

Strategic Management for Competitive Advantage
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Lecture - 37
Business and Operational Excellence

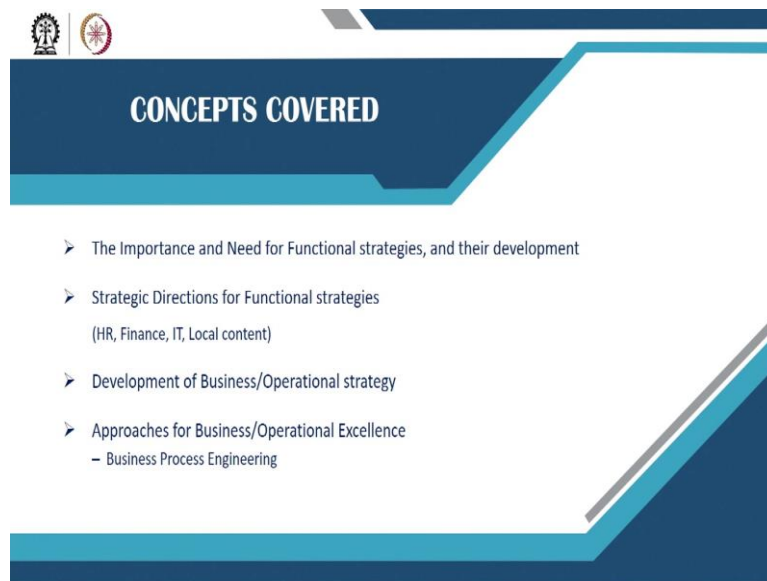
Welcome to the strategic course management for competitive advantage. In the last few sessions, we have covered the implementation of strategy in that we have covered strategy leadership, strategy and structure, then organisational change, and then the management issues related to change and the process of change.

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Today, we will be covering a new module, which is functional strategies. So, what are these functional strategies and, what are their elements, why do we need them? We will be covering this in this session.

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So, the concepts covered in these sessions are the importance and need for functional strategies, and their development will then cover strategic directions for functional strategies. Then we will also discuss the development of the business or the operational strategy, which is a functional strategy. Then we will illustrate the approaches for business operational excellence.

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To start with, let us see what the importance and need for functional strategies are. That corporate strategy we were talking about all along sets the overall direction and creates a roadmap for the organisation to achieve its long-term goal and objectives. Now, how does this has to be accomplished? These are to be accomplished through some strategic projects,

programs, and initiatives; what are the Strategic Projects programs? These belong to some functional groups. So, through these functional groups, they will be implementing these projects or initiatives.

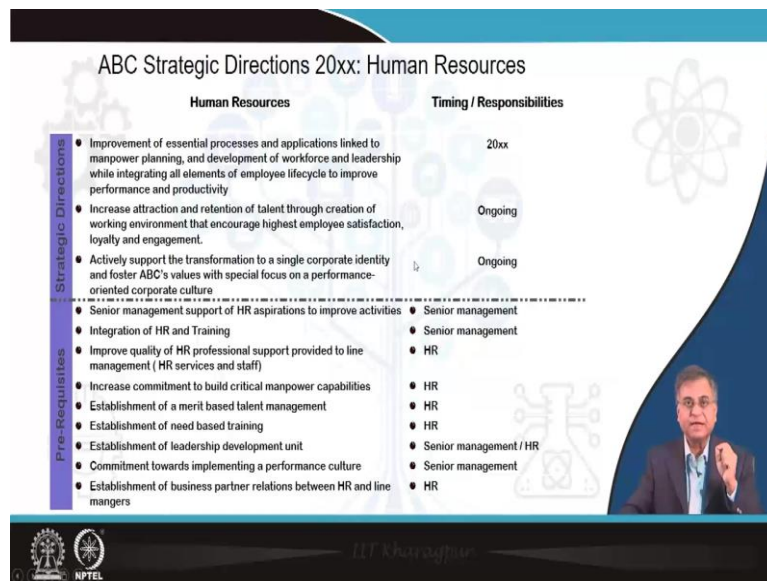
So, that is why so, what is required is the alignment of functional strategies with the overall static corporate strategy of the organisation. So, these two strategies must be dovetailed. So, that is the need to accomplish the corporate strategy. So, let us see how you develop these functional strategies. Functional strategies belong to different groups HR, finance, IT, production, operations, marketing, supply chain management, R&D, and engineering, these are all functional groups. So, those strategies of those functional groups you must develop.

So, we will be for that development what do you need? The first thing you will need that the strategic directions, that strategic directions will be given by the corporate level is the form it will spring from the corporate strategy with those directions, each group will develop their long-term plans it may be 20 years or 30 years long term plan, and it has to be ducted suppose now, you are producing your organisation are producing 100,000 cars per annum.

So, you are trying to your strategy is doubling that one. So, to double that one in 5 years or 10 years, a timeframe is given. So, what you need, must ramp up the production and ramping up the productions that are the operations and production strategy must be made. And not only that will require the supplies of materials, raw material supplies, and then marketing. So, you have to develop the supply chain management procurement of materials, those strategies for the next 10 years; then the marketing departments have to see the market and the dealer network then all those other intermediate areas and work they have to develop that, then the engineering department has to ramp up their capacity to do that, the different departments have to ramp up.

So, these are the functional strategies to attain doubling the production level that is the corporate strategy. So, you need a strategic direction first. So, what do these strategic directions look like? I will show you some real-life strategic directions that have been used in one company.

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So, these strategic directions look like this; this is a company ABC company. I cannot reveal the name of strategic directions for this year's HR for HR which has to be their production. They're ramping up to one and a half times within 10 years. So, strategic directions are given for the headquarters' improvement of essential processes and applications linked to manpower planning, development of the workforce, and then leadership while integrating all elements of the employee lifecycle. So, increase attraction and retention of talent by creating a working environment that encourages the highest employee satisfaction, loyalty, and engagement. So, these are the directions given. So, timing and responsibilities are also given. Also, there are prerequisites like that for any strategy to be successful, you need some pre-fulfilment of prerequisite that conditions necessary conditions must be fulfilled.

So, these preconditions are also given, senior management support of HR aspirations to improve activities, integration of HR and training, the improved quality of HR professional support provided to the management, then increased commitment to building critical manpower capabilities. So, several prerequisites are also given. These are the necessary condition for the success of the plan within the strategic directions HR will now develop the next 20 years or 10 years strategic plan which will support the corporate strategy.

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ABC Strategic Directions 20xx: Finance

	Finance	Timing / Responsibilities
Strategic Directions	● Provide guidance and analysis for Planning on optimal funding/capital allocation	Ongoing
	● Optimize existing practices to support value addition of ABC	20xx
	● Standardize and optimize balance sheet related activities; focusing on working capital/fixed asset management	20xx
Pre-Requisites	● Capable, motivated and loyal workforce with high aspirations to perform	● HR
	● Implementation of advanced financial tools (also in subsidiaries), establishment of IT support, unifying chart of accounts	● Finance, IT
	● Expertise in advanced corporate finance, balance sheet management and long-term financial planning	● Finance, HR
	● Analyses tools on long-term funding, weighing forecasted incomes and CAPEX	● Finance

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Similarly, this is finance. So, for the next 20 years, finance that strategic directions are given provided guidance and analysis of planning or optimal funding capital allocations, optimise existing practices to support value additions of ABC company so, standardise and optimise balance sheet related activities focusing on working capital and fixed asset management. So, you give your strategic direction based on this; this finance will develop their strategic plan and prerequisites are also given these are the prerequisites, and these are the responsibilities for meeting those prerequisites. So this way strategic directions are given for each functional group. I am showing you just a few representative ones.

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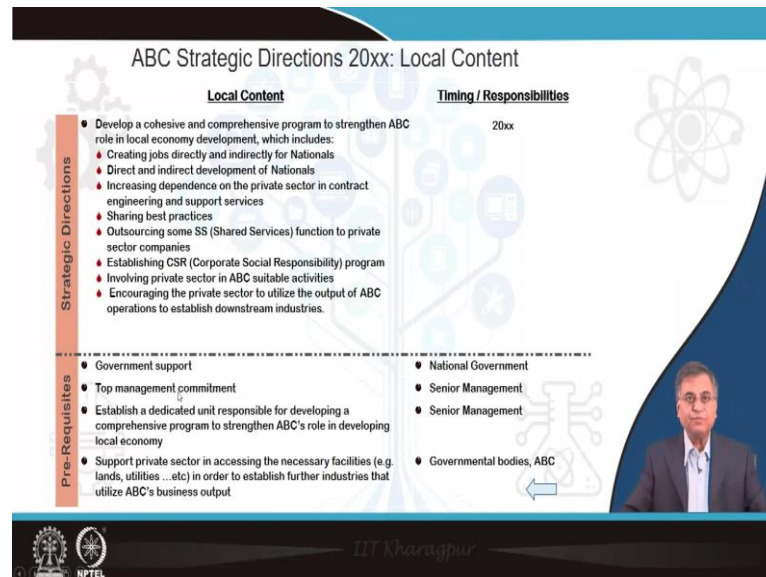
ABC Strategic Directions 20xx: Information Technology

	Information Technology	Timing / Responsibilities
Strategic Directions	● Pursue the integration of common systems to ensure optimum utilization of IT and establish a global information architecture model with focus on strategic IT activities/services	20xx
	● Achieve high efficiency for the non-core IT activities by standardizing, and applying an optimum services delivery model	Ongoing
Pre-Requisites	● Management support and commitment as well as devoted budgets	● Senior Management, Finance
	● Capable, motivated and loyal workforce with high aspirations to perform	● HR
	● Managing complexity due to the diverse nature of existing systems and applications	● IT
	● Build expertise in shared services, standardizing and outsourcing services	● IT, HR

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Similarly, this is the information technology that will develop the strategic direction for them, pursue the integration of a common system to ensure optimum utilisation of IT and establish a global information architecture model with a focus on strategic IT activities and services. So, similarly, prerequisites are given.

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Similarly, I will show one more this is for the local content, like this is nothing but local content is the CSR corporate social responsibilities. So, nowadays, it is very important that when large organisations cater to society these expectations of Society for this CSR are gaining momentum. So, you must comply, and this is now mandatory CSR are mandatory for the organization. We will discuss that in the future module. So, these are the strategic directions. So, having all these strategic directions for different groups, you develop your functional strategy strategies.

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Functional Strategies

- Importance and Need for Functional strategies
- Development of operations strategy
 - Strategic Directions
- Approaches for Business/Operational Excellence for competitive advantage

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So, these are the functional strategies you develop this way. So, this is clear. Now, next, we will be discussing four approaches for business. Now then, I will also discuss with you, after getting the strategic directions, how you develop it. I will give you only one example of operations strategy.

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Operations Strategy

Illustrative

The diagram shows three interconnected boxes: **Corporate Strategy** (top), **Market Requirements** (right), and **Competitive Strategy** (bottom). Arrows indicate a cyclical relationship between them. The **Corporate Strategy** box states: "Operations strategy should interpret the corporate strategy". The **Market Requirements** box states: "Operations Strategy should provide value to for customer needs". The **Competitive Strategy** box states: "Operations strategy should interpret the competitive strategy".

- Production/operation process → firm's majority assets
- Typical operation decisions

The slide features a background graphic of a tree with various icons (gears, atom, hard hat, circuit) and a small video inset of a speaker in the bottom right corner. The footer includes the IIT Kharagpur and NPTEL logos.

Then similarly, you can make out you can develop the other functional group like marketing, engineering, risk management, R&D, and supply chain management, you can develop. Since I have just for illustrative purposes, I am giving you the operation strategy because you know why? Because production and operations consume around major assets of an organisation.

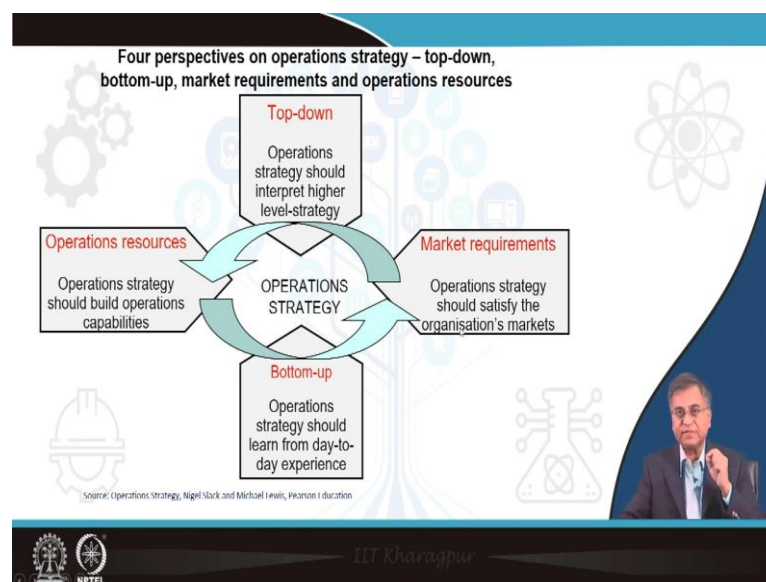
For a manufacturing company and all consume around the plant and many assets all consume around 70 per cent of the corporate capital of the organisation.

So, it is very important. That is why I am just for illustrative purposes; I will go through how to develop operational strategies in a few steps this is this operation strategy must follow the corporate strategy, and there is an interaction between corporate strategy from the top down. I will show you the next slide. So, here is the competitive strategy operations stability should impact the competitive strategy for this and other two parts are this operations resources, this is the operation strategy depends on the resources and its capability of the organisations.

And what is an operational strategy that must reconcile with the marketing requirement because the marketing requirement is your satisfying the external environment that is the market? So, what is the market need? Based on that, your operations capability should match. So, we will be talking about more about this than typical what are the typical operations decisions in an operation strategy you take? Can you tell me some of the operational decisions that are very important for the operation strategy?

I will show it to you in the next slides; it is mostly the capacity related to capacity, related supply network, related to the operational resources you are having bundle up resources, tangible, and intangible resources and also the delivery capability of the operations group.

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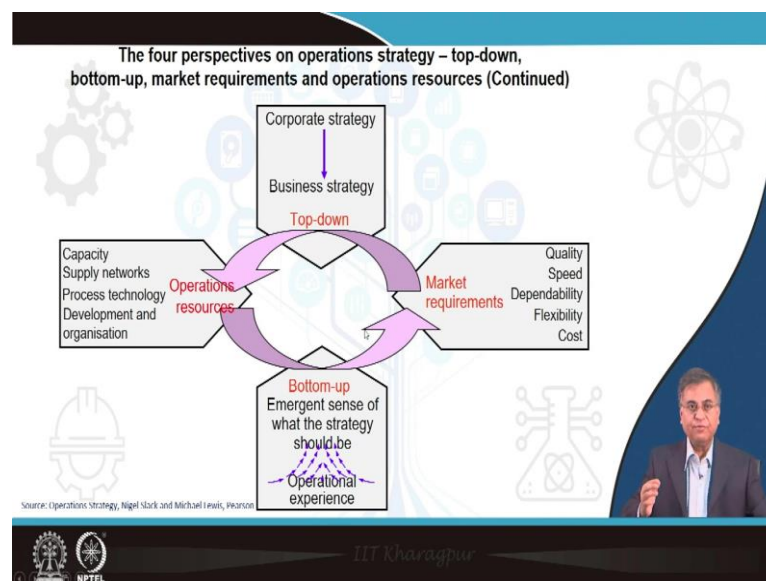


Anyway, I will further discuss this; if you go through this, see there are four perspectives on operation strategy, one is top-down and the other is bottom-up. These top-down bottom-up, what is that? Operation strategy must interpret the higher-level strategy, which means, it

flows from the top down from the corporate strategy, it comes to the business strategy, from there it comes to the functional strategy that is operation strategy and sometimes it also bottoms up approach is followed when it is followed. It is that strategy is learned from day-to-day experience. Suppose you are doing the same work and all, and you gain certain experience, and you can do it better. You can do it innovatively. So, that should be integrated with your strategy for a competitive advantage.

So, the bottom-up approach also contributes to the operation strategy. Still, the main reconciliation, like Operation resources, that operation strategy should build operation capabilities like what are the capabilities, that is the delivery capability that is your skills, your people skill sets and all. So, we have seen in the resource-based viewer form that all organisations have a different bundle of resources, that is, their talent, skills, management style, experience, and delivery capability. All these things are necessary, and this is necessary for meeting the market requirement; what is the market requirement? That is, the operation strategy should satisfy the organisation's market and the market share you want to take it.

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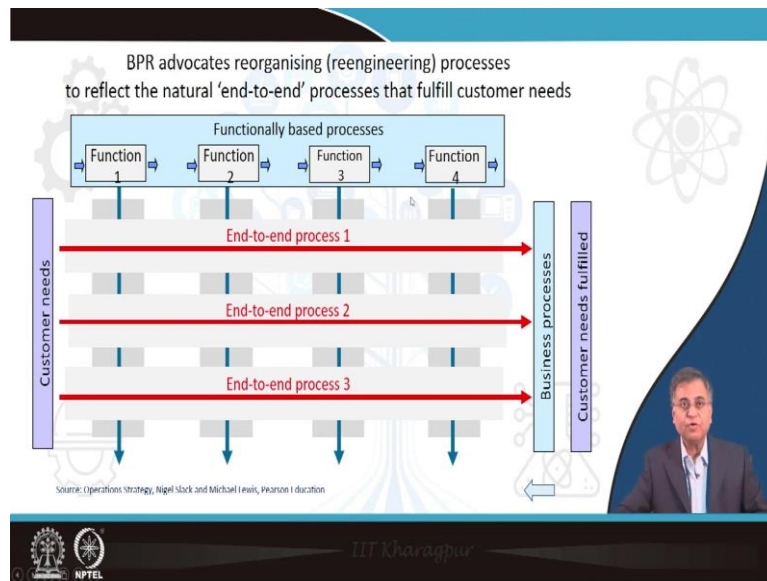
So, further, if you wanted to see that, as I told you, the top down is the corporate strategy bottoms business strategy, and then the operational strategy and operations resources required are what capacity. So, you must decide on the capacity planning and the plant's capacity. It should be such that it should not be idle capacity should be utilised to its fullest because, if you put in a higher capacity plan, then you are underutilised. Your capital costs become more, but if it is under capacity, you will be losing the market share losing the opportunity.

So, the capacity utilisation or also the utilisation suffer your capacity that also determines the cost of your production then supply networks. So, you got to have a very smooth and strong supply network. So, if that work cannot stop then there is process technology. Whether should you go for state-of-the-art process technology or conventional technology or the technology should be such that it should be flexible or it should be less costly technology or high-cost technology many things are involved.

Another is that development and organisation mean you develop the capabilities of the people and capabilities of the organisation to get that level of resources you want it to build. These are the operational resources, and these operational capabilities shall match the market requirement; how do you specify market requirements? Market requirements performance there are some performance indicators for the market requirement for your product, those are quality and speed; quality is one of the most important than speed, how fast you can deliver, and how can request meet the customer's expectation. Then dependability how reliable you are in giving the products and services desired by the customers. The flexibility now is the changes in customisations and all changes in requirements of the demand the customers required varieties of product.

So, how flexible is your production system, and how flexible is your operation resource capabilities for matching varieties of product and varieties of service then and lastly, it is the cost which determines if you have overall cost leadership cost is very sensitive in that if you have differentiation cost is not that sensitive. So, these have to be matched, that is, for an operation strategies requirement you develop like that.

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Functional Strategies

- Importance and Need for Functional strategies
- Development of operations strategy
 - Strategic Directions
- Approaches for Business/Operational Excellence for competitive advantage
 - Business Process Engineering

Business/Operational Excellence

- Approaches construed as substitutes for strategy

What is Business Process Reengineering (BPR)?

- Difference between BPR and TQM, Lean Operations, Six Sigma
- Elements of BPR
- Criticism of BPR

BPR is defined as fundamental rethinking and radical redesign of core business process to achieve dramatic improvement in critical, contemporary performance measures such as cost, quality, speed and services (Michael Hammer clarify)

Now, this is I will show you one operation strategy. Similarly, you can do different functional strategies, as I mentioned to you before. Now, another thing we will be discussing is business and operational excellence. That these we have shown, you know, this one, this, approaches for business and operational excellence for competitive advantage. How do you go about getting business excellence? For that, we will be talking about business process engineering, and there are many approaches we will be talking about those. let me come to this.

So, for Business excellence or operational excellent, some organisations call the same approaches as the substitutes for a strategy that they; you must have heard the TQM Total quality management, the lean concept that is lean operations, then your six sigma BPR that is business process reengineering, these are essentially some approaches, but it has got so much of popularity that so, much of popularity that some people some organisations think these are the substitutes for strategy.

This is not to be construed as a new approach because these are. You must know that the 1980s and all they swept the global market TQM, lean concepts, the '90s came the BPR business process reengineering, six sigma's and all these are still popular, but these approaches help you to attain business excellence, excellence in operational strategies that helps you. So, we will not go for all of these, this total quality management, six sigma and then lean operations. We will not go through all this because it is the purely operational strategies domain.

But we will talk about BPR business process reengineering because it has wider ramifications for business process reengineering. So, what is business process reengineering? So, Business Process Engineering came into the picture in 1992 by when Michael Hammer and Champy their book on Business Process Engineering came in their article 1992, Harvard Business Review, automate or obliterate; these had come, and it shook the world, and BPR took the world by storm, it was very hugely popular organisations, and all the large and the big organisations of the world were pursuing these BPR for different reasons.

So, what is this BPR? That BPR is, as Michael Hammer and Champy defined, it is the fundamental rethinking and radical redesign of core business processes to achieve a dramatic improvement in the critical and contemporary performance measures such as cost, quality, speed and services. I will write it down for you, I will write it down for you, and that will be helpful to you. So, BPR is defined as the fundamental rethinking and radical redesign of core business processes to achieve dramatic improvement in critical contemporary performance

measures such as cost, quality, speed, and services. This is Michael Hammer, and this is the definition given by Michael Hammer and Champy.

Fundamental rethinking is not a small thing; fundamentally, rethinking is a radical redesign. It is not a small incremental change; it is a radical change of core businesses; this is dealing with core business processes, not the peripheral and all core business processes, to achieve what dramatic improvement means; it is not a 10 per cent improvement. It is a 10-fold improvement in critical contemporary performance measures such as cost, quality, speed and services.

So, and if you see now the next point that I was having, like what I was about to tell you, the difference between BPR and TQM, Lean operations, and Six Sigma. This TQM, Lean, Six Sigma is a philosophy, and it is a continuous process, and those are incremental improvements. In contrast, BPR is a dramatic improvement means it is 10-fold, not 10 per cent improvement, dramatic, and it is a radical redesign; it is not incrementally that you are continuously improving, radically you are changing, it is a discrete thing, not continuous, and you come up with a bang.

So, which one will you take? So, firstly it is preferred that you go for BPR, then after that, you go for continuous improvement, which is better. So, we will discuss how you do this fundamental rethinking and radical redesign. How do you do this? So, you must know what the elements of BPR are. The elements of BPR, as I told it is, you see, this is a fundamental rethinking no so. BPR is customer-led, not employee-led, and all it is the customers they need. The customers lead it, and you satisfy their needs.

So, this is the customer lead. Now, if you see this BPR is an end-to-end process, it is not that function one function in traditionally how does it go?

Traditionally, you go functional-based processes function in an assembly line and all any production line or transformation any services and all also. Function 1, you finish that, then it is the input of function 2, then after function 2, it goes to function 3, function 4, and goes on to the end put part. But BPR is what are the customers' needs and business process you do its end-to-end process and customer's needs fulfil. Customer needs and needs fulfil that also you do this use these things are end to end are all come within this end-to-end process, and you do it that way. You do not wait for this function to give then. Only you start, and you have to keep an inventory that many things are there.

These are all integrated. How can you do that only? It must be a radical redesign, and how do you do those radical redesigns for that? What are the elements required? So, one thing is that BPR is not necessarily mean everything becomes new other things were there. You do away with the redundancy, which means if any efficient elements, processes or activities do not add value, you do away with that; that is the concept of lean operations. Then you also take the method study that scientific method studies and all what study methods study, you find out the elements and those elements are required you keep it.

It also takes that into account, and it also takes account of network planning and operations network. With that, you can have the relationships which are not required to be taken, and you do away with the charting process and statistical process; all these are they are integrated into this BPR process. So, now, what are the elements of this BPR?

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The elements of BPR

- Rethink business processes
(x-functional manner, organise work around total process, create value to customers)
- Strive for dramatic improvements
(disruptive technologies, IT)
- Have those who use the output from a process, perform the process
(can internal customers be their own suppliers, long thin process to short fat process)
- Put decision point where the work is performed
(merge control and action point as another type of supplier-customer relationship)

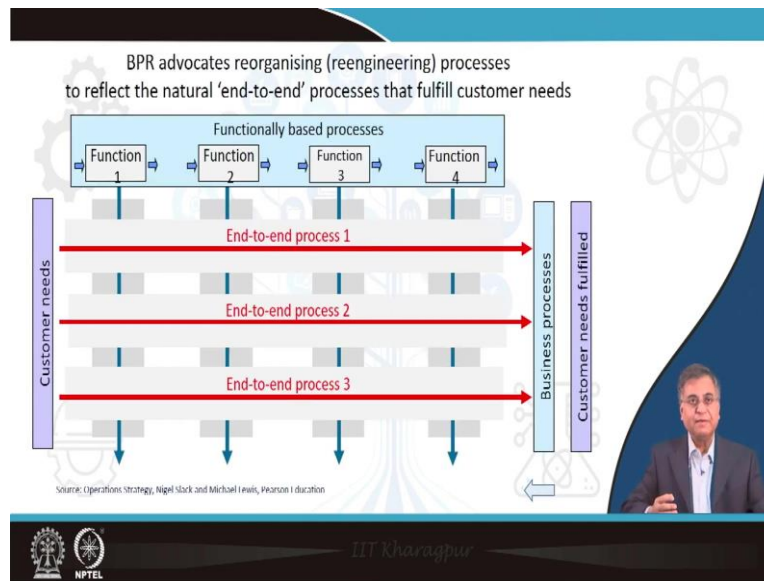
The slide features a background with a stylized tree of icons representing various business functions. In the bottom right corner, there is a small video inset of a man in a suit speaking. The bottom of the slide has a dark blue banner with the IIT Kharagpur logo and the text 'IIT Kharagpur' and 'NPTEL'.

Elements of BPR as I told you, we will talk about the criticism of BPR and the elements of BPR. As I told you, rethinking business processes is fundamental rethinking. So, it has to businesses have to be done cross-functional manner; you have seen that in function 1, function 2, and function 3, everything is integrated. So, in a cross-functional manner, you organise work around total processes, which, as you have seen in that picture, is the entire process. You are doing it not functional 1, function 2 and all total processes in your work is designed and create value for customers. Then it would be best if you had it. What is the second one? It would help if you had a dramatic improvement, and you strive for dramatic improvement; how do you do it? It is a disruptive technology that disruptive technology will give you a radical redesign.

So, this BPR worked because of this IT technology. IT technology was the driver for it, but here, you got to be very cautious. If you make an IT ERP, ERP is you can when you introduce the ERP SAP and all in an organisation you are; it is a dramatic redesign that you are doing some shorts or BPR there. So, that is enabled by the IT technology, that relational data and everything is there for the real-life basis. So, it is technology-driven, and that gives you dramatic improvement. Still, IT is an all you must be very careful suppose some inefficiencies and all processes are embedded in that IT system.

That it will be very difficult to identify, and once it is inserted into the system, it will be very difficult to debug it; your process must be changed. So, this is a dramatic improvement, then what you do have is those who use the output from the process perform the process; what does it mean? It means that each job that functions they an internal customer should be its supplier, that way, you are becoming less dependent on others. You can do the job much, much faster way than putting a decision point when the work is performed here; you merge control and action point merge that action points for those who are working, and you do away with the supervision and working. Supervision can be combined. If you motivate and empower them, that can be combined. Why should you keep it at another level for supervision? So, put the decision point on what the work is performed; these are elements of the BPR.

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- **Business/Operational Excellence**
 - Approaches construed as substitutes for strategy
- **What is Business Process Reengineering (BPR)?** ➡
 - Difference between BPR and TQM, Lean Operations, Six Sigma
 - Elements of BPR
 - Criticism of BPR

BPR is defined as fundamental rethinking and radical redesign of core business process to achieve dramatic improvement in critical, contemporary performance measures such as cost, quality, speed and services (Michael Hammer's clarity)

But BPR, as I told you, has much criticism also because any radical process radical change generally has much criticism. What is the main criticism of BPR? BPR one of the criticism is that it does not disregard rather; it disregards the human aspect. It is more emphasised from work, which is more emphasized on the activities, and the people are just a simple cog in the wheel and, it does not take the people's things very seriously. So, it is like the Taylorism sort of thing, like the scientific management of work division when it started in the early 19th century.

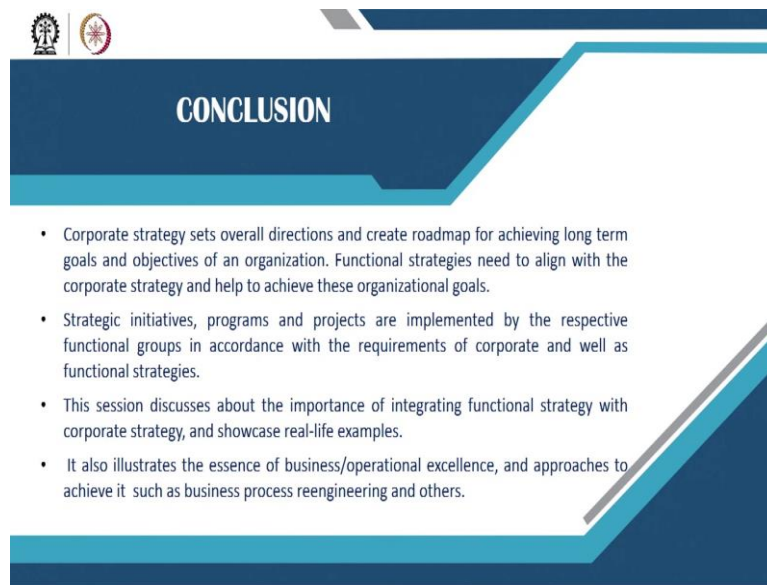
So, if that Taylor is its shorter thing, it views that, so, those things are not popular by the people. And another thing is BPR as a tool when it came and, it has many expectations, it has polarised the people of the two sides. The management or the top executives thought that

through BPR, they could reduce save too enormous amount of this, but that was not they did not get that much what they expected. And whereas the employees thought of it as an employment bloodbath because BPR is at the height of those BPR waves and all. Most companies pursued BPR as a tool for pruning the manpower strength of the organisation that is downsizing team around; they downsized by around 20 per cent of the people in each organisation.

So, it was a convenient tool for them to downsize and only that way they got some savings because it was a soft target. So, I must get the revenue and all the savings. So that was that is why so and employees also took it as a very employment bloodbath, and the top management also did not know their expectation was much higher. So these are some of the criticisms, and another criticism is that it is such a radical redesign that it disregarded the human experience and all. So, in the process of downsizing, they even downsized the core experience people because that was not required then. Still, what happens in that way, the core experience and all they lost it, and companies lost it and what happens in the future, whenever the turbulence environment comes that if those experiences are required, the company became vulnerable because they must get read of that, so it exposes them to vulnerability.

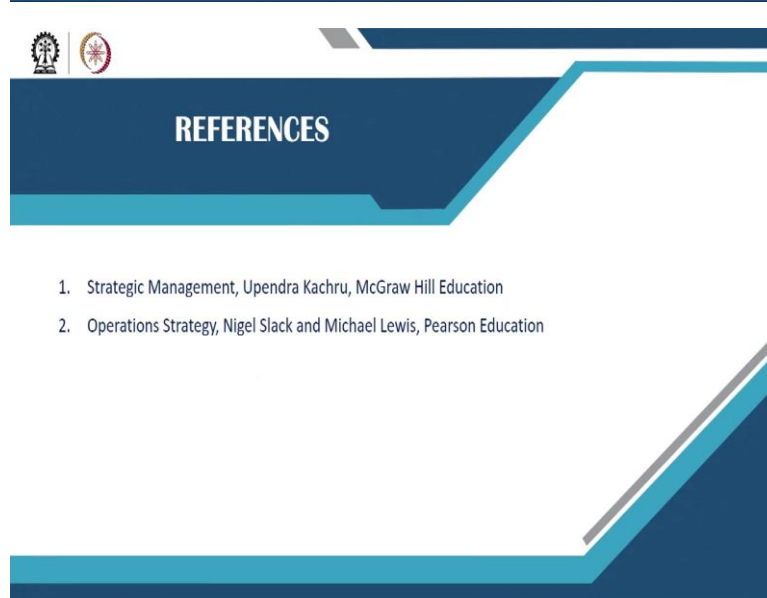
So, these are the criticisms of BPR. So, people and companies have also gained from dramatic improvements done on employing BPR. So, this way, you can use some of the approaches, I will keep it limited to BPR so you can have business excellence, and you can get a competitive advantage through this operational excellence and business excellence.

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CONCLUSION

- Corporate strategy sets overall directions and create roadmap for achieving long term goals and objectives of an organization. Functional strategies need to align with the corporate strategy and help to achieve these organizational goals.
- Strategic initiatives, programs and projects are implemented by the respective functional groups in accordance with the requirements of corporate and well as functional strategies.
- This session discusses about the importance of integrating functional strategy with corporate strategy, and showcase real-life examples.
- It also illustrates the essence of business/operational excellence, and approaches to achieve it such as business process reengineering and others.



REFERENCES

1. Strategic Management, Upendra Kachru, McGraw Hill Education
2. Operations Strategy, Nigel Slack and Michael Lewis, Pearson Education

Next, to summarise, what we have discussed in this session, we can corporate strategy, set overall directions and create a roadmap for achieving the long-term goals and objectives of an organisation. Functional strategies need to align with the corporate strategy and help to achieve these organizational goals. Then, we talked about strategic initiatives, programs and strategic projects implemented by the respective finance functional groups by the requirements of corporate and functional strategies.

In this session, we have also discussed the importance of integrating functional strategy with corporate strategy and showcased a real-life example of those strategic directions and all we have shown it. Then we have also illustrated the essence of the business and operational excellence and approaches to achieve it, such as business process reengineering and others

like TQM and all we have just mentioned. So, these are some references you can go through to enrich your knowledge. Thank you very much for attending.