

Why Operations Management is Important for a Company

A White Paper

Operations Management is a fundamental part of any organization. It plays a vital role in the success of organization. It is the area of management which is concerned with creation of goods or services of a company. The field is important as well as challenging and vital for all types of organizations ranging from manufacturing to retailing to services.

Operations & Operations Management

Operations, as per many definitions by researchers, includes "all those activities required to create and deliver a product or service, from procurement through conversion to distribution." It is one of the 3 basic functions of an organization i.e. Finance, Operations & Marketing. Like the other necessary functions of an organization, managing operations function is also crucial for the success of a company and is particularly related to the generation of product or services.

Operations is type of activities that go on in a organization regardless of whether end product is a good or service. Major, overall activities often include product creation, development, production and distribution, managing purchases, inventory control, quality control, storage, logistics and evaluations of processes in a typical manufacturing setup. Wherein in a service organization these can be customer care, backend services, IT support services / Data storage, stores / distribution, security, facility maintenance etc. Thus every organization has Operations function whether or not it is named so.

Operations is also defined in terms of transformation process wherein inputs are converted to outputs. Galloway (1998) defines operations as all the activities concerned with the transformation of materials, information or customers, depending upon the type of organization. During the transformation operations add value to inputs to produce goods or services.

Every individual, every economic enterprise, every government, every educational institution and every organization performs 'Operations'. These operations may have different names: processes, transactions, work flows, production lines, curricula, cooking, serving, writing, presenting, accounting, or working. But they all have certain common characteristics: they all have input, they all transform the inputs through different means and they all have output & use resources.

Operations Management, as per industry experts, is "the set of activities that creates value in the form of goods and services by transforming inputs into outputs." Operations management focuses on carefully managing the processes to produce and distribute products and services such that it adds value to firms inputs to convert to profitable outputs.

In short Operations Management is the science and art of management of: People, Process & Systems for delivery of a useful product or service successfully to customers.

Operations management is a fundamental part of any organization. Forbes magazine reported in 2011 that about three quarters of all CEOs came from an operations background. Not all these CEOs studied operations in school; only some of them did. They got on the job training and thus took time to learn the concepts of Operations Management.

Importance of Operations Management

The field of operations management has gained increased recognition due to public awareness of

the success of Japanese manufacturers. As a result, many businesses have come to realize that the operations function is just as important to their firm as finance and marketing. Also firms have realized that in order to effectively compete in a global market they must have an operations strategy to support the mission of the firm and its overall corporate strategy.

The concepts of efficiency and effectiveness of any organization revolve around the operations management. Managing operations is all about making the processes work right! Running the processes involves great degree of integration of organizational resources to get the product in the right place in the right way keeping in view the cost and time considerations.

No single innovation promises an ever lasting competitive advantage for an organization. The secret to success lies in creating such a robust competitive advantage which has its roots in the processes; the processes for use of new technology, the process for using resources, the process for utilizing the current resources to generate new ones and above all the process for creating value. These all can be achieved only if the operations are managed in a way which makes a difference and creates the concept of differentiation right at the shop floor. This is what Toyota Motor Corporation is known for! The history of Toyota is lined by continuous improvement in quality. Right from the founder of the company, Kiichiro, there has been a great emphasis on operations management and

quality control systems.

Operations management supplements all the other activities of an organization. Research and development activity is focused on the developing a product that is the need of the customers and has enough market potential. The finance department is concerned with the cost considerations and can make projected statements or forecasts about the productions in terms of fixed cost, variable cost and overhead costs. Human resource department has got the task to hire people who have the appropriate knowledge, skills and abilities to meet the organizational objectives. It is the operations department which has to integrate all these functions. Making the product according to the proposed specifications, in the provided budget by utilizing the best of capacity of land, labor and machinery to produce a product which can make it easier for the marketing people to target the desired market segment is the task of operations' people.

Below are few salient features indicating the importance of Operations Management for an organization. Also a comparison is submitted between increasing the sales, reducing the finance cost & reducing the production / operations cost. Comparison ends with a note that companies profit increases maximum when company focus on reducing the operations cost rather than increasing sales or reducing finance cost.

- Operations is one of the three major functions (marketing, finance and operations) of an organization.

- Operations affects the companies' ability to compete. Offers a major opportunity for an organization to improve its productivity and profitability.
- Operations is a costly part of an organization
- Nearly half of the employed people over the world have jobs in operations.
- The Operations function is responsible for a major portion of the assets of most organizations.
- The concepts, tools and techniques of Operations Management are widely used in managing other functions.

	Current	Marketi ng Option Increase Sales 50%	Finance Option Reduce Finance cost 50%	Operatio ns Manage ment Option Reduce Operatio ns Cost 20%
Sales	100000	150000	100000	100000
Input Cost	80000	120000	80000	64000
Gross Margin	20000	30000	20000	36000
Finance Cost	6000	6000	3000	6000
Net Margin	14000	24000	17000	30000
Taxes @ 25%	3500	6000	4250	7500

Margin after Tax	10500	18000	12750	22500
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* Input cost considered as 80% of sales, Finance cost as 6%.

Operations Management in the Smaller Organizations

Operations management is just as important in small organizations as it is in large / OEM ones. Irrespective of their size, all companies need to produce and deliver their products and services efficiently and effectively. However, in practice, managing operations in a small or medium size organization has its own set of problems. Large companies may have the resources to dedicate individuals to specialized tasks but smaller companies often cannot, so people may have to do different jobs as the need arises. Decision making can become confused as individuals' roles overlap. Small companies may have exactly the same operations management issues as large ones but they can be more difficult to separate from the mass of other issues in the organization. However, small operations can also have significant advantages.

References:

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