

ENHANCING THE LINK BETWEEN BUSINESS AND OPERATIONS STRATEGY

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ABSTRACT

This paper analyses the application of benchmarking as a means of enhancing the links between business and operations strategies. The use of benchmarking as a tool to facilitate improvement in these crucial links is examined. The existing literature on process benchmarking is used to form a structured questionnaire to apply to six case studies of major manufacturing companies. Four of these case studies are presented in this paper to highlight the use of benchmarking in this application. Some intermediate findings are explained in relation to the development of a benchmarking model. Recommendations for further work in this field are outlined.

INTRODUCTION

Existing literature on benchmarking stresses the importance of examining which function to benchmark, with activities having to be prioritised. A common mistake is to attempt to benchmark everything [4]. Problems with benchmarking in the past have been attributed to the poor selection of the process to be benchmarked.

Of particular note to this work is the emerging role of process benchmarking in manufacturing industry. Specific reference has been made to the work of Walleck et al [9] in carrying out this work. This emphasises the present and future needs of the organisation with respect to the supply chain.

Literature Review - business and operations strategy

Of fundamental importance to the field work was a detailed understanding of the concept of core competence, the identification and use of which has been examined by Tampoe [7]. Problems caused by poor sales forecasting and the flow of products between the company and its environment, and the product flows within the company [5]. were also examined then applied in the work to find the result of interdepartmental conflict and its consequent resolution [1].

Literature Review- benchmarking

Use was made of the existing literature on both benchmarking and the business to operations strategy link to construct a structured questionnaire. For example, Sweeney presents a recommended methodology for the use of benchmarking to improve manufacturing competitiveness [6]. The following are a selection of some of the pertinent issues considered:

Daugherty et al examine 4 hypotheses regarding benchmarking [2]. These were also tested out in the case organisations.

- a) Benchmarking involvement and formalization of senior level plans and goals are related aspects. Tools including mission statements and strategic plans provide the organisation with a degree of focus.

Benchmarking can help to identify appropriate business goals - results from this are used as inputs to planning process.

b) Technology adoption and the use of benchmarking are related.

Benchmarking exposes management to the external environment which acts as a predictor of technology adoption.

c) There appears to be more or greater levels of benchmarking associated with larger firms' annual sales measure.

Benchmarking programs require to be developed by significant resources.

d) Benchmarking involvement is related to internal performance and supplier performance measurement programs.

The use and existence of key success factors, identified by Ohinata[3], were also examined:

- 1) Formal approach to their development
- 2) Top management involvement
- 3) No competition in areas and use of information shared.
- 4) Information exchanges are always both ways.
- 5) Relationship formed -stakeholder/alliance
- 6) Everything is among equals
- 7) Organisational size similar.
- 8) Not too much work involved for target organisation.

Partovi highlights 4 ways of identifying partners [4]:

- 1) Best-in-Class in any industry. Activities analogous to company.
- 2) Strategic - integrates strategic competitive analysis with best-in-class. How a company should position its product in relation to competitors. Also suggests what needs to be done to processes or functions to support those competitive advantages.
- 3) Internal operations - best performing unit internally.
- 4) Competitor.

RESEARCH METHODOLOGY

The author visited six manufacturing organisations within the central belt of Scotland during 1995/6. In-depth interviews with senior managers were carried out using a structured questionnaire. The intent of the investigatory work was to review the extent of benchmarking in each organisation with particular reference to the link between business strategy and operations strategy. Initial background information was received from each company and reviewed prior to a number of on-site visits. Interviews with relevant senior personnel focused on ascertaining the demand pattern, product flows within the company and with the environment, identification and use of core competencies, business strategies, manufacturing strategies and performance measures. Further interviews examined the benchmarking principles undertaken within the company, why they were using them and what gains they had managed. Four of the companies visited are now presented as case studies.

CASE STUDIES

Below are the results of case studies carried out within four organisations. The case studies are still on-going.

Organisation 1

This organisation is a first-tier supplier to the automotive industry. It is part of a global group, operating in strategic business units. Benchmarking is predominantly used although this is mainly on an internal basis at present, to be extended externally in the near future. Their internal benchmarking mainly consists of links with individual manufacturing plants to exchange ideas. A recent example of process benchmarking has been the study of data integrity and availability to enhance managers performance. A best-in-class for the industry exists in this process within the group. Moves are now underway to examine the possibilities of benchmarking with external partners. This, however, is seen as a difficult step due to foreseen problems in the exchange of information.

With regard to the business to operations link, inter-departmental conflict exists, with the purchasing department 'protecting' suppliers. In addition, different attitudes to change exist in different areas of the organisation. These problems are potential areas for examination by process benchmarking.

Organisation 2

This organisation manufacture and assemble specialist products for the road and rail industry. The company have approximately 55 employees and a turnover of £4 million, and are part of a large engineering group.

Benchmarking is not carried out at present, but the management team are aware of the possibilities of enhanced operating performance offered by its use. Many of the problems inherent in improving the business to operations links are present within this company. To help alleviate this an education and training program is being developed to help the company overcome some of the linkage problems via benchmarking. A major problem however, given the size of the company, is the lack of people who are not involved in the day-to-day operations of the business, therefore it is an exercise which will span all personnel levels and be of significant complexity.

Many potential benchmarking problems exist such as encouraging participation of managers in the formation of the strategic review and overcoming interdepartmental conflict.

The Sales Department and Technical Department have a good relationship. However, the co-ordination between the two departments could best be described as fraught. This appeared to be down to the personality of the Materials Manager, who had been allowed to develop his role beyond his abilities, and assumed responsibility for other managers. In alleviating the problem, aspects of management style have been noted to be of importance.

Interdepartmental co-ordination is a goal of the benchmarking program. The objective should be to achieve the integration of joint goals and responsibilities. Good co-ordination is characterised by departments helping out each other at will.

Organisation 3

This organisation is a large beer producer and distributor, having recently been involved in the acquisition of a similar company. It is also the owner of public houses. They have five breweries around Britain plus five primary and 23 secondary distribution depots. All of the company's breweries operate through one logistics system in Edinburgh. Demand is erratic for many types of beer. Many customers demand extra kegs due to perceived shortages of product at peak times. The only significant build of product is before Christmas. Further work will be involved with this organisation to see how they enhance operations, post-acquisition.

Benchmarking is carried out to a large extent with another brewery in England, particularly with regard to the logistics function. This is one of the core competences of the company. Collaboration between the two companies now runs to integrating the flow of product on their lorries

The main performance measures used by the company are cost of production, stock availability to sales, transportation flow and internal and external service agreements.

The company is actively involved in an integrated logistics approach for the company and the building of mutual relationships with some of their competitors. Identifying and then using integrated logistics as a core competence has brought many competitive advantages, with a reduction in production and distribution costs. This is thought by the company to be a powerful tool when used to generate benefits to the customers and consequently leading to an increase in sales. Further improvements have resulted from the use of their own pallet size and non-curtain sided vehicles.

Organisation 4

This organisation operates in the international medical supplies industry. It is part of a large group of companies; each company competing directly with its sister companies. This however, has changed in recent years, with current rationalisation plans based on the focused factory approach. The number of European manufacturing plants has been reduced from four to three with strong possibilities existing for this to be reduced to two plants in the near future, depending on market growth.

The business strategy of the group is to harmonise regions, with cost efficiency and customer satisfaction being paramount. As part of this strategy, logistics, accounts and IT have been centralised in Brussels. The company are also intent on re-engineering many of their processes to gain further forms of competitive advantage.

Critical success factors for the company are; service, manufacturing efficiency, automation and profit - all linked to strategy. Demand for exports are volatile in this environment, and demand can be dependant on the outbreak of wars, famine, and government money. A core competence of the company is having the flexibility to cope with rapid changes in customer requests.

Internal benchmarking is carried out against the other group plants in Europe. This is facilitated by visits and seminars. The free flow of information is a corporate requirement even though the plants are competing.

The company are moving towards best-in-class benchmarking of a number of processes to aid operations flexibility. However, at the moment, this is very much on an ad hoc basis.

For example, customer service levels, customer involvement, getting products to the customer.

The organisation utilises the following measures of performance; production performance, financial control and service to sales.

OUTCOMES

Initial results are encouraging with regard to The application of benchmarking within the organisations studied has been relatively positive. The author is currently developing a mode to enable the validation of a larger range of companies. The model is based on the the relevant issues from existing literature on the subject, taking into account the results from the case study work to date. Some of the significant issues that have been incorporate in the model include:

- a) Communications within companies. This is a basic necessity and must be focussed on before ant attempt at benchmarking is made.
- b) The resolution of conflicts. Employees must be made aware of the need to focus on business goals rather than personal/ departmental ones.
- c) The role offered by benchmarking once core competences have been identified.
- d) The design of organisations
- e) Role of communication as a media for enhancing links.

Methods of improving interfunctional communication:

- a) The use of the appropriate reward system. This is an area of topical research in order to find the optimal system for the area in question.
- b) The application of techniques and philosophies such as Just-In-Time and Business Process Re-engineering as means of providing a focussed philosophy for employee participation.
- c) The role of the human resource person to aid in the setting up of a viable system

CONCLUSIONS/ RECOMMENDATIONS

A larger number of manufacturing companies is now being studied over a longer time period in order to test and verify the findings. An initial model has been developed to help these companies use benchmarking. This model and its content will help the organisations overcome the initial problems highlighted and propose a more methodological means to implementing the technique. It is also hoped that over the next year, further refinements can be made to the model as conclusive evidence comes to light.

The research summarised in this paper is therefore on-going. Potential exists to focus the model on other activities such as decision-making processes and new product introduction procedures. The decision on which direction future focus will be made will be decided within the next year or as more decisive evidence comes to bear. Voss et al [8] conclude that basing benchmarking on more rigorous research, as has been done, leads to frameworks and tools that are not just usable by companies, but go beyond the simple to something that can lead to real business improvement. This is a claim which this work has backed. All the organisations contacted for the study have improved performance and are willing to take the work further to enhance their organisations performance.

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