

Operations Management

Lesson 4

2.1: Appraise the importance of the 'Three Es' to organizations

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LESSON 4

The link between operations management and strategic planning

2.1 Appraise the importance of the
‘Three Es’ to organizations

OPERATIONS MANAGEMENT AND STRATEGIC PLANNING

- Operations management: is the area of business activity concerned with the production of goods and services.
 - Includes the responsibility of ensuring that all organizational operations are efficient in terms of minimizing costs by using as few resources as possible, and effective in terms of maximizing quality and meeting customer requirements.

- Strategic planning: involves determining the required actions to achieve a desired vision considering the present state of an organization
 - Strategic Planning (long-range) capacity planning
 - Operational planning (short-range) Immediate tasks and activities

3 E s: Economy, Efficiency and Effectiveness

The 3 E s model maybe used to help managers to evaluate performance and then improve it.

1. **Economy (and input measure)**

- minimizing the cost of resources ('doing things at a low price')

2. **Effectiveness (an output measure)**

- the extent to which objectives are met ('doing the right things')

3. **Efficiency (combination of the above two measures)**

- performing tasks with reasonable effort ('doing things the right way')

Economy

(minimizing the cost of resources)

- **Economy** is an input measure and is normally based around the expenditure of the organization.

Effectiveness

(doing the right things to create the most value)

Effectiveness is how well a company is able to meet specific criteria such as delivery schedules and technical capability.

Effective production and operations management can:

1. Lower a firm's costs of production.
2. Boost the quality of its goods and services.
3. Allow it to respond dependably to customer demands.
4. Enable it to renew itself by providing new products.

Effectiveness is how well a company is able to meet specific criteria such as delivery schedules and technical capability.

Efficiency

(doing something at the lowest possible cost)

- Operational efficiency refers to input-output ration of comparison; the input to run a business operation and the output gained from the business.
- It is the extent to which output of an organization exceeds the inputs employed in producing that output.
 - Input refers to money (Cost), people or time
 - Outputs refer to money (cash, revenue, margin), new customer, innovation, quality etc.
- Improving efficiency leads to lower cost and performance, higher quality labor productivity – less waste, proper control of material and cost control in facility utilization.
- A low-cost, high productivity operation makes efficiency possible

OPERATIONAL EFFICIENCY AND STRATEGIC OPERATIONS

- Operational efficiency refers to the execution of the strategic planning. Maximize the use of inputs by developing products at a faster pace than competitors.
- Strategic operations refers to business strategies that company utilizes to grow and prosper as an organization

Operational efficiency and strategic operations include:

- well-managed time,
- resources and
- funds (budget)
- external analysis, e.g. PESTLE; links and differences between operations management and strategic planning

While they are related, there are key differences between operational efficiency and strategic operations.

Analysis of External Influence on Business

PESTLE Analysis is an analytical tool for strategic business planning

1. Political - What are the political factors that are likely to affect the business?
2. Economic - What are the economic factors that will affect the business?
3. Sociological - What cultural aspects likely to affect the business?
4. Technological - What technological changes that may affect the business?
5. Legal - What current and impending legislation that will affect the business?
6. Environmental- What are the environmental considerations that may affect the business?

Difference Between Operational Efficiency and Strategic Operations

- Operational efficiency - Measured in terms of profit.
- Strategic operations - Measured in terms of the rate of that profit

A successful strategy often relies on operational efficiency within the company, where inter-departmental divisions are all working at their maximum output with little ineffectiveness.

- **Planning:** Strategy takes planning, including creating financial budgets, project budgets and growth projections that divisions can use to keep operations on track.
- **P.E.S.T. Analysis:** Operational strategy often involves an analysis of external political, economic, social and technological factors outside of the company.

Strategic Planning

- Involves determining the required actions to achieve a desired vision considering the present state of an organization
- A strategic plan:
 1. Is a road map to lead an organization from its present state to its desired medium or long term future state
 2. Specifies the mission, vision, goals, strategies and objectives

Strategic Planning Process

Steps include:

1. Analyzing the present environment – SWOT (strength, weakness, opportunity & threats)
2. Providing a vision statement
3. Refining vision into goals
4. Determining strategies using the outcomes of SWOT analysis and specified goals
5. Formulating concrete and measurable objectives from strategies
6. Communicating and reviewing the strategic plan

Strategic Planning Approaches

- Operations strategies must be consistent with the overall strategies of the firm.
- Strategic planning is the process of thinking through the current mission of the organization and the current environmental conditions facing it, then setting forth a guide for tomorrow's decisions and results.
- Strategies should be link the policy decisions associated with operations to the marketplace, the environment, and the company's overall goals

Exercise

1. Differentiate between *operational efficiency and strategic operations*
2. *Explain the difference between operations management and strategic planning*
3. *Explain the concept of a strategic plan.*
4. *What is S.W.O.T Analysis?*
5. *Briefly explain the importance of the 'Three Es' to organizations*
6. What is P.E.S.T. Analysis?

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