2

Competitiveness, Strategy, and Productivity

Learning Objectives

- List and briefly discuss the primary ways that business organizations compete.
- List five reasons for the poor competitiveness of some companies.
- Define the term strategy and explain why strategy is important for competitiveness.
- Contrast strategy and tactics.

Learning Objectives

- Discuss and compare organization strategy and operations strategy, and explain why it is important to link the two.
- Define the term productivity and explain why it is important to organizations and to countries.
- List some of the reasons for poor productivity and some ways of improving it.

Competitiveness:

How effectively an organization meets the wants and needs of customers relative to others that offer similar goods or services

Businesses Compete Using Operations

- Product and service design
- Cost
- Location
- Quality
- Quick response

Businesses Compete Using Operations

- Flexibility
- Inventory management
- Supply chain management
- Service and service quality
- Managers and workers

Why Some Organizations Fail

- Too much emphasis on short-term financial performance
- Failing to take advantage of strengths and opportunities
- **Neglecting operations strategy**
- Failing to recognize competitive threats

Why Some Organizations Fail

- Too much emphasis in product and service design and not enough on improvement
- Neglecting investments in capital and human resources
- Failing to establish good internal communications
- Failing to consider customer wants and needs

Mission/Strategy/Tactics

How does mission, strategies and tactics relate to decision making and distinctive competencies?

Strategy Example

Nusrat is a student. She would like to have a career in business, have a good job, and earn enough income to live comfortably

Mission:	Live a good life
▪ Goal:	Successful career, good income
▪ Strategy:	Obtain a university education
▪ Tactics:	Select a university and a major
▪ Operations:	Register, buy books, take courses, study, graduate, get job

Examples of Strategies

- Low cost
- Scale-based strategies
- Specialization
- Flexible operations
- High quality
- Service

Examples of Operations Strategies

Price	Low Cost	Neighborhood tea stalls Tata Nano
Quality	High-performance design or high quality Consistent quality	North End; Samsung Galaxy BMW, Mercedes
Time	Rapid delivery On-time delivery	Fedex, One-hour photo
Flexibility	Variety Volume	Swapno, Agora
Service	Superior customer service	Disneyland
Location	Convenience	ATMs, BKash

Strategy and Tactics

- Distinctive Competencies

  The special attributes or abilities that give an organization a competitive edge.

- Strategy Factors
  - Price
  - Quality
  - Time
  - Flexibility
  - Service
  - Location

Global Strategy

- Strategic decisions must be made with respect to globalization
- What works in one country may not work in another
- Strategies must be changed to account for these differences
- Other issues
  - Political, social, cultural, and economic differences

Strategy Formulation

- Order qualifiers
  - Characteristics that customers perceive as minimum standards of acceptability to be considered as a potential purchase
- Order winners
  - Characteristics of an organization's goods or services that cause it to be perceived as better than the competition

Operations Strategy

- Operations strategy – The approach, consistent with organization strategy, that is used to guide the operations function.

Strategic OM Decisions

Decision Area	Affects
Product and service design	Costs, quality, reliability and environmental
Capacity	Cost structure, flexibility
Process selection and layout	Costs, flexibility, skill level, capacity
Work design	Quality of work life, employee safety, productivity
Location	Costs, visibility
Quality	Ability to meet or exceed customer expectations
Inventory	Costs, shortages
Maintenance	Costs, equipment reliability, productivity
Scheduling	Flexibility, efficiency
Supply chains	Costs, quality, agility, shortages, vendor relations
Projects	Costs, new products, services, or operating systems

Quality and Time Strategies

- Quality-based strategies
  - Focuses on maintaining or improving the quality of an organization's products or services
  - Quality at the source
- Time-based strategies
  - Focuses on reduction of time needed to accomplish tasks

Productivity

- Productivity
  - A measure of the effective use of resources, usually expressed as the ratio of output to input

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

Productivity

- Partial measures
  - output/(single input)
- Multi-factor measures
  - output/(multiple inputs)
- Total measure
  - output/(total inputs)

Productivity Growth

Productivity Growth =

$$\frac{\text{Current Period Productivity} - \text{Previous Period Productivity}}{\text{Previous Period Productivity}}$$

Measures of Productivity

Partial measures

$$\frac{\text{Output}}{\text{Labor}} \qquad \frac{\text{Output}}{\text{Machine}} \qquad \frac{\text{Output}}{\text{Capital}} \qquad \frac{\text{Output}}{\text{Energy}}$$

Multifactor measures

$$\frac{\text{Output}}{\text{Labor} + \text{Machine}} \qquad \frac{\text{Output}}{\text{Labor} + \text{Capital} + \text{Energy}}$$

Total measure

$$\frac{\text{Goods or Services Produced}}{\text{All inputs used to produce them}}$$

Examples of Partial Productivity Measures

Labor Productivity	Units of output per labor hour Units of output per shift Value-added per labor hour
Machine Productivity	Units of output per machine hour machine hour
Capital Productivity	Units of output per dollar input Monetary value of output per dollar input
Energy Productivity	Units of output per kilowatt-hour Monetary value of output per kilowatt-hour

Example 3

7040 Units Produced

Cost of labor of Tk. 1,000

Cost of materials: Tk. 520

Cost of overhead: Tk. 2,000

What is the multifactor productivity?

Ans. 2.0 units per Taka of input

Example 3 Solution

$$MFP = \frac{\text{Output}}{\text{Labor + Materials + Overhead}}$$

$$MFP = \frac{(7040 \text{ units})}{1000 + 520 + 2000}$$

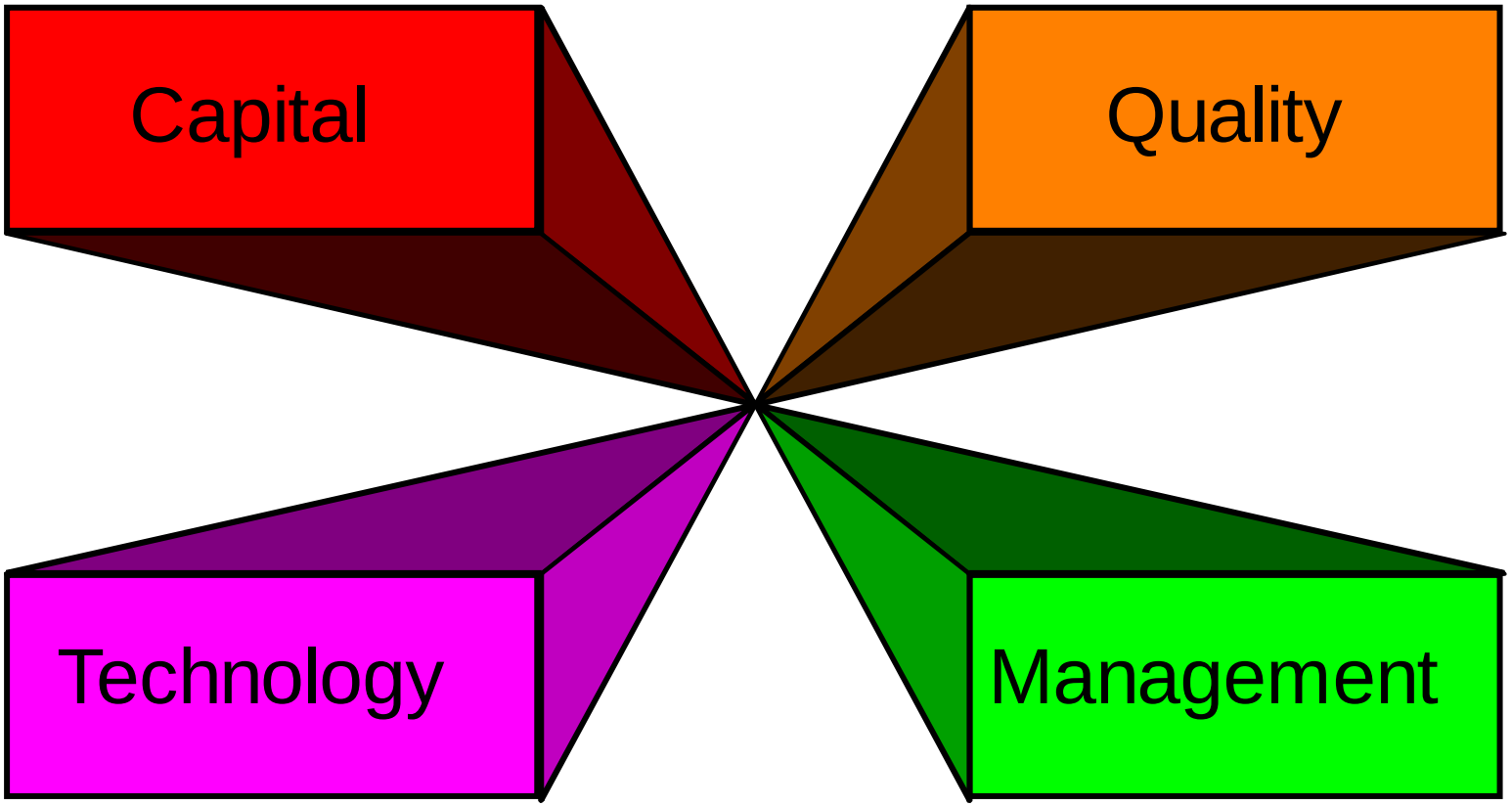
MFP = 2.0 ***units per Taka of input***

Process Yield

- Process yield is the ratio of output of ***good*** product to input
- Defective product is not included in the output

- Service example:
  - Ratio of number of students admitted to the number of students applied

Factors Affecting Productivity



Other Factors Affecting Productivity

- Standardization
- Quality
- Use of Internet
- Computer viruses
- Searching for lost or misplaced items
- Scrap rates
- New workers

Other Factors Affecting Productivity

- Safety
- Shortage of IT workers
- Layoffs
- Labor turnover
- Design of the workspace
- Incentive plans that reward productivity

Improving Productivity

- Develop productivity measures
- Determine critical (bottleneck) operations
- Develop methods for productivity improvements
- Establish **reasonable** goals
- Get management support
- Measure and publicize improvements
- Don’t confuse productivity with efficiency