

Unit 34: Operations Management

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Learning Outcome 2

- LO2 Understand the link between operations organisations management and strategic planning
 - AC 2.1 Appraise the importance of the ‘Three Es’ to organisations
 - AC 2.2 Assess the impact of the tension between cost minimisation and quality maximisation in organisations
 - AC 2.3 Evaluate the significance of the five performance objectives that underpin operations management to organisations

In this Session

- LO2 Understand the link between operations organisations management and strategic planning
 - AC 2.1 Appraise the importance of the ‘Three Es’ to organisations
 - Operations Management and Strategy Planning
 - Economy
 - Effectiveness
 - Efficiency
- Further readings
- References

Introduction

- *In today's competitive world, it is fundamental to drive a company around the concepts of Economy, Efficiency and Effectiveness. The right balance in implementing those 3E's, allows any organization to be more flexible and to respond in faster pace to current and future challenges. Many companies loses their sight by focusing only on profitability and short term gains, while under turbulent times such measures lead to higher risks. A business should prefer to focus on long term strategies if they want to improve their overall performance and remain in the market. A good way to steer in such direction is by looking to create and deliver value at any level of their activities. Value itself drives profits, and such profits are funded in sound basis when the 3E's are developed under the right balance (Valuemex.com, 2012).*

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

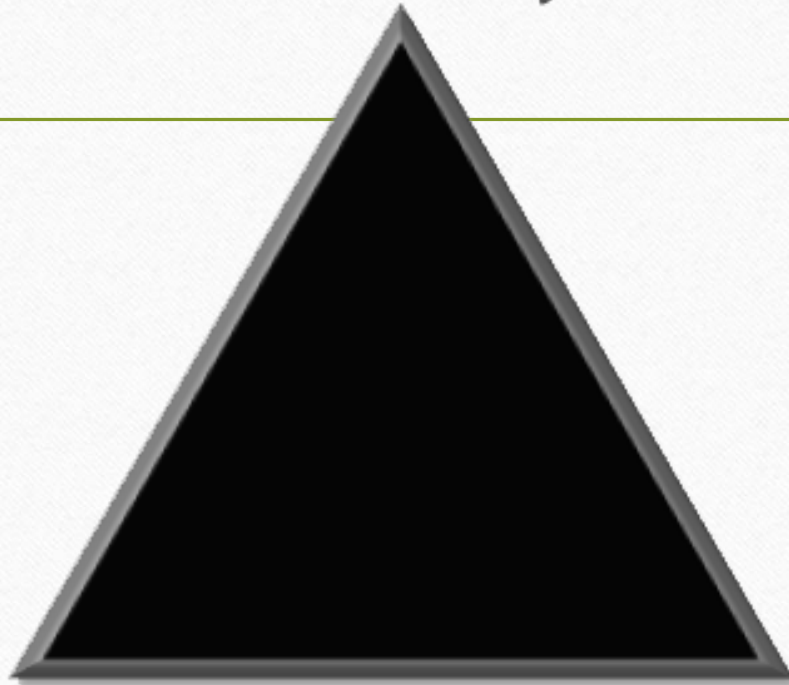
Strategic Planning

- According to (Lynch 2010) *Strategic planning* is the systematic, step-by-step, chronological procedures to develop or coordinate an organization's strategy.
- An organization's direction in terms of its customers and products/ services represents its purpose, that is, its mission or realized strategy. An organization's *mission* is a set of statements that define the exchange relationship between the organization and its stakeholders or claimants. More specifically insists Scholl (1998), a mission defines the population served and the function it fulfils or the need it satisfies for that claimant.
- This direction, or mission, may be the result of a *deliberate planning process* or it may emerge as the result of a set of incremental decisions. *Most realized strategies* are the result of a combination of *purely deliberate* and *purely emergent strategies*.

Efficiency

Economy

Effectiveness



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 (an 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.
- According to valuemex.com (2012) it covers the financial side on which an activity is achieved. Because we are living under a world in which economics permeates every aspect of our lives, it is fundamental to balance the use of resources to achieve the right goals at the reasonable cost. There is a difference between Efficiency and Economy, the former states the volume of resources and its way of using them while the latter looks more in the terms the cost of them. Money is a type of resource that needs to be allocated wisely in today's competitive exposure. Under the current free trade scheme of doing business, the offer is wider in terms of labor and commodities so big corporations have access to such advantages. Then competition is fiercely fought locally and internationally so the right cost becomes a critical factor to improve value delivery.

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.

Effectiveness (doing the right things to create the most value)

- Valuemex.com (2012) notes that effectiveness should be understood on deliverable basis and the achievement of goals. Its concept works around the fact if an objective was accomplished or not. Doing a good performance in terms of Effectiveness is to deliver on time what was expected.
- Most directors and senior executives have in charge the responsibility to meet such criteria. If its division, business unit or company is working hard but not delivering the internal requests or the ones of the market then they are not effective. The best way to asses Effectiveness is to set the objectives before the kickoff of a project or activities and see if they were achieved or not under the standards set at the beginning.

Efficiency (doing something at the lowest possible cost)

- Operational efficiency refers to input-output ratio 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

Efficiency (doing something at the lowest possible cost)

- Efficiency on the other hand, states the right use of resources to accomplish a task. It means the wise consumption of inputs on which the work is completed (valuemex.com, 2016). Once that the goals are attained it is fundamental to see how they can be met with the least effort. **Improving Efficiency means that the company is in a trend of reducing wastes and consuming less to deliver the same amount of value.**
- A proper way to measure efficiency is by acknowledging the process to complete a task and allocating the right amount of resources. By doing so, the company can estimate if the volume of input was enough or not to complete the activity. Then the results are used to evaluate a new set of inputs that will determine if the amount can be even reduce or requires to be raised.
- However, Efficiency is not always measured in the amount of resources but rather in the use of the proper practices to accomplish a task. It means if the same amount of resources can be used to accomplish a work load, sometimes the method helps to identify which is best way to work and proceed to deliver under the least possible effort. This concept can be easily understood under the business phrase “don’t work hard, work smart” or “less is more” it conceives; to set priorities, to place the right volume of inputs and to tackle problems in the easiest way to achieve the same result as working hard.

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.

PESTLE

PESTLE – useful for scanning the external environment

- Each factor is dynamic; Vital for management to understand the factors to enable them to forecast future conditions and can have positive or negative effects (Drakes, 2016)
- **Political:** Laws; Development and change in public institutions with which an enterprise must interact; Political organizations with power to influence the operating environment of the enterprise; Assessment of political stability and risk
- **Economic – can be within the political:** Interest rates; Exchange rates and taxes; International relations

Cont

- **Social / Socio-Cultural:** Trends and patterns associated with groups, their structures and behavior; Markets, stakeholder groups; Tracking social phenomena can reveal opportunities
- **Technological:** Space travel; Internet; E-Commerce – includes the use of cell phones
- **Legal** relates to:- Competition Law; Employment Law; Health and Safety; Product Safety
- **Environmental:** Environmental protection laws; Waste disposal; Energy consumption

PESTLE

- **PESTLE** – Used to examine the macro-economic forces that can impact the organization directly or indirectly. Continuous investigation of the macro-economic is important.
- **Examples - In recessionary times**
 - Economic – There is less income, so organizations should not project an increase in sales
 - Political and Economic – Government could inject money for innovation to increase economic activity.
 - Social / Cultural Environment – treats with habits of the population, demographic profile, etc.
 - Technology – new machinery, changes in information technology (IT), etc. Is the IT necessary? Is the IT available? A smaller world, trading is easier. The Internet has decreased transaction costs. The organization has to find new customers, lower costs and increase production.
 - International / Global – Free trade / free trade blocs – European Union. NAFTA, CARICOM, EPA, etc.
 - Competitive pressure, need to be innovative, need for more knowledgeable people

Strategic Planning Process

- Steps include:
 1. Analysing 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

Further Reading

- <http://www.en.valuemex.com/node/23>

References

- Bennett, Claudette (2015) Operations Management Lecture Notes, Colbourne College
- Drakes, Claudia (2016) The Strategic Management Model, UWI Open Campus
- Lynch, Orville (2010) The Nature of Strategic Management, UWI Cavehill, Barbados
- Valuemex.com (2012) Economy, Effectiveness and Efficiency retrieved from <http://www.en.valuemex.com/node/23>