

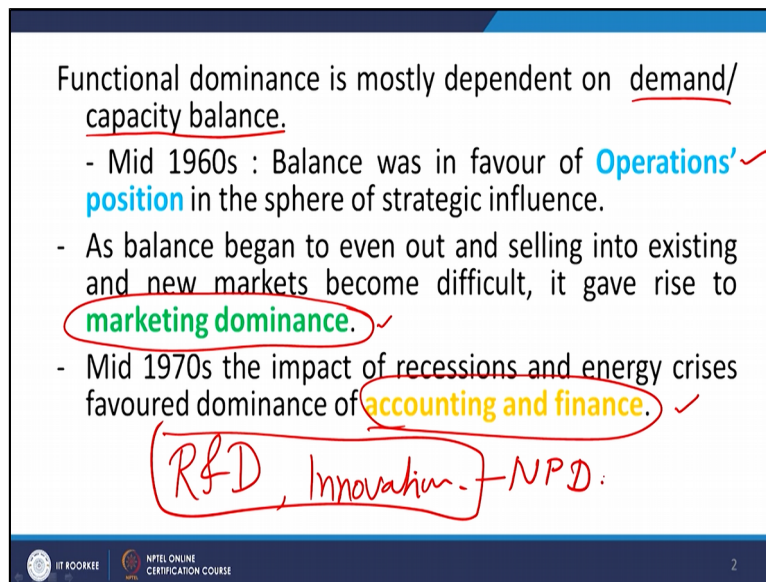
Manufacturing Strategy
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Module No. #01
Lecture No. #05
Functional Dominance within Corporate Strategy

Welcome, friends. This is the fifth session, of this course on, Manufacturing Strategy. We have discussed, in our previous sessions, about the importance of manufacturing, in wealth creation. And, how governments are focusing, on improving their manufacturing contribution, in the overall GDP of a nation. At the same time, we also discussed, that the functional roles can provide, very important strategic inputs, to the organisation's success.

Now, once we have understood, that how functional roles can provide, strategic input to the organisation, in this session, we will be focusing, on the point of functional dominance, within corporate strategy. We will see, that over a period of time, different types of functions, they dominated the corporate strategy.

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Functional dominance is mostly dependent on demand/capacity balance.

- Mid 1960s : Balance was in favour of **Operations' position** in the sphere of strategic influence. ✓
- As balance began to even out and selling into existing and new markets become difficult, it gave rise to **marketing dominance**. ✓
- Mid 1970s the impact of recessions and energy crises favoured dominance of **accounting and finance**. ✓

(R&D, Innovation - NPD)

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Now, if you go to middle of 20th century, the period between 1950's, the post second world war to 1960's, this was favouring the demand supply balance, in such a way, that operation was a dominated functional area, in the organisation. The functional dominance, is largely influenced, by demand capacity balance. So the, how demands and capacities of the manufacturing organisations are balanced?

Whether, the requirement in the market, and whatever capacities we have, in the manufacturing organisations, if these two things are in sync, then you will have a different types of dominance. If demand is more, and capacity is less, then you have a different type of dominance. If capacity is more, and demand is less, then you have a different types of dominance. So, in this particular point, the functional dominance we believe, is a function of the balance of demand capacity equation.

Now, in post second world war phenomena, the balance was in favour of operations dominance. And, largely, the operation was responsible, to provide higher efficiency, the higher productivity, of the organisations. And therefore, because we were having more capacities, and the demand was less, and as a result of that, it was very much important, that how to use those capacities, in a very strategic manner, so that, you can fulfil the requirement of the market, in a more efficient manner.

And, slowly and slowly, now this balance started moving, away from the operations dominance. And, we had a very typical type of situation, that all through the globe, industries started growing. And, the globalisation phenomena, came into existence. And, though demand also started increasing, but capacities is increased with a faster rate. And, as a result of that, it became a very important challenge, for the organisations, to sell their products.

Because, capacities increased at a much faster rate, demand also increased, but the rate of increase of demand, is not as high as, the rate of increase of capacities. So now, selling product, when you are producing more, you are producing more, and the demand is less. So, selling those more products, to less demand, is a challenge. And therefore, during this time, the development of marketing, became a very important phenomenon. So, the second point says, that marketing dominance.

Because, selling products, to existing and new markets, became a very important challenge, in 1970's, and 1980's, and even today also, you will see that you have, excessive capacities available in your manufacturing industry. But, the demand, is not that high, correspondingly. And therefore, it is the period of marketing dominance. Around 1970's, the impact of recession in USA, and the popular energy crisis, favoured the dominance of another functional area, that is accounting and finance.

So, this is the third functional area, which became popular, because of a particular reason of the global recession and the energy crisis. Now, this particular discussion says, that sometime it is the operational dominance, sometimes it is the marketing dominance, sometimes it is accounting and finance dominance. So, one particular functional area, is contributing towards the development of your business objectives. But, here you see, that it is not the collective functional responsibility.

The functional areas, are working in silos. Either, it is operational dominance, or it is marketing dominance, or it is financial dominance. Nowadays, like we say, in present circumstances, the dominance is of R&D, the dominance is of Innovation. So, this is becoming, or to put together, R&D and dominance, new product development. The dominance is of, new product development. So, at different point of time, different functional areas, are dominating your corporate level strategy.

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However, the existence of

- increasing world competition
- overcapacity in many industries within the manufacturing sector
- increasing scarcity of key resources
- decreasing product life cycles

make it more logical for businesses to incorporate the key functional perspectives when determining policy decisions.

Marketing

Manuf.

3 shifts (24 hrs) → 2, 1

natural resources

Sust.

NPD

3

But, we need to see, that how this functional dominance, need to actually convert, into the strategic advantage for the organisation. And, now we see that, there is a global competition. And, this global competition is continuously increasing. You have, increasing global competition. Then, as I just discussed, that within many industries, we have overcapacity. The plant is designed, to work in 3 shifts. So, it is supposed to running, in all 24 hours.

But, the demand is not that much. And therefore, plant is running, only either in 2 shifts, or in some cases, only in 1 shift. So, that means, there is an overcapacity. You are taking only, 66% output from the plant. Or, in some cases, only 35 or 40% of output, from the plant. So, you

will see, whether you talk of automobiles, you talk of consumer durables, you talk of furniture, you talk of electronic gadgets, in all these areas, you will see that, our manufacturing capacity is, highly overcapacitized.

And therefore, the plants are underutilised. Then, increasing scarcity of key resources. You see, natural resources are fundamental. They are the basic blocks, for the manufacturing industries. But, natural resources are available, in limited quantities. And, over a period of time, because of more and more consumerism coming into our society, we are exploiting these natural resources like anything. And, as a result of this uncontrolled exploitation of natural resources, there is coming a problem of, scarcity of these key resources.

For an example, energy. For an example, petroleum products. For an example, wood. For an example, various types of minerals, coals. All these are, very important key resources, for manufacturing industries. And, you will see, that all these products are, slowly and slowly declining. Their reserves are declining. So, that is also a very important challenge, coming for the manufacturing industry. Then, another important challenge, which is there, that is decreasing product life cycles.

Time and again, I have discussed this point, that product life cycles are reducing. We used to have, a particular type of mobile phone. And, that mobile phone work with us, for 5 years, 6 years, 7 years. But, nowadays, within 1 year, within 2 years, we are changing our mobile phones. We change our Colour TV's, within 3, 4 years. Earlier, Black and White TV's, used to work, for more than 10 years. People spent their entire life, with only one model of Fiat car.

Nowadays, you see every 5, 6 years, you change your cars. New models are coming regularly. So, all these things, all these points, are emphasising on one particular idea, that product life cycles, are continuously reducing. The lives are reducing. The product life-cycle, earlier for a product was ranging up to 5 years, 10 years, or even more than that. Now, for the same product, life is only 3 years, 2 years, 4 years, 5 years.

So therefore, that is another very important challenge, which is happening. So now, to answer all these challenges, it is becoming more and more logical. It is becoming more and more logical for business organisations, to incorporate, the key functional perspectives, when

determining policy decisions. Because, how to answer these challenges? How to answer the challenge of, increasing world competition? How to answer the challenge of, utilising your existing large capacities?

How to handle the challenges of, limited availability of key resources? And, how to handle the challenge of, faster rate of Innovations? So, not a single functional area, can answer all these things. When I am talking of increasing world competition, so you require marketing to answer it. When I am talking of overcapacity in many industries, we require manufacturing to answer it.

When I am talking of increasing scarcity of key resources, I am talking of sustainability. When I am talking of decreasing product life cycles, I am talking of new product development. So, now, you can see that, for four challenges, which I just mentioned, we require different types of functional dominance, marketing, manufacturing, the sustainability, and new product development.

So, it is not possible for a single functional dominance, rather we need a total functional perspective, to be included, in our policy related decisions. So, it is becoming very, very logical nowadays, that not a single functional activity, not a single function, can help you in achieving your corporate level, or the policy level objectives. Rather, at your policy level formulation, we need inputs, almost from all functional areas.

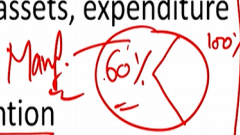
Whether it is marketing, whether it is production, whether it is new product development, whether it is sustainability, whether it is after sale supports, whether it is human resource management, whether it is finance and accounting, whether it is IT, all these functional activities, need to come together, and then form some kind of cohesiveness, which can provide inputs to the policy formulation stages.

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It is important to realize that a function which

- controls a large slice of the assets, expenditure and people
- influential in customer retention

need to be contributing in strategy formulation for the organization.



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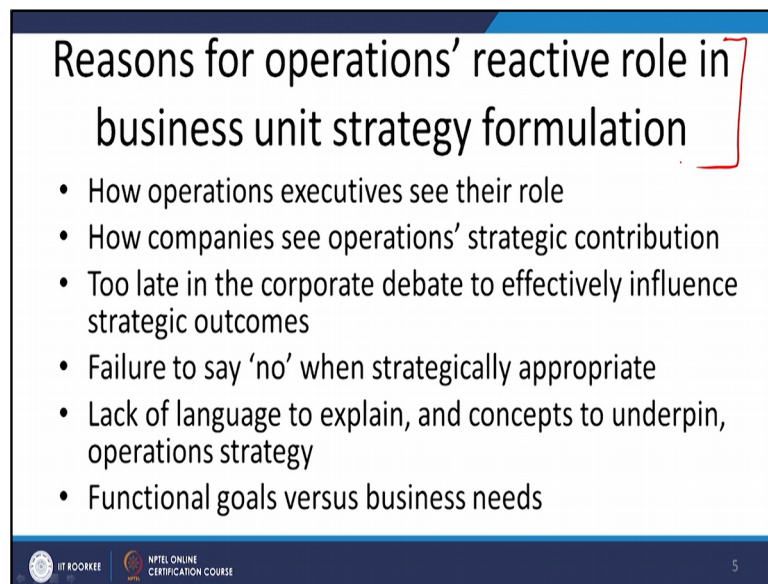
Next, we need to understand, that it is important to realise, that a function, which controls a large slice of assets, expenditure, and people, and which is also influencing, in customer retention. So, these are two important things. Now, I am coming only to manufacturing. When I am only talking of manufacturing, so you see, in a manufacturing industry, manufacturing is responsible, for large component, or large pie, out of your total assets, out of your total expenditure, out of your total number of employees.

So, manufacturing has, the largest share in that. And, manufacturing is also very, very influential, in customer retention also. Because, manufacturing is responsible, that what type of quality is produced, what type of maintainability is inbuilt in that product, what type of serviceability is inbuilt in that product, what type of reliability you are designing in that product. So, all these things, are very important, from the point of view of the customer retention. So, very important function is manufacturing.

So, there has to be a proper contribution, of this manufacturing function, in the formulation of strategy, in the formulation of policies, for the organisation. Because, obviously, if the total expenditure is 100%. So, manufacturing goes, as high as up to 60% of it. So, the largest component of expenditure, is coming from manufacturing function. So, you cannot see, you cannot think, that manufacturing should always be reactive. You need to take into account, the manufacturing at the strategy formulation unit, to take into account, manufacturing at the policy formulation stage itself.

So, all these things, I am emphasising, again and again, that how we need to improve, the functional dominance, at the corporate level. It is not the functional dominance, I am talking of only one particular function, I am talking of functional dominance of all the functions put together. But, since I am talking in the course of Manufacturing Strategy, so I will be emphasising more, on the aspects of Manufacturing Strategy, in this functional dominance.

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Reasons for operations' reactive role in business unit strategy formulation

- How operations executives see their role
- How companies see operations' strategic contribution
- Too late in the corporate debate to effectively influence strategic outcomes
- Failure to say 'no' when strategically appropriate
- Lack of language to explain, and concepts to underpin, operations strategy
- Functional goals versus business needs

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Now, as we begin in our first session, and I said that, operation or manufacturing is currently seen, in the form of a reactive role. And, we need to change, this reactive role into a proactive role. Then only, this manufacturing function, or the operation function, can be the part of your strategy formulation, can help in developing the competitive advantage. Now, if I agree that, manufacturing is a reactive function, operation is a reactive function.

So, let us see, what are the important reasons, why it is a reactive function, why it is not a proactive function. When it is contributing 60% cost, in the overall expenses of an organisation, so why manufacturing is a reactive function. So, there are some of the reasons. The list is there. But, it is not an exhaustive one. It says, that how operations executives, see their role. If I am an operation executive, how do I see my role, in the organisation. That is one very important thing.

And, if I am not able to see my role, in the proactive manner, it will obviously my function, my duties will also suffer. And, my duties will also be known as, reactive duties. How companies see, operations strategic contribution. Though, I know, that operation is a very important function, for customer retention. Operation is taking care, maximum cost, in my

overall expenses. But, still I do not give, much recognition to operations role, in the strategic contribution.

Then, initially, I do not participate, in the debates of the strategy formulation. Manufacturing people, operations people, join the debate of strategy formulation, only when it starts taking some shape. And therefore, this becomes a very late entry, into the strategy formulation process. And, as a result of that, you do not have much scope, in initial contribution, or initial direction, or initial setting of agenda, of the strategy formulation.

Then, another important challenge is, failure to say, no. We, as an operation executive, are trained, or our mind set is like that, every time any requests come from the top management, we say, yes, it can be done. And, whether it is in the interest of the organisation or not, irrespective of that, we say that, yes, it can be done. So, that is also a challenge, for the operations reactive role in the organisation. Then, lack of language to explain, and concepts to underpin operations strategy.

Unfortunately, the operations executives are not trained, to give the strategic inputs, in the overall debate of strategy formulation. So, the point of view they have, they are not able to communicate that point of view, to other members of the organisation, because of lack of vocabulary, because they do not know, what type of terminologies, are being favoured, by the top management of the organisation.

So therefore, this is another reason, that operation is considered to be a reactive function. Whatever you say, they will simply follow it. And then, there is always a perennial debate, between functional goals and the business goals. Whether, you give priority to your functional goal, or you give priority to your business goal. So, all these are the reasons, of reactive role of operation, in an organisation. Let us see, all these points, in a bit detail, in the coming slides.

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How operations executives see their role

- They feel they must:
 - Exercise skill and experience in effectively coping with the exacting and varying demands placed on operations
 - Reconcile the trade-offs inherent in these demands as best they can.

High Quality but at lowest cost.

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So, the first point we were discussing, about the reactive role is that, operation executive own perception. How operation executive, see their role. And, many of the operation executives feel, that they must exercise his skills, experience, in effectively coping with the exacting and varying demands, placed on operations.

So, many of their people, working at the shop floor, your supervisors, your managers, your engineers, your vice president-manufacturing, all of them feel, that we need to exercise, we should be more skilful, in effectively contributing, effectively coping, with the exact and varying demands, which are given to operational department.

So, whatever demand is coming, from the marketing department, whatever is the designs provided by new product development team, we are there, to develop our manufacturing facility, according to those varying demands, so that we can manufacture, we can produce, those types of products, which are required by our marketing department, which are suggested by our NPD team.

And, we need to see, that how we can reconcile the trade-offs, which are there in these demands, as best they can be. Like, for an example, one trade-off to give you, to make the point clearer, that we want high quality, but at lowest cost. So, this is a trade-off. If you want to improve the quality, the cost is bound to increase. But, as a customer, we expect that, we should get products, at the highest level of quality, and the lowest level of cost.

So, this is the trade-off. And, this is the role of operation executive, that they feel that, we should be having this type of a skill, that we can reconcile these trade-offs. And, we need to configure, we need to design our production processes, so that, these trade-offs can be handled, to the best of their abilities.

So, in this particular point, you see that, we are trying, we are feeling, that our role, is more like to adjust, as per the demands, given to us, and to handle the trade-offs. Nowhere we feel that, we can provide some kind of strategic inputs to the organisation. So, when I am not finding my role into the strategic domain, how my function can contribute, in the strategic development process.

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How companies see operations' strategic contribution

- Mostly for short term operational aspects
- Promotion of operators to supervisors, supervisors to managers, and managers to executives, with scant regard for the change in emphasis that needs to take place.

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Now, the second point which we discuss, that how companies see, operations strategic contribution. So, I myself is not seeing, any role in the strategic contribution. Now, how companies see, the operations role in the strategic contribution. So now, most of the time, companies feel, that operations role is for short-term operational aspects, day-to-day sequencing of production activities, your inventory management, your layout planning. So, most of these things, which are of short term nature.

That is the responsibility of, operations, function or operational executives. Promotion, the other point is that, the human resource policy, of the operations department. Now, you will see, that in most of the organisations, particularly in India, if you go to SME sector, and not only SME sector, to some of the large organisations also, that promotion of operators to

supervisors, then supervisors to managers, managers to executives, this happens through internal mechanism.

And, in most of these things, the only one aspect is considered, that how much time, you have spent in the organisation. And, on the basis of that, these promotions are given, without considering, the aspect of strategic role of the operation. The one, who is coming from the operator to executive level, he may be very much experienced, with respect to routine functioning of the operational activities.

But, this person may not be able to contribute, into the strategy formulation process. So, organisations also see, the role of operation, as a kind of reactive, and as a kind of providing the short-term solutions, to the organisation. And, no long-term expectations are there, from the operations department.

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Too late in the corporate debate to effectively influence strategic outcomes

- Operations executives typically are not involved, do not involve themselves, in strategy decisions until these decisions have started to take shape.
- The result is that operations has less opportunity to contribute and less chance to influence outcomes.
- As a consequence, operations managers always appear to be complaining about the unrealistic demands made of them and the problems that invariably ensue.

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Then, another important point is there, that is, it is always too late, in the corporate debate, to effectively influence strategic outcomes. As I said, that operation people, operation executives, enter into this debate, very late. Will the late is, that when it is taking some shape, when you have already decided many things, and your strategy is taking some kind of shape, then only operation executives, enter into this debate.

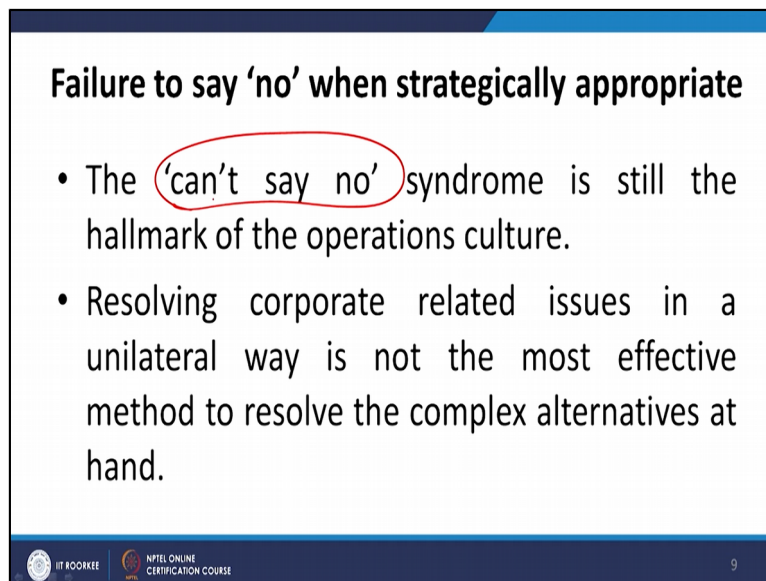
And, that is a very late entry, into the strategy formulation process. And, as a result of that, the operation executives have less opportunity. They have less opportunity, to contribute, in the strategic development process. And, they have less chances, to influence the outcomes.

And, as a consequence, operations managers, they always complain, you will always find them, that they are not very happy, the way organisation is moving.

And therefore, you will find, if you go to many Indian manufacturing organisations, there are not good relations, between marketing department, between product development department, and manufacturing department. Because, all of them are not coming on the board, at the same time. They all enter into the boat, at different times. And, as a result of that, they are not in sync in that strategy formulation process.

And, our operation managers, they always complain, about unrealistic demands. And, there are so many problems, related to those new products, related to the particular type of customers. Because, the operation executive is, not able to control, not able to influence, not able to contribute effectively, in this process of strategic debate. Then, another particular thing, which we discussed, that the inability to say, no, whenever it is appropriate.

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Failure to say 'no' when strategically appropriate

- The 'can't say no' syndrome is still the hallmark of the operations culture.
- Resolving corporate related issues in a unilateral way is not the most effective method to resolve the complex alternatives at hand.

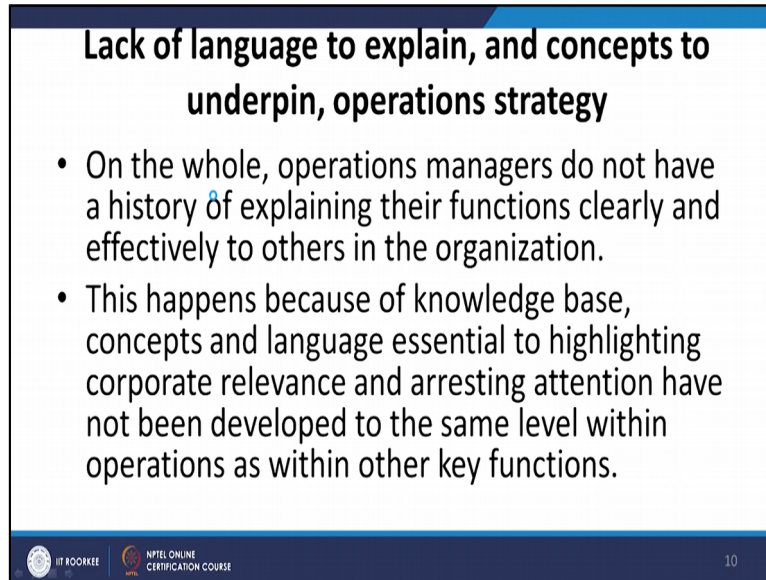
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Many of our executives, are always in the mood of, yes sir, it can be done, yes sir, it can be done. But, this may not be good, for the overall health of the organisation. Many a time, we need to understand that, no is a better alternative. But, we all are suffering, from the syndrome of, cannot say, no. And, this syndrome of, cannot say, no, is a very dangerous syndrome, for the process of strategic debate.

Unless until, we are able to debate, openly, without any kind of fear, we will not be able to reach, to best alternative available to us. So, that is another important challenge, and that is

another important, you can say, issue related to mind set. So, this needs, quite a bit of training, that we need to change our personality, that whenever it is not appropriate, we should be able to say, no, at that particular instance. Then, another important challenge is, lack of language, to explain the concepts, which can influence the operation strategy.

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Lack of language to explain, and concepts to underpin, operations strategy

- On the whole, operations managers do not have a history of explaining their functions clearly and effectively to others in the organization.
- This happens because of knowledge base, concepts and language essential to highlighting corporate relevance and arresting attention have not been developed to the same level within operations as within other key functions.

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Operation people are not trained, to put your views, in a more systematic, logical, and appealing way, more importantly. And, particularly finance, accounts, and marketing people, know that, how to put their ideas, how to make it appealing, to other members of the discussions. And, because of that way, because of limitation of language, to explain my point, I am not able to convince, the other members in my organisation.

And, when I am not able to convince, that it becomes on me, to follow what others are saying. So, that is another reason, that operation is treated as a reactive function. We need to develop, our vocabulary. We need to develop, our concepts. And, this is also true, that you will find large number of textbooks, you will find large number of research papers, pointing towards marketing strategy, pointing towards functional strategy, like human resource strategy.

But, you will find, very little literature, in the field of operations strategy. So, since, this is a very unexplored area, you have limitation of language, for explaining your point of view. And therefore, we consider most of the time, manufacturing as a reactive function. Then, another challenge, is with respect to functional goals, versus business needs.

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Functional goals versus business needs

- In many organizations, performance of managers of different functions are measured by the efficiency of that function (an operational perspective) and not by overall effectiveness (a business perspective).
- It has contributed to the functional silo problems that characterize many businesses.



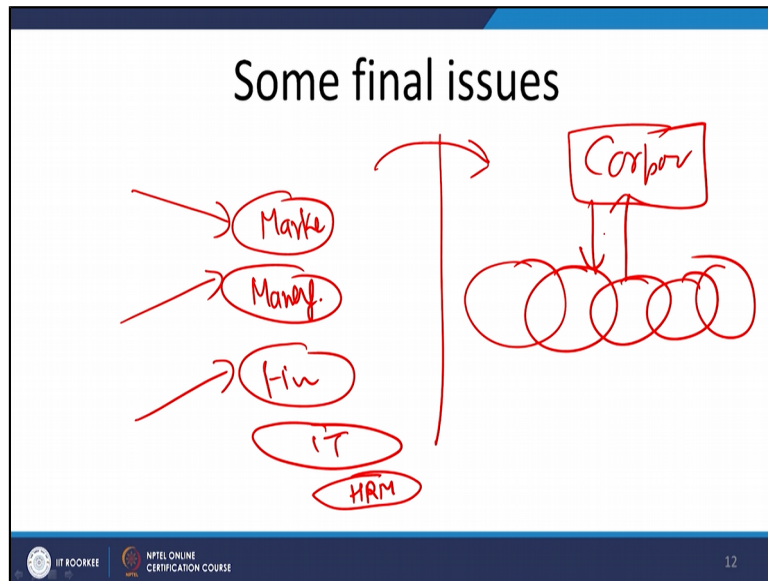
In many organisations, our performance, the manager's performance, the executive's performance, are measured, on the basis of efficiency, of their function. And, this is the operational perspective, that I am measuring the efficiency of a particular function. And, I am not looking, the overall effectiveness of the organisation. So, when I am talking of overall effectiveness of the organisation, this is business perspective. So, it is advisable.

It is advisable, to have a business perspective, than this operational perspective. But, many a times, because, most of our benefits, are related to performance of my function. It is quite possible, that the overall results are not very good, not very attractive. But, one or two functional departments, are getting promotions, are getting salary hikes, are getting bonus, because, the criteria of measurements, are not uniform.

Different functional areas, are measured, on their own criteria. And, then there is a overall effectiveness criteria, which is the business perspective of the organisation. So, there is a gap. These two things, are not in sync. And, that is also, one important challenge, that your business needs are measured, from the overall concept, and while the functional performance, is measured, from the operational concept.

So, you need to see, that measurement criteria, of the functional level, and of the business level, should be in sync. If it is not in sync, most of us, will be interested, to contribute more for the functional activities, and less for the business activities. So, these are some of the important thing, which we discussed.

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And therefore, we need to see, that different functional activities, contributed at different point of time. But now, in the present time, we need to see, that this different type of functional contribution, may be coming from, manufacturing, marketing, finance. Then now, IT is also coming up. Then, human resource management is also coming up. So, if you want to have, a significant functional dominance in the corporate strategy, we need to bring, all of them, in this type of scenario.

And then, it has to go from, bottom to top, for developing the corporate level strategy. And then, you can have, an arrow, which has both the directions. Corporate level strategy, will help in aligning these, functional level activities. And, the functional level activities will help, in developing your corporate level strategy. So, what we want to have, a very effective, you can say, deliberations, from the functional point of view, in developing your corporate level strategy. So, with this, we come to end of the session. Thank you, very much.