Open University Business School

Understanding Business Functions

Definitions and Key Points of

Block I

Plus, a summery of

Galloway *et al.*, Chapters 1, 2 & 10

Prepared by

MACHIAVELLI – HZ

Disclaimer: Please note this is an unofficial summery that is based on the author's study of the material contained in block one of B202 and does not necessarily represent those of OUBS. Also, note that this summery is" writer-cantered”, that is, it is based on the way the author thought of the material, rather than the way that students may find easy to comprehend.

Block One Study Guide

Readings associated with this block

1. **Text Books**
    - Marketing, chapters 1 and 2
    - Accounting, chapter 1
    - Operations Management, chapters 1,2 and 10
    - HRM, chapter 1
2. **Resource File**
    - Introduction to metaphors of organizations
    - Management in the information age
    - Organizing and leading the information technology function
    - Principles of Management (Read pp 16-17, summery of Philip Sadler articles ‘Principles of Management’)
    - Organizational aspects of Business
3. **Case Study**
    - Scott Bader (Read pp 73-74, summery of the case study)
    - Air liaison
    - Manchester Airport plc.
4. **Audio**
    - Tracks 1 and 2
5. **Video**
    - Flying to the future

Learning Outcomes

- Explain how the components of the course are related to each other
- Describe the characteristics, origins and roles of the functions addressed by B202
- Outline the key course topics and explain why there are important in a business context
- Explain in simple terms some theories bout how organizational structures and business functions are related
- Discuss some important issues concerning the interactions between business functions, and how they are affected by organizational and environmental contexts.
- Plan how to organize your study of B202.

Definitions and Key Points

Stakeholders are individuals, groups and other organizations that have interests (their stake) in the activities and outcomes of the organizations

Environmental Shapers

1. Internal: Staff, Facilities, and the related systems and processes that bind the organizations together and determine its organizational capabilities (Controlled)
2. Near: Customers, suppliers and competitors (influenced)
3. Far: Social, technological, economic, ethical, physical, environmental, political and legal factors

Business Functions: A specialized area of activity, supported by a body of knowledge derived from theory and practice, that is undertaken within an organization and that contributes in specific ways to an organization's outputs either directly or indirectly.

Functions represent a convenient way of understanding certain aspects of business structure and behavior, and the contributions that individuals make, but they are only one ways of understanding them and interacting with them.

Business functions were regarded as the most logical way to describe and analyze business activities:

1. Many people define themselves as employees in terms of an allegiance to a business function
2. For many people the functional area they work in is central to their education and training, and much of their working life is spent interacting with people with similar areas of expertise
3. Through business functions many people developed careers spanning several organizations, with mobility made easier because functions provide a common language to describe and compare what people do.

Function: an individual's job role defined broadly within headings such as marketing, production, personnel or finance. Therefore a business structured by function is organized into departments such as the above. This contrasts with businesses structured by product or by matrix

Functional organization is based on a hierarchy in which each department operates separately under the leadership of those at the top of the pyramid. Coordination stems from the top but maybe hard to achieve at the lower management layers due the separation of job functions into different departments. This form of structure can be contrasted with the more flexible matrix organization.

Marketing: a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. (Kotler et al., 2000, p.71)

Accounting is concerned with the collection, analysis and communication of economic information.

Management accounting information is that which is produced for internal consumption – financial information for the managers of an organization for such purposes as:

1. Planning and budgeting
2. Management control and operational control
3. Performance evaluation
4. Making decisions about particular activities, tasks and functions
5. Making decisions about investment and disinvestment

Financial accounting information provides information to people outside the organization (an organization's external stakeholders such as shareholder, loan capital investors, suppliers, competitors, government, electors, etc.). The purposes of financial accounting include:

1. External reporting
2. Providing information to allow resource providers to make choices about investing in the reporting organization
3. disclosure about stewardship (how resources entrusted by a person(s) have been managed on their behalf by the person(s) making the disclosure)
4. disclosure that facilitate public accountability
5. Encouraging competition by making information available competitors.

Information management is concerned with all aspects of managing information within organizations. IM is the conscious process by which information is gathered and used to assist in decision making at all levels of an organization.

A unique role of information management is integration, both in development an information operations.

<u>Operations Management:</u> (See the Operations Management section at the end of this booklet). It includes a summery of chapter 1, 2, 3 and 10.

HRM function is concerned with all aspects of managing people within organizations. When an individual joins an organization he or she is entering into an employment contract, offering certain skills for agreed rewards and conditions. HRM deals with all parts of this employment contract from the time it begins (recruitment and selection) through its ongoing maintenance and control (socialization, performance management, job design, rewards, motivation, and so on) to the time either party terminates that contract (reduction, redundancy, resignation or retirement).

There are three main approaches to help manage the complexities of organizational life:

a. **Metaphors:** attempting to understand one element of experience in terms of another. In terms of the organizational context, comparing organizations to things that are not organizations, but that appear to have some elements in common. For example, linking machine to processing components or brain to source of ideas, information and skills.
b. **Models and Modeling:** mental models (constructed in people's mind), mathematical models (where certain types of organizational processes can be designed, analyzed, tested or controlled by representing them in quantitative form). Other important forms of modeling are diagrams, charts and graphs
c. **Stakeholder Awareness:** sensitivity to, or the interests of, different stakeholders in an organizational situation. Usually the conflicting interests of stakeholders constrain the organization's operation and growth.

Case Studies

Case Study I: Scott Bader Company Limited

- Manufactures synthetic materials for a wide range of uses by other manufacturers in their products; this is ‘business to business’ business.
- It is based in Northamptonshire in English midlands and has operations in a number of other countries
- Many aspects of Scott Bader’s ownership and governance arrangements, values, structure and decision-making processes are, if not unique, rather unusual
- The interviewees discuss how their ability to do their job is affected, positively or negatively, by the unusual organizational structure. They also describe how their function has been affected by major structural changes and discuss the need for further change in response to the business environment.

Use the following questions as a guide when reading the case study:

1. What organizational structure does Scott Bader currently best resemble (based of the reading by David Needle)?
2. How ‘typical’ do the functional roles of the interviewees seem to be compared with what you currently know about human resource management, operations management and marketing?
3. In what ways are the interviewees’ individual jobs affected by the organization’s unusual structure?
4. In what ways are the interviewees’ individual jobs are affected by Scott Bader’s form of ownership and decision-making systems?
5. How important is it to the interviewees that their personal values are compatible with those of the company?
6. Thinking of Scott Bader’s main stakeholders, what criteria might each use to assess the company’s performance?
7. How the organization is is likely to be affected by changes in the environment in the next five to ten years (interpreting environment’ widely)? In what ways may it need to change?
8. If you could interview Helen Dollimore, David Seear and Malcolm Forsyth, what else would you like to find out from any or all of them? Is there anyone else connected with Scott Bader who you would like to interview? Why?

Case Study II: Manchester Airport *Plc*

Running an airport is complicated enough, but just to be able to operate at all it also needs to satisfy many stakeholders who may not even set foot within its boundaries: planning authority, air transport authorities, local residents and taxpayer, those who deliver goods there by road or rail, or transport cargo and waste from it – and so on.

The actual number of people employed by Manchester Airport plc is relatively small – around 2,000 out of the 19,000 people working at the airport in 2001, but they have to manage and control a vast and diverse business. A number of essential operations are subcontractors to independent companies; and of course the airlines themselves are customers of the airport just as much as the passengers are.

Watch the Video and jot down your notes:

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Read the Case study (recommended) or the summery in section 6 of the course guide, and again jot down your notes:

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Case Study III: Air Liaison

Listen to Audio Track II and write down you notes:

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Read the Case Study and write down your notes:

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Operations Management

A summery of

Galloway *et al.*, Chapters 1, 2 & 10

I. The Operations Function

- **Definition of operations management:** Operations management is concerned with managing inputs(resources) through transformation processes to deliver outputs(service or product)

- **The tasks of operations managers**
    1. Must understand what the overall objectives of the operation are.
    2. Plan and control the operations function so that it can meet the objectives set for it.
    3. Undertake responsibility for being involved in the design of both the end service/product and the delivery processes. This means taking responsibility for: the way in which the end product functions, the organization of the transformation process, the technology used and the design of the jobs involved.
    4. The operation has to be improved
    5. Operations exist in a wider organizational context.

- **Overall objectives for operations**
    1. Quality – doing things right
    2. Speed – doing things quickly
    3. Dependability – doing things on time
    4. Flexibility – being able to change what you do
    5. Cost – doing things cheaply.

- **Major elements to manage Processes**
    1. Planning
    2. Control

- **The key factors currently driving the continued development of operations management:**
    1. Globalization of the economy
    2. TQM
    3. Empowerment
    4. Technology
    5. improving public services
    6. improving service sector productivity

- Manufacturing and service-based organizations: Goods are tangible, whereas services are intangible.

- **Classifying operations by key environmental factors**
    1. *Volume:* number of times that an operation has to deliver a service or product (High-Medium-Low)
    2. *Variation:* describes the pattern of the volume demands (High-Low)
    3. *Variety:* number of different types of service or products demanded (High-Low)
    4. *Customer contact:* concerned with how much time the personnel of the operation have to spend with its customers.

- The type of environment which presents the greater challenge to operations mangers is characterized by low volume, high variation, high variety and high customer contact.

- **Frameworks for analyzing operations**
    1. *The value chain:* the amount of revenue less the amount of cost. The purpose of defining the value added by operational activities is to reveal those that appear to add negative or little positive valued and to make people aware of where value really comes from.
    2. *The systems approach:* Systems thinking had contributed at least three key ideas for analyzing operations:
        a. Operations can be conceived as a series of inputs-processes-outputs which is open to influence from the environment
        b. Operations have to be controlled, and control means gaining information on the performance of the operation and then changing the operation if it is not meeting some predetermined/defined standard.
        c. Problems should be solved by following structured methodologies. The *hard system* methodology applies where there is agreement on what the problem is. In situations of conflict the *soft systems* methodology is used.

II. The Context of Operation's Management

- Macro and Micro Operating Systems
    1. Macro operations: the total business.
    2. Micro operations: Individual functions within the "total organization" such as marketing and finance.

- Internal influences on the operations function
    1. Sales Department
    2. Human Resources Department
    3. Finance Department
    4. Marketing Department
    5. Purchasing Department

- External influences on the operations functions
    1. Political and legal
    2. Economic condition
    3. Competition
    4. Labor market
    5. Customers
    6. Suppliers
    7. Technological development
    8. Capital and money market

- Operations management as a transformation process: components a "transformational model":
    1. Input elements
    2. Conversion process
    3. Outputs elements

- Strategic importance of operations (3 forms/levels of strategies)
    1. *Corporate strategy*. How should the organization as a whole fulfill its long-term objectives?
    2. *Business Strategy*. How should the individual functions in the business such as marketing, finance, operations, and so on, complete in the marketplace?
    3. *Functional strategy*. How should the individual business functions manage their resources in order to contribute to the fulfillment of a firms' corporate and business objective?

- Process and content of operations strategy: An operations Strategy consists of two parts:
    1. The content of the operations strategy – outline of the operation's policies and principles.
    2. the process of the operations strategy – the way in which these policies and plans are decided

- Decision areas in operations management
    1. *Structural decisions* – related to the operating environment. These type of decisions relate to the following areas:
        a. Facilities strategy
        b. Technology strategy
        c. Integration strategy
        d. Organization strategy

    2. *Infrastructure decisions* – concerned with the day to day planning, control and improvement activities. These include:
        a. Capacity strategy
        b. Supplier strategy
        c. Inventory strategy
        d. Human resource strategy
        e. Planning and control strategy
        f. Performance measurement and improvement strategy.

X. Purchasing and Supplying chain management

- **The importance of purchasing and supply.**
  a. *Financially*, a large proportion of a company spending is usually taken up by the cost of materials purchased
  b. *Operationally*, the quality of materials as input can influence the quality of the outputs.
  c. *Strategically*, getting suppliers involved in planning the corporate goals can help the buyer business to meet its long-term objectives

- **The interface between purchasing and operations.**
  Effective communication between purchasing and other departments in a company can improve the quality and delivery of goods and services produced. These internal functions include:
  a. Design
  b. Production
  c. Finance
  d. Marketing
  e. Sales

- **Purchasing responsibilities**
  a. Selecting, evaluating and developing sources of materials, supplies and services required by the firm
  b. Maintaining and developing close relationship with suppliers in terms of quality, delivery, payments and returns.
  c. Seeking new materials and products, and new sources of better materials and products, for possible future use of the company.
  d. Negotiating and acquiring raw materials, capital equipment, consumer goods and services at prices that represent the best value for money and consistent with the quality requirements.
  e. Co-operation in cost reduction activities such as value analysis, make or buy studies, long-term planning and so on.
  f. Maintaining an effective communication system and regular consultation with the organization's internal functions, and with the company external suppliers.
  g. Keeping the company's top management informed of the purchasing costs and any changes in the market that can influence the firm's profits or growth in the future.

- **Purchasing process**

  Some of the steps in the purchasing process include:

  a. Receiving the formal request fro mother functional departments
  b. Defining the product and/or purchase specification
  c. Grouping items that can be supplied by the same vendor
  d. Sending formal request to potential suppliers
  e. Evaluating quotations submitted by various suppliers
  f. Selecting preferred suppliers
  g. Preparing the purchase order
  h. Checking with suppliers to see whether the order will arrive on time
  i. Following up with the operation to see that the order has arrived and its quality on delivery is satisfactory
  j. Keeping information on suppliers price, quality, and delivery performance for future evaluation

  The purchasing function is responsible for buying both the transforming and the transformed resources that are needed by operations to provided goods and services required by the end customers. In order to satisfy this important responsibility both efficiently and cost effectively, purchasing staff are involved on a day-to day basis in activities such as defining the purchase specifications, selecting preferred suppliers, placing orders and so on. The purchasing department is also involved in activities such as value analysis and make or buy decisions in order to reduce the cost of materials and supply.

<u>Single and multi sourcing (advantages):</u>

Single sourcing	Multi sourcing
Bargaining power and the likelihood of quantity discount are increased.	Risk of interruption in supply is reduced
Paperwork and coordination effort are reduced	Competition for future business is stimulated - a single supplier may develop a monopoly
The number of sets of special tooling required for production is reduced	New supplier can be evaluated and may become a superior source.

- **Value analysis**
  A team comes together from different department to reduce the expenditures involved in producing the product without reducing its value.

- **Make or buy decision**
  The key questions that should be asked by the purchasing and supply function concerning a make or buy decision are:
    a. Could we buy it from outside at less cost and in similar or greater quality and reliability?
    b. Could we bury it from outside and maintain or improve on the flexibility and responsiveness that we get from our in-house capacity?
    c. What about the future? What are the technology trends and investment implications? If we go for an outside supplier now, will we be able to buy it easily I five years time?

- **Purchasing mix**
  The key elements of purchasing mix are price, quantity, quality, and delivery. Purchasing managers are responsible for making goods and services available at the right price, to right quantity, in the right quality and for delivery at the right time.

- **Supply Chain Management:**
  The process of 'managing the entire chain of raw material supply, manufacture, assembly, and distribution to the end customer'.

- **Supplier selection**
    a. Supplier appraisal
        1. Financial stability
        2. Ability to do the job
        3. Capacity constraint.
        4. Clarity of purchase specification
        5. Ease of access
    b. Quality assurance of suppliers: Doing anything a buyer's firm should do to be confident that it will receive form its suppliers the goods required, with the same specification, and at the time the company wants them.
    c. Supplier rating: Reviewing the firm's vendors to find out how good its existing suppliers are.

- **Supplier relations.**

  To obtain the desired performance from suppliers, the purchasing department should make product specifications sufficiently clear and communicate them accurately to their vendors. Close partnership can be achieved through:

  a. Obtaining supplier's commitment
  b. Sharing business objectives
  c. Sharing purchasing and supply objectives
  d. Encouraging participation

- **Advantages of partnership**

  a. Improved information flow.
  b. Improved quality
  c. Improved design
  d. Improved materials flow
  e. Improved financial co-operation.

END