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Creating VCE Success

Business Management
Teach Yourself Series
Topic 10: The Operations Management Function

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The Operations Management Function

Each organisation has a key aspect that it needs to do well in, if it is to be successful and achieve its objectives. This aspect may be manufacturing a product, providing a service, selling goods, mining or farming. To carry out this aspect an organisation must have an operations system.

The Operations Manager will be responsible for overseeing the operations of the organisation. The Operations Manager is a senior level manager on the same level as a Finance Manager and Human Resources Manager. The OM is involved in strategic planning in relation to operations.

Initial terminology

As it appears in Unit 3

Operations Management can be defined as the **design**, **operation** and **control** of the *transformation* process that converts resources into products or services.

Operations Management is an extremely important part of an organisation's functions. It is part of the strategic level of management. There are five important questions to be dealt with when implementing and designing an operations management system. These are:

1) People
2) Place
3) Plant & facilities
4) Processes
5) Product

Operations Management establishes:

- A level of quality of good or service
- Overall cost of production
- Ability to meet consumer demand

The overall aims of the operations system are to achieve a sustainable competitive advantage over competitors. This involves:

- The systematic planning and control of all the production activities.
- Maximizing productivity.
- Maximizing the use of resources; labour, equipment.
- Maximising stock, layout and information systems.
- Minimising manufacturing, inventory, maintenance and distribution costs.
- Managing projects in accordance with the planned timetable.
- Multi skilling of staff via training.
- Increase the motivation and commitment of staff.
- Making use of the latest technology.

The Operations Manager

The Operations Manager is involved in decision-making at the strategic level, operational level and front line level and therefore needs various skills to perform these tasks.

It is essential that operations managers make strategic decisions about the following:

- What product or products the organisation will produce?
- How this product will be produced?
- What production capacity does the organisation require?
- Where will the production capacity be located?
- How will the production capacity be designed and laid out?
- What jobs will each staff member have to do in the production process?
- How and at what levels will quality controls be maintained?

Another duty of an operations manager is tactical planning. This includes short term plans concerning:

- The economic level of stock being maintained.
- How stock will be stored, maintained and delivered.
- The sequence of filling orders.
- The manpower used to produce the required output.
- How the equipment will be maintained in good working order.
- How the quality of output will be maintained.

Operations and Business Objectives

As it appears in Unit 3

Operations is the key component in the success of any large-scale organisation. The ability of the operations function to improve productivity, minimise costs, minimise wastage and defects will determine the ability of the organisation to compete – both domestically and internationally.

It is the role of the operations manager to implement strategies designed to improve productivity to allow the organisation to compete. If competitive, then an organisation will be able to achieve its objectives. The strategies that the business will implement fall under 4 broad headings:

- Facilities design and layout
- Materials management

- Management of quality
- Technology

Each of these strategy areas will be examined more closely further on. The first step in understanding how these strategies can be applied is to understand the operations system employed by large-scale organisations.

Review Questions

1. Define the term operations

2. Explain why operations is important for the success of an organisation

Solutions to Review Questions

1. Operations refer to all the activities involved in producing the product/providing the service.

2. Operations determine the cost involved in producing the good or service – the primary activity of most LSOs. It is important to manage operations effectively so as to reduce costs, increase productivity and therefore increase profits.

3. The inputs would be the fruit, the cans, labour and machinery. The transformation process would involve sorting the fruit, cutting it, canning the fruit, sealing and labelling the cans. The output is the finished can of fruit ready for sale to the consumer.

4. The inputs would be labour, information and computers. The transformation process would involve asking questions and completing forms. The output is the insurance policy provided.

5. A process layout would be the most appropriate as the production process involves a number of specific, different stages and needs to be adapted to deal with a range of product varieties offered by the business.

6. Capital intensive refers to a production process that is heavily reliant on machinery and equipment to produce the output.

7. Labour intensive refers to a production process that is heavily reliant on human resources to produce the output.

8. JIT is a materials management system where materials are ordered and timed to arrive at the business just as they are needed for the production process. The advantage of this system is that storage costs are minimised.

9. Improving materials management can reduce costs of storage and stock control, reduce wastage and deterioration and avoids 'downtime' when production doesn't occur because materials are not available. This will improve productivity as costs are lowered allowing the business to price their products more competitively.

10. Quality control could be used where samples of tea are selected at random during the processes and compared to a benchmark. The advantage is that flaws in a process can be detected if the sample does not match the benchmark.

Quality Assurance is a system where quality is guaranteed through the processes adopted by the organisation. The business has its processes certified that meet a particular standard set by an external organisation. This is a recognised standard which can be used as a marketing tool.

11. Continuous improvement refers to an ongoing commitment to achieving better standards over time.

12. Quality circles are groups of workers who meet to discuss and attempt to resolve problems related to the quality of a product within a business.

13. Technology can be used to lower costs through fewer defects as some technology can be used to complete repetitive tasks. Technology can also lower costs by replacing labour or allowing production to occur quicker, increasing productivity.

14. As technology improves, production can occur quicker. This should lower costs and/or increase output, leading to increased productivity.

15. Two ethical issues would be:
- Ensuring an appropriate redundancy policy is implemented for staff who are to be let go
- Paying staff in offshore country an appropriate wage, rather than using 'sweatshops'

16. Possible issues that may be discussed include:
- Waste
- Product recall
- Recycling
- Workplace accidents
- Redundancies

17. A regular maintenance program will see all equipment maintained at an appropriate standard of safety, reducing the number of workplace accidents and hence Work Cover premiums.
By implementing a regular program of inventory control an organisation can ensure it is using the best quality inputs leading to a better quality product. This should improve customer satisfaction and sales.

18. Benchmarking is when a business sets its performance standards against the standards set by another organisation known as a leader in the same industry.