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# 1 OPERATIONS STRATEGY: INTRODUCTION

## THIS CHAPTER DISCUSSES...

Organizational levels  
and their strategic  
roles

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## SUMMARY

To provide the context in which an operations strategy is developed and implemented, this opening chapter

- Highlights the key role of developing an appropriate strategy in an organization
- Outlines the relationships between corporate/business objectives and strategy
- Explains the levels of strategy (corporate, business unit and functional) within an organization, the respective responsibilities for their development and how they relate one to another
- Explains how the day-to-day and strategic purposes of using the key resources of time and money differ

Managing business organizations is difficult due to the complexity and dynamics that characterize the task. The dynamics are driven by the changing nature of demand, the actions of competitors, the decisions and requirements of customers and the potential uncertainties of supply chains. The complexity comes not from the technical dimensions of the business but the number of dimensions involved, their changing nature and the interfaces between and across them. This level of difficulty is further enhanced by the need to set business objectives going forward and to agree and implement strategies to achieve these as well as managing the organization in terms of the ongoing and demanding day-to-day tasks. This book concerns one key aspect of these tasks. It discusses and explains how to develop and implement a strategy for one of the functions within a business, that of operations. This introductory chapter is designed to help set the context in which an operations strategy sits and to highlight some of the key features that need to be recognized and taken into account in its development.

Given the difficulty of undertaking this strategy task and the sizeable contribution it will typically make to the success of the business, then the outcomes need to be based on an analysis of relevant data and ongoing, in-depth discussions within the business about the issues and alternatives involved and progress

being made. This requires each executive involved to think as a business person first and a functional expert second. Furthermore, clarity of discussion and relevance of insights are essential, and one of the key skills that executives need to develop. This clarity has its base in using words and data with shared meanings and common understandings. As with the other aspects of managing a business, if the words and concepts used to discuss and agree options have more than one meaning then the discussion and outcomes do not, in fact, have meaning. They lead to apparent agreement, future misinterpretations and a lack of shared outcomes. Given the complex nature of managing a business and the inherent uncertainties and dynamics highlighted earlier, then executives need to develop the skill of being clear and consistent in the difficult process of forging a strategy. They also need to clearly explain their own function's perspectives, opportunities, limitations, potential investments and timescales while ensuring that they understand these same key dimensions for the rest of the business.

Throughout the following chapters this clarity will be explained and illustrated, and will become a key takeaway in your greater understanding of and ability to contribute to strategy development and implementation in your own organization. To start this process, the rest of the chapter introduces some key background perspectives and positions the content of the book within a business and within the role of the operations management task.

## **ORGANIZATIONAL LEVELS AND THEIR STRATEGIC ROLES**

As businesses grow the roles involved in designing, selling and delivering the services and products provided and accounting for the outcomes are separated out into functions as a more effective way of managing the larger business. Similarly, with further growth it will make sense at some point to run the total enterprise as more than one business. At this point the organization would now comprise three levels – corporate, business units and functions.

However, the various functions make up the business unit and the different business units make up the corporate whole. Although they have been separated out as explained above, they comprise the same whole and, therefore, the strategic direction and tasks to be undertaken need to be linked within one level and between one level and the next. Before we discuss how this works let's explain objectives and strategy and how they interface. Objectives are the targets that are set going forward while strategy is the way(s) of achieving them. And, note here that strategy is not an expression of importance alone but is a statement of how the business objectives are to be achieved. As a term, therefore, it should only be used when discussing or stating the actions and developments that concern how a function would deliver its part in meeting agreed business objectives.

As with the organizational tie-up of one level to the next, corporate objectives reflect and are a composite of the objectives of the different business units. Similarly, a business unit's objectives reflect the opportunities that are available, what the different functions can deliver and the investments and timescales involved. Now let's look at the role within these three organizational levels in setting objectives and agreeing relevant strategies to achieve them.

- 1 **Corporate level** – reflects the combined forward look of all the business units, discusses and determines the priorities between them and sets the objectives for the total organization. Discussions will take into account the proposals by each unit and the outcomes may, in fact, change the objectives initially put forward by one or more of the businesses. Each business will then be tasked with meeting its part of the total corporate objectives. The executives responsible for developing a corporate strategy will be the chief executive officer (CEO) of the whole organization, the CEOs of each business unit and possibly some specialists.
- 2 **Business unit level** – reflects the forward look of a business unit. The executives responsible will be the CEO of the unit, the heads of the different functions and possibly some specialists. The discussion will take into account a range of options and the forecast outcomes of these, the associated investments and timescales involved and the views and perspectives of all the functions. As at the corporate level, the discussion on objectives and strategy will be iterative in nature, with what is achievable and the investments and timescales involved tempering agreed outcomes. As explained above, the agreed objectives may then be modified by subsequent discussions at the corporate level.
- 3 **Functional level** – embodies the actions (strategies) proposed by functions to meet the business unit objectives and includes investments and timescales.

The content of this book concerns the operations function within a business unit. It reviews the role of the operations executive in, and the approach to, developing an operations strategy, and the contribution in agreeing the objectives and strategy for the business unit as a whole. The corporate level discussions and outcomes are the subject matter of other books.<sup>1</sup> Where corporate strategy issues are included here it is to help set context for the business unit and functional levels of strategy.

A business unit sets objectives going forward that can range from financial targets to improving its performance on chosen dimensions of its corporate social responsibility programme. While these objectives are set by the executive group at the top of a business, they are delivered by the various functions that make up the business as a whole. Operations is one of these and, as with other functions within a business, it is tasked with providing those aspects of performance for which it is responsible and with developing a strategy to accomplish these and deliver the results.

This short introduction to 'operations strategy' is designed to set the scene and establish the context for what follows. It is intended to help separate your understanding of the task facing functional executives into its components parts and, in that way, to help clarify the content of each and highlight the boundaries between them.

## **BUSINESS OBJECTIVES AND STRATEGY**

Before addressing the executive roles within an organization let us first look at the components of the strategy task.

**Business objectives** – are set by the business unit as a whole and typically take the form of financial targets (such as the level of sales revenue, profits and return on investment) and non-financial targets (such as aspects of its corporate social responsibility programme).

Within the process of setting objectives, functions such as marketing and operations would be involved in agreeing the targets for the business unit.

**Functional strategies** – within the business-unit strategy process, each function will work through the detail of the targets set, what can be achieved and how it would be achieved, while identifying any additional resources the function would need to meet the targets. As you would imagine, the process of setting targets and agreeing strategies to achieve them is an iterative process as executives work through the detail and assess the outcomes. You will see in the following chapters that this task moves from business unit-wide outcomes to functional detail and back with all relevant executives involved in assessing and choosing from alternatives, testing proposals, challenging forecasts and examining outcomes.

## EXECUTIVE ROLES – DAY-TO-DAY AND STRATEGIC TASKS

As businesses grow, activities are separated out into clusters of similar tasks. These are then managed as functions, which provides a workable structure to handle the growing complexity that comes with larger organizations, including the opportunity for relevant staff to specialize in one part of the business.

Within each of these functions senior executives have two sets of tasks:

- **Day-to-day** – to manage and control the range of activities that fall within their area of responsibility as well as the crossovers between functions. Also known as the ‘operational’ task.
- **Strategic** – to be a part of the executive group that determines the business objectives going forward and then develop an appropriate, functional strategy in line with these decisions.

The tasks that make up the day-to-day role within operations are covered by the content of books with the appropriate title ‘operations management’.<sup>2</sup> In simple terms this concerns managing and controlling those tasks within the operations function that are necessary to provide the services or make the products and deliver them to customers and will range across the whole supply chain. However, there is an equally essential role that concerns developing an operations strategy to support the needs of agreed markets and, although part of the same executive task, this role is different in orientation. For operations management:

- The day-to-day or operational role is to manage and control the various, wide-ranging tasks involved in providing services and making products and to do this by the efficient management of these tasks and by bringing about developments and improvements.
- The strategic role is to contribute to the debate about and agreement on the non-financial and financial objectives to be addressed by the business. Regarding non-financial targets, operations would develop a strategy (the actions to take and the investments and timescales involved) to accomplish those for which it was responsible. Regarding financial objectives, operations would be party to agreeing the markets in which to compete in terms of retaining customers, growing market share and entering new markets. Operations then needs to develop and invest in the delivery systems and infrastructure to provide those competitive dimensions for which it is solely or jointly responsible, for example

price and delivery speed. In this way, operations' capabilities (such as people skills, delivery systems and processes) are guided by strategic requirements (to deliver the needs of agreed current and future markets) and so help provide competitive advantage and contribute to meeting the objectives set by the business as a whole.

Thus, while day-to-day or operational tasks are built on internal efficiency, strategic tasks need to be oriented to external effectiveness. Put another way, the day-to-day role is doing things right and the strategic role is doing the right things.

## USE OF RESOURCES

Undertaking either strategic or day-to-day tasks involves using key resources in terms of time (staff, systems and processes) and money (costs and investments). It is the reasoning behind the decisions and the end goals served that determine whether the use of resources is day-to-day or strategic:

- The use of resources is day-to-day if they are used to deliver services or make products, schedule customer requirements, record activities, monitor costs, supervise staff and manage the daily tasks of a business. Similarly, improving activities, procedures or systems to reduce costs by making these areas more efficient is also a day-to-day task.
- The use of resources is strategic if they are used to maintain or improve a function's performance so that a service or product more adequately meets customer expectations or gives it an advantage over its competitors (and thereby influences a customer's decision to buy).

Let's look at an example of where the agenda concerns using resources to reduce cost. The intent will be:

- **Day-to-day** if the benefits of the cost reduction are retained in the business and used to improve internal efficiency or swell profits
- **Strategic** if the benefits of the cost reduction are passed on to customers in the form of a reduction in price and in that way make relevant services/products more competitive on that dimension.

## DEVELOPING THE MANAGEMENT COMPETENCES TO UNDERTAKE THE STRATEGIC ROLE

When executives first begin to work in organizations they typically establish themselves within a particular function that matches their training and orientation. Over time they progress in their careers, in part through gaining the necessary expertise in managing the day-to-day tasks assigned to their role. In this way, executives accumulate this necessary expertise over time and, in a somewhat essentially incremental way, build up their competences to handle this part of their job.<sup>3</sup>

As they progress to higher levels in an organization, executives need also to recognize the demands of the strategic role that their position increasingly entails and purposefully develop the appropriate set of skills to successfully discharge this key part of their job. This book is intended to help executives in this essential part of their development.

## REFLECTIONS

This short introduction sets the context for the book and highlights some key issues. It is useful and appropriate to summarize these here

- 1 Whereas the skills and expertise required to undertake the day-to-day tasks are built up over time, the skills to complete the strategy tasks are different in both content and orientation. These need to be recognized and purposefully developed by executives as they move up the organization and take on these additional responsibilities.
- 2 To effectively develop strategies to meet agreed business objectives there needs to be clarity by having shared definitions of the data and language used by and within the executive group. Although strategy development is a critical task, it is one where often the level of clarity is low and the debate is in danger of being characterized by generalized discussion and conclusions. Consequently, executives need to ensure that the debate uses clear language that is based on shared meanings and understandings. In this way, clarity and rigour will characterize both the discussions and the outcomes.

Now take a look at Case 1.1.



### Case 1.1 – Giordano

Giordano International Limited is a Hong Kong (HK)-based retailer of men's, women's and children's apparel and accessories. Founded in 1981, it now employs over 8,000 staff; with 2,400 outlets in more than 30 countries and current sales of HK\$5,381 million (see Case Figure 1.1).

Year	Sales (HK\$ million)	Net profit margin (%)
2005	4,413	4.7
2008	5,048	6.6
2012	5,673	14.6
2014	5,548	7.4
2015	5,381	7.9

**Case Figure 1.1** Giordano – sales revenues 2005–2015

Originally founded as a wholesaler for HK-based manufactured clothing going to the US, it scaled back this part of its operation in the mid-1980s to set up its own retail shops in Hong Kong. Initially selling men's apparel, it soon expanded to selling discounted casual unisex apparel.

Giordano's success is based on its well-trained, frontline customer service staff that have always focused on exceeding customers' expectations in terms of merchandise

and service. As part of this, it has initiated many additional services such as complimentary alterations to clothing, a global exchange policy and a customer service toll-free hotline. In 2007 it launched its global, cardless loyalty programme where the mobile phone number becomes a person's membership number, and the programme now has over 8 million members worldwide. The company adopts a mix of product and thematic marketing as a way to build and maintain its brand name. These campaigns change frequently and include celebrity endorsements, cross-over programmes with partner organizations (for example, a range of Monsters University-designed apparel when it teamed up with Disney-Pixar in 2013 to celebrate the launch of the Monsters University movie), in-store activities and selected ranges of merchandise.

In 2005 the company formally published its corporate social responsibility (CSR) policy statement. It is committed to maintaining and developing this programme throughout all its retail outlets as well as the other parts of its organization. The company highlights a number of key areas including ethical sourcing, employee relations, environmental protection and community involvement.

#### Questions

- 1 What are the company's objectives as outlined in the case, and which functions would be responsible for delivering them?
  - 2 Given the data in Case Figure 1, what are some of the possible strategies open to the company going forward?
-

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