

Course of «Operations and audit quality»
Master degree in «Fashion, art and food management»
Parthenope University of Naples

PART ONE: directing the operation

Operations performance

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A general model of operations management

PART ONE: directing the operation

PART TWO: designing the operation

PART THREE: deliver

PART FOUR: development

PART ONE: Directing the operation

1. Operations management
2. Operations performance
3. Operations strategy
4. Managing product and service innovation
5. The structure and the scope of operations

Operations performance- Key questions (Agenda)

- Why is operations performance vital in any organization?
- How is operations performance judged at a societal level?
- How is operations performance judged at a strategic level?
- How is operations performance judged at an operational level?
- How is operations performance be measured?

Why is operations performance vital in any organization?

Operations principle: good operations performance is fundamental to the sustainable success of any organization

IT IS NOT EXAGGERATION TO VIEW OPERATIONS MANAGEMENT AS BEING ABLE EITHER TO «MAKE OR BREAK» ANY BUSINESS, BECAUSE THE OPERATIONS FUNCTION GIVES THE POWER TO COMPETE BY PROVIDING THE ABILITY TO RESPOND TO CUSTOMERS.

WHEN THINGS GO WRONG IN OPERATIONS, THE REPUTATIONAL DAMAGE CAN LAST FOR YEARS!

Operations management can «make» the organizational in several ways:

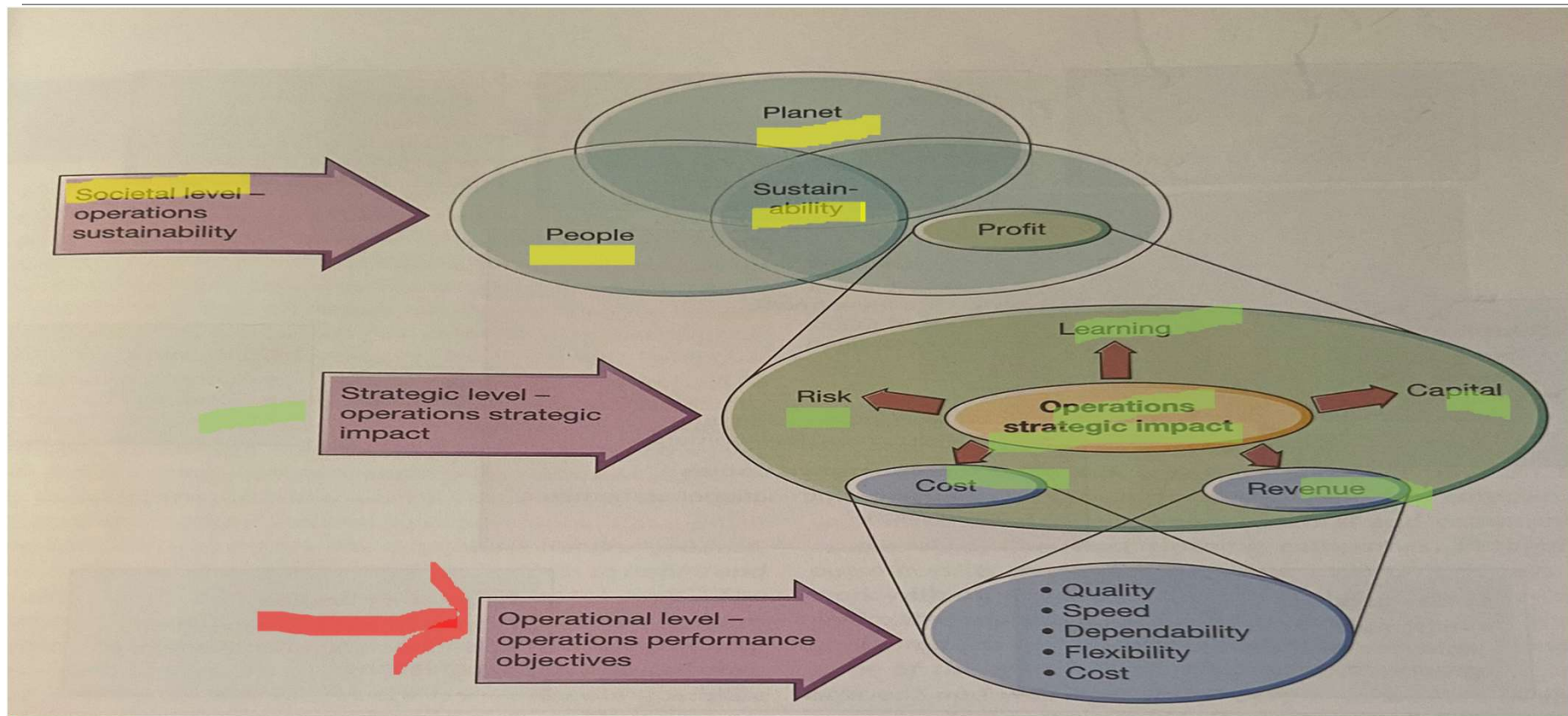
1. Operations management is concerned with doing things better (better quality, better service, better cost, better reliability, etc.)
2. Through the continual learning that come from its improvement activities, operations management can build the «difficult to imitate» capabilities that can have a significant strategic impact
3. Operations management is very much concerned with «process», with how things are done. And there is a relationship between process and outcome. Good operations management is the best way to produce good products and services

Performance at three levels

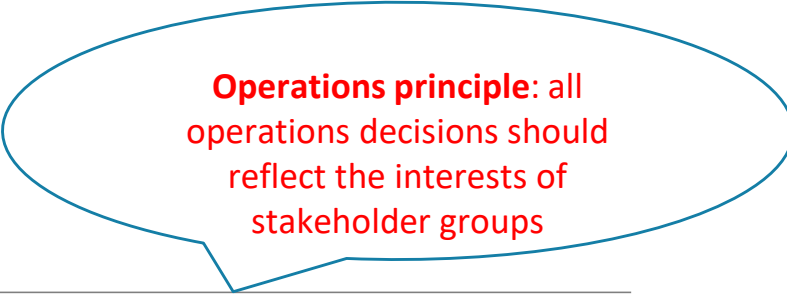
Operations can judge its performance at three different levels:

1. The broad, **societal level**, using the idea of the «triple bottom line»
2. The **strategic level** of how operation can contribute to the organization's overall strategy
3. The **operational level**, using the five operations «performance objectives»


Three levels of operations performance



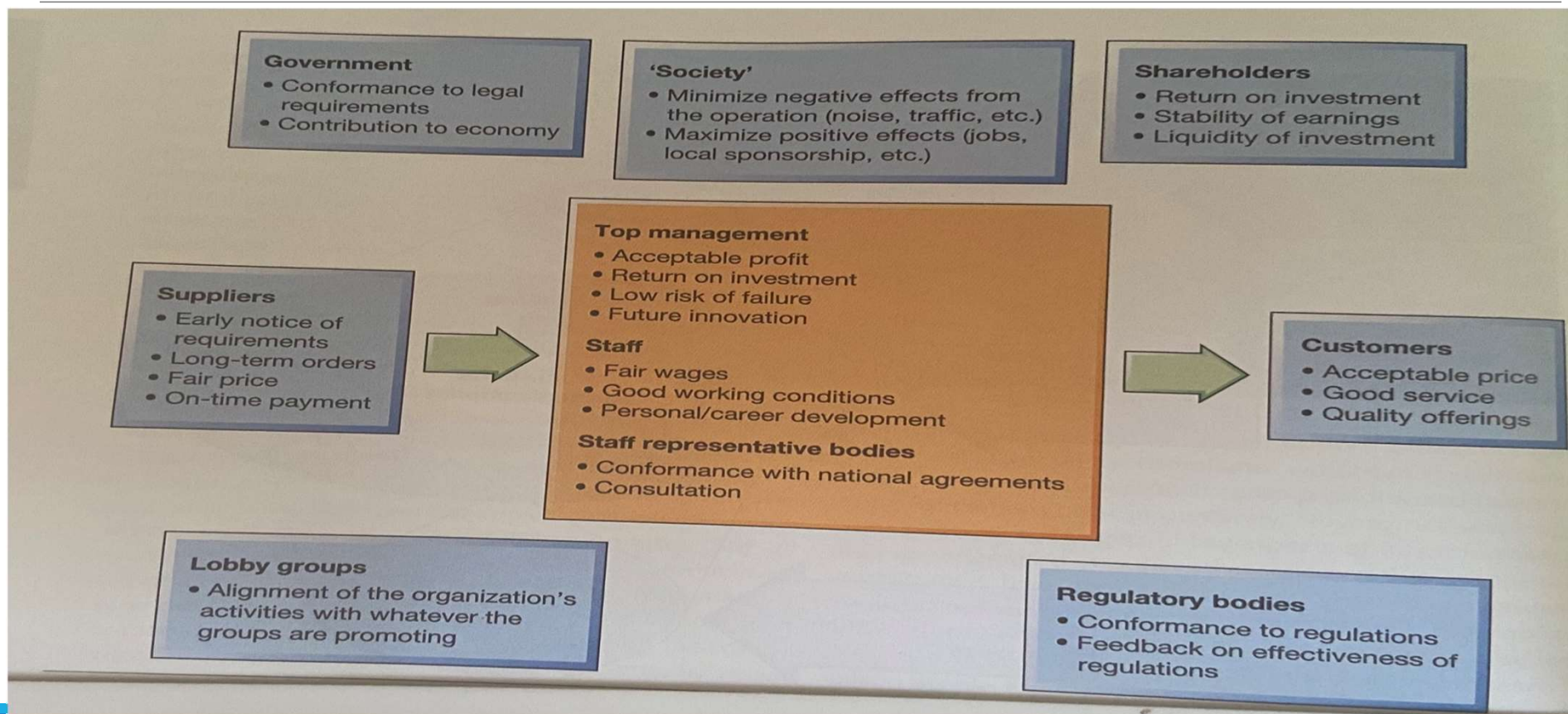
How is operations performance judged at a societal level?



Operations principle: all operations decisions should reflect the interests of stakeholder groups

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- In any kind of organization, it is a responsibility of the operations function to understand the objectives of its stakeholders and set its objectives accordingly
 - The decisions that are made within any operation and the way it goes about its day-to-day activities will affect a whole variety of stakeholders
 - Stakeholders are the people and groups who have a legitimate interest in the operation's activities
 - Some stakeholders are internal (for example the operation's employees); others are external, for example customers and suppliers
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Stakeholder groups with typical operations objectives

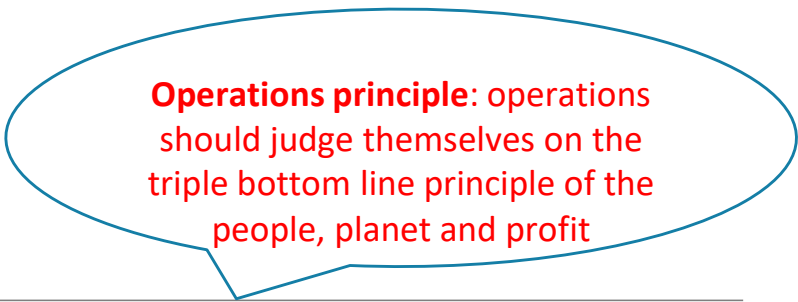


Corporate Social Responsibility (CSR)

- The idea that the operations should take into account their impact on a broad mix of stakeholders is often termed «corporate social responsibility» (generally known as CSR)
- According to the UK government's definition

«CSR is essentially about how business takes account of its economic, social and environmental impacts in the way it operates- maximizing the benefits and minimizing the downsides.... Specifically, we see CSR as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society»

The triple bottom line



Operations principle: operations should judge themselves on the triple bottom line principle of the people, planet and profit

- One common term that tries to capture the idea of a broader approach to assessing an organization's performance is the «triple bottom line» (TBL, or 3BL), also known as «people, planet and profit»
- Essentially, it is a simple idea: simply the organizations should measure themselves not just on the traditional economic profit that they generate for their owners, but also on the impact their operations have on society (community and employees) and the ecological impact on the environment
- The influential initiative that has come out of this triple bottom line approach is that of «sustainability»
- A sustainable business is one that creates an acceptable profit for its owners, but minimizes the damage to the environment and enhance the existence of the people with whom it has contact

THE ASSUMPTION UNDERLYING THE TRIPLE BOTTOM LINE IS THAT A SUSTAINABLE BUSINESS IS MORE LIKELY TO REMAIN SUCCESSFUL IN THE LONG TERM THAN ONE WHICH FOCUSES ON ECONOMIC GOALS ALONE

The **SOCIAL** bottom line (people)- the social account, measured by the impact of the operation on the quality of people's lives

- The idea behind the social bottom line performance is that business should accept that they bear some responsibility for the impact they have on the society and balance the external consequences with the profit
- At the **level of the INDIVIDUAL**, social bottom line performance means devising jobs and the work patterns which allow individuals to contribute their talents without undue stress
- At **GROUP level**, it means recognizing and dealing honestly with employee representatives
- Some ways that operations can impact the social bottom line performance include the following:
 - Customer safety from products and services
 - Employment impact of an operation's location
 - Employment implications of outsourcing
 - Repetitive or alienating work
 - Staff safety and workplace stress
 - Non-exploitation of developing country suppliers

The ENVIRONMENTAL bottom line (planet)- the environmental account, measured by the environmental impact of the operation

Operations managers cannot avoid responsibility for environmental performance

Some ways that operations can impact the environment bottom line performance include the following:

- Recyclability of materials, energy consumption, waste material generation
- Reducing transport-related energy
- Noise pollution, fume and emission pollution
- Environmental impact of process failure
- Recovery to minimize impact of failure

The ECONOMIC bottom line (planet)- the environmental account, measured by the environmental impact of the operation

Operations managers must use the operation's resources effectively, and there are many ways of measuring the «economic bottom line». Finance specialists have devised various measures (such as return on assets etc).

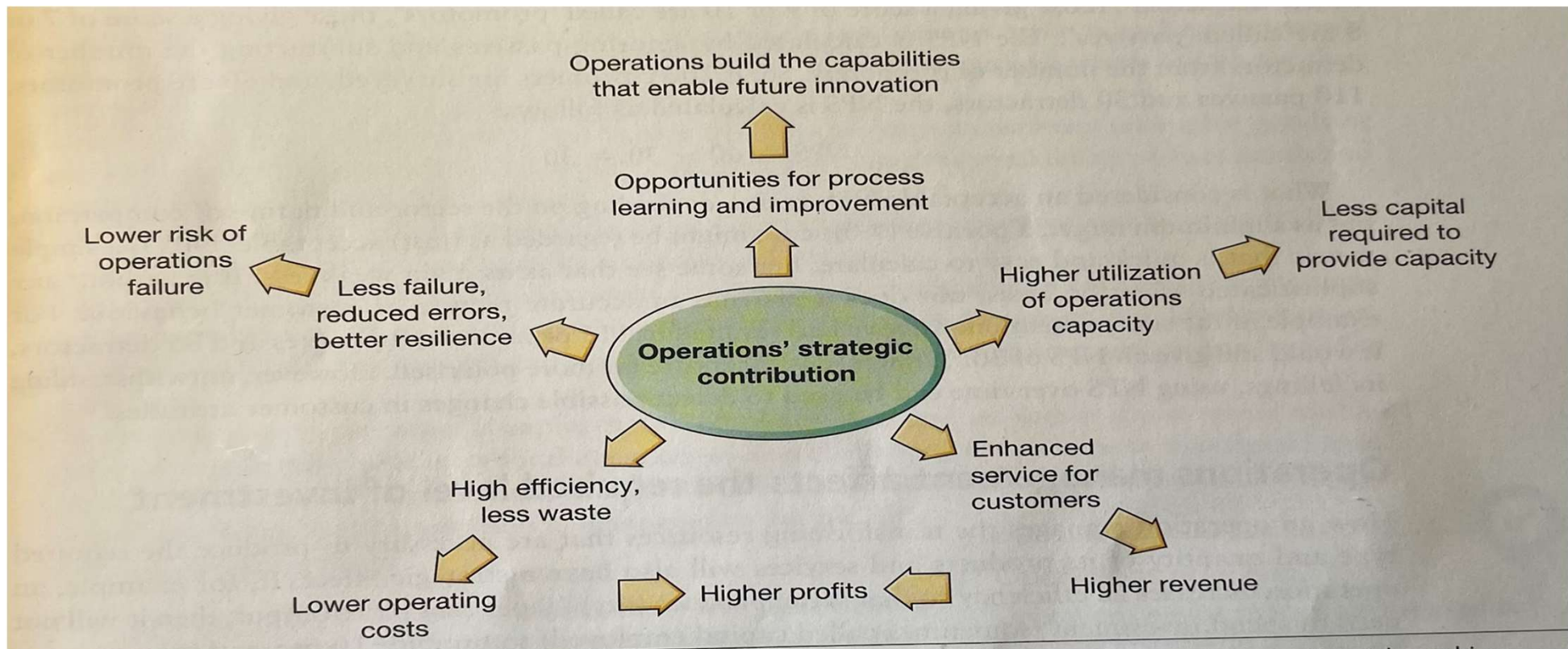
Some ways that operations can impact the financial bottom line performance include the following:

- cost of producing products and services;
- revenue from the effects of quality, speed, dependability and flexibility;
- effectiveness of investment in operations resources;
- risk and resilience of supply;
- building capabilities for the future.

How is operations performance judged at a strategic level?

- It is a central idea in operations management that the type of the decisions and activities that operations managers carry out can also have a significant strategic impact
 - At a strategic level, there are five aspects of operations performance that we identified as contributing to the «economic» aspect of the triple bottom line that can have a significant impact
- ✓ See figure in the next slide!!!

Operations can contribute to financial success through low costs, increasing revenue, lowering risk, making efficient use of capital and building the capabilities for future




How is operations performance judged at an operational level?

Assessing performance at a societal level, and judging how well an operation contributes to strategic objectives, are clearly important IN THE LONGER TERM, AND FORM THE BACKDROP TO ALL OPERATIONS DECISION MAKING....

...BUT RUNNING OPERATIONS AT AN OPERATIONAL **DAY-TO-DAY** LEVEL REQUIRES A MORE TIGHTLY DEFINED SET OF OBJECTIVES. THESE ARE CALLED **OPERATIONS «PERFORMANCE OBJECTIVES»**

THERE ARE FIVE OF THEM AND THEY APPLY TO ALL TYPES OF OPERATION:

- 1. QUALITY**
 - 2. SPEED**
 - 3. DEPENDABILITY**
 - 4. FLEXIBILITY**
 - 5. COST**
- 

Why is quality important?


- Quality is consistent conformance to customers expectations, in other words «doing thing right», but the things which the operations needs to do right vary according to the type of operations
 - All operations regard quality as a particularly important objective
 - In some way quality is the most visible part of what an operation does
- 
- A solid blue horizontal bar spanning the width of the slide, located at the bottom.

Figure illustrates how quality could be judged in four operations
Quality means different things in different operations

Quality could mean....

HOSPITAL

- Patients receive the most appropriate treatment
- Treatment is carried out in the correct manner
- Patients are consulted and kept informed
- Staff are courteous, friendly and helpful

Automobile plant

- All part are made to specification
- All assembly is to specification
- The product is reliable
- The product is attractive and blemish -free

BUS COMPANY

- The buses are clean and tidy
- The buses are quiet and fume-free
- The timetable is accurate and user-friendly
- Staff are courteous, friendly and helpful

SUPERMARKET

- Goods are in good conditions
- The store is clean and tidy
- Décor is appropriate and attractive
- Staff are courteous, friendly and helpful

OPERATIONS IN PRACTICE

Quality at «Quality street»

Quality means....

Why is speed important?

- Speed means the elapsed time between customers requesting products or services and their receiving them
- The main benefits to the operation's customers of speedy delivery of goods and services is that the faster they can have the product or service, the more likely they are to buy it, or the more they will pay for it, or the greater the benefit they receive

Figure illustrates how speed could be judged in four operations
Speed means different things in different operations

Speed could mean....

HOSPITAL

- The time between requiring treatment and receiving treatment kept to a minimum
- The time for test results to be returned kept to a minimum

AUTOMOBILE PLANT

- The time between dealers requesting a vehicle of a particular specification and receiving it kept to a minimum
- The time to deliver spares to service centres kept to a minimum

BUS COMPANY

- The time between a customers setting out on the journey and reaching his or her destination kept to a minimum

SUPERMARKET

- The time taken for the total transaction of going to the supermarket, making the purchases and returning kept to a minimum
- The immediate availability of goods

OPERATIONS IN PRACTICE

«App saves two minutes of the «Golden Hour»

Speed means...

Why is dependability important?

- Dependability means doing things in time for customers to receive products or services exactly when they are needed, or at least when they are promised
- Customers might only judge the dependability of an operation after the product or service has been delivered
- Initially this may not affect the likelihood that customers will select the service- they have already consumed it. Over time, however, dependability can override all other criteria

Figure illustrates how dependability could be judged in four operations
Dependability means different things in different operations

Dependability could mean....

HOSPITAL

- Portion of appointments which are cancelled kept to a minimum
- Keeping to appointment times
- Test results returned as promised

AUTOMOBILE PLANT

- On time delivery of vehicles to dealers
- On time delivery of spares to service centres

BUS COMPANY

- Keeping to the published timetable at all points on the routes
- Constant availability of seats for passengers

SUPERMARKET

- Predictability of opening hours
- Proportion of goods out of stock kept to a minimum
- Keeping to reasonable queuing times
- Constant availability of parking

OPERATIONS IN PRACTICE

«What does dependability mean when travelling by rail?»

Dependability means...

Why is flexibility important?

- Flexibility means being able to change the operation in some way
- This may mean changing **what** the operation does, **how** it is doing it, or **when** it is doing it
- Specifically, customers will need the operation to change so that it can provide four types of requirements:
 1. **Product/service flexibility**- the operation's ability to introduce new or modified products and services
 2. **Mix flexibility**- the operation's ability to produce a wide range or mix of product and services;
 3. **Volume flexibility**- the operation's ability to change its level of output or activity to produce different quantities or volumes of products and services over time
 4. **Delivery flexibility**- the operation's ability to change the timing of the delivery of its services or products

Figure illustrates how flexibility could be judged in four operations
Flexibility means different things in different operations

Flexibility could mean....

HOSPITAL

- **Product/service flexibility-** the introduction of new types of treatment
- **Mix flexibility-** a wide range of available treatment
- **Volume flexibility-** the ability to adjust the number of patient treated
- **Delivery flexibility-** the ability to reschedule appointments

AUTOMOBILE PLANT

- **Product/service flexibility-** the introduction of new models
- **Mix flexibility-** a wide range of options available
- **Volume flexibility-** the ability to adjust the number of vehicles manufactured
- **Delivery flexibility-** the ability to reschedule manufacturing priorities

BUS COMPANY

- **Product/service flexibility-** the introduction of new routes
- **Mix flexibility-** a large number of locations served
- **Volume flexibility-** the ability to adjust the frequency of services
- **Delivery flexibility-** the ability to reschedule trips

SUPERMARKET

- **Product/service flexibility-** the introduction of new goods or promotion
- **Mix flexibility-** a wide range of goods stocked
- **Volume flexibility-** the ability to adjust the number of customers served
- **Delivery flexibility-** the ability to obtain out-of stocks items

OPERATIONS IN PRACTICE

«566 quadrillion individual muesli mixes-now that's flexible»

Flexibility means...

Why is cost important?

- Cost is always an important objective for operations management, even if the organization does not compete directly on price
- Every euro removed from an operation's cost base is a further euro added to its profits
- The ways in which operations management can influence cost will depend on where the operation's costs are incurred. The operation will spend its money for staff, facilities, technology and materials.

Figure illustrates typical cost breakdowns for the hospital, car plant, supermarket and bus company

Cost could mean....

HOSPITAL

- Technologies and facilities costs
- Bought in materials and services

AUTOMOBILE PLANT

- Staff costs
- Bought in materials and services
- Technology and facilities cost

BUS COMPANY

- Technologies and facilities costs
- Bought in materials and services
- Staff costs

SUPERMARKET

- Staff costs
- Bought in materials and services
- Technology and facilities cost

OPERATIONS IN PRACTICE

«Every day low prices at Aldi»

Cost means...