AUM

American University Of The Middle East

MGT320 Operation Management

Chapter 2

Strategy and Productivity

Outline

- How can business organizations develop competitiveness?
- Mission, Strategies, Goals…
- Linking organizational strategy with operational strategy
- Productivity:
  - Calculating productivity, productivity growth…
  - Productivity in service sector
  - Factors affecting productivity
  - Steps in improving productivity

Business Compete Using

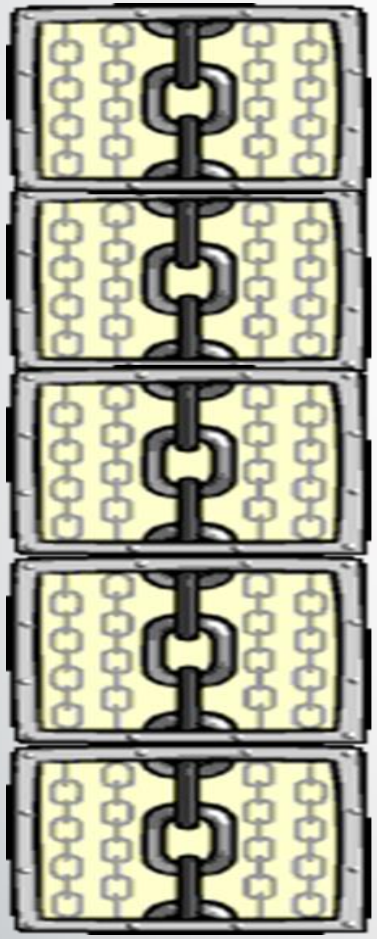
- Product and service design
- Cost
- Location
- Quality
- Flexibility
- Supply Chain Management

Why Companies Fail ?

Why Companies Fail

- Failing to develop an accurate SWOT analysis.
- Putting to much emphasis on short term financial performance.
- Placing much emphasis on product design and not enough on process improvement
- Neglecting investments in human resource.
- Department working as isolated islands.
- Failing to consider customer needs

Mission, Goals and Strategy



Mission

Goals

Organizational Strategies

Functional Strategies

Tactics

Mission, Goals and Strategy

- **Mission**
  - A statement tell the organization where it is going.
- **Goals**
  - Provide details and the scopes of the mission.
- **Strategy**
  - A plan for achieving the Organization goals

Mission, Goals and Strategy

- Mission
  - where are you going?
  - Organization's purpose for being
  - Answers 'What do we provide society?'
  - Provides boundaries and focus

Hard Rock Café

To spread the spirit of Rock ‘n’ Roll by delivering an exceptional entertainment and dining experience. We are committed to being an important, contributing member of our community and offering the Hard Rock family a fun, healthy, and nurturing work environment while ensuring our long-term success.

Microsoft

To help People and business throughout the world to realize their full potential

Arnold Palmer Hospital

Arnold Palmer Hospital is a healing environment providing family-centred care with compassion, comfort and respect… when it matters the most.

Mission, Goals and Strategy

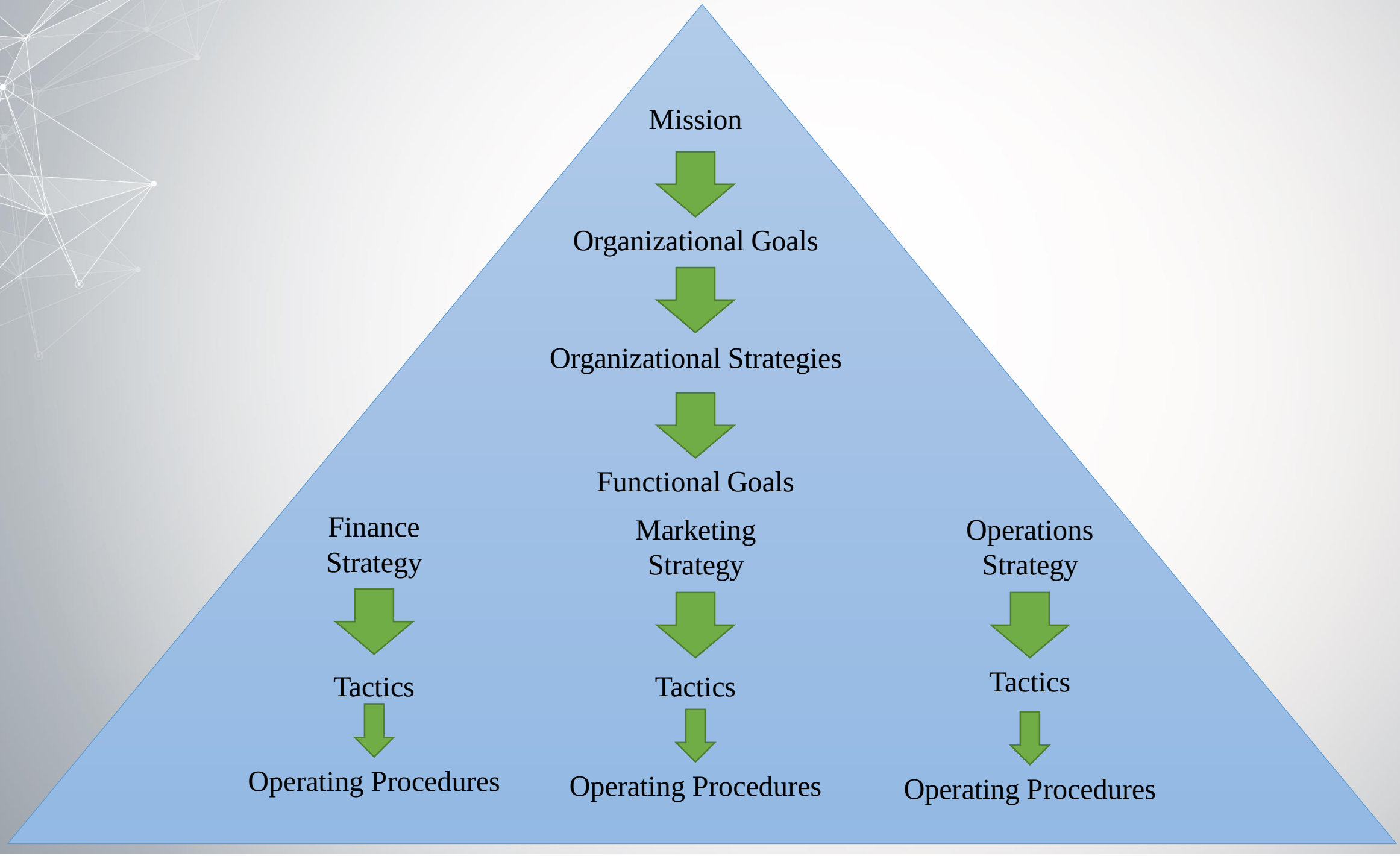
- Goals
  - The mission statements serves as the basis for organizational goals.
- Provide details about the scope of missions.
- Serve as the basis for organizational strategies

Strategy

- Action plan to achieve mission
- Functional areas have strategies
- Strategies exploit opportunities and strengths, neutralize threats, and avoid weaknesses.

Examples of Strategies

- Low Cost
- Scale-based Strategy
- Specialization
- Flexible Operations
- High Quality
- Service
- Sustainability


Mission
Organizational Goals
Organizational Strategies
Functional Goals
Finance Strategy
Marketing Strategy
Operations Strategy
Tactics
Tactics
Tactics
Operating Procedures
Operating Procedures
Operating Procedures

Strategy Formulation

- Effective strategy formulation requires taking into account:
  - Core competencies
  - Environmental scanning
  - SWOT

- Successful strategy formulation also requires taking into account:
  - Order qualifiers
  - Order winners

Operations Strategy

- It should be taken into consideration in setting organization strategy.
- It has a major influence in organization competitiveness.

		Management Level	Time Horizon	Scope	Level of Details	Related to
Overall Organization	Mission	Top	Long	Broad	Low	Survival, Profitability
	Strategy	Senior	Long	Broad	Low	Growth Rate and Market Share
Operations	Strategic	Senior	Moderate to long	Broad	Low	Product Design, Choice of location, Choice of technology
	Tactical	Middle	Moderate	Moderate	Moderate	Employment level, Equipment selection
	Low	Low	Short	Narrow	High	Scheduling personal, Inventory management, Purchasing

Productivity

Productivity is the ratio of outputs (goods and services) divided by the input (labors or capitals).

The Objective is to Improve this Measure of Efficiency

Important Note!
Production is a measure of output only and not a measure of efficiency

Productivity

- Productivity measures are useful for
  - Tracking an operating unit's performance over time
  - Judging the performance of an entire industry or country
- Why Productivity Matters?
  - High productivity is linked to higher standards of living
  - Higher productivity leads to competitive advantage in the marketplace

Productivity Formulas

$$\text{Productivity} = \frac{\text{Output}}{\text{Inputs}}$$

- *Single Factor Productivity*

$$\text{Productivity} = \frac{\text{Output}}{\text{Single Input}}$$

  - ***EX. Labor Productivity***

$$\text{Labor Productivity} = \frac{\text{Unit Produced}}{\text{Labor-hours used}}$$

- *Multifactor Measure*

$$\text{Productivity} = \frac{\text{Output}}{\text{Multiple Input}}$$

  - ***Ex. Labor and Machine Productivity***

$$\text{Labor \& MC Productivity} = \frac{\text{Unit Produced}}{\text{Labor + MC}}$$

Productivity Formulas

- Productivity Growth

$$\textit{Productivity Growth} = \frac{\textit{Current Productivity} - \textit{Previous Productivity}}{\textit{Previous Productivity}}$$

Productivity Calculations

Old System:

Staff of 4 works 8 hrs/day

Payroll cost = $640/day

8 Screens/day

Overhead = $400/day

$$\text{Old Labor Productivity} = \frac{8 \text{ screens /day}}{32 \text{ Labor-hrs}} = .25 \text{ screen / labor-hr}$$

Productivity Calculations

Old System:

Staff of 4 works 8 hrs/day ***8 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

New System:

Staff of 4 works 8 hrs/day ***14 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

$$\textit{New Labor Productivity} = \frac{\textit{14 screens /day}}{\textit{32 Labor-hrs}} = .437 \text{ screen / labor-hr}$$

Productivity Calculations

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Staff of 4 works 8 hrs/day ***8 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

New System:

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Productivity Calculations

Old System:

Staff of 4 works 8 hrs/day ***8 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

$$\textit{Total Productivity} = \frac{\textit{8 screens /day}}{\textit{\$640 + \$400}} = .0077 \text{ screen / Dollar}$$

Productivity Calculations

Old System:

Staff of 4 works 8 hrs/day ***8 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

New System:

Staff of 4 works 8 hrs/day ***14 Screens/day***

Payroll cost = $640/day ***Overhead = $400/day***

$$\text{New Total Productivity} = \frac{14 \text{ screens /day}}{\$640 + \$400} = .0135 \text{ screen / Dollar}$$

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Productivity Calculations

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$$\text{New Total Productivity} = \frac{14 \text{ screens /day}}{\$640 + \$400} = .0135 \text{ screen / Dollar}$$

Productivity Growth

$$\text{Productivity Growth} = \frac{0.0135 - 0.0077}{0.0077} \times 100 = 75.3\%$$

Service Sector Productivity

- Service sector productivity is difficult to measure and manage because
  - It involves intellectual activities
  - It has a high degree of variability
- A useful measure related to productivity is ***process yield***
  - ratio of cars rented to cars available for a given day
  - ratio of student acceptances to the total number of students approved for admission.

Factors Influence the Productivity

- Standardizing
- Technology
- Labor turnover
- Layoffs
- Design the workspace.
- Equipment breakdowns
- Material shortages