

Unit 34: Operations Management

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Learning Outcome 1

- LO1 Understand the nature and importance operations management
 - 1.1 explain why operations management is important for organisation
 - 1.2 analyse the operations functions organisation
 - 1.3 evaluate, by using a process model, the operations management of a selected organisation

In this Session

- AC 1.2 analyse the operations functions organisation:
- Review Questions
- References

Introduction

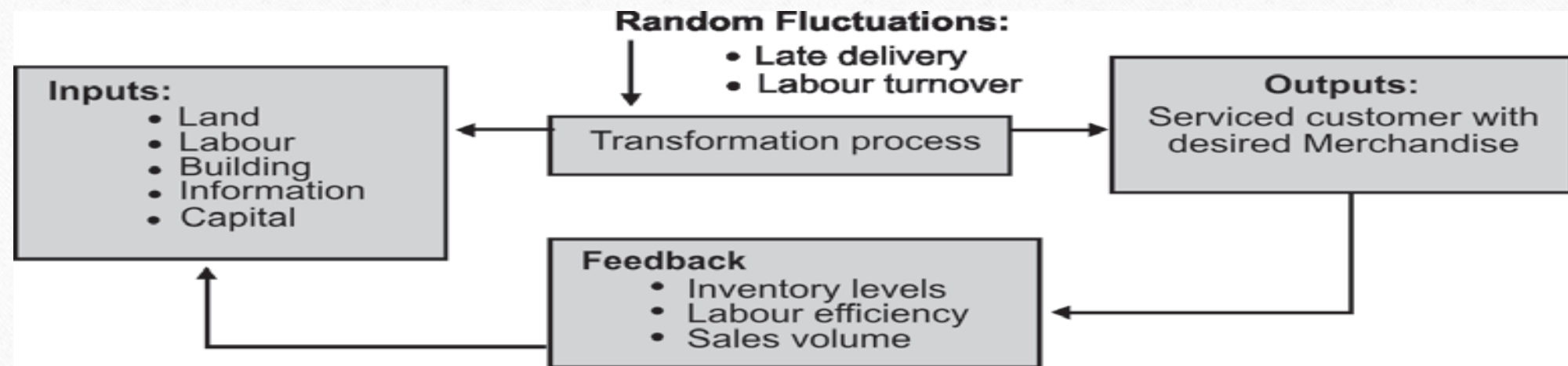
- An organization's operations function is concerned with getting things done i.e. producing goods and/or services for customers safely, on time, at minimum cost of high quality and within the law.
- Effectively, the main objective of the operations function is to manage resources used in producing goods and/or services as efficiently as possible.

Objectives of Production Management

- According to Kuman and Suresh (2008) PM is to produce goods and services of Right Quality and Quantity at the Right time and Right manufacturing cost'.
 1. Right Quality: The quality of product is established based upon the customers need.
 2. Right Quantity: The manufacturing organization should produce the products in right number.
 3. Right Time: Timeliness of delivery is one of the important parameter to judge the effectiveness of production department.
 4. Right Manufacturing Cost: Manufacturing costs are established before the product is actually manufactured.

Operating System for a Department Store

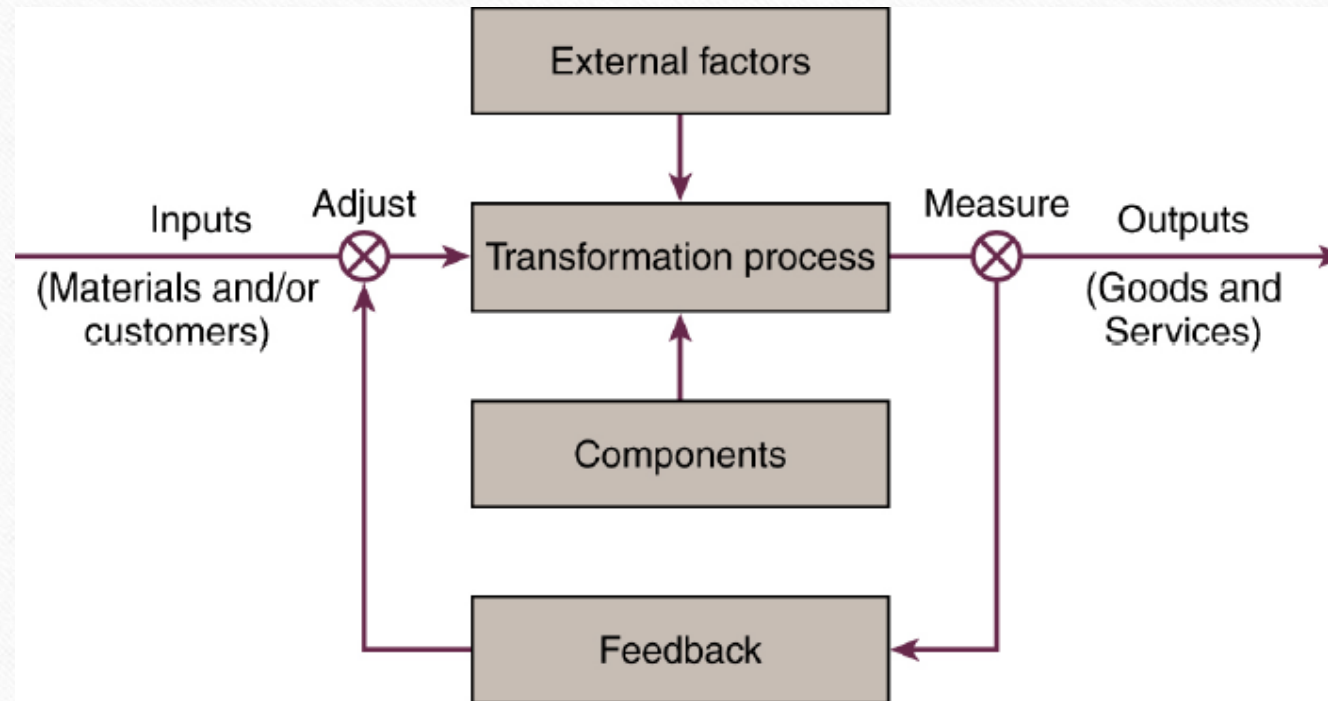
A departmental store's has an input like land upon which the building is located, labour as a stock clerk, capital in the form of building, equipment and merchandise, management skills in the form of the stores manager. Output will be serviced customer with desired merchandise (Kumr & Suresh, 2009). Random fluctuations will be from external or internal sources, monitored through a feedback system.



Managing Operations

- Bennett (2014) speaks to the following:
 1. Planning is the activity that establishes a course of action and guide future decision-making.
 2. Organizing is the activities that establish a structure of tasks and authority.
 3. Controlling costs, quality, and schedules are the important functions here.
 - Behaviour: Operations managers are concerned with the activities, which affect human behaviour through models.
 - Models: Models represents schematic representation of the situation, which will be used as a tool for decision-making. Following are some of the models used.

Transformation Process



Input-Transformation-Output Relationships for Typical Systems

Input-Transformation-Output Relationships for Typical Systems				
System	Inputs	Components	Primary Transformation Function(s)	Typical Desired Output
Hospital	Patients, medical supplies	MDs, nurses, equipment	Health care (physiological)	Healthy individuals
Restaurant	Hungry customers, food	Chef, waitress, environment	Well-prepared food, well served; agreeable environment (physical and exchange)	Satisfied customers
Automobile factory	Sheet steel, engine parts	Tools, equipment, workers	Fabrication and assembly of cars (physical)	High-quality cars
College or university	High school graduates, books	Teachers, classrooms	Imparting knowledge and skills (informational)	Educated individuals
Department store	Shoppers, stock of goods	Displays, salesclerks	Attract shoppers, promote products, fill orders (exchange)	Sales to satisfied customers
Distribution center	Stockkeeping units (SKU)	Storage bins, stockpickers	Storage and redistribution	Fast delivery, availability of SKUs

OM and Strategy

- The direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations (Johnson *et al.*, 2005).
- Strategy in a business organization is essentially about how the organization seeks to survive and prosper within its environment over the long-term. The decisions and actions taken within its operations have a direct impact on the basis on which an organization is able to do this.

Operations Performance Objectives

1. **Cost:** The ability to produce at low cost.
2. **Quality:** The ability to produce in accordance with specification and without error.
3. **Speed:** The ability to do things quickly in response to customer demands and thereby offer short lead times between when a customer orders a product or service and when they receive it.
4. **Dependability:** The ability to deliver products and services in accordance with promises made to customers (e.g. in a quotation or other published information).
5. **Flexibility:** The ability to change operations. Flexibility can comprise up to four aspects:
 - i. The ability to change the volume of production.
 - ii. The ability to change the time taken to produce.
 - iii. The ability to change the mix of different products or services produced.
 - iv. The ability to innovate and introduce new products and services.

(Slack *et al.* (2004)

4-Stage Model of strategic role in Operations

Stage 1	Internally Neutral	The operations function is internally focused and reactive. They are viewed as a 'necessary evil'. The best that the organization hopes for is that operations 'don't screw up'.
Stage 2	Externally Neutral	The operations function tries to be as good as the competition, or to achieve parity with industry norms. Such an organization is likely to benchmark its operations against its competitors, and adopt best practice in its industry so that it does not hold the organization back.
Stage 3	Internally Supportive	The operations function seeks to provide credible support for the organization's business strategy. An operations strategy will be developed which will be derived from, and support, the business strategy. The organization's operations are likely to be amongst the best in its industry.
Stage 4	Externally Supportive	The operations function provides the basis of competitive advantage for the organization, by setting the standard in their industry. The operations function is likely to aim to be world class by seeking to emulate best practice wherever it is to be found. Operations will be seen as the means of exceeding customer expectations by delighting the customer. Operations will be managed proactively to drive the business strategy of the organization.

Strategic Importance of the Production Function

- 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.

OM's Functions

- Operational Management's function focuses on adding value through the transformational process of converting inputs into outputs.
 - Physical: manufacturing
 - Locational: transportation
 - Exchange: retailing
 - Storage: warehousing
 - Physiological: health care
 - Informational: telecommunications

Productivity Analysis

- Productivity can be improved by:
 - i. controlling inputs,
 - ii. improving process so that the same input yields higher output, and
 - iii. by improvement of technology.
- Productivity analysis includes:
 - Trend analysis:
 - Horizontal analysis:
 - Vertical analysis:
 - Budgetary analysis

Case Studies

- Read the following case studies and respond to the questions at http://cws.cengage.co.uk/barnes/students/sample_ch/ch2.pdf:
- Operations strategy development at Askeys. Read the case at on page 34-35
- EasyJet: Low Cost air travel on page 26-27.
- When things go wrong: Eyes off the ball at Mercedes-Benz page 30-31

Review Questions

1. State the important objectives of production management.
2. Define the term quality management.
3. Give two examples for the productive systems concerned to service and manufacturing respectively.
4. “Operations strategy”—A key element in corporate strategy. Briefly explain.
5. Explain what do you understand by product-focused systems and process-focused systems.
6. Differentiate between Production Management and Operations Management.
7. Explain the concept of productivity.

References

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