is coming to market.

Many vendors are seeking to capitalize on this burgeoning industry. As with any new technology, decision-makers must carefully assess how well the tools meet the needs of the business.

When choosing a machine learning solution for customer retention, for example, we advise financial services companies to select tools that automatically:

- **manage dynamic data** from a variety of customer channels and build an overview of the customer journey;
- **sort, classify, and route events**, pinpointing critical changes and reliable customer churn indicators;
- **identify customers who are about to churn** and take proactive steps to prevent customers from leaving.

In the battle to provide better customer service, machine learning technology is becoming a differentiating technology for financial services institutions. There are two ways to get there. Companies can:

- **use standard applications,** where machine learning is embedded and shipped with the software;
- **develop their own applications** based on available cloud platform solutions and toolsets.

Preparing to address obstacles

Without a doubt, there is huge potential to bring efficiency and effectiveness to a new level by injecting AI and machine learning into the financial services business. So what is hindering financial services institutions from becoming more successful with AI and machine learning and gaining benefits from disruptive technology?

There are three major obstacles:

- full senior management buy-in that extends beyond funding a proof of concept;
- shortage of specialist skills to operate and maintain the technology;
- costs of the AI system.

With these challenges, getting quick wins in a short time frame is becoming more and more crucial. And since vendors are embedding machine learning scenarios into existing software applications, this might be a good starting point for companies that want to simultaneously work on major disruptive use cases.

Digitalization and Its Impact on the Economy

The word "digital" first became popular with the introduction of the "digital watch". A watch displaying the time with a digital reading was completely new and excited a generation. Few realised that these digital representations heralded a new world based upon digitisation. Today we send messages, documents, images, programmes and much more, from millions of digital databases. The result has been a revolution based upon digitisation. In today's new economy the companies that have both innovated and invested in the development of intellectual property are fuelling the digital world.

Digitalization is affecting most of human interaction in one way or another and our institutions are **belatedly** trying to catch up. No sector will be **impervious** to changes and the impacts will be felt throughout the private sector, the public sector, and areas hitherto less affected by technology, such as cultural institutions.

There are widely different beliefs about what this means – all from business as usual to a tornado whipping through an office landscape on the front cover of the digitalization in which the robots finally take over the "end of jobs" or will job creation keep pace with job destruction? Will inequality rise further and will income growth be concentrated to a few "winners-take-all", who acquire enormous wealth, while others may work freelance and "on-demand" with more **precarious** and lower income streams?

We will argue that the outcomes will crucially depend on the policy responses.

Digitalization **is all about** using digital technologies to find new opportunities and **revenue streams** for your business. As more and more individual companies become 'digital businesses', the effect on the wider economy will be **far-reaching** and profound.

Already it's having an impact. Because of digitalization, consumers are able to do what they want faster. Online transactions now happen in just a few minutes – even seconds – with products delivered very quickly to the door – now even by drone!

Email has changed the way we communicate, while thanks to cloud-based services, teams can now collaborate on documents in real time, wherever they are.

Digitalization improves productivity

At an everyday business level, digitalization also means much less duplication of effort because once information is created and recorded it can be **seamlessly** transferred and reused. That cuts costs, makes digital businesses more profitable, and helps the economy grow faster.

And once businesses become digital, they often find they can slide their technology and expertise across from one sector to another with very little effort because the barriers to entry are easier to overcome.

With digitalization, marketing also becomes totally different. Now you can reach **niche markets** with minimal cost and get an instant response to your offers, allowing you to adjust your strategy or message very quickly for optimum effect.

This allows smaller companies to really punch above their weight against bigger, more established companies, by offering a better, faster and more responsive service.

Cloud services create 'digital businesses'

Because of digitalization, companies are now reinventing themselves. Virtual businesses have sprung up, composed entirely of remotely working teams using cloud technologies.

In such an economy, it will be increasingly difficult to survive if you aren't a "digital business". That's why more and more companies are turning to cloud-based services to help them in such areas as marketing, communications, customer support and social media.

What does digital transformation actually mean for you?

Technology used to be something that was added, an **add-on tool** that helped the business do what it did. While of course that's still true, technology is becoming increasingly **embedded** in the DNA of organizations. In fact, many companies are their technology and would not exist without it. Google and Amazon are probably two of the best examples.

Of course, most businesses aren't like this. Increasingly however, non-tech companies are coming to the realization that in the 21st century they have to become tech companies. And that's true whatever sector they are in: legal, retail, business services, manufacturing, transport or hospitality.

Why digitalization matters to your business

For instance, if you don't introduce digital systems into your business, you won't be able to share information within your company, and it will stay locked away in silos. Neither will your processes work seamlessly together, as data has to be manually transferred, slowing down output and making you less productive.

As a result, your customers or clients will find that they aren't getting the speed or quality of service from you that they can get from others, and that's not good for business. Without digital transformation you can't create the **all-important competitive advantage** that will help you **stand out in your marketplace.**

Of course, digitalization isn't a **one-off** exercise, but should become what you do, with a continual requirement to add, refine and renew systems as your market **evolves**. However, up until relatively recently, the complexity of doing something like this, not to mention the resources required, would have been way beyond the capacity of most companies.

Digitalization is becoming ever easier

Fortunately, the development of new, much cheaper technology, and most particularly the arrival of cloud services, have fundamentally shifted the landscape away from old ways of working.

Now any company can embrace digital, and do so **cost-effectively**, without the need for specialist **in-house** help to run systems, or **high-cost** hardware and software.

Digitization and economy

Digitalization is one of several trends affecting the world economy and it is important to stress that there is nothing inevitable about the welfare consequences in the years to come. The **outcomes** – good or bad – will depend on the choices of institutions and their ability to adapt to technology, demography, globalization, and other factors. Indeed, a key insight from research is that nations that have managed to become rich have had institutional features that supported **incentives** for value creation while ensuring that the ways insiders and special interest groups can extract monopoly rents are limited. The strongest **driving force** behind inequality is probably not technology, but the response of institutions when they erect barriers to entry, especially in the labor market.

Technological changes are coming in an era of many other **undercurrents** in the world economy. Although there are some doubts about the quality of official statistics, productivity growth has slowed in OECD countries. Other broad changes are clearly apparent: populations are aging and public debt and unemployment are high in the aftermath of the financial crisis. This implies that the welfare consequences of poor choices – or no choices at all – may be particularly **pernicious** and have long-lasting social and economic effects. Are our institutions **well-poised** for the challenges? Instead of answering this question directly, we will use scenarios below to illustrate the possible economic consequences for productivity growth, employment, and income inequality. We argue that the outcomes will crucially depend on policy responses. If the responses lean more towards protectionism in various forms, inequality and unemployment are likely to increase. We also need to reduce the **discrepancies** in access to social security between employees and the self-employed.

It is undeniably the case that our economies have been able to adapt to a great many changes in the past, moving from being primarily based on agriculture to mass production and the increasing dominance of services. **In hindsight**, all these changes have led to increased prosperity for all of society, but life was tough for many people amidst the upheaval.

Among OECD countries, Japan may be the only one where younger generations are not better off than older ones due to two decades of poor growth and the rapid aging of the population, ombined with strong rights for insiders.

The **dotcom** bubble that burst a decade ago was not dissimilar in pattern to the hype that often surrounds new technology. Surely there are reasons to be skeptical today that significant changes **are underway** and that the pace may be swifter than during previous periods of transformation? A case in point for being wary of hype was the spectacular failure of the Swedish company Boo.com just after the millennium shift. Headquartered in London, the company tried to sell designer clothes via a digital platform and was thus one of the first to attempt something that has now become commonplace, but the market was not mature enough and the conditions for success not yet in place.

Despite the experience of Boo.com and other startups that failed, there are good arguments that things are different this time round. Boo.com failed at something that has now become **ubiquitous** via, for example, Zalando, Wish, and other e-commerce platforms. Today, we have an expanding number of digital companies **with globalreach**. Similar to all startups, some of these digital firms are struggling, some are failing, but a few are extremely profitable. The capacity to quickly grow the scale of a business has become key. As expressed by Reid Hoffman, co-founder of LinkedIn: "First-scaler advantage beats first-mover advantage". In contrast to the situation about a decade ago, a number of key conditions have evolved and matured:

- the emergence of large platforms with standards that attract consumers and producers alike (the web, Apple with iOS and Google with Android);
- trust mechanisms for digital transactions, both for goods and services;
- digital payment systems with low transaction costs;
- ubiquitous use of smart phones and tablets.

The world is now ready for transactions with digital goods and services. The changes are mainly consumer-driven. Consumers search the internet, use their smart phones, and share information, pictures, and experiences, much of which has implications for commerce or social discourse. Successive generations are likely to increasingly use digital tools for consumption and leisure; this means that **consumer-driven** activism will remain a major force and may continue to increase in importance. Each new service only needs to be available in one of the major app stores and/or on the web to reach a large number of consumers. The best comparison with earlier technological change is with electricity, also an all-purpose technology that allows a lot of other machines to operate. The difference with electricity is that digital technology can disrupt businesses more or less continuously: expanding the grid and lighting the way for modern appliances and factories, after which many of the steps were evolutionary rather than revolutionary. It has also been argued that digital technology is the only all-purpose technology that has increasing returns to scale.

Firms that do not adapt to changing consumer demands on products or information risk falling behind. At the same time, our institutions are built around a slower world, with inertia in laws and labor contracts. Most of the inertia is probably good, especially when it comes to democracy and core features of how rules and social welfare are applied. But the labor market has developed a set of rigidities that are now under assault from digitalization. Apart from digitalization, it would still be under pressure to change from the rapid aging of populations and the need to extend working lives to finance public welfare. Digitalization simply adds to the urgency of institutional reform. The challenge is to maintain those elements that are conducive to stability while not holding back growth and innovation.

Digitalization provides many new ways to **circumvent** rigid rules and sidestep regulation that has been built up over the years. Many of the rules may be there for good reason, especially consumer protection, but quite a few serve to protect insiders and protect monopolies from competition. This leads to higher prices for consumers and makes it harder for young people and the unemployed to find jobs. There will bean assault on much of this rigidity, especially when digital solutions can be used to explore pockets of existing inefficiencies and unused resources to create profits. These pressures on institutions and firms to adapt will come in force as they are driven by profits that can be remarkably small per unit sold, as long as the volume of sales through network effects is high. In short, the reason change is likely to be rapid is that profits will be in the driver’s seat and the technology not only allows it, but is actually built into the accelerator. The ultimate outcome for productivity growth, the labor market, and inequality will depend on how governments and regulators respond to these challenges.

One of the more significant changes from digitalization is the rise of the sharing economy, which despite its name, is more about market forces and entrepreneurs finding new business opportunities. Other, perhaps more descriptive terms are the **“on-demand economy” and the “gig economy,”** but in this report we will continue to use the term the “sharing economy.” With digital platforms, even minor demand for goods and services can be matched to supply at low costs. The sharing economy is a major macroeconomic change. Although neighbors and colleagues may have bartered goods and favors throughout human history, this activity is now being reshaped in away not dissimilar to how industrial manufacturing forever changed the landscape of production. Knowing that there is a person asking for a business or household service at a specific time is no longer the lottery it used to be in matching supply and demand.

As a consequence, we will see more jobs in sharing economy with more flexibility but also more insecurity, an issue we will return to further below.

The sharing economy

Throughout history, sharing in various forms has been central to progress. Sharing of tools and services prior to **fiat money** was necessary, as the logic of specialization implies advantages to productivity that have to be balanced against the risks of relying on others for factors of production or for sustenance. Civic society and other trends have been **vibrant** throughout modern history. Indeed, it is hard to think of the market economy without also viewing the strong bonds and commonality that constitute the nation-state. But just as civic society is integral to the modern welfare state, sharing as a phenomenon is overshadowed by ownership in modern capitalist societies. To be sure, ownership and rental have always coexisted, but the digital economy is making a fundamental shift away from the logic – and indeed the benefits – of ownership. This shift is perhaps the most dramatic change brought about by digitalization and has arguably just begun. While industrialization replaced manual labor with machines, this new wave may be redrawing the landscape of how capitalist economies organize themselves.

What is the sharing economy?

The sharing economy has been given many names, such as collaborative consumption, the mesh, the access economy, freelancing, on-demand work, and the gig economy. We will use “the sharing economy,” but it may be appropriate to first define what we mean. Throughout the economy, there are **idle resources** – anything from spare capacity in the form of a room to a seat in a car or a vacant parking place. Idle resources are bad in the economy because by and large they imply waste. Unemployment, due to its social costs and the risk of erosion of human capital, is a particularly onerous form of idle resources. The sharing economy provides a way for these idle resources to find their use. The key feature is that digital platforms allow buyers and sellers to be matched in ways that were not possible before. Essentially, the digital platforms reduce the transaction costs – or the frictions – involved to the extent that it may be beneficial to sell even miniscule idle resources. For example, finding a ride-sharing service to commute from the suburbs to the city center used to be possible to organize only within a relatively small circle of neighbors or colleagues. But with digital platforms, it is much easier today to find someone selling the service – at least in densely populated areas. In few large metropolises, carpooling is even supported by the local authorities with special carpool lanes, similar to bus lanes. The sharing economy is characterized by:

- an idle resource for sale – either a physical good, knowledge or a service;
- someone willing to buy said service or resource;
- a digital platform that matches buyer and seller with a very low transaction charge.

Changing economic forces gaining hold

The sharing economy is lowering transaction costs across a broad spectrum of services, all from self-publishing of books and searching the web for information to performing household tasks. This increases the flexibility of work, especially in European countries where there is strong protection for labor market insiders. But as more people work freelance or on-demand in the gig economy, they are also exposed to a higher level of risk as the social security systems are tailored to full time work as employees covered by collective bargaining.

Of all the forces of digitalization, the economic effects of the sharing economy may well be the fastest change and one of the more significant. Unlike evolutionary improvements, the sharing economy is a big step that shifts the way we work and organize our lives. One implication already evident is that there is less need to own things when rental is but a click away. This also means fewer idle resources **on standby**, as exemplified by cars that typically are parked for most of the day or unused rooms in houses or apartments. Entrepreneurs are **on the look out for** new pockets of unused resources and **overpriced goods**, such as formal evening gowns or that drill you use once or twice a year. They are also using technology to change the way demand for household services is met by saving time and increasing convenience in areas such as grocery shopping, cleaning, or sending flowers.

Of course, these services are not new, but the ease of matching supply and demand combined with low costs has major implications for the economy. A recent survey by the Freelancers Union found that 34 percent of the American workforce has been involved in sharing economy activities. In Europe, the sharing economy is trailing the US but also becoming significant, especially so in the UK. Due to stricter labor markets in Europe, the sharing economy may have even more **long-run impact** on Europe's rigid labor market unless new regulation chokes development.

One major implication of the sharing economy is that the raison d'être for ownership is shifting. Why own a car if a seat is available on demand, only a click away? Why buy a party dress and wear it only once or twice? Why not rent out spare capacity in apartments? The incentives to use resources better are **omnipresent**, but are coming to life in ways not seen before due to substantially lower transaction costs.

Knowledge sharing

Purely digital services have all the benefits of networks and scaling at low or zero marginal cost. For example, IBM's Watson computer, famous for winning at Jeopardy against the best humans a few years ago, has found uses in medical and legal services.

With a huge database, be it road-street mapping for navigation, medical research for diagnosis, or legal case histories, knowledge sharing is making it much simpler and cheaper to perform even advanced services. It is also these changes that have the most potential to be disruptive for middle-class jobs.

The medical profession is a case in point. Each medical discipline contains a huge amount of medical research. Doctors may struggle to actively follow research even in their own **area of expertise**. Applying that knowledge is yet another challenge, for example, with new statistical inferences on likely illnesses and diagnoses. With huge medical databases available, doctors have information and tools at their fingertips to interpret the information that would be beyond the capacity of humans.

But knowledge sharing in the legal sector may be an example of the opposite. IBM Watson has also been used by some researchers to create a legal database that can handle a great deal of paralegal work. Here the possibility of substitution appear greater.

Sharing of physical resources

Items that were hitherto too cumbersome to share or rent are now more readily available. The first wave of sharing applications allowed people to sublet rooms with ease. Car rental is also very big. There is now an explosion of firms that provide different types of homes – all from luxury rentals for tourists to sharing of office space through, for example, Second Home. Sharing office space can bring big advantages to startups that do not want to commit to renting more space than necessary; there are also benefits to be gained by providing meeting places for people with ideas. The same driving forces that make cities attractive and drivers of economic growth, are also relevant to sharing of office space. The notion of "ideas colliding" is similar to the benefits of cities, albeit on a smaller scale. Here there are existing parallels to the "makerspace" movement.

However, small items, such as tools and parking spaces, can also be shared for shorter periods of time. There is a wealth of new ideas and entrepreneurs discovering which idle resources can be made available on the market. We are now only in the early stages of this development and how far we can go will depend on regulation, trust, and convenience but also on other factors that are not **foreseeable** now.

The sharing of tools is a particularly illustrative example, as it holds both the potential to disrupt as well as to increase the market. Homeowners and DIYers have long acquired various tools that they use only rarely, such as drills, saws, etc. If these tools are instead rented, the owners acquire income, the tools are used more, and rental costs are lower than the cost of ownership. But what does this mean for retailers that sell tools? Will they sell fewer if the sharing market thrives? And what does this mean for their businesses? These are questions that remain to be answered.

Sharing of services

The bulk of service sharing has hitherto been focused on relatively unskilled jobs. Car sharing has become a **vibrant area** for new apps that provide a variety of sharing services – all from an empty seat, in which case it is a service, to actually renting a car, in which it becomes sharing of a physical resource.

Many services provided in the sharing economy are low skilled, but not all. There are especially big changes in financial services or "fintech," where small companies can provide specialized services that are cheaper, faster, and easier to use than traditional banking services.

P2B lending illustrates some of the issues involved. For example, Funding Circle in the UK, Ondeck in the US and Toborrow in Sweden provide a platform for private individuals to loan their money to businesses. Typically, P2B firms provide a platform for the financial service but essentially never hold on to the cash. For lenders, this provides an opportunity to place their savings at a higher interest rate than in the bank at (presumably) moderate risk; for businesses, it often saves time and effort in trying to get bank loans. Moreover, the loans extended are typically smaller than those banks are interested in since the banks have almost the same marginal costs for doing due diligence and processing small loans as compared to a big one. In this way, fintech firms are supplying credit to parts of the economy that previously had no access to the capital they wanted.

What is fintech?

Potentially, this could be a very significant **boost** to how capital is put to use in the economy, enabling more small firms to get started or expand. The overall effect may be that the economy works much better.

So far crowd funding, P2P and P2B services may not be in direct competition with banks when the focus is on smaller loans, but this may change, as expressed by Jamie Dimon, CEO of JP Morgan Chase & Co, "Silicon Valley is coming," see Dimon. The nature of investment in fintech may also be changing, with more venture capital firms supplying the capital. In the UK, one P2P platform gets clients from a conventional retail bank in exchange for free advertisement.

What this financial disruption will mean for the financial sector is yet to be seen. Margins and profits have long been high in banking and the potential for **efficiency improvements** is likely considerable; many banks have had their systems updated only **piecemeal** or created a **patchwork** of more-or-less incompatible systems acquired through mergers. Fees on credit and bank cards should make entry into payments systems attractive with services such as Paypal, Apple Pay and Square. Digital currencies allow money transfer at virtually no cost. Digital receipts have yet to make a dent in physical receipts. Thus, a great deal may happen with fintech in the years to come.

What we know much less about are the new types of risks that amass when individuals and firms use these kinds of services. Traditional banking has a long history of failures and bailouts, but also of being bailed out by taxpayers, most recently in the aftermath of the financial crisis in 2007; the financial platforms are not covered by deposit guarantees and other safety nets: any losses occurred are private.

This implies that risk is distributed in new ways in the economy, which may have implications in the next downturn that we may not yet fully understand. For example, could negative news lead to quicker dampening effects on consumption and investment than before and what happens to consumers when liquidity dries up in P2P markets? How does the nature of systemic risk change and how well are the regulators monitoring developments? How will consumers who have lost money invested in fintech companies react? These are urgent questions for macroprudential authorities, such as the Financial Supervisory Authority in Sweden.

Digital reputations on the rise?

A novel thing about the sharing economy is how technology is also demonstrating new ways to develop trust in transactions. After all, renting out your home or a seat in your car to a stranger requires a lot of trust. But just like the bumblebee, the sharing economy manages to fly. Business **acumen** and technology combined have provided ways to **mitigate the risks** and establish trust in such transactions. Using various ways to monitor quality and reliability, technology provides ways for both sides of a transaction to rate each other – a two-way process of establishing reputations. Digital reputations are becoming as valuable as digital data and probably more valuable/useful than analog forms of identification. After all, a driver's license may say who you are, but it says nothing about reliability and trustworthiness. Indeed, there are reports of people finding it difficult to get Uber rides after having obtained negative ratings in previous trips. Digital reputations are growing in importance and so are ways to establish confidence in online reputations. For example, if someone establishes a solid reputation in one area, should that history be transferable to other areas? There may be market failure here, in a not dissimilar way to how it is difficult to transfer pension accounts from one bank to the other. Hence, governments might conceivably play a role in facilitating digital reputations. So far they have largely stayed away, probably for good reason, but there may well be a coordination role to serve as a conduit for establishing standards. Why not a single digital market for reputations as well?

https://cloudrepublic.com

Ready? Steady? GO…

1. Let's play "Who Wants To Be a Millionaire?"! Count how much you can score.

1. Few realised that these digital representations heralded a new world based upon digitization…	20
2. Digitalization is affecting most of human interaction in one way or another…	20
3. Digitalization is all about…	15
4. Digitalization improves productivity…	30
5. Because of digitalization, companies are now reinventing themselves…	30
6. Digitalization matters to your business because…	40
7. Digitalization is one of several trends affecting the world economy…	50
8. Technological changes are coming in an era of many other undercurrents in the world economy…	30
9. In contrast to the situation about a decade ago, a number of key conditions have evolved and matured…	50
10. The world is now ready for transactions with digital goods and services…	30
11. Some institutions are built around a slower world, with inertia in laws and labor contracts…	20
12. Digitalization provides many new ways to circumvent rigid rules and…	20
13. One of the more significant changes from digitalization is the rise of the sharing economy…	50
14. Idle resources are bad in the economy because…	30
15. Purely digital services have all the benefits of networks and scaling at low or zero marginal cost…	40
16. A novel thing about the sharing economy is…	20

2. K n o w l e d g e   C o m p e t i t i o n. Split into two groups. Each group get ready with questions on digitization. The opponents are to answer the questions in detail using the information from the articles. The group that gets the most correct answers is the Winner.

Pair up. Using the target vocabulary, contemplate on the questions below. Your partner counts the active units.

1. What is the digital revolution?
2. What is so revolutionary about it?
3. How does the digital revolution compare with the industrial revolution?
4. Are we at the beginning, in the middle, or at the end of the digital revolution?
5. Has the digital revolution been god or bad for the world?
6. How has the digital revolution changed your life?
7. Are there any aspects of the digital revolution you don't like?
8. What is the future of the economy of Belarus in terms of digitization?
9. Who are or have been the major players in the digital revolution?
10. What is the most important event so far in the digital revolution?

Study the articles and jot down the key ideas. What is your view on the ideas discussed? Which of them would be a good idea to introduce in Belarusian companies?

How Going Digital Will Help You Communicate Better With Customers

Effective communication is such an essential component of customer service that its importance can't be overstated. Any company that doesn't connect with its customers effectively is bound to suffer.

If you aren't seen as sufficiently responsive, or provide accurate information in the way that's expected, you will lose sales. And since 60 % of customers change their contact channel depending on where they are and what they are doing at the time, you have to make sure that you can communicate with them effectively in a range of ways. Despite the predictions of many, email is still very much the foundation of business communication, and when 41 % of consumers expect an e-mail response within six hours, it's something you have to get right, if you want to **build customer trust** and satisfaction that will translate into sales. And one of the keys to using email effectively is automation. For instance, if you can link auto-responders seamlessly with back office systems, you can really start to deliver the service levels that are increasingly expected. Introduce effective CRM software into the mix, and your emails can even include personalized products and recommendations, something that 80 % of consumers appreciate. Again, a major plus point for your business.

With a CRM system in place you will have **in-depth**, **real time** information **at your fingertips** the next time you need **to interact with a customer** – all part of providing the impressive service that customers now expect as a matter of course.

Then there's social media, which is now so essential for building relationships that you have to make it a central component of your communication mix. Not only is social media a great tool for generating B2C sales – which is why ad spend across platforms is **on the up** – but it has an equally important role to play in terms of customer service.

By making it your main customer service portal, you not only provide the immediacy of response that customers want, but you also demonstrate publicly that you are **a caring, customer-centric company** that isn't just interested in sales.

Despite the importance of social media platforms like Facebook, Whats App, Tumbler, Instagram, Twitter, Pinterest and LinkedIn, many customers still prefer to pick up the phone and speak to someone compared with using any other communication channel – the phone still handles around 68 % of all contact center communications. That's why having an effective PBX system that uses cloud-based technology will enable you to manage both internal and external calls more effectively.

Online meeting technology, though not necessarily a **first-choice** channel for communicating with customers, is another great facilitator when it comes to bringing people together and enabling remote workers to work effectively as a team – fast becoming something of an essential.

Customers want a quick and seamless digital experience, and they want it now.

Customers have been spoiled. Thanks to companies such as Amazon and Apple, they now expect every organization to **deliver products and services swiftly**, with a **seamless user experience**.

Customers want to **log in to** their online electricity account and see **a real-time report** of their consumption. They expect to buy a phone from their telecommunications provider and have it activated and set up immediately out of the box. They want bank loans to be preapproved or approved in minutes. They expect all service providers to have automated access to all the data they provided earlier and not to ask the same questions over and over again. They wonder why a bank needs their salary slips as proof of income when their money is being deposited directly into the bank every month by their employer.

Many traditional organizations can't meet these expectations. As a result, attackers born in the digital age can swoop in and disrupt the market through rapid delivery of digital products and services combined with advanced algorithms and full access to information.

Customers wouldn't phrase it this way, but they are demanding from companies in many industries a radical overhaul of business processes. Intuitive interfaces, around-the-clock availability, real-time fulfillment, personalized treatment, global consistency, and zero errors – this is the world to which customers have become increasingly accustomed. It's more than a superior user experience, however; when companies get it right, they can also offer more competitive prices because of lower costs, better operational controls, and less risk.

Delighting the customer

To meet these high customer expectations, companies must **accelerate** the digitization of their business processes. But they should go beyond simply automating an existing process. They must reinvent the entire business process, including cutting the number of steps required, reducing the number of documents, developing automated decision making, and dealing with regulatory and fraud issues. Operating models, skills, organizational structures, and roles need to be redesigned to match the reinvented processes. Data models should be adjusted and rebuilt to enable better decision making, performance tracking, and customer insights. Digitization often requires that old wisdom be combined with new skills, for example, by training a merchandising manager to program a pricing algorithm. New roles, such as data scientist and user-experience designer, may be needed.

The benefits are huge: by digitizing **information-intensive processes**, costs can be cut by up to 90 percent and **turnaround** times improved by several orders of magnitude. Examples span multiple industries: one bank digitized its mortgage-application and decision process, cutting the cost per new mortgage by 70 percent and slashing time to preliminary approval from several days to just one minute. A telecommunications company created a self-serve, prepaid service where customers could order and activate phones without back-office involvement. A shoe retailer built a system to manage its in-store inventory that enabled it to know immediately whether a shoe and size was in stock − saving time for customers and sales staff. An insurance company built a digital process to automatically adjudicate a large share of its simple claims.

In addition, replacing paper and manual processes with software allows businesses to automatically collect data that can be mined to better understand process performance, cost drivers, and causes of risk. **Real-time reports** and dashboards on digital-process performance permit managers to address problems before they become critical. For example, supply-chain-quality issues can be identified and dealt with more rapidly by monitoring customer buying behavior and feedback in digital channels. Leading organizations have come to recognize that the traditional large-scale projects to migrate all current processes to a digital world often take an extremely long time to deliver impact, and sometimes don't work at all. Instead, successful companies are reinventing processes, challenging everything related to an existing process and rebuilding it using cutting-edge digital technology. For example, rather than creating technology tools to help back-office employees type customer complaints into their systems, leading organizations create self-serve options for customers to type in their own complaints.

Scaling digitization processes at a European bank

A European bank is midway through an ambitious program to digitize its top 20 processes. The bank, in a challenging situation after the financial crisis, aspired to achieve improvements for its customers while significantly reducing costs. The bank set a stretch target of being ten times better in efficiency and turnaround times in each of its top processes.

The bank started with its account-opening and mortgage applications. For each process, the development team used the first two weeks to define a digital vision for each product and a road map to get there. Then came rapid development of a digital prototype while redesigning the underlying business process, combining lean methodologies and agile software approaches. Within six weeks, a version of the user interface was ready. The team tested the process with customers, iterating and improving it, and gradually picking up the volume of mortgages and new accounts processed by the new digital process. After four months, the digital process was in production. The team scaled it through a website launch, followed by a rollout to the branch network.

Then the bank moved to digitize processes such as personal lending and deposits. A new process allows customers to create an account in less than 10 minutes, replacing one that required 30 to 60 minutes of talking to branch staff and then up to a few days before the account was opened. The new digital mortgage-application process uses an online calculator that is connected to the bank's credit-scoring models and gives customers a preliminary offer in less than a minute. Once an offer is received, customers can log in to an online portal that allows them to submit their application and documents. This approach has cut costs significantly while improving customer satisfaction.

This kind of approach is usually done process by process in a series of short-term releases combining traditional process-reengineering methods like lean[1] with new agile software-development methodologies.

Success factors

Companies in most industries can learn from the practices employed by firms that have done this successfully.

Start at the end state and work back

Digitization often enables a process to be fundamentally reconfigured; for example, combining automated decision making with self-service can **eliminate** manual processes. Successful digitization efforts start by designing the future state for each process without regard for current constraints – say, shortening a process turnaround time from days to minutes. Once a compelling future state has been described, constraints (for instance, legally required checks) can be reintroduced. Companies should not hesitate to challenge each constraint. Many are corporate myths that can be quickly resolved through discussions with customers or regulators.

Tackle the end-to-end customer experience

Digitizing select stages of the customer experience may increase efficiency in specific areas of the process and address some burning customer issues, but it will never deliver a truly seamless experience, and as a result may leave significant potential on the table. To tackle an end-to-end process such as customer onboarding, process-digitization teams need support from every function involved in the customer experience. The end customer should be heavily involved too, not least to challenge conventional wisdom. To do this, some firms are creating start-up-style, cross-functional units that bring together all colleagues – including IT developers – involved in the end-to-end customer experience. The cross-functional unit has the mandate to challenge the status quo. Members are often collocated to improve lines of communication and ensure a true team effort.

Build capabilities

Digitization skills are in short supply, so successful programs emphasize building **in-house capabilities**. The goal is to create a center of excellence with skilled staff that can be called upon to digitize processes quickly. Still, many times companies must search for talent externally to address the need for new skill sets and roles, such as data scientists or user-experience designers. Given its importance, the first managers selected to lead the transformation should be carefully chosen, well trusted in the organization, and ready to commit for a long period of time. It is also important that the team has the skills needed to build the required technology components in a modular way so that they can be reused across processes, maximizing economies of scale.

Move quickly

Traditional IT-intensive programs deliver a return only at the end of the project, sometimes years after the project's kickoff. Digitizing end-to-end processes one by one, however, can deliver improved performance in just three to five months. Complex IT challenges such as legacy-systems integration can be harder to move along quickly, but there are ways to mitigate the risks of delay. For example, one industrial company pursuing an IT legacy-systems integration used low-cost offshore resources to rekey data among systems, allowing a new digital customer process to be brought online for use with pilot customers while a **robust** IT interface was built in parallel. This approach reduced the risk involved with the integration effort and accelerated payback.

Moving quickly isn't always easy. More often than not, it's business decision making that's causing the bottleneck rather than IT development. That's why digitization programs need strong board-level support to align all the stakeholders, while all other decisions should be delegated to the project team.

Roll in, not out

In traditional deployment, a new solution is **rolled out** progressively across sites to existing user teams. However, a different approach may be needed when organizations undertake digitization, because of radical changes to processes and the supporting organization. For example, telecommunications salespeople may prefer customers to apply for services through the existing store system instead of **self-serve kiosks**. Bank-credit underwriters may not trust automated algorithms and may choose to review automatically approved applications. In these cases, it might be easier to roll in a new organizational unit to handle the new digital process, and then bring employees into this unit while increasing the volumes handled by it in parallel. This ensures a much easier transition to the digital process by not expending extensive energy on changing old habits and behaviors. By the time all process volume has migrated to the new digital process, the new organizational unit will have swallowed all the required employees from the legacy units.

Companies that digitize processes can improve their **bottom lines** and delight customers. The value **at stake** depends on the business model and starting point but can be estimated by allocating costs to end-to-end processes and **benchmarking** against peers. To kick-start the approach and build capabilities and momentum, organizations can undertake one or two pilots and then scale rapidly.

McKensey&Company

The 4 Things It Takes to Succeed in the Digital Economy

For several years now digital has been an appendage to "business as usual". But recently, digital transformations have reached the tipping point where digital has become "business as usual"; the tail has become the dog. Digital is not just part of the economy – it *is* the economy.

It's an economy of limitless opportunities for some and disruption and displacement for others. Many firms – such has Kodak, Blockbuster, Sears, and Blackberry – were unable to adapt, while others are thriving. According to MIT Sloan research, the companies that are adapting to a digital world are 26 % more profitable than their industry peers.

How are these thriving firms reinventing themselves, their supply chains, and their marketplaces? For an upcoming MIT symposium on the topic, we're focusing on four main themes: customer expectations, product enhancements, collaborative innovations, and organizational forms.

Customer expectations

No transformation is more challenging than meeting the service expectations of digitally empowered customers. Digital technologies enable companies to better engage with their customers and offer superior experiences at affordable costs. But providing outstanding experiences to increasingly savvy, and fickle, customers is getting harder.

Customer expectations go beyond ease of use; they're now expecting proactive experiences. Dr. Dieter Haban, CIO of Daimler Trucks North America, offers Daimler Trucks's Detroit Virtual Technician as a good example. Imagine that you're **on a tight schedule** driving an 18 wheeler and your engine light comes on when you're 100 miles from the nearest service station. What to do? Continue driving and risk a time-consuming breakdown, or call a service vehicle to diagnose the issue, also resulting in lengthy downtime?

Detroit Virtual Technician is a telematics solution that records critical vehicle performance data immediately before, during, and after a fault occurs. It then sends the data to Daimler's mission control center for quick analysis of the fault codes by its technicians. The technicians can provide the driver and fleet owner immediate feedback, including whether the truck needs immediate service or whether it can continue on its journey. This is the kind of experience customers will expect in the future.

Big data is one of the enablers of proactive customer experiences. Thriving companies will continue to leverage data by using it to address the cracks in company security, worries about data privacy, and the limitations of analytics that became apparent in the first wave of big data.

Product enhancements

Thriving companies are also integrating related products and services into sophisticated industry solutions, while extending and restructuring industry boundaries, essentially creating whole new industries. Michael Nilles, recently promoted to Schindler's chief digital officer, offers a great example. Schindler has expanded its business beyond its elevator and escalator products to become a mobility solutions company, offering its technology in a variety of industries including health care, hotels, offices, malls and retail outlets, and sports arenas and expos. A major enabler in this evolution was the development of smart elevators and escalators that constantly collect sensor data and transmit it over the internet to Schindler's back-end systems, where the data is analyzed, generating maintenance notifications long before an actual breakdown. These notifications, enriched with expert repair advice, are then dispatched in real time to Schindler's service applications, where technicians are scheduled as appropriate.

Beyond individual products, companies have been harnessing the power of platforms to connect buyers and sellers (e.g. Etsy, Priceline, and Apple's App Store), hosts and visitors (e.g. Airbnb and HomeAway) and drivers with riders (e.g. Uber, Lynx, and RideScout). Some platforms, such as Uber, are giving rise to a new on-demand economy that's redefining the nature of work.

Collaborative innovations

Companies must become more innovative to better respond to the highly competitive, global business environment. Collaboration is indispensable for innovation, both within the company's own boundaries and beyond, with customers, partners, startups, universities, and research communities.

Thriving companies are harnessing collaborative digital networks to build ecosystems, such as Amazon, PayPal, Fidelity, Aetna, Apple, and Microsoft. Ecosystems like these are moving beyond linear supply chains to partner with providers of complementary products and services (or sometimes even competitors). According to MIT research, companies with 50 % or more of their revenues from digital ecosystems have higher revenues and higher profit margins than their industry's average.

Collaboration and ecosystems are particularly important in the emerging Internet of Things, where multiple companies across different industries must make sure that their offerings work with each other in a number of highly complex areas including health care, home automation, and smart cities.

Companies such as AUDI, Club Med, and mBank are competing with digital innovations by empowering local teams to build solutions quickly while helping them identify and leverage synergies. These companies are also creating accessible and reusable global platform components that give local solutions competitive advantages while at the same time coaching local teams in designing and learning from experiments.

Organizational leadership

Companies must rethink their structures and culture to better deal with new market environments and business models. The hierarchic organization that prevailed in the 20th century's production-oriented industrial economy will not work in the more global and fast-changing digital economy. The companies that are most successfully adapting are making a cultural shift from "Mad Men" to "Math Men," where decision making is increasingly based on data rather than on the frequently wrong opinions of senior executives. These companies are adding data scientists to enhance organizational learning. They've made some decisions faster by relying on algorithms, and they are introducing artificial intelligence, robotics, and other advanced technologies as appropriate.

Thriving companies also acknowledge the dark side of the digital economy and that more resources and a greater strategic emphasis on cybersecurity will be required to address the increasing number of attacks, the growing expertise of hackers, and the thriving black market for stolen data and malware. Luis A. Aguilar, former commissioner of the SEC, has warned that boards that choose to ignore or minimize the importance of cybersecurity oversight do so at their own peril.

The digitization of the economy is one of the most critical issues of our time. Digital technologies are rapidly transforming both business practices and societies, and they are integral to the innovation-driven economies of the future. But there is another dark side: technological revolutions are highly disruptive to economies and societies. This was the case during the Industrial Revolution, and it is the case today.

While technologies advance rapidly, organizations and skills advance slowly, and the gap between swiftly evolving technology and the slower pace of human development will grow quickly in the coming decades as exponential improvements in artificial intelligence, robotics, networks, analytics, and digitization affect more and more of the economy and society. Inventing effective organizations for the digital economy is the grand challenge for our time, and the companies that are already adapting are leading the way.

Challenges for firms – regulation, new competition and skills

Periods of rapid technological change accentuate several distinct challenges for firms: adapting to regulation, updating skills and human capital, and readiness to change the business model or core products if demand shifts.

There are distinct challenges for incumbents compared to digital entrepreneurs. For entrepreneurs, the most basic issue is the continued viability of the business model if regulation changes or is interpreted in an unexpected way. The most damaging aspects of how Uber is being investigated by authorities concerns the signals sent to all other actors in the economy that are considering entry, and of course especially into the sharing economy. One particular concern is whether or not freelancers are to be considered employees. In the former case, businesses need to pay social security contributions and other taxes. But other forms of uncertainty also abound, such as the legal liability of platform owners for the actions of those who use or provide the service, be it rental of rooms or **peer-to-peer** loans.

It is difficult to quantify the effect of this uncertainty on entrepreneurs considering starting a business in the sharing economy. But the extensive media coverage of the challenges faced by Uber is hard to miss. The small profit margins – or indeed mostly initial losses – of start-ups make this kind of risk particularly damaging**. From an overall perspective**, easing entry and reducing business model risk for the sharing economy brings significant benefits to the economy as a whole: resources are better used, easing the strain on the environment, low and middle income earners can reduce their consumption and ownership to essentials and rent other resources (especially cars) as needed, and jobs in the gig economy provide flexibility in working hours. Finally, the sharing economy may also ease the challenge of job automation.

The challenge for existing firms, especially those in mature industries, is different. In some areas, new digital firms will try to enter and compete. Having "digital" first in the business model typically means lower costs, faster operations, more ease of experimentation and reaching customers. Being large is no iron-clad protection against competition from digital firms. Sony has been struggling for some time to transform its products and services in response to the rise of the internet and is still trying to find its way; Microsoft was also taken by surprise and its virtual monopoly on operating systems now looks much more vulnerable.

Successful firms in industry are less exposed than start-ups because investment costs are large and so entry typically requires large coffers and the ability to accept rather uncertain returns on that investment. But carmakers are not being threatened by start-ups, but rather large firms such as Google and Tesla. Banks are facing competition from fintech companies, now receiving increasing funding from institutional investors and banks; IBM is entering the health care market with recent acquisitions; big law and management firms that typically charge premium fees for their services are being threatened by the sharing economy and the automation of knowledge work.

Especially for legal services, a lot of work can now be automated.

Lessons learnt from business failures show clearly that technological changes bring strategic challenges, known as the **incumbents'** curse. In the US, Kodak is a prime example of this but there are many more. In Sweden, Hasselblad and Facit each had strong market positions but their employees' skills reflected **outmoded technology** and the sales organizations **were geared towards** providing a service that would no longer be needed with the shift to electronic technology. A particular challenge in turning a company around when technology shifts is that **vested interests** in the firm may protect the existing product line and focus on evolution only. Asking the customers may not be the answer, because they may not know how technology can change the service or product they need. And when the change comes, the transition window may be too small. This happens time and time again.

To mitigate strategic risks, **senior management** cannot rely only on structures for existing product lines to decide where to place their bets. While this in itself is hard enough, it is compounded by the likelihood that new technology may initially be **lossmaking** and may also ultimately cannibalize profits from existing products. The auto industry is a prime example. With the advent of self-driving cars, it is likely that fewer cars will be bought in total. The same applies to other aspects of the sharing economy, such as rental of tools, formalwear, etc. where total consumption may be – at least initially – reduced. While it is possible that consumers may buy more of the same good, they may be just as likely pocket the savings or spend the money on other services.

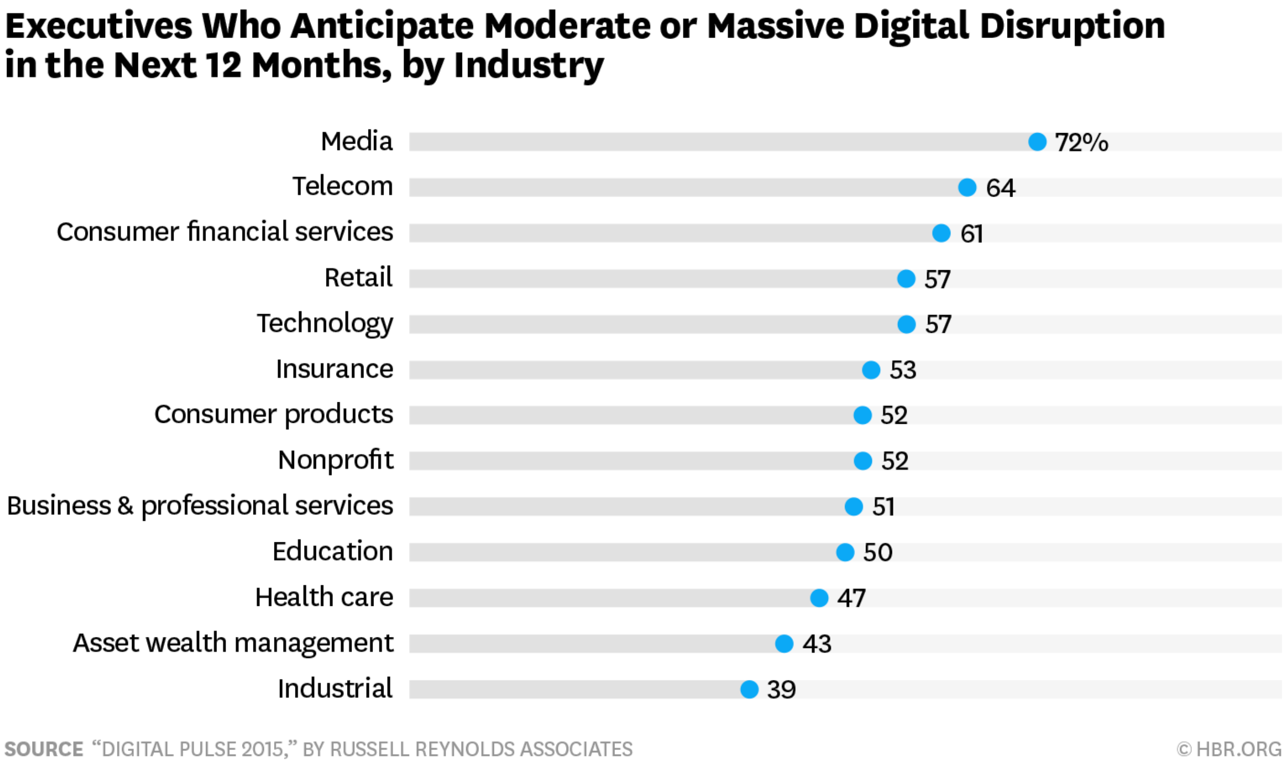
Finally, as with regulation, the need to find and retain skills, especially digital skills, mirrors the discussion above on the challenges for government policy. Firms will have a key role in communicating business demands to the education sector as well as being more active in **lifelong learning**. The rapid shift in technology implies that workers who do not **upgrade their digital skills** will be held back in productivity and wage growth. In countries with rigid labor laws and first-in, last-out collective bargaining clauses, the need to ensure continuous skills development becomes all the more important. Attending courses for a day or two will not be enough and skills will need to be more strategically upgraded. The tax system should be adjusted to make it more **advantageous** for firms to pay for upgrading workforce skills.

M. Blix. The economy and digitalization – opportunities and challenges

The Industries That Are Being Disrupted the Most by Digital

We're at a critical time for the digital economy. Digital is no longer the shiny **front end** of the organization – it's integrated into every aspect of today's companies. As digital technologies continue to transform the economy, many leaders are struggling to set a digital strategy, shift organizational structures, and remove the barriers that are keeping them from maximizing the potential impact of new digital technologies.

Every year, Russell Reynolds Associates surveys more than 2,000 C-level executives on the impact, structure, barriers, and enablers of digital technologies across 15 industries. The barometer below shows the percentage of executives surveyed who responded that their business would be moderately or massively **disrupted** by digital in the next 12 months, broken down by industry.



Unsurprisingly, the most **disrupted** organizations were B2C, with media being the most disrupted and telecoms and consumer financial services close behind.

90 % of these organizations profess to having a digital strategy in place. But the sheer pace of change has created a skills gap, which is stopping many of these organizations from moving more quickly. Just over half of the respondents answered "yes" to the question "Do you have the right people to define your digital strategy?" It might be hard for people in HR to hear, but only 20 % of those who responded said that their HR function was enabling them to transform, ranking them even lower than finance – an area not exactly known for its **agility**.

The most disrupted industries typically suffer from a perfect storm of two forces. First, low barriers to entry into these sectors lead to more agile competition. Secondly, they have large legacy business models which often generate the majority of their revenue. These organizations, therefore, have embedded cultural and organizational challenges when it comes to changing at the pace required.

At the other end of the spectrum, the industries that are least disrupted often have perceived higher barriers to entry, and a smaller part of their business that can be digitized. They are less affected, but not immune. Advances like 3D printing and EdX, the joint venture between MIT and Harvard, mean that even industrial production and education are seeing disruption, and are also having their own **incumbents** lead the disruption.

So what can business leaders be doing to meet the coming changes **head-on**? There are three levers organizations can **pull to keep pace**: catalytic roles; culture; and commitment.

1. Catalytic roles. New employees can act as catalysts, **speeding up** transformation. They are often brought in to disrupt traditional thinking and business models. Bringing in a Chief Digital Officer (CDO) is often the first step for many organizations. But there are two inherent challenges with bringing in a catalyst. First, the role must be positioned correctly, at the appropriate level in the organization, with sufficient scope, influence and sponsorship to make change happen.

The second challenge is finding the right person. It was with this in mind that Russell Reynolds profiled executives tasked with digitally transforming long-established firms, who are often chosen to overcome organizational inertia and **drive enterprise-wide** digital transformation and innovation. The results are a unique combination of psychometric attributes that broadly fall into five categories. The first two are unsurprising: these leaders are significantly more innovative and disruptive, being 56 % more inclined to cut through bureaucracy and 29 % higher in their willingness to challenge traditional approaches. These attributes alone are not what make these leaders able to excel in their roles. These executives also score highly in their social adeptness, bold leadership, and determination. Stand-out attributes include being 29 % more likely to take initiative and test limits, and 21 % more able to adapt to different audiences. It is this combination that makes them able to drive transformation.

In the most progressive organizations, the CDO role is being absorbed, as **stand alone** digital teams are integrated into the core business, leaving hybrid general managers in charge. CDOs **beget** the need for Chief Data Officers and Chief Analytics Officers. Moreover, new roles, such as the Chief Growth Officer and Chief Customer Officer are emerging. Tasked explicitly with driving growth, these roles combine strategy, corporate development, investment, and operations, as companies seek to find meaningful new revenues streams.

2. Culture. You can’t talk about digital without also mentioning its lifeblood – data. The link between the impact of data-driven organizations and culture may not be immediately apparent, but through interviews with senior leaders, we have seen that data quickly shifts the power structure in an organization. Decisions that had previously been deferred to those with years of experience and “a feel for what the customer wants" are now being challenged with data. And whoever has the data has the power to make strategic decisions. Organizations that foster a culture of making data-based decisions will be in a stronger position to weather the changes ahead.

3. Commitment. Digital should be built into the core strategy, systems, and processes of an organization. We see this in the recruitment of digital directors at the board level, which has risen steadily over recent years. Now, 23 % of the largest 300 companies in the world have at least one Digital Director. Again, you can't become a more digital company without the right people leading the charge.

For the leaders who are anticipating massive digital disruption in their industries, these three levers are the key to realizing the potential that lies ahead. Hire the right people to **bring about change**. Create a culture that makes data-based decisions. And fully commit to becoming a more **digitally adept** organization, which starts at the board level. The organizations that don't do these three things will no doubt be left behind.

Harvard Business Review (March 21, 2016)

DISCUSSION

1. Supposing, you work for a traditionally-minded company ABC (the line of business is of your choosing). You intend to persuade the company's top managers to go digital. Discuss the benefits for the company, customers, other companies' positive experience in digitisation. Remember to use the information and vocabulary from the articles discussed. Top managers are to ask a ton of questions to elaborate on the issue and finally grant 1,000$ perk to the one who is the most persuasive.

2. Read the article and in mini-groups and come up with a bunch of ideas on upsides and downsides of digitization. The roles for a mini-group: a pessimist/an optimist/a realist/a devil's advocate.

Then one representative of every mini-group joins the other group to discuss their ideas.

Gains and Drawbacks of Digitisation

What are the gains and drawbacks of financial digitisation? Here's a look at what may be in store for you.

Advantages

Convenience

The biggest motivator to **go digital** probably is the ease of conducting financial transactions. You no longer have to carry cash, credit or debit cards, or even go to ATMs for cash withdrawals. When you are travelling, it's also a safer and easier spending option.

Discounts

To promote digital transactions, the government has recently **waived off service tax** on card transactions. Then there are the cash-backs and discounts offered by mobile wallets like Paytm, as well as the **reward points** and **loyalty benefits** on existing credit and store cards, which could help improve your cash flow marginally.

Tracking spends

"If all **transactions are on record**, it will be very easy for people to **keep track of** their spending. It will also help while filing income tax returns and, in case of a **scrutiny**, people will find it easy to explain their spends", says ManojNagpal, CEO, Outlook Asia Capital. "Besides the tax, it will have a good impact on budgeting", says JayantPai, Head, Marketing, PPFAS Mutual Fund.

Budget discipline

The written record will help you **keep tabs on** your spending, **resulting in** better budgeting. Controlled spending could also result in higher investing. There's a lesser chance of **budgetary leaks** and unaccounted for spends sneaking into your budget at the end of the month.

Lower risk

If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get your cash back. And if the futuristic cards evolve to use biometric ID (finger prints, eye scan, etc.), it can be extremely difficult to copy, making it a very safe option.

Small gains

It may not seem like much of an advantage, but being cashless makes it easy to **ward off** borrowers. Another plus is that you can pay the exact amount without worrying about change.

Drawbacks

Increased risk of identity theft

The biggest fear is the risk of identity theft. Since we are culturally not **attuned to** digital transactions, even well-educated people **run the risk offalling into phishing trap**s. With the rising incidence of online fraud, the risk of hacking will only grow as more people **hop on** to the digital platform.

Losing phone means losing all your money

Since you will be dependent on your phone for all your transactions **on the move**, losing it can prove to be a double whammy. It can not only make you **susceptible** to identity theft, but you could also be rendered helpless in the absence of physical cash or any other payment option. This can be especially problematic if you are travelling abroad or in smaller towns or villages with lack of banking infrastructure or other payment options. Another drawback is that you need to keep your phone constantly charged. If the phone dies on you, you will be stranded, particularly if you are in the middle of an important purchase or dealing with an emergency.

Adapting is difficult for tech-unsavvy

Digitisation has two major requirements, internet and smartphones. India has a low Internet penetration and smartphone users but this is just a practical **roadblock**. Besides this, a bigger **hurdle** is the psychological shift. You are suddenly jumping three generations to the digital medium. It's a problem for the older people, who may suddenly find themselves **locked out of** their accounts if they can't download an app or don't have cash. The digital medium may prove a challenge for the **tech-unfriendly** people, who will need more time to adapt or the availability of other options to conduct transactions.

High chances of overspending

The convenience of net-banking, m-banking, card or mobile wallet transactions can make you a spendthrift. Behavioural finance theorists say that people find parting with physical cash more difficult than plastic money. So in a way, using cash actually helps us **put aleash** on our spending habits. Hence, there is a good chance that going digital may disrupt your budget or at least make it more difficult to keep a tab on your expenses.

The success of government's digitisation movement highly depends on its ability **to put cash out of** circulation in the economy. People will choose the most comfortable way available to them for making transaction. So, digitisation can only be successful if government makes it widespread and convenient.

Overspending

Card or mobile wallet transactions could open a spending trap for an unsuspecting population. According to behavioural finance theorists, the pain of parting with money is felt more acutely if you use physical cash instead of a card.

Case Study A

1. Study the articles on the "go-digital" initiatives. Figure out the upsides and downsides of Digital India and Sweden.

2. Team up in 3 groups. You are invited as digital experts to make Belarus economy and business digital. Elaborate the possible challenges and benefits down the road. You are to present your project to the Ministry of Economy of Belarus. Your intention is to be awarded the "Digital Belarus" contract.
Make use of the articles and vocabulary studied.

Article A

What are the Advantages and Disadvantages of the Digital India Initiative?

Digital India is an initiative by the Government of India to ensure that Government services are made available to citizens electronically by improving online infrastructure and by increasing Internet connectivity. It was launched on 1 July 2015 by Prime Minister Narendra Modi.

The initiative includes plans to connect rural areas with high speed internet networks. Digital India has three core components. These include:

- the creation of digital infrastructure;
- delivering services digitally;
- digital Literacy.

Now let's move on to the Major Advantages.

1. Creation of Digital Infrastructure and Electronic Manufacturing in Native India.
2. Digital Empowerment of Native Indian People.
3. Delivery of all Government Services electronically (E-Governance).
4. A Digital Identification which will verify the end user.
5. A Mobile for worldwide access to all services.
6. A Bank account for Immediate Benefit Transfers of subsidies and payments.
7. The program also aims to eliminate all electronics imports from foreign countries by 2020 and make India a electronics manufacturing super power.

Other Advantages. It will:

- help in decreasing crime if applied on whole;
- help in getting things done easily;
- help in decreasing documentation;

- ostensibly create a lot of jobs;
- be a boost to industry; both large and small enterprises.

Digital India without a doubt is a very commendable project and deserves full support. As far no disadvantages could be noticed as it's an initiative we are talking about. However, the initiative also lacks many crucial components including lack of legal framework, absence of privacy and data protection laws, civil liberties abuse possibilities, lack of parliamentary oversight for e-surveillance in India, lack of intelligence related reforms in India, insecure Indian cyberspace, etc.

But there are some questions that might trouble a critic mind.

- Will the initiative be genuinely inclusive?
- Who will the vendors be?
- How will corporates recover their costs? Will the promised investments end up as bad loans from banks?
- Will the initiative give the government a tool to conduct mass surveillance?
- Will the proposed digital lockers for official documentation be reliable?

https://www.quora.com

Article **B**

Implementing Digital Practice

Education

Education has a low probability of automation. Yet massive online courses (MOOCs), education apps, and other software are changing the fundamentals in education. When children are learning the to read, write, and do arithmetic, they can interact with software, such as *EdQu*, *Razkids*, and *Mathletics*, with high pedagogical content; for higher education, the best teachers can design and implement courses with potentially global reach. Thus, it is in theory possible to reduce the number of teachers and reward the superstars at the best universities. In such a system, the software would do most of the work and the teacher might help primarily if someone gets stuck.

The question is not if it can be done – clearly it can. In Korea, studentsare already learning English with the help of robots. Rather, the question is: do people want this or not? Some further automation of grading and improving mathematics and science education are likely inevitable, but how far is an open question: our norms and cultural values may vastly limit the scope for schools with few teachers.

Transportation

Transportation is among the sectors with high risk of automation. Self-driving vehicles can clearly challenge jobs for drivers of taxis, trucks, trains, airplanes, boats, and buses. Self-driving trucks are already on the roads in California and Nevada, and it is likely only a matter of time before we see autonomous trucks and other cargo carriers. Here, the demand for interaction with the counterparts may not be enough to save such jobs People will probably accept self-driving taxis, but when it comes to self-driving trains, the world is more divided: in many countries, trains are still driven manually, but when it comes to selfdriving trains, the world is experiencing a trend of introducing more of them. The majority of rains are still driven manually but some trains in, for example, Tokyo, Seoul, Singapore, Paris, and Copenhagen have self-driven trains servicing the metros. And nowhere are completely automated airplane pilots used for passenger transport. Despite the possibility of pilot error, the world of travel does not yet seem prepared to accept pilotless planes.

Fashion models, etc.

People who work as models have a high probability of seeing their jobs automated. In theory, current technology allows computer-generated people to appear in advertising both in video or in still pictures; even catwalks could probably be automated with current technology – or at least soon in the future. But even though we can make any kind of computer generated object, the modeling profession may well be safe from digitalization Simply, there is demand for real men and women as models, even though some of the mare highly paid. The ultimate object of models is to generate demand and as long as models do this, they may be safe.

Health workers

In some instances, it is very hard to envisage machines ever substituting for humans, such as for childbirth and such. But it may be possible in other areas, clinical diagnosis for example, especially if the cost of using the automated system is lower and the waiting time is shorter. Doctors are no different from other professions in that technical skill, in surgery for example, need not be accompanied by superb social skills It is conceivable that software could be programmed to display more empathy and sensitivity than a stressed and tactless surgeon. Surgeons already guide robots in some operations that require great precision.

Article **C**

Scenarios for Sweden

Here we sketch the effects of policy on the economy. This thought experiment is motivated by the literature that emphasizes the crucial role of how policy institutions react to technological change.

While the scenarios are constructed for Sweden, they are relevant to other EU countries with extensive public welfare systems 43 Starting from the current levels of productivity, employment, and inequality, we trace the effects of different policy responses The time perspective is in the medium-to-long term, roughly the next two decades Macroeconomic assumptions for all scenarios.

- Macroeconomic headwinds continue to weigh down productivity growth.
- Unchanged framework for labor markets, including strong protection for regular employment contracts.
- Social security systems remain unchanged

Scenario 1

Policy as usual: continued slow productivity growth, job creation slower than job destruction.

This is a "muddling-through" scenario in which policy adapts slowly.

A piecemeal approach to regulation is likely associated with slower productivity growth Essentially, the benefits of digitalization may be slower in coming than the costs of adjustments in the labor market. The macroeconomic headwinds discussed by Robert Gordon are then not sufficiently outweighed by benefits from innovations and the value thereby created. The aging populations and the high levels of debt in OECD countries are already affecting the economies, whereas the benefits from new technology and its pace of adoption depend on regulation. If each area of regulation is addressed separately – liability for self-driving cars, patent and intellectual property rights related to 3D printers, and the extent of liability of platform owners for transactions they facilitate – progress is likely to be measured in *minihertz* rather than *megahertz.*

Issues that need to be incorporated into laws and negotiated in treaties tend to take time – for good reason, since the credibility of and trust in the system depend on factors including its fairness (real and perceived) and predictability. Continued automation in industry and services mean that more jobs disappear and structural unemployment may be higher during a transition period, since many sectors are affected at the same time and with greater intensity than before. The process of automation is facilitated by workers retiring and thus provides a continued opportunity for firms to shed costs without actively having to reduce employees working under regular contracts. At the same time, the challenges of finding people with the right skills remain an obstacle to hiring, especially for highly skilled jobs In Sweden, the additional rigidity of the housing market with the lack of available rental homes imply that structural adjustments are harder. Workers cannot easily move to new locations if there is no housing to be had. New jobs are, of course, created all the time, but entrepreneurs are stymied by uncertainty about regulatory changes that affect their business model.

The question at stake is whether their business model will be pushed into an existing analog regulatory box that undermines the core idea or, less dramatically, whether the changes will introduce an element that raises costs over and above those in the business plan.

In this scenario, we may see a gradual, but perhaps not marked, increase in income inequality. Some jobs will have slower wage growth and some people will not be able to work in the sharing economy due to regulatory obstacles. But we are still likely to see more superstar winners, entrepreneurs who are able to capture large market shares and then remain dominant due to brand recognition, but also due to obstacles for others to enter the market and compete.

Scenario 2

Protectionist backlash: markedly slower productivity growth, more unemployment, more income inequality. One might regard this scenario as Scenario 1 combined with an economic policy reaction that emphasizes the rights of insiders and incumbents and where destructive rent-seeking dominates at the expense of value creation Incumbent firms are able to use regulation to erect hurdles that make entry harder and thus limit competition. This means that fewer jobs are created and the incentive to shift away from human labor towards further automation becomes stronger.

This results in greater labor market polarization where middle level jobs are pushed down the skills ladder but the slow productivity growth will imply poor real wage growth for broad groups; that is, there will be both job and income polarization.

Scenario 3

Embracing change: better productivity growth, more job creation, unchanged income inequality. If regulatory overhaul is initiated strategically with a few guiding principles on consumer safety and other concerns, this will reduce the need to reinvent the wheel for every area subject to digitalization. Using those principles on a case-by-case basis in each sector makes it possible to speed up regulatory review yet allow proper discussion of the idiosyncrasies of each area. For example, principles and thresholds for how and at what rates freelancers should pay tax in the sharing economy and what rules should apply with a view to reasonable levels of consumer safety. Some existing regulation should be reviewed to determine whether the requirements are unnecessarily high with respect to risks and outcomes. For example, self-driving vehicles are likely to save many lives from fewer traffic accidents and yet are held back by uncertainty, notably on liability. Regulation should aim at *neutrality* between different alternatives, but the outcomes should stem *more from relaxing unnecessary rules rather than raising bars for potential entrants.*

Raising the bars of entry may deter competition and lead to monopoly-typerents to the detriment of consumers. In this scenario, many more services will be created in the sharing economy and jobs may thus keep pace with job destruction. Combining ease of adjustment between sectors with improved skills, especially digital skills, will ease the changes and make welfare more stable for large groups. With the rise of the sharing economy as a more substantial part of the labor market, the difference in rights accrued to insiders compared to outsiders with insecure jobs needs to be addressed. To maintain the legitimacy of the welfare system, freelance workers also need to better covered by general social security safety nets. The safety nets need to be calibrated to even out income over time but not so generous as to discourage work

Case Study B

1. Study the article and jot down the key ideas.

4 Signs Your Business Is About To Be Changed by The Internet of Things

If you doubt we are living in exponential times, just take a look around right now and think back to 2005. As Thomas Friedman noted in his book "The World Is Flat", "Facebook didn't exist for most people, Twitter was still a sound, 4G was a parking space, and "Skype" was a typo."

Consider the widespread acceptance of the telephone, for example. It took 75 years to connect 50 million people to this game-changing technology. However, the Internet only needed 4 years to reach the same number of users. For Facebook, it was 3.5 years. Even more incredible is the adoption of an app like Angry Birds – just 35 days! At first glance of these adoption rates, it's easy to see how our world has changed tremendously in a short amount of time.

Acceptance of the Internet of Things (IoT) is expected to be no different. We are in the very early stages of the growth trajectory toward a fully connected world. Over the next five years, we'll see a ten-fold increase in the number of connected things. In three years, nearly half of all IoT innovations will focus on business devices and use cases, delivering new levels of productivity resulting in business leaders investing $250 billion in supporting technology.

The new normal in a digital world powered by the Internet of Things

By 2019 more than 50 % of analytics implementations will be driven by use cases that include event data streams generated from instrumented machines, applications, and/or individuals. However, this trend is not just an opportunity for manufacturers, retailers, and logistics providers. It will fundamentally change how *every* business operates.

As Tom Bianculli, vice president of the enterprise technology office at Zebra Technologies, warned during the Americas' SAP Users Group Webcast "Transforming Your Business with IoT – SAP Partner Perspectives," "By 2020, there will be 6 billion mobile phones. However, 30 billion connected devices will be taking up 42 % of our mobile bandwidth. By early 2020, machines – not people – will be the dominant users of the Internet. When machines are communicating more than people, what does that mean relative to your current business model? The way you run your operations? The way you interact with your customers? Companies that want to effectively compete more than five years from now need to plan for this new reality now."

Here are four ways the IoT will change the operations of every business – no matter the industry, size, or region.

1. **Say goodbye to schedules.** The notion of planning, scheduling, and proactive route optimization is going away. As this steady stream of real-time information becomes available, activities are dynamically created, and the information is pushed out to the right person at the right time so they can take action.

2. **Fuse data with the cloud.** In a few short decades, the business world has moved from systems of record (ERP) to systems of engagement (enterprise mobility) to systems of intelligence (IoT). The IoT is bringing about a system of smart and aware systems. We are now evolving from an environment of ubiquitous connectivity to a data flood that is delivering the always informed experience. Before we know it, heads-up productivity paradigms supported by hands-free technology will become a mere fact of running a business.

3. **See what others cannot see.** No longer do decision makers need to hope they bump into a problem before it becomes a disruption. Managers can now take a virtual tour of their area, organization, or the business at large to find problems and proactively resolve them. In other words, they can capture information about overall operational health, analyze it, and derive insight to take better action immediately.

4. **Revolutionize the shopping experience.** As customers have become more comfortable with the fusion of the physical world with the digital world, shopping is happening everywhere. What does that mean for your business? Smarter infrastructures will usher in an age of "online analytics for the offline world," delivering personalized experiences to shoppers. Fulfillment of orders at the store level will change the supply chain paradigm to one in which the store itself is another node on the supply chain. This new level of connectivity and visibility will impact the dynamics of customer relationships with those selling, manufacturing, distributing goods as lines blur across the fulfillment channel.

2. Expert Panel Discussion. Divide into the reps of company X (the line of business is of your choosing): an expert group/participants. Participants are asked to put forward ideas on implementing the Internet of Things in your business. Experts consider and evaluate all the ideas and choose the best (the most feasible, prospective) option.

3. Hot Debate. Big companies have embraced the cloud more slowly than expected. Some are holding back because of the cost. Others are wary of entrusting sensitive data to another firm's servers. Should companies be doing most of their computing in the cloud?

4. Participate in the debate on the following topic.

Should companies
do most of their computing
in the cloud?

Project on Schedule

1. In your experience, what are the key factors in managing a project (however big or small)?
2. What can go right with a project? What can go wrong?
3. What projects are you currently working on in or out of work?
4. What progress are you making? What problems have you had?

1. Study the target vocabulary

Key expressions

Asking for an update

How does your side of things look?
How's… coming along?
How far are you with… ? How are things with… ?
What's the current status of… ?

Giving an update

Up to now (the launch date) has been (set)…
He (booked the venue) two weeks ago.
We're on track.
So far, so good.
Things aren't running as smoothly as I'd hoped.
We're done/we're finished.
We've hit a problem with...

Clarifying a problem
So what do you mean exactly? So what you're saying is… So the real problem lies with… ? So what you are getting at is… ?
Making a suggestion
How about… ? We could… Why don't we… …would be my proposal. If you'd ask me, we should…
Responding to a suggestion
It's worth a try. I don't think that would… That's possible, but… That's not an ideal/a win-win solution. I'm not convinced. I will look into the matter and get back to you. I will sleep on it.

2. Do you associate these phrases from the texts with successful (S) or unsuccessful (U) projects, or both?

run out of resources within budget behind schedule upfront planning miss the deadline stay on track budget constraints	lack of planning make the launch date accurate forecast ahead of schedule unrealistic budget lack of planning

3. Choose the correct answer from the words in *italics*

1. Good communication will help you to *resolve / address* conflict quickly.
2. When time is short, you must *promote / prioritize* tasks and do the must important ones first.

3. Try to *hold* / *keep* track of spending, so that you don't *go over / excel* budget.
4. Make sure you *allow* / *allocate* sufficient resources to the different departments.
5. Always expect the unexpected and *manufacture* / *make* contingency plans.
6. It is important to *examine* / *chock* progress at every stage of a project in case there are any problems.

4. Choose a verb from the list that can go with *all three* phrases in each group.

stay	set	run	keep	check

1. ...smoothly / out of time / into problems
2. …on track / within budget / the course
3. …the facts / progress / details
4. …a budget / a timescale / a launch date
5. …to a budget / track of / costs down

5. Read the *Context* and listen to Part 1 of the meeting and make notes of the items on the agenda.

Context

The Tech-Tariff project is a collaboration between MMT-Tec (service provider) and Anvikon (mobile phone manufacturer). The aim is to launch a high-tech phone with new advanced features from Anvikon in combination with MMT-Tec's new tariff, which includes free video phoning, and multimiedia message services. Sarah and Michelle from MMT-Tec and Ian from Anvikon are meeting to discuss the progress of the project.

Tech Tariff Meeting Plan

Agenda

1. Update on marketing activities (MMT-Tec):
    - Launch date…
    - Advertising campaign…
    - Launch part: venue…/catering…
2. Update on Avinkon activities

Work with a partner. It is two days before the launch of the new Tech-Tariff phone. Student A, you are Michelle. Turn to File 1. Student B, you are lan. Use the information from File 2. Update each other on the progress of the project.

Student A, make sure you

- clarity any information you're not sure about;
- make and respond in suggestions as necessary.

Read the 'To do' list you sent to Ian and the notes you have written under your tasks.

- Begin by calling Ian. Ask Ian to update you on his tasks.
- Answer his questions about your tasks.
- Make and respond to suggestions as necessary.

File 1

Launch date 'To do' list

- Bring Anvikon merchandise to venue.
- Finalize timetable of day with sound engineers. – *Meeting with them later today? Suggestion: sound check night before?*
- Brief Anvikon staff about handset demonstration.
- Check replies from the press – who's coming? – *Behind schedule! Some invitations are sent only 2 days ago. Suggestion: we plan for more people than expected?*
- Send Anvikon PR manager's speech to MMT-Tech.
- Make sure Sarah's briefed on everything. – *Suggestion: wait till last minute – want to give her positive information! Make good impression!*

Student B

1. Read the 'To do' list you received from Michelle and the notes you have written under your tasks.
2. Michelle will call you. Answer Michelle's questions about your tasks.
3. Ask Michelle to update you on her tasks.
4. Make and respond to suggestions as necessary.

File 2

Launch date 'To do' list

- Bring Anvikon merchandise to venue. – *Done*! *Suggestion: bring extras and leave in a car?*
- Finalize timetable of day with sound engineers.

- Brief Anvikon staff about handset demonstration. – *Problem: illness in the office/rescheduled for tomorrow when all sales staff are present.*
- Check replies from the press – *who's coming?*
- Send Anvikon PR manager's speech to MMT-Tech. – *Not ready!*

6. Work with a partner. Use the words and phrases in 1–3 to discuss what can go right and wrong for the project: Your peer has put forward ideas of setting a chill out zone/bookstore in your university. Suggest how the project could be managed better.

7. With your partner, ask for updates and discuss the project(s) you are currently working on (challenges, difficulties, possibilities, possible outcome). Suggest ideas of improvement. Use at least 7 target vocabulary.

Setting Goals

1. Study the target vocabulary.

Setting goals

One of the keys to managing a project successfully is to set clear goals for everyone who is involved so that they know exactly what they have to achieve and by what time. Look at some of the phrases that can be useful when setting goals.

a *What's the schedule for this?*
b *How much are you budgeting for … ?*
c *I think we should aim to …*
d *What will you need in the way of resources?*
e *So what exactly would be involved?*
f *When do I have to get this in by?*
g *Is that feasible?*
h *Does that sound reasonable/doable?*

2. Put the words in the correct order to make the target phrases.

1. the / what / project / schedule / the / is / for?
2. do / need / to / when / I / get / information / you / to?
3. think / do / July/ is / feasible / you?
4. the / of / in / you / need / will / way / what / resources?
5. reasonable / that / does / sound / you / to?
6. exactly / what / is / involved?
7. much / you / for / how / are / budgeting?

3. Work in pairs. Take turns to play the roles of a foreign senior manager and project leader, set goals (time, resources and budget) together for each of the projects below.

The senior manager has asked the project leader to.

1. Take responsibility for arranging the transfer of the company's headquarters to a new location.
2. Prepare a one-week training course for senior executives.
3. Create a company website.
4. Organize the company's annual sales conference.

4. Work in pairs. Brainstorm ideas for a project that you would like to initiate. Draw up a brief outline and discuss your project with another pair.

Section IV

SALARY AND BENEFITS:
SATISFACTION OR NECESSITY

You will know

- Types of wages and their uses; wage-setting routines.
- Different forms of compensation; benefits to motivate employees.
- Top company's perks and the most desirable benefits.

Starting Point

1. Which of the following would motivate you work harder? Choose your top five and rank them in order of priority. Explain your priorities.

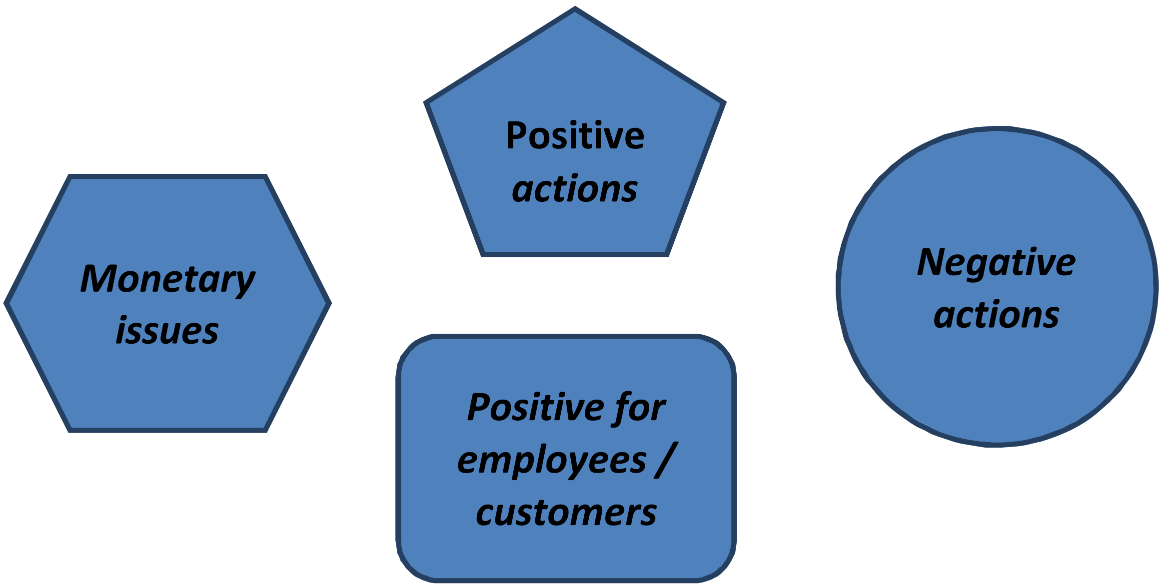
bonus	perks
bigger salary	good colleagues
praise	working for a successful company
promotion opportunities	gifts for achieving targets

2. What types of salary/bonuses do you know? Do they motivate employees?

3. What do organizations do to recognize and reward their employees?

Working with words

1. Study the vocabulary list below and group the words and phrases into the categories.



financial instruments' gains	cash flow is constrained
to be paid in nature (e.g. fringe benefits)	to drive a company/company's needs
remuneration package	to set up bonuses
discrepancy between	vesting schedule
to cut expenditure	fuel broader inflation
to freeze or reduce public wages	to outstrip
a stimulus-oriented policy	to surpass
incremental increases in pay	first and foremost
to exert downward pressure on	a holistic way of life
to be prone to	job hoppers
have an upward trend	merit-based pay plans
experience a long-run stagnation	incentive-based pay plans
gloomy perspectives	discretionary bonus plans
to shrink	stock options
fringe and core workers	to stipulate
the foreseeable future	employee retention
piecework or piecemeal	payout
to shift risk from to	to incentivize smb
be enticed	in lieu of

2. Pair up and play "Word Tennis". The person who is the last to recall the active is the Winner.

3. Find 2–3 short pieces of economic news in which you might use the vocabulary. Deliver them to your groupmates.

BE IN THE KNOW

Wages and Their Significance

Study the article and jot down the key ideas on every point of it.

Wages are the most common earnings of people. Perceived by workers, clerks, managers, and employees in general, wages and salaries constitute the core element in income for the majority of active people. Similarly, many pension schemes are based on wage levels and dynamics.

By contrast, the self-employed do not receive wages, but sell directly their labour in the market. The property and enterprise owners obtain income from rents, dividends, and other financial instruments' gains. The unemployed in certain countries and under constraints receive public financial support.

In another perspective, wages are a major determinant of production costs.

Types of wages

Nominal wages are written down in contracts between the employee and the organization. **Real** wages somehow correct nominal wages for prices of goods and services bought by the employee. In specific institutional settings, nominal wages may be automatically and frequently adjusted to certain inflation measures, resulting in a more or less constant real wages.

Part of the wage may be paid in nature (e.g. fringe benefits), but the core is usually paid with money. Some firms use "stock options" as part of the remuneration package.

A part of firms' labour cost is given to the State in terms of taxes and contributions to social funds for retirement and unemployment. Thus, in many countries there exists a large discrepancy between **gross** and **net** wages.

Determinants

Wage levels result from individual and collective negotiations between the employees (and their representatives) with the management (and the owners) of firms.

In public bodies, laws and negotiations decide wages. A government wanting to cut public expenditure might try to freeze or reduce public wages, whereas a stimulus-oriented policy might include increases.

Firms and organizations pay wages to employees usually depending on working time and/or on results (production made or objectives reached). Individual wage often depends on occupied position in the organization as well as on education, cumulated experience and seniority. Wages for the same job outside the firm may serve as a (conventional or mandatory) reference point in wage-setting routines.

Wage differentiation is a widespread phenomenon: different occupations and different industries pay working time at uneven rates. Even wage segregation is common: certain jobs are "socially" attributed to a certain gender or ethnicity, which in turn might strive to widen the jobs it is "allowed" to perform.

Wage structure for occupations, industries and regions is subject to very slow long-term change. Imitation of wage increase in other parts of the country is a common force in action.

Wage rates for the same position can be different between "normal hours" (e.g. 40 hours a week) and overtime, i.e. the hours exceeding regular working hours.

Usually overtime are paid better, as it occurs when the work is performed during the night or festivities (e.g. Sundays). A part of the remunaration can be linked to results, both on an individual and collective term of reference.

Wages are changed at discrete intervals of time, often a year, possibly within a multi-year perspective plan.

Wage dynamics are linked to the following main determinants:

1) the balance of strength between employees and employers, which in turn depends on labor organization, solidarity and effective mobilization;

2) previous and current profitability of employers;

3) labour productivity increases;

4) sales and employment perspectives;

5) shortage of workers or, more often, abundance of unemployed;

6) past and forecasted inflation trends.

For certain jobs, international levels of wages and immigration may be additional determinants, with a large pool of emigrants exerting downward pressure on current domestic wages, on the one hand, and being the source of international remittances, on the other.

More analytically, a firm's labour market can be purposefully separated in **internal** market (within firm) and **external** market (in other firms and the unemployed). Internal market is ruled by **hierarchy** (with different layers of workers, some being at the fringe and other at the core of the firm, with all degrees of low, middle and management strata) and put in motion with career processes, together with firm-specific wage policy. To a certain degree, external conditions exert only a marginal role in internal negotiations. In fact, employees have cumulated firm-specific skills, difficult to find ready on the market. Seamless effective work requires mutual trust, which in turn depends on stability of work for, at least, a core of employees.

By contrast, external market is relevant when employees choose a voluntary dismiss for getting better conditions outside. When a relevant turnover takes place, the management is possibly forced to choose another wage policy.

The unemployed may be characterised by a much lower wage expectations than the employees and they are prone to more flexible working conditions, but they lack competence and are often characterised by lower productivity.

This analysis explains on the one hand, why a higher unemployment may brake wages but also, on the other hand, why wages can grow even if there exists unemployment.

Impact on other variables

Higher wages mean higher income in most families; thus their **consumption** will usually grow as well.

Total consumption will depend on consumption attitudes of the other families, in particular of whose income heavily relies on dividends. Immigrants may save part of their income to send remittances home.

If total consumption grow, this will boost sales throughout the industries, increasing productivity. This, in turn, is conducive to a further growth in wages.

Through the Keynesian multiplier, income increase will be followed again by consumption, giving rise to a positive feedback loop.

If sales do not increase enough and the share of labour costs on total costs is large, which is not always the case, the increase in wages will be reflected in **an increase of labour cost per unit of output**. This, however, if the final markets are not very competitive, brings forth a very credible risk of inflation, with the involved reduction of real income. A wages-prices spiral will begin, with only nominal increase of both, keeping real things to a large extent untouched (but provoking a lot of social conflict).

Increases in nominal wages will boost payroll tax revenue, thus, other things equal, they will reduce public deficit

On a more micro level, it is important to remember that wage level and dynamics are a key feature for individual motivation to work.

Long-term trends

Since GDP and work productivity have an upward trend as a general rule, one could imagine the same for real hourly wages. Instead, many countries experience a long-run stagnation if not even a fall, due to persistent weak organised labour, uncapable of finding effective ways to attract and mobilize workers, especially in small and medium-sized enterprises.

This dynamics might be hidden to the personal experience mostly because, during the work life, there is a progressive increase of competence, possibly accompanied by changes in the workplace, so that, individually, one sees his own wage rise.

In certain countries, wage increase are concentrated in periods during which they sharply rise.

Business cycle behavior

Individual personal negotiations will fix wages for a dispersed number of persons with uncertain business cycle behaviour. Collective overlapping negotiations will fix wages for one or more years in advance, making usually them unresponsive to short-term labour market fluctuations.

Still, it is quite intuitive that a situation of full employment, healthy firm performances and good perspectives will tend to raise wages. Recession, with its gloomy perspectives for labour will tend to brake wage dynamics.

Even before nominal wages are adjusted to the labour market conditions, recession usually shrink working hours, and especially overtime. This quite automatically reduces workers' income and the weighted average of wage rates.

If recession goes further, some firms will fire people. The sequence in which fringe and core workers are fired will move the average wage rate in that industry. If fringe workers are fired before the core, then this tend to rise the average rate. Some core worker can however receive part of their wages as bonuses from the economic conditions of the firm: this component will usually go down or disappear as the latter deteriorates.

But falling nominal wages are powerful depressors of labour commitment and productivity; they put a pressure on workers to leave the firm looking for a better one, or even to emigrate if the situation is too bad in the whole domestic economy.

In short, wages are moderately pro-cyclical. If labour is weak, recovery periods may only unevenly impact wages. If, on the contrary, labour is strong, higher productivity and profits and will be reflected in higher wages. This may spread expansionary forces and allow the system to enter in a booming phase. In this moment, an increase in minimum wages is very effective in raising domestic demand (and tax revenue) without inflationary pressures, as there is still room in the production capacity and investments ramp up to widen it.

Weighted wage rates will go up as the expansion continues, since overtime become more common (and they are better paid), to give place to employment increases as the firm is sure that there will be demand for its products for the foreseeable future (or at least the duration of the work contract)

If wage pressures are too strong, inflation may rise. In a context lacking different instruments, the central bank may decide to adopt a restrictive monetary policy, possibly with a "soft landing" idea in mind. "Hard landing" is a distinctive possible outcome, instead, with its recessionary developments.

K. Satija. Textbook on Economics for Law Students

Ready? Steady? GO...

Get ready for Intellectual Quiz. Complete the statements and expand on them.

1. Nominal wages are...
2. Real wages correct…
3. Wage levels result from…
4. Firms and organizations pay wages to employees usually depending on…
5. Wage differentiation is a widespread phenomenon…

6. Wage rates for the same position can be different…
7. Wage dynamics are linked to the following main determinants…
8. Total consumption depends on…
9. If total consumption grow, this will…
10. The increase in wages will be reflected in an increase of labour cost per unit of output if…
11. Many countries experience a long-run stagnation if not even a fall, due to…
12. …tend to raise wages.
13. …tend to brake wage dynamics.
14. …This quite automatically reduces workers' income and the weighted average of wage rates.
15. Falling nominal wages are powerful…
16. Wages are moderately pro-cyclical…
17. If wage pressures are too strong…

DISCUSSION

You are invited to a meet-up with the employees of company ABC who are dissatisfied with their salary. You intend to inform them on types of wages and impact on their variables. Do your outmost to make your presentation compelling and informative.

The Different Forms of Compensation

Study the article on different forms of compensation. Focus on the main areas below. Find the key phrases that fit each area and be ready to discuss them. Use the paperball to pass the right to answer to your group mates.

DIRECT FORMS | INDIRECT FORMS | INCENTIVES

There are two forms of compensation provided to employees; direct and indirect. Direct forms of compensation have a multitude of types or methods, from salaries to bonuses. Indirect compensation is primarily the various types of benefits and long term incentives. This article is an introduction to the terminology of compensation.

One of the forms of compensation is direct remuneration for services rendered by the employee. The term used for this is wages. It consists of four different groups of payment from the employer to the employee. They are salary, hourly, commission and bonus types of wages.

Direct Forms of Compensation:

- *Salary*;
- *Hourly*;
- *Commission*;
- *Bonuses*.

Indirect Forms of Compensation:

- *Benefits*;
- *Equity Based Programs*.

Direct Forms of Compensation

Salary

This type of wage is customarily a set sum of remuneration over a defined period of time. The most traditional form is a dollar amount over a period of one year. The frequency of payment is another part of the compensation and is based on industry standards. Most businesses pay for services twice a month.

Salaries are the most commonly used tool to pay professional or licensed employees. In general there is an expectation from the employer of a longer term commitment from the employee for providing a regular uninterrupted compensation stream via a salary.

Hourly

This is a dollar amount per hour of service to the employer, more commonly used to compensate unskilled and skilled laborers in the workforce. This form of compensation comes with an implied understanding that during times of slow or minimal workloads, the employee may not be used to provide services. In effect, there is no guarantee of a regular cycle of pay.

Commission

When compensation is based on volume or some form of performance, this is known as commission based remuneration. Other terms used include piecework or piecemeal. Many industries used this type of remuneration to get a minimum standard of production in exchange for compensation. It is used to shift risk from the employer to the employee. There are two methods to calculate commission. One is based on volume of services and the other is based on sales.

An example of an industry that uses volume remuneration extensively is the fishing industry. The men that work on the boats have a risk that the captain will not find fish. In exchange, the captain may hit upon some nice fishing grounds and bring in a large catch. Once the fish is offloaded, the processors use commission to compensate the production workers. These workers are paid by piecemeal, that is, how much final product they can generate from the catch. Typically their cuts of the meat are weighed and they are compensated based on that measurement for services rendered.

An example of an industry that uses sales based commissions is the auto retail dealerships. Here the salesman is enticed to get the buyer to purchase the vehicle so that he may receive compensation for his services. Other commission based industries include, brokers, real estate agents, door to door salesmen, internet website owners and some folks in the cleaning services.

Bonuses

Bonuses are used to increase performance from the employee. This is a variable type of remuneration and is more commonly found with salaried staff to incentivize them for a particular goal whether time or volume based. Other reasons used for bonuses are to increase or maintain retention of certain skills or the pool of skill-sets needed in the company. Sometimes bonuses are paid when a company meets certain financial standards or goals over an extended period of time.

Bonuses are not commonly used with hourly or commission based employees due to the nature of the type of compensation already established. However, in small businesses it is used as a tool to incentivize these two types of remuneration to meet certain goals.The other form of compensation is indirect in value. This includes benefits and equity based programs. In general, these two types of indirect compensation provide value to an employee over a longer period of time.

Indirect Forms of Compensation

Benefits

This particular group is traditionally thought of in the form of insurances (health, dental, life, disability and vision) and **retirement**. Very few small businesses provide benefits to their employees due to the cost involved. When small businesses begin providing benefits, they customarily start out with retirement because of simplicity and low cost. As they grow, they add health **insurance** (mandated by law for employers with 50 or more employees) and continue to expand the benefit package as the number of employees increase and the risk of business performance decreases. Benefits allow for retention and recruitment.

Other benefits can include transportation, paid time off, vacation time, and customized incentives (lodging, meals, phones, etc.).

Equity Based Programs

Rarely found in the small business world for several reasons. These types of indirect compensation tie the employee to the company via ownership. Due to the complexity and the legal issues involved, very few small businesses use this tool.

Compensation strategy

Defining a compensation strategy is an important activity for all companies, including startups. The compensation strategy must be:

- Affordable for the company
- Reasonably competitive such that it attracts and retains quality people
- Structured to ensure that employees' efforts are directed to achieving the company's goals

Incentives: Drivers in attracting the best employees

Compensation can be divided into salary, benefits and incentives. While salary and benefits must be competitive, incentives are the most likely drivers of attracting and retaining the best employees in startups. There are three key types of incentives:

1. Bonuses

- Individuals are rewarded based on attainment of performance-based goals (individual, team and/or company).
- Goals must be realistic and closely matched to the business and people involved.
- Payout potential should be large enough to be significant to the individual.
- Bonuses can be set up to directly drive and support the company's needs (for example, profitability, annual results, successful completion of projects and/or significant project milestones).

2. Profit sharing

- Payment is tied to company profits.
- A pre-determined percentage of profit is shared among all employees.
- Profit-sharing bonuses are generally paid out once a year in the form of cash or on a deferred basis.

3. Stock options

- An individual receives the option to buy company shares for a set price during a specified time frame.
- Option can be exercised by the individual at any time during the agreed-upon term and subject to any vesting schedule.
- Stock options are often part of management's executive compensation but may be offered to key employees in lieu of a higher salary − especially where the business is not yet profitable and/or cash flow is constrained.

- If the business does well and the company's stock rises, the holders of the options share in the financial benefits.
- In general, if the company permits a long period from the date of issue to the last date for exercising the option, it will encourage the employee to stay with the company and be fully committed to its success.

businessecon.org

Study the articles and jot down the key ideas. What is your view on the benefits and perks described? Which of them would be a good idea to introduce in Belarusian companies?

People and Their Wages

The levels of salary you ask for are more complicated than you have characterized. Having done payroll for a company, these are the levels of compensation.

There are several levels of employment with incremental increases in pay, commission, bonuses, and benefits also called perquisites, or perks for short. A few examples: At the bottom of pay level there are part-time employees, but service-part-time is the lowest – waiters and waitresses usually below 20 hours per week. Wait-person minimum wage is lower than normal minimum wage due to tips. Then you have part-time such as factory or office workers doing 20–30 hours per week, and then partial full-time between 30 and 40 hours. Full time is 40 hours plus overtime past 40 hours, and usually includes health care insurance they pay for at about half of cost. Most of these only get base pay, not salary, because it is paid hourly. The main difference for these employees is how much they have to pay out of pocket for health insurance, if the company even offers it. Fewer hours means insurance costs cut deeper into family budgets.

Most companies place sales people between full-time (such as office workers) and management, though that is not the case for big retail stores. Sales has three levels of compensation: associate, salesperson, agent. Associates have sales quotas, get low commissions, sometimes working for commission only, and they pay their way, except for things like mileage for gas or other legitimate travel costs, but not meals, phones, or car rentals. Associates normally work in-house. (Keep in mind any employee sent across country by plane has all expenses reimbursed.) Independent sales people (who have to leave the office to see clients) get full commissions, with bonuses for productive referrals, but no overtime pay, no matter how many hours they work to meet sales quotas or projections. Sales people also get full coverage of most travel expenses, and have long distance phone calls covered, but have to use their own car and phone. Sometimes they work for commission only as base pay, but the better companies, with good sales people offer base salary plus commissions, and health insurance is partially or fully covered. Agents typically get a leased car for which they make the payments, a free phone, and travel expenses in advance in the form of travel budgets or company expense credit cards, and fully covered insurance. Agents also get bonuses for meeting or exceeding sales projections.

Above sales is middle management like section supervisors, though agents are also considered middle management. These salary employees, and some small bonuses, but no overtime pay. Often their insurance is covered better than regular full-time employees by the company. They may get small perquisites (perks) such as a phone, or a temporary leased car if it entails travel to remote offices, or client locations.

Management typically gets a "fixed salary", perks, including expense accounts, company credit cards, all paid for work related expenses, travel incentives (in compensation for the inconvenience of traveling, they get extra,) company owned/leased cars, bonuses, and sometimes incentives like stock options offered at lower prices than the market. ($10 instead of $15 for instance.) They still have to pay for the stocks, though. Above management is "Executive compensation", plus short- and long-term incentives, benefits, bonuses, and stock offers which means all the previous compensation levels combined, plus large bonuses and incentives. These typically run in the hundreds of thousands (or millions) of dollars all together.

Top 20 Employee Benefits & Perks

With nearly 3 in 5 (57 %) people reporting benefits and perks being among their top considerations before accepting a job, some employers are raising the bar even higher when it comes to benefits and perks they offer to help attract talent. But beyond free food and on-site gyms, what are some of the more incredible, unique and surprising benefits and perks that some employees are enjoying?

These 20 companies are just some that provide perks and benefits that go beyond the basics, with life coaching services, egg freezing, free amusement park passes and more. Check out the full results, according to Benefits Reviews on Glassdoor, shared by employees:

1. **Netflix** offers one paid year of maternity and paternity leave to new parents. They also allow parents to return part-time or full-time and take time off as needed throughout the year.

- Overall Benefits Rating: 3.7

2. **REI** encourages its employees to get outside by offering two paid days off, called "Yay Days," a year to enjoy their favorite outside activity.

- Overall Benefits Rating: 4.0

3. **Salesforce** employees receive six days of paid volunteer time off a year, and if they use all six, they receive a $1,000 grant to donate to a charity of their choice.

- Overall Benefits Rating: 4.5

4. **Spotify** provides six months of paid parental leave, plus one month of flexible work options for parents returning to the office. The company also covers costs for egg freezing and fertility assistance.

- Overall Benefits Rating: 4.2

5. **World Wildlife Fund** employees take Friday off every other week, also known as "Panda Fridays" at the nonprofit.

- Overall Benefits Rating: 4.5

6. **Airbnb,** the Best Place to Work in 2016, gives its employees an annual stipend of $2,000 to travel and stay in an Airbnb listing anywhere in the world.

- Overall Benefits Rating: 4.6

7. **PwC** offers its employees $1,200 per year for student loan debt reimbursement.

- Overall Benefits Rating: 4.0

8. **Pinterest** provides a unique take on the parental leave policy by providing four paid months off, plus an additional month of part-time hours, as well as two counseling sessions to create a plan to re-enter the workplace.

- Overall Benefits Rating: 4.7

9. **Burton** employees receive season ski passes and "snow days" to hit the slopes after a big snowfall.

- Overall Benefits Rating: 4.0

10. **Twilio** offers employees a Kindle plus $30 a month to purchase books.

- Overall Benefits Rating: 4.0

11. **Twitter** is well-known for providing perks such as three catered meals a day, but some lesser-known benefits include on-site acupuncture and improv classes.

- Overall Benefits Rating: 4.3

12. **Accenture** covers gender reassignment for their employees as part of their commitment to LGBTQ rights and diversity.

- Overall Benefits Rating: 4.0

13. **Walt Disney Company** wants its employees to enjoy the "Happiest Place on Earth" as much as their visitors by offering free admission to its parks for employees, plus their friends and family, as well as discounts on hotels and merchandise.

- Overall Benefits Rating: 4.0

14. **Facebook** provides $4,000 in "Baby Cash" to employees with a newborn.

- Overall Benefits Rating : 4.7

15. **Evernote** hosts classes through "Evernote Academy," which offers team-building courses like macaroon baking.

- Overall Benefits Rating: 4.3

16. **Epic Systems Corporation** offers employees a paid four-week sabbatical to pursue their creative talents after 5 years at the company.

- Overall Benefits Rating: 4.3

17. **Adobe** shuts down the entire company for one week in December and one week over the summer.

- Overall Benefits Rating: 4.6

18. **Asana** employees have access to executive and life coaching services outside of the company.

- Overall Benefits Rating: 4.9

19. **Zillow** pays for employees who are traveling to ship their breast milk.

- Overall Benefits Rating: 4.5

20. **Google** provides the surviving spouse or partner of a deceased employee 50% of their salary for the next ten years.

- Overall Benefits Rating: 4.6

How Much Do Employee Benefits & Perks Really Matter?

There's no doubt about it, employee benefits and perks *do matter* when it comes to recruiting and retaining talent, but the impact benefits have in the recruiting game versus the employee retention game differs.

When it comes to recruiting talent today, Glassdoor surveys show that nearly 3 in 5 (57 %) people report benefits and perks being among their top considerations before accepting a job, while 4 in 5 people also say they would prefer new perks over a pay raise. This indicates that most employees value benefits and perks when making job decisions and determining which companies may be a great fit for them. Plus, it's important to consider that when it comes to which benefits and perks matter most to people, we've found the top five include:

- Healthcare insurance (e.g., medical, dental) – 40 %;
- Vacation/Paid time off – 37 %;
- Performance bonus – 35 %;
- Paid sick days – 32 %;
- 401(k) plan, retirement plan and/or pension – 31 %.

However, when it comes to what keeps employees at companies and satisfied on the job, it's a different story. According to Glassdoor Economic Research, culture and values, career opportunities and senior leadership are the most important factors in cultivating employee satisfaction, which can directly impact employee retention. Thus, while benefits and perks are a great way to get employees in the door and interested in a company, they're not among the leading factors that keep employees satisfied on the job and with a company long-term.

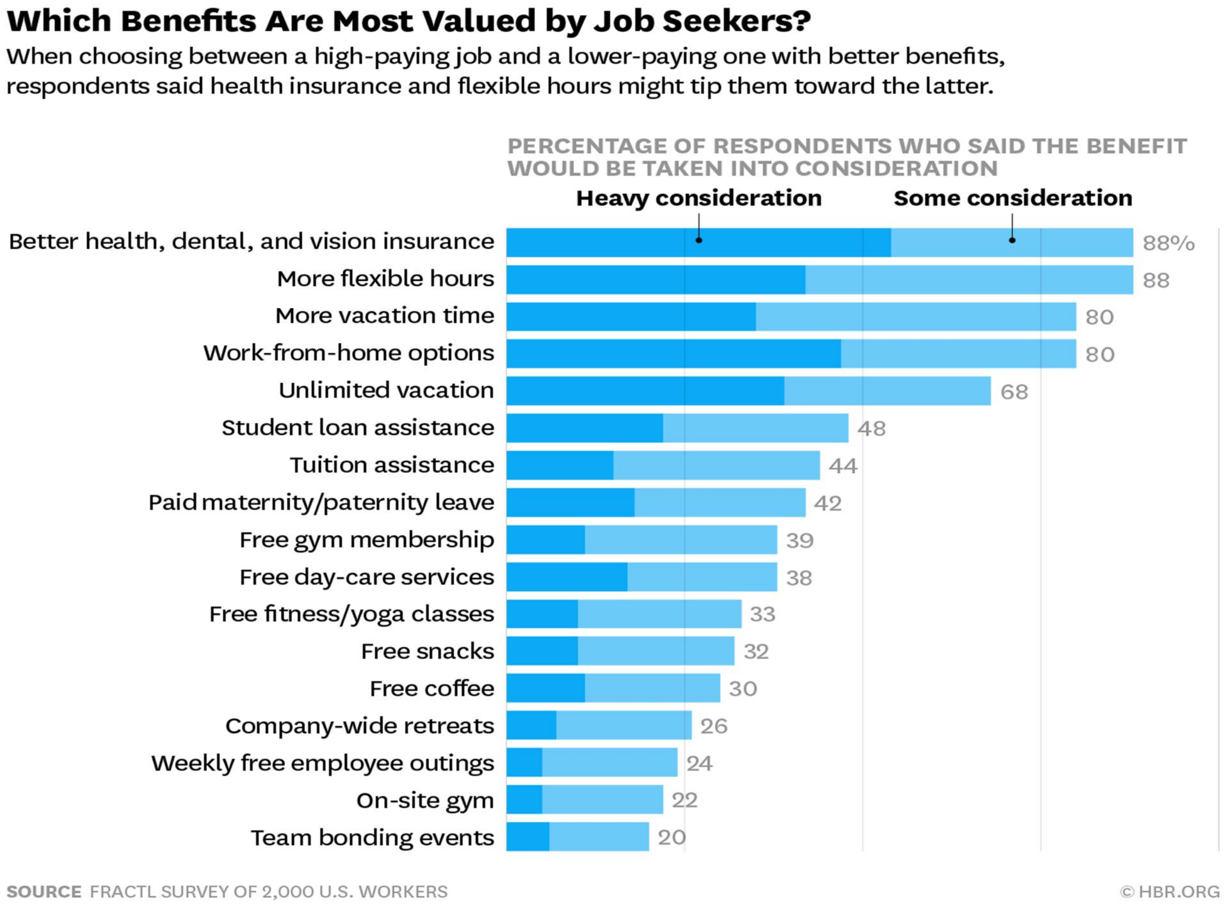
The Most Desirable Employee Benefits

In today's hiring market, a generous benefits package is essential for attracting and retaining top talent. According to Glassdoor's 2015 Employment Confidence Survey, about 60 % of people report that benefits and perks are a major factor in considering whether to accept a job offer. The survey also found that 80 % of employees would choose additional benefits over a pay raise.

Google is famous for its over-the-top perks, which include lunches made by a professional chef, biweekly chair massages, yoga classes, and haircuts. Twitter employees enjoy three catered meals per day, on-site acupuncture, and improv classes. SAS has a college scholarship program for the children of employees. And plenty of smaller companies have received attention for their unusual benefits, such as vacation expense reimbursement and free books.

But what should a business do if it can't afford Google-sized benefits? You don't need to break the bank to offer attractive extras. A new survey conducted by my team at Fractl found that, after health insurance, employees place the highest value on benefits that are relatively low-cost to employers, such as flexible hours, more paid vacation time, and work-from-home options. Furthermore, we found that certain benefits can win over some job seekers faced with higher-paying offers that come with fewer additional advantages.

As part of our study, we gave 2,000 U.S. workers, ranging in age from 18 to 81, a list of 17 benefits and asked them how heavily they would weigh the options when deciding between a high-paying job and a lower-paying job with more perks.



Better health, dental, and vision insurance topped the list, with 88 % of respondents saying that they would give this benefit "some consideration" (34 %) or "heavy consideration" (54 %) when choosing a job. Health insurance is the most expensive benefit to provide, with an average cost of $6,435 per employee for individual coverage, or $18,142 for family coverage.

The next most-valued benefits were ones that offer flexibility and improve work-life balance. A majority of respondents reported that flexible hours, more vacation time, more work-from-home options, and unlimited vacation time could help give a lower-paying job an edge over a high-paying job with fewer benefits. Furthermore, flexibility and work-life balance are of utmost importance to a large segment of the workforce: parents. They value flexible hours and work-life balance above salary and health insurance in a potential job, according to a recent survey by FlexJobs.

Eighty-eight percent of respondents said they'd give some or heavy consideration to a job offering flexible hours, while 80 % would give consideration to a job that lets them work from home. Both flexible hours and work-from-home arrangements are affordable perks for companies that want to offer appealing benefits but can't afford an expensive benefits package. Both of these benefits typically cost the employer nothing − and often save money by lowering overhead costs.

More vacation time was an appealing perk for 80 % of respondents. Paid vacation time is a complicated expense, since it's not simply the cost of an employee's salary for the days they are out; liability also plays into the cost. American workers are notoriously bad at using up their vacation time. Every year Americans leave $224 billion dollars in unused vacation time on the table, which creates a huge liability for employers because they often have to pay out this unused vacation time when employees leave the company. Offering an unlimited time-off policy can be a win-win for employer and employee. (Over two-thirds of our respondents said they would consider a lower-paying job with unlimited vacation.) For example, HR consulting firm Mammoth considers its unlimited time-off policy a success not just for what it does but also for the message it sends about company culture: Employees are treated as individuals who can be trusted to responsibly manage their workload regardless of how many days they take off.

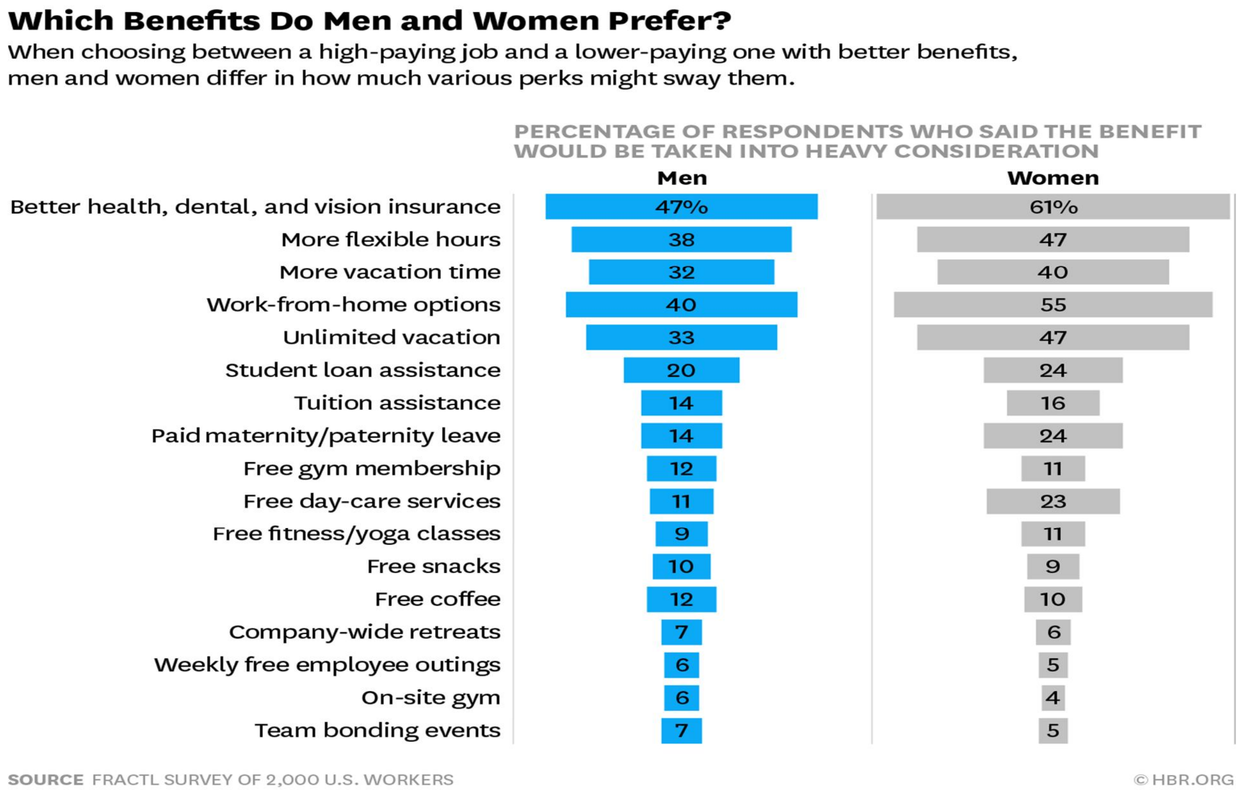
Switching to an unlimited time-off policy can solve the liability issue; wiping away the average vacation liability saves companies $1,898 per employee, according to research from Project: Time Off. And with only 1–2 % of companies currently using an unlimited time-off policy, according to the Society for Human Resource Management (SHRM), it's clearly a benefit that can make companies more attractive.

Contrary to what employers might expect, unlimited time off doesn't necessarily equal less productive employees and more time out of the office. A survey from The Creative Group found that only 9 % of executives think productivity would decrease significantly if employees used more vacation time. In some cases, under an unlimited time-off policy, employees take the same amount of vacation time. We adopted an unlimited time-off policy at Fractl about a year ago and haven't seen a negative impact on productivity. Our director of operations, Ryan McGonagill, says there hasn't been a large spike in the amount of time employees spend out of the office, but the quality of work continues to improve.

Student loan and tuition assistance also ranked highly on the list of coveted benefits, with just under half of respondents reporting that these bonuses could nudge them toward a lower-paying job. A benefits survey from SHRM found that only 3 % of companies currently offer student loan assistance, and 52 % of companies provide graduate educational assistance. Although education assistance sounds costly, companies can take advantage of a tax break; employers can provide up to $5,250 per employee per year for tuition tax free.

Job benefits that don't directly impact an individual's lifestyle and finances were the least coveted by survey respondents, such as in-office freebies like food and coffee. Company-sponsored gatherings like team-bonding activities and retreats were low on the list as well. This isn't to say these benefits aren't valued by employees, but rather that these perks probably aren't important enough on their own to convince a job candidate to choose a company.

We noticed gender differences regarding certain benefits. Most notable, women were more likely to prefer family benefits like paid parental leave and free day care services. Parental leave is of high value to female employees: 25 % of women said they'd give parental leave heavy consideration when choosing a job (only 14 % of men said the same). Men were more likely than women to value team-bonding events, retreats, and free food. Both genders value fitness-related perks, albeit different types. Women are more likely to prefer free fitness and yoga classes, while men are more likely to prefer an on-site gym and free gym memberships.



Our survey findings suggest that providing the right mix of benefits that are both inexpensive and highly sought after among job seekers can give a competitive edge to businesses that can't afford high salaries and pricier job perks.

https://hbr.org/2017/02/the-most-desirable-employee-benefits?utm_source=Executive+Recruiters&utm_campaign

Supposing, your friend is going to set up their own business. They are going to have 4 employees for a start (an accountant, a manager, a marketing specialist, a driver). At a business lunch, you are asked to share your knowledge of types of salary, compensation and bonuses your friend might provide to their staffers.

Talking Point

1. What types of bonuses, compensation would you like to get at your current/future job?
2. Which of the perks mentioned above would you like to be provided?
3. Do you know any Belarusian companies that provide great benefits or perks? Share a review.
4. How would you answer the question: How Much Do Employee Benefits & Perks Really Matter?
5. Group Work. Think of your own startup (line of business is of your choosing), salary and compensation you would provide to your employees to enhance their performance. Compare your version with those of the other groups. The Panel of Experts (2 students) are to choose the best thought-out and feasible project.

DISCUSSION

Should We Raise the Minimum Wage?

11 Questions and Answers

Who earns it? Does it help the poor? Does it really kill jobs? Those issues, and more.

To prepare you for the inevitable policy battle, here's our FAQ.

What is the minimum wage anyway?

Ah, good place to start. The federal minimum wage is $7.25 an hour, which means that depending on the city you'e in, 60 minutes of work will just about buy you a Chipoltle burrito (without guac). By historical standards, it's fairly low. Thanks to inflation, the minimum today wage is worth a few dollars less than when its real value peaked in 1968.

That said, the federal minimum is only part of the national story. Today, 19 states and the District of Columbia have a higher wage floor. Meanwhile, New Jersey just became the 11th state to index theirs to the cost of living. (Graph courtesy of *The American Prospect's* Sam Waldman, who has his own useful crash course).

And of course, some local governments take things even further, like SeaTac with its $15 minimum.

How many people earn the minimum wage?

The short answer is: Not many. But in a way, that's also the wrong question.

According to the Bureau of Labor Statistics, 1,57 million Americans, or 2,1 percent of the hourly workforce, earned the minimum wage in 2012. More than 60 percent of them either worked in retail or in leisure and hospitality, which is to say hotels and restaurants, including fast-food chains.

If you want to honestly debate the merits of raising the minimum wage, however, you need to think beyond who earns it today. After all, there are millions of workers making $8 or $9 an hour assembling burgers or changing sheets who might be affected by a hike. The Economic Policy Institute estimates that if Washington increased the minimum to $10,10 as Obama would like, some 21,3 million employees would eventually be guaranteed a raise, assuming they kept their jobs. (Another 11,1 million might theoretically benefit if companies adjusted their whole wage scales upwards, which is what the light blue section on the chart shows. But that might just be wishful thinking on EPI's part.)

In the end, we're talking about a policy that would give somewhere around 11 percent of workers a raise.

I thought minimum-wage earners were mostly just suburban teenagers. Is that true?

The Heritage Foundation would certainly like you to think so. Conservative groups often argue that, contrary to the image projected by of liberals, most of the minimum wage workforce isn't really made up of desperate parents struggling to make ends meet. Instead, they say, it consists of middle-class teens and married women who live above the poverty line but might, for instance, want to work part-time while raising young children.

They're not all wrong. Almost a third of minimum-wage workers are teenagers, according to the Bureau of Labor Statistics. Meanwhile, Heritage finds, 62 percent of those under 25 are enrolled in school. They're not necessarily planning to make a career folding snack wraps.

But keep in mind: The vast majority of these workers *aren't* teenagers. And among minimum wagers older than 25, Heritage notes that the average household income is $42,000 a year. Is that poverty? Not unless you're a single parent with eight children. But is it rich? Of course not. In fact, it's still well below the median household income of $51,000.

We'll get more into who exactly would reap the rewards of a minimum wage increase later in the FAQ. But here's what you should remember for now: The beneficiaries wouldn't all be impoverished adults, but they wouldn't all be 17-year-olds saving up for the next "Call of Duty" sequel, either.

Do people really get stuck in minimum-wage jobs their whole lives? I'm skeptical.

This is another issue minimum wage critics sometimes bring up. Practically nobody spends their whole life flipping burgers or folding sweaters, they say, and we shouldn't make it expensive for companies to hire entry-level workers.

Are they right? In 2000, the Employment Policies Institute, a conservative organization that exists largely to fight against minimum wage hikes, published a paper showing that between 1977 and 1998, two thirds of minimum wage workers earned a raise within one year of starting their job. But the median raise for those lucky enough to get one was just 10 percent – which is to say, kind of a pittance, in terms of actual dollars and cents. Given the weakness of our present economy and the long-term erosion of middle-class jobs in this country, it might be even harder to move up today.

Ok, but seriously now: Does increasing the minimum wage kill jobs or not?

Researchers have been fighting over this question for a century – one of the first major government studies on it, involving Oregon's early minimum-wage law, was conducted in 1915 – and the answer, I hate to tell you, is still murky.

On one side of the debate, you mostly have traditionalists who believe that increasing the minimum wage kills some jobs for unskilled workers, like teens, but isn't destructive enough to raise the overall unemployment rate. They commonly estimate that a 10 percent wage hike will reduce teen employment by somewhere around 1 to 3 percent. The problem, in their view, is that even if it doesn't create mass joblessness, legislating higher wages specifically hurts the young and unskilled workers they're meant to help.

On the other side, you have researchers who believe that increasing the minimum wage doesn't kill jobs at all and may even give the economy a boost by channeling more pay to low-income workers who are likely to spend it.

In the end, it's helpful to think of this whole argument as a competition between two stories about the economy. According to the Econ 101 model of the world, increasing the minimum wage *should* cost some people their jobs. If the price of low-skill labor rises thanks to meddling politicians, demand for it *should* fall. Employers might slash their payrolls to preserve profits. They might invest in new technology instead of people (think of the self-checkout kiosks at your local CVS). Or they might start hiring older, more experienced workers in lieu of teenagers to get more bang for their buck.

But some researchers believe the Econ 101 model is too simplistic. They say that instead of forcing businesses to cut staff, raising wages simply spurs them to become more efficient. The typical Burger King or McDonald's does not really run like a well-greased machine. Fry cooks slack off. There's lots of turnover, which bogs down operations. And when workers leave, say for the Taco Bell across the freeway, they often take jobs that would otherwise be filled by the unemployed, which is less than ideal for the economy.

When the minimum wage goes up, the theory says, businesses shape up. Managers find ways to make their employees more productive. Turnover slows down, since people are happier with their paychecks, and the unemployed snap up jobs elsewhere in town. Meanwhile, Burger King and McDonald's can raise their prices a little bit without scaring off customers.

In other words, one theory holds that increasing the minimum wage forces businesses to get thinner. Another says it forces them to get fitter.

And, while Paul Krugman might think the argument is settled, there's still an evident divide over which narrative is correct. Earlier this year, the University of Chicago's Booth School of Business asked a panel of 38 economists if they thought raising the federal minimum wage to $9 an hour would make it "noticeably harder for low-skilled workers to find employment". As you can see, the result was a split decision.

Why can't economists agree on who's right?

This is a very complicated case, man. You know, a lotta ins, a lotta outs, a lotta what-have-yous.

Lebowski-isms aside, among academics, the minimum wage debate really has become a war over arcane methodological differences. Most lay-people, your humble journalist included, aren't in a position to judge the winner. But here's a basic history of the controversy.

By the 1980s, economists largely agreed that increasing the minimum wage hurt employment among teens and other unskilled workers. But that consensus collapsed during the next decade, with the rise of what's known now as the "new minimum wage research." The chief demolition crew consisted of David Card and Alan Krueger, whose most famous study compared employment at fast food restaurants in New Jersey, where the minimum wage had recently been raised, with employment at fast food restaurants in Pennsylvania, where wages stayed stable. When Card and Krueger analyzed the results of this “natural experiment,” they found no evidence that raising worker pay had killed jobs.

That sparked a fight that’s continued on, in various permutations, to today. Conservatives tend to champion work by David Neumark, an economist at the University of California-Irvine, and William Wascher, of the Federal Reserve Board. Early critics of Card and Krueger, their research compares employment trends across entire states, using elaborate statistical controls to isolate the impact of minimum wages. They have consistently found that requiring businesses to pay their workers more reduces employment among teens. Liberals, meanwhile, favor work by a group of economists fronted by Arindrajit Dube of the University of Massachusetts Amherst. Dube is best co-authored study that used contemporary data to essentially repeat Card and Krueger’s natural experiment in thousands of counties across the the country. It found no significant evidence that higher minimum wages hurt employment among restaurant workers.

Both sides have criticized each others’ ideas fiercely, and attempted variations on the other sides’ preferred research methods, mostly, it seems, to show how their their academic nemeses botched their own approach. Meanwhile, Jonathan Meer and Jeremy West of Texas A&M University have recently added a new wrinkle to the controversy with a paper that says minimum wages can noticeably bring reduce total employment by slowing down hiring. Now they’re in a fight with Dube. And so it goes.

I get it. It’s complicated. But what does *most* of the research say?

Ask a liberal economist, and they’ll likely point to a 2009 study of studies by Hristos Doucoullagos and T.D. Stanley that pooled together the results of 61 different research papers published over the decades. When averaged together, the results suggested that raising the minimum wage had close to zero impact on employment. An increase of 10 percent, they found, might reduce employment by about 0,1 percent, which they concluded had “no meaningful policy implications.”

“If correct, the minimum wage could be doubled and cause only a 1 percent decrease in teenage employment”, they wrote. Given the raises every other worker would receive, such a move would almost certainly be worth it.

Each dot represents an estimate of the effect of raising the minimum wage on labor demand. Notice that the most statistically precise results, which are positioned higher up, cluster near zero.

But there are decent reasons to be cautious about these findings, which Neumark, the outspoken minimum wage critic, outlined for me in an interview. Usually, when researchers perform these kinds of so-called meta-analyses, they’re pooling together studies with very similar research designs, such as drug trials. As we've just seen, minimum-wage studies aren't that consistent. The literature is full of conflicting approaches on how best to study the issue. And it doesn't make much sense to average them out if one side's approach is simply right, and on is simply wrong. You're basically juicing together apples and broccoli.

In 2007, Neumark and Wascher produced their own massive lit review, in which they tried to hand-select the best studies that had been written since minimum-wage research heated up in the early 1990s. Not surprisingly, the results seemed to support their previous conclusions (it didn't hurt that of the 33 papers they deemed most credible, five were their own). In sum, they wrote, we view the literature – when read broadly and critically – as largely solidifying the conventional view that minimum wages reduce employment among low-skilled workers. Take that as you will.

Let's say the minimum wage doesn't kill jobs. Who benefits the most? The poor, or the middle class? Mostly the middle class.

Like we discussed up top, most minimum-wage earners don't live under the poverty line. So you shouldn't be surprised to learn that most of the people who stand to gain from raising it are also not in poverty. A 2010 study by Joseph Sabia and Richard Burkhauser, who fall on the solidly conservative side of this issue, finds that if the minimum wage were increased to $9,50 from $7,25, only 11,3 percent of beneficiaries would live in impoverished households.

So maybe it's better to think of the minimum wage as a way of getting more money to the broader working class. The Economic Policy Institute, for instance, finds that if the minimum wage were raised to $10,10 an hour, almost 70 percent of affected workers would live in families earning less than $60,000 a year.

Interestingly, according to Sabia and Burkhauser, even if you do factor in fairly high job losses, both the poor and middle class would likely come out ahead on total pay, thanks to all the workers who would get raises. Meanwhile, here's how they work out the math if you assume no job losses:

If no minimum wage workers are laid off or have their hours reduced, the minimum wage increase is simulated to yield $4,0 billion in monthly benefits. This estimate can be considered an upper-bound estimate of benefits, given our optimistic behavioral assumptions. However, even under these assumptions, just 10,9 % ($439 million) of these benefits will be received by the working poor, and 24,6 % of the benefits will be received by workers living in poor or near-poor households. Nearly 62 % of the benefits will be received by workers in households with incomes over twice the poverty line, and 40,7 % will be received by workers in households with incomes over three times the poverty line.

Again, Sabia and Burkhauser see these numbers as an argument against raising the minimum wage. But, if your goal is suring up the broader working class, they might seem like a rather good deal.

If I want to help the poor, but I'm not totally sold on raising the minimum wage, what can I get behind?

One alternative is the Earned Income Tax Credit. First instituted by President Richard Nixon, it's widely considered one of the most successful poverty-alleviation tools the federal government has ever deployed. And many would prefer to expand it in lieu of increasing the minimum wage.

The EITC is a refundable tax credit Washington makes available to low-income workers, meaning that if it's larger than the amount they owe to the IRS, they get the difference back in cash. Its expansion played a major role in welfare reform, and as David Neumark illustrates through the graph below, it can add thousands of dollars to the annual income of a poor family.

Conservatives like the EITC because, first and foremost, it encourages people to work (you can't get it unless you're employed). And, unlike the minimum wage, nobody thinks it kills jobs.

Liberals like it too, but they have reservations. First, it mostly benefits parents. Single adults receive a much smaller income supplement. Meanwhile, economists like Jess Rothstein of the University of California, Berkeley, argue that by drawing more people into the labor market, the EITC actually pushes down wages. As a result, we end up subsidizing companies like McDonald's or Walmart that have a large, poorly paid work force.

This might sound like a selfish question, but how much more expensive would my hamburgers get if we raised the minimum wage?

You're not being selfish at all! If raising the minimum wages caused a lot of inflation in the economy, it might cancel out the benefit to workers.

Thankfully, the evidence suggests that probably wouldn't be the case. Sara Lemosreviewed the literature and found that most studies reviewed above found that a 10 percent US minimum wage increase raises food prices by no more than 4 percent and overall prices by no more than 0,4 percent.

But what about burgers specifically? Well, their prices would might go up a bit more. Based on data from 80s and early 90s, Daniel Aaronson estimated that a 10 percent increase in the minimum wage drove up the price of McDonald's burgers, KFC chicken, and Pizza Hut's pizza-like product by as much as 10 percent. Assuming that holds true today, it means that bringing the minimum wage to $10,10 would tack $1,60 onto the cost of your Big Mac. That said, international evidence – Mickey D's makes a killing in high-wage countries like Australia and France – suggests the price hike could be lower.

Just tell me if we should raise the minimum wage or not, please!

I think we should raise it.

As for you, do you want to focus on the risk or the reward? The high-risk scenario is that Neumark and Wascher are right, and a minimum-wage hike to \$10,10 an hour cuts teen employment by up to 12 percent (for econ nerds: that's assuming an elasticity of –0,1 to –0,3, with an increase of 40 percent). That said, it's also possible that increasing the minimum wage would boost wages among working families with a small or possibly non-existent cost to overall employment. And even if there are job some losses, the math seems to suggest that the middle class and poor would still earn more income collectively in the deal. It wouldn't *cure* poverty. It wouldn't solve income inequality. But it could make many families' lives more financially stable without a great economic cost.

The Atlantic (Dec. 16, 2013)

1. Provide a definition to minimum wage. Use the active vocabulary.

2. What does the article say about: the consumer habits/upsides and downsides of increasing minimum wage?

1. Does minimum wage gives an employer the right to pay people less that they deserve?

2. Should postsecondary students who are investing in their education receive a higher minimum wage than adults who do not enroll in high school?

3. Get ready for a debate on the issue "Should We Raise the Minimum Wage?". Research the topic if necessary.

1. Contemplate on the following: "What is the driving force for employees: salary or job satisfaction or…"?
2. Study the following articles and scrutinize the authors' opinions. How far do you agree with them? Make a research and figure out how much is the situation in Belarus similar/different.

Job Seekers Value Type of Job as Much as Pay

While compensation is still a critical motivator for job candidates when making career decisions, the type of work they'll be doing has now surpassed salary as the most important consideration, according to a survey report released by ManpowerGroup Solutions.

The Milwaukee-based global recruitment process outsourcing (RPO) provider surveyed nearly 4,500 job seekers in five influential employment markets around the world (Australia, China, Mexico, the U.S. and the U.K.). The survey covered job search practices and preferences and motivations for choosing jobs and changing jobs.

Nearly six in 10 respondents (56 percent) identified "type of work" as one of the top three factors in choosing a job, overtaking compensation at 54 percent. The results are very similar when looking solely at job seekers from the U.S. (58 percent vs. 57 percent).

"I think a lot of people start their careers with compensation on their mind first and foremost, but will quickly find out that without feeling value in what they do on a daily basis or feeling like they are contributing to something, compensation does not really fill that void," said Catherine Pylant, global talent acquisition manager at WilsonHCG, an RPO, consulting and executive search firm based in Tampa, Fla. "Enjoying the type of work that one does is really what will get them out of bed in the morning and have them continue to be motivated to go to work every day."

While it was previously a means to an end, "a job is now a more-integrated part of a holistic way of life," said Yvette Moncrieffe, director of client delivery for ManpowerGroup Solutions, North America.

For those candidates looking to switch jobs, however, cash is still king − an increase in pay is twice as strong a motivator as the type of work for job hoppers. Exceptions to this were found in the U.K. and Australia, where type of work exceeded compensation as a reason to switch jobs.

For respondents as a whole, after type of job and compensation, job seekers were most interested in benefits offered (44 percent), geographic location (39 percent), opportunity for advancement (35 percent), schedule flexibility (31 percent), and company brand or reputation (20 percent).

Mexico was the only country to indicate opportunity for advancement as the second most important motivator, after compensation. "This may be related to the additional finding that 49 percent of candidates from Mexico believe one of their greatest career challenges is the lack of access to quality jobs," said ManpowerGroup Solutions Senior Vice President and Global RPO President Kate Donovan.

Over one third (37 percent) of respondents overall self-identified as "continuous candidates," agreeing with the statement "I am always looking for the next job opportunity."

Donovan attributes this trend to the increasing prevalence of contract work over long-term employment. "The result is a new generation of employees with planned obsolescence built into their workplace dynamic," she said. "These employees recognize the inevitability of their situation and it drives ongoing networking, job searching and mobility".

Job Search Getting Personal

The survey supports the notion that the Internet has democratized job searching, as more candidates have become their own guides through the process.

Respondents were most likely to apply to jobs online via a laptop or desktop computer (34 percent). And one-fourth of candidates search, identify and pursue job opportunities entirely on their own – five times as many who prefer to solely use a recruiter. Another 17 percent use a mix of methods. Not surprisingly, when candidates do work with a recruiter, they prefer targeted, relevant options instead of broad solicitations.

"One of the impacts of technology and the Internet has been to devalue the middleman in most purchases or transactions," Donovan said. "The rise of websites such as Travelocity and Expedia, for example, has made the travel agent a thing of the past. Job searching is no different. Popular job search sites were visited by between 23 percent and 45 percent of survey respondents in the two weeks prior to completing the survey".

In China, Australia and Mexico, the top job search sites are visited nearly 50 percent more often by candidates than in the U.S. and U.K. Of the five markets surveyed, Chinese candidates are the most active users of job search sites, regularly visiting a number of sites, according to the report.

Only 4 percent of respondents overall reported having applied to a job via a mobile app on a smartphone. Usage was slightly higher among U.S. and Chinese candidates and 50 percent more likely among Millennials than Generation X job seekers.

However, 12 percent of respondents overall said they use smartphones to research companies and jobs. Twenty-two percent of Chinese candidates do this.

Company websites are the channel used most often by candidates to access information about a company (53 percent), followed by search engine results (52 percent) and social networks (30 percent).

Notably, Chinese (43 percent) and Mexican (44 percent) job seekers use social media to research employers at a higher rate than the overall average. This may be due to a lack of information provided by Mexican and Chinese companies on their websites, Donovan said.

Nine out of 10 respondents in China and Mexico use WeChat and Facebook, respectively, for this purpose. In the U.S., U.K. and Australia, about 70 percent of candidates use Facebook in this way.

"Employers should recognize the power of social media among today's global candidates, specifically markets such as China and Mexico where social media sites are almost equally as influential as company websites," Donovan said.

https://www.shrm.org/ResourcesAndTools/hr-topics/talent-acquisition/Pages/Job-Seekers-Value-Type-of-Job-Pay.aspx?utm_source

Does Money Really Affect Motivation?

How much should people earn? Even if resources were unlimited, it would be difficult to stipulate your ideal salary. Intuitively, one would think that higher pay should produce better results, but scientific evidence indicates that the link between compensation, motivation and performance is much more complex. In fact, research suggests that even if we let people decide how much they should earn, they would probably not enjoy their job more.

Even those who highlight the motivational effects of money accept that pay alone is not sufficient. The basic questions are: Does money make our jobs more enjoyable? Or can higher salaries actually demotivate us?

Let's start with the first: does money engage us? The most compelling answer to this question is a meta-analysis by Tim Judge and colleagues. The authors reviewed 120 years of research to synthesize the findings from 92 quantitative studies. The combined dataset included over 15,000 individuals and 115 correlation coefficients.

The results indicate that the association between salary and job satisfaction is very weak. The reported correlation (r = .14) indicates that there is less than 2 % overlap between pay and job satisfaction levels. Furthermore, the correlation between pay and pay satisfaction was only marginally, indicating that people's satisfaction with their salary is mostly independent of their actual salary.

In addition, a cross-cultural comparison revealed that the relationship of pay with both job and pay satisfaction is pretty much the same everywhere (for example, there are no significant differences between the U.S., India, Australia, Britain, and Taiwan).

A similar pattern of results emerged when the authors carried out group-level (or between-sample) comparisons. In their words: "Employees earning salaries in the top half of our data range reported similar levels of job satisfaction to those employees earning salaries in the bottom-half of our data range". This is consistent with Gallup's engagement research, which reports no significant difference in employee engagement by pay level. Gallup's findings are based on 1,4 million employees from 192 organizations across 49 industries and 34 nations.

These results have important implications for management: if we want an engaged workforce, money is clearly not the answer. In fact, if we want employees to be happy with their pay, money is not the answer. In a nutshell: money does not buy engagement.

But that doesn't answer the question: does money actually demotivate? Some have argued it does, that there is a natural tension between extrinsic and intrinsic motives, and that financial rewards can ultimately depress or "crowd out" intrinsic goals (e.g. enjoyment, sheer curiosity, learning or personal challenge).

Despite the overwhelming number of laboratory experiments carried out to evaluate this argument – known as the overjustification effect – there is still no consensus about the degree to which higher pay may demotivate. However, two articles deserve particular consideration.

The first is a classic meta-analysis by Edward Deci and colleagues. The authors synthesized the results from 128 controlled experiments. The results highlighted consistent negative effects of incentives – from marshmallows to dollars – on intrinsic motivation. These effects were particularly strong when the tasks were interesting or enjoyable rather than boring or meaningless.

More specifically, for every standard deviation increase in reward, intrinsic motivation for interesting tasks *decreases* by about 25 %. When rewards are tangible and foreseeable (if subjects know in advance how much extra money they will receive) intrinsic motivation decreases by 36 %. (Importantly, some have argued that for *uninteresting* tasks extrinsic rewards – like money – actually increase motivation. See, for instance, a meta-analysis by Judy Cameron and colleagues.) Deci et al's conclusion was that “strategies that focus primarily on the use of extrinsic rewards do, indeed, run a serious risk of diminishing rather than promoting intrinsic motivation”.

The second article is a recent study by Yoon Jik Cho and James Perry. The authors analyzed real-world data from a representative sample of over 200,000 U.S. public sector employees. The results showed that employee engagement levels were three times more strongly related to intrinsic than extrinsic motives, but that both motives tend to cancel each other out. In other words, when employees have little interest in external rewards, their intrinsic motivation has a substantial positive effect on their engagement levels. However, when employees are focused on external rewards, the effects of intrinsic motives on engagement are significantly diminished. This means that employees who are intrinsically motivated are three times more engaged than employees who are extrinsically motivated (such as by money). Quite simply, you’re more likely to like your job if you focus on the work itself, and less likely to enjoy it if you’re focused on money. This finding was true even at low salary levels (remember, as per Gallup and Judge et al, there’s no correlation between engagement and salary levels). Now, a skeptic might ask if this is just a correlation showing that people who don’t like their jobs have nothing to think about other than the money. This is hard to test. Yes, that could be one reason; another could be that people who focus too much on money are preventing themselves from enjoying their jobs.

This research also begs the question: Is this a money-focused, engagement-eroding mindset one that employees can change? Or is does it reflect an innate mindset – some people happen to be more focused on extrinsic rewards, while others are more focused on the task itself? We don’t know. But my guess is that which you’re focused on depends mostly on the match between your interests and skills and the tasks you’ve been given. And in theory, your mindset should be malleable – the brain is remarkably plastic. We can try to teach people that if they focus on the task itself and try to identify positive aspects of the process, they will enjoy it more than if they are just focused on the consequences (rewards) of performing the task. The analogy here is that it’s much more motivating to go for a run because it’s fun than because I must get fit or lose some weight.

Intrinsic motivation is also a stronger predictor of job performance than extrinsic motivation – so it is feasible to expect higher financial rewards to inhibit not only intrinsic motivation, but also job performance. The more people focus on their salaries, the less they will focus on satisfying their intellectual curiosity, learning new skills, or having fun, and those are the very things that make people perform best.

The fact that there is little evidence to show that money motivates us, and a great deal of evidence to suggest that it actually demotivates us, supports the idea that that there may be hidden costs associated with rewards. Of course, that doesn't mean that we should work for free. We all need to pay our bills and provide for our families – but once these basic needs are covered the psychological benefits of money are questionable. In a widely cited paper, Daniel Kahneman and Angus Deaton reported that, in the U.S., emotional well-being levels increase with salary levels up to a salary of $75,000 – but that they plateau afterwards. Or, as Arnold Schwarzenegger once stated: "Money doesn't make you happy. I now have $50 million but I was just as happy when I had $48 million".

But one size does not fit all. Our relationship to money is highly idiosyncratic. Indeed, in the era of personalization, when most things can now be customized to fit our needs − from social media feeds to potential dates, to online shopping displays and playlists − it is somewhat surprising that compensation systems are still based on the premise that what works for some people will also work for everyone else.

Other than its functional exchange value, pay is a psychological symbol, and the meaning of money is largely subjective. For example, there are marked individual differences in people's tendency to think or worry about money, and different people value money for different reasons (e.g. as a means to power, freedom, security, or love). If companies want to motivate their workforce, they need to understand what their employees really value − and the answer is bound differ for each individual. Research shows that different values are differentially linked to engagement. For example, income goals based on the pursuit of power, narcissism, or overcoming self-doubt are less rewarding and effective than income goals based on the pursuit of security, family support, and leisure time. Perhaps it is time to compensate people not only according to what they know or do, but also for what they want.

Finally, other research shows that employees' personalities are much better predictors of engagement than their salaries. The most compelling study in this area is a large meta-analytic review of 25,000 participants, where personality determined 40 % of the variability in ratings of job satisfaction. The more emotionally stable, extraverted, agreeable or conscientious people are, the more they tend to like their jobs (irrespective of their salaries). But the personality of employees' is not the most important determinant of their engagement levels. In fact, the biggest organizational cause of disengagement is incompetent leadership. Thus, as a manager, it's your personality that will have a significant impact on whether your employees are engaged at work, or not.

https://hbr.org

1. Do you think top executives are too highly paid? Or do they deserve what they earn? Provide sound arguments.

2. Some argue that government workers should be paid more than those in the private sector because they are more highly trained than their private sector counterparts. Do you agree or disagree?

3. Should the minimum wage be raised? Why or why not?

For and Against Game. Split into 2 groups with antagonistic views and discuss the following statement: "A pay rise is better than a job in a caring company". Use the active vocabulary and the key ideas from the articles.

Taking Part in a Teleconference

1. Work with a partner. What advice would you give to someone participating in a teleconference in English for the first time?

- Before the call starts, familiarize yourself with the agenda,
- During the call itself, enunciate clearly, be concise, and try to avoid making long speeches or talking over other people.
- It's often a good idea to identify yourself each time you come back into the conversation – otherwise people can quickly get confused about who's speaking.
- When you want to ask a question, nominate the person you want to respond.
- If no one else is doing it, offer occasional brief recaps,
- Paraphrase or summarize what has been said – it's a good way to help people focus and you can check if you have really understood.
- Stay on topic, keep to the agenda, and encourage everyone: else to do the same.

2. Study the target vocabulary.

Checking understanding	Setting the context/discussing strategy
Am I right in saying that the general opinion is... ? Can I just check we are now talking about… ?	Looking at the situation from a long-term perspective... We need to develop a clear strategy to... I think we need to look at the bigger picture. We have to bear in mind the long-term viability...

Asking for clarification	Stating/discussing options
I'm not quite clear about your last suggestion. I'm not quite sure I understand. Could you run it by me again? Could you clarify exactly what the problems were? Could I ask you to spell out some details? **Nominating or inviting someone to say something** X, could you talk us through this? I'd be interested in hearing what you think about this. Maybe we can see X answer that. **Expressing doubts/disagreement** I still have serious reservations. I'm not fully convinced as yet. I'm having second thoughts... With respect... **Managing the discussion/the participants** Sorry, X. Could you let Y finish, please? Maybe X were digressing a little. That's interesting, but I think... I'm not sure this is getting us anywhere. Ii I could just bring the conversation back to the agenda, …	We have a number of options. I think our options are quite clear here. How would it work if you/we… Basically, we don't have much choice... We can either... or we (accept that)... We're in a really strong position to... **Discussing feasibility/evaluating options** There's no point in... -ing, if we don't/can't... Provided we... I'm convinced we can... I'm not sure that would work. Realistically, would we be able to finance this strategy? Assuming we decided to we could also... **Resuming** Actually, It doesn't matter – it's a bit off-topic right now. Anyway... sorry. That's a bit of a digression. Let's get back to the main issue. **Reaching agreement** So, the general consensus is that… Are there any other points to consider? Right. So we're decided. **Ending the meeting** We seem to have some sort of consensus. I'd like to draw things to a close. Can I just ask everyone to sum up their views?

3. Put phrases 1–15 from the teleconference into these categories.

A. Inviting/nominating someone to say something.
B. Checking if you have understood something correctly .
C. Stating that you are not persuaded or have doubts about something.
D. Managing the discussion and the behaviour of the participants.
E. Summarizing/ending the discussion.

1. I'd be interested in hearing what you think about this.
2. I'm not fully convinced as yet.
3. Can I just ask everyone to sum up their views?
4. Maybe we're digressing a little.
5. Am I right in saying that the general opinion is we can go ahead on this?
6. Could you let Greta finish, please?
7. Maybe we can let Joana answer that…
8. You're saying that it's not worth reconsidering?
9. I'd like to draw things to a close.
10. Can I just check – we are now talking about the alternative smaller-scale proposal?
11. I still have serious reservations.
12. Joana, could you talk us through this?
13. I'm having some second thoughts about it.
14. We seem to have some sort of consensus.
15. If I could just bring the conversation back to the agenda.

4. Which of these stages would and wouldn't you typically have in a video conference or teleconference in a company?

- Connect with the other side to make sure the equipment is working.
- Ask someone to set up the equipment and take care of the technical side.
- Chat with the person who is setting up the equipment as they are doing so.
- Arrange when to have the teleconference and who should attend.
- Decide on the agenda.
- Chat with the people at the other end, e.g. until they all arrive.
- Ask someone at your end to take minutes.
- Chat with people your end as they arrive in the meeting room.
- Ask someone your end to chase up missing people.

Are there any which have been missed out above?
Put the ones that you would have into a typical order.
Do the same for the following parts of the meeting:

Starting the actual teleconference

- Agree on the minutes of the previous conference call.
- Approval of this agenda.
- Introduce the people attending and apologies for people who are absent.
- Explain how the meeting will be organized.
- Confirming names.
- Start on the first point on the agenda.

Ending the teleconference

- A.O.B.
- Arrange the next teleconference or video conference.
- Check that no one has anything left to say/everyone agrees about the last point on the agenda.

After the actual teleconference has finished

- Chat with people your end as they leave.
- Feedback with people your end about how well the teleconference went.
- Chat with the person who packing up the equipment as they do so.

5. Play the game described below in pairs or small groups.

Rules: play Rock Paper Scissors to see who starts on the first, second, third etc. squares of the game. The person who is furthest back goes first. They should decide on what they would say (or sometimes write) in that situation or roleplay it with a classmate, and the people listening will give them between one and three points depending on how well they did. They can then move that many squares down the board. The first person to THE END is the winner.

START 2. Arrange when to have the teleconference and who should take part
2. Decide on the agenda
3. Ask someone at your end to take minutes
4. Ask someone in the office to help you set up the equipment and take care of the technical side
5. Chat with the person who is setting up the equipment as they are doing so

6.	Chat with people your end as they arrive in the meeting room
7.	Ask someone your end to chase up missing people
8.	Connect with the other side to make sure the equipment is working
9.	Sort out technical problems such as bad sound or picture
10.	Chat with the people at the other end, e.g. until they all arrive
11.	Get down to business
12.	Introduce the people attending and apologies for people who are absent
13.	Confirm names
14.	Explain how the meeting will be organised
15.	Agree on the minutes of the previous teleconference
16.	Approval of the agenda
17.	Start on the first point on the agenda
18.	Check that no one has anything left to say/everyone agrees about the last point on the agenda
19.	A.O.B.
20.	Arrange the next teleconference or video conference
21.	Close the teleconference
22.	Feedback with people your end about how well the teleconference went
23.	Chat with people your end as they leave
24.	Chat with the person who packing up the equipment as they do so THE END

6. B u s i n e s s G a m e. The teacher will divide you into pairs of teams. One team produce a product in the UK. The other side have an exclusive agreement to sell that product to retailers in Belarus. (Decide what kind of product it is

before you start.) The UK side are not very happy with the present arrangement, even though the contract they have signed runs until the end of next year. Hold a teleconference to discuss what to do.

You will be given some problem roleplay cards. The person or team with the fewest cards left at the end of the teleconference will win the game, so if you manage to use all your cards you should try to bring the meeting to a successful close as quickly as possible. You cannot discard the card if you don't do the thing written on it successfully, e.g. if you wait till someone stops speaking when you should be interrupting them.

After the video conference look at all the cards below and brainstorm suitable phrases to do those things.

The video has some problems	You don't understand something	You need something repeated three times before you understand it	You need to temporarily hang up
Someone needs to step outside	You want to talk about something among just your side	There is an interruption your side	Use a word that you are sure the other side won't understand
Get a contribution from someone who hasn't spoken (for a while or at all)	Tell the other side they need to adjust their equipment	You need to email a document	Talk about a particular part of a document you all have copies of
You have a technical problem that takes you three attempts to solve	Insist that people use their own names every time they speak	Interrupt someone	Go off topic
Take the conversation back to a previous topic	Suggest a break	Strongly but politely disagree	Resume

Express doubts/disagreement	Discuss feasibility/evaluate options	Someone leaves from your side and someone new comes in to take their place	End the meeting

Suggested answers

The video has some problems

You're (very/rather) jerky.
I can't see people at the edge of the room.
Your image has frozen. The image has disappeared.
The image and sound are out of synch.

You have problems hearing

You're quite quiet.
Just a second, I'm going to turn the volume up.
Can you try moving the microphone?

You can't identify who is speaking

Was that John?
Sorry. Who was that just now?

You don't understand something

I didn't catch.
I didn't get it.

You need something repeated three times before you understand it

Sorry, I still don't get it.
Could you just say that one last time?

You need to temporarily hang up

Maybe if we hang up and try again it will sort out the problem.
Sorry, I need to speak to this person for just two minutes. I'll connect you again when I finish.

Someone needs to step outside

I have to take this, if you don't mind.
I'll just go and get the documents. I'll be back in a second.

You want to talk about something among just your side

Can you give us a moment?

We need to discuss this, if you don't mind. I'll just turn off our mic for a second.

There is an interruption your side

Sorry, someone has just come in.

Sorry, there's a lot of noise outside. Someone will go out and see what it is.

Use a word that you are sure the other side won't understand

Can you explain what… means?

I haven't come across the term… before.

Get a contribution from someone who hasn't spoken (for a while or at all)

John, did you want to comment on this?

We haven't heard what Jill has to say yet.

You need to adjust your equipment

Just a second, I'll move it.

If I just change this, hopefully…

Someone takes a long time coming back from their break

I'm afraid John hasn't come back yet. I'm sure he'll be back soon, but shall we start without him?

Tell the other side they need to adjust their equipment

The camera seems to be pointing in the wrong direction. Can you try moving/adjusting…?

You need to email a document

I'll send it to you now.

Just a second, I'll find the document on my laptop and email it to you now.

Talk about a particular part of a document you all have copies of

In the first section/paragraph/sentence/bullet point…

You have a technical problem that takes you three attempts to solve

Let me try one last time.

There is one more thing we could try.

Third time lucky, I hope.

Someone leaves from your side and someone new comes in to take their place

John has to go to another meaning, so Jill will take his place.
John had to rush off, but Jill has come in instead.

Insist that people use their own names every time they speak

Sorry. Can people identify themselves before they speak?
It might be easier if people said their names each time they speak.

Interrupt someone

Can I come in here?
"Sorry to butt in, but…

Go off topic

By the way, …
That reminds me, …

Take the conversation back to a previous topic

Can we speak a little bit more about… ?
This brings us back to…

Suggest a break

Shall we take a breather?
Does anyone else need a fag break?

7. Work with a partner. Your company is investigating the possibility of introducing performance-related pay in all offices around the world. Some key staff took part in a short teleconference to compare initial reactions to the idea.

One of the participants is describing the call to his colleague. For each section, discuss what each speaker might have said.

Work in small groups with people in the same company or in a similar field of work. Think of a current issue or problem in your work and follow points 1–3.

1. Make notes about the issue under the headings below.

What needs to be decided:

2. Important factors to consider when making a decision.
3. Write a short agenda for a teleconference about this issue.

Now take part in the teleconference to discuss the issue and reach some conclusions.

Учебное издание

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