

# 204IB26

*by Anu Cde*

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# GLOBAL PRODUCTION AND OPERATIONS MANAGEMENT

**MASTER OF BUSINESS ADMINISTRATION  
(INTERNATIONAL BUSINESS)**

**FIRST YEAR, SEMESTER-II, PAPER-IV**



**DIRECTOR, I/c.**

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## **Global Production and Operations Management**

**1**  
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## **FOREWORD**

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A+' grade from the NAAC in the year 2024, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 221 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.Sc., B.A., B.B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavors.

**Prof. K. Gangadhara Rao**  
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Acharya Nagarjuna University.

**MASTER OF BUSINESS ADMINISTRATION  
(INTERNATIONAL BUSINESS)**

**FIRST YEAR, Semester-II, Paper-IV**

**204IB26: Global Production and Operations Management  
SYLLABUS**

**Course objectives:**

1. To enable the students to know about the concepts of production and making planning and forecasting demand.
2. To acquaint the students with the facility location and line balancing concepts and components.
3. To know about the aggregate sales and operation planning.
4. To enable the students to know the project management preparation.
5. To know about the maintenance planning and control.

**Learning outcomes:**

1. Defined the concepts of production and making planning and forecasting demand.
2. Elucidate about the facility location and line balancing concepts and components.
3. Expound regarding aggregate sales and operation planning.
4. Enumerate the project management preparation.
5. Explain the maintenance planning and control.

**Unit I:** System concept of production – Types of production system – Productivity – World class manufacturing- process planning and design- selection of process- value analysis/value engineering-make or buy decision- capacity planning and forecasting- Demand pattern- Forecasting model-selection of forecasting techniques-SMA-WMA-Simple exponential smoothing, Linear regression – Delphi method.

**Unit II:** Facility location; factors influencing plant location-break even analysis-facility layout-basic formats-classification- process layout, Product layout and Group technology layout- advantages and limitation- systematic layout planning (SLP) – Concept of CRAFT, ALDEP, CORELAP- Assembly Line – Line balancing concept-Concept of mass production. Material management and inventory control – Components of material management- Purchase model with instantaneous replenishment and without shortage – Manufacturing model without shortage – Material handling system- unit load concept- material handling principle-classification of material handling equipments.

**Unit III:** Aggregate sales and operation planning – Introduction – overview- Production planning environment. Material Requirement planning (MRP) - Product Structure/ Bill of material (BOM) – MRP System and overview- Production planning control- Planning phase- action phase- the control phase. Single machine scheduling (SMS); types of scheduling- concept of SMS- SPT rule to minimize mean flow time-minimizing weighted mean flow time –EDD rule to minimize maximum lateness-flow shop scheduling- Introduction to Johnson Problem – Extension of Johnson’s rule.

**Unit IV:** Project management: CPM – PERT – GANTT chart/Time chart – work study- method study- time study – motion study. Quality control :Introduction- need to control quality- definition of a quality system- classification QC techniques- control charts for variables and attribute- Acceptance sampling – Operating characteristic curve – Single sampling plan.

**Unit V:** Maintenance planning and control - Maintenance Objectives –Types – Basic reasons for replacement- reliability – reliability improvement- reliability calculations- Modern production management tools- JIT manufacturing - Introduction to Six sigma concepts- TQM- Lean manufacturing.-Kaizen.

**Practical component:**

1. Doing practical methods through conducting seminars on concepts of production and making planning and forecasting demand.
2. Students will be participating in various workshops on facility location and line balancing concepts and components.
3. To know about the aggregate sales and operation planning they will participate in national and international conferences.
4. Participate in live projects to know the project management preparation.
5. They will participate in seminars to know the maintenance planning and control

**Text Books**

- 1.Paneerselvam.R , Production and Operation management, Prentice Hall, New delhi.
2. Operations management for competitive management, chase, Jacobs & Aquilano, Tata Mcgraw hill, 11E

**Reference Books:**

- 1.William J.Stevenson: Production/Operations Management, Richard Irwin.
2. Joseph G. Monks: Operation Management – Theory And Problems

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LESSON- 1<sup>6</sup>**INTRODUCTION TO PRODUCTION AND OPERATIONS MANAGEMENT****Objectives of the Lesson**

After studying this lesson, the learner will be able to:

- **Explain** the meaning, scope, and significance of Production and Operations Management
- **Describe** the evolution of production and operations management in a global context
- **Analyse** the system concept and components of a production system
- **Distinguish** among different types of production systems used by organisations
- **Evaluate** the strategic role of production management in achieving global competitiveness

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. **Meaning and Definition of Production and Operations Management**
3. Evolution of Production and Operations Management
4. System Concept of Production
5. Components of a Production System
6. Role and Importance of Production Management
7. Types of Production Systems
8. Production Functions and Responsibilities of a Production Manager
9. Challenges in Modern Global Production Systems
10. Summary
11. Key Words
12. Self-Assessment Questions
13. Reference Books

### 3.1 Introduction

Production and Operations Management (POM) is one of the oldest and most essential functions of any business organization. Whether it is a manufacturing enterprise converting raw materials into finished goods or a service organization delivering intangible value to customers, production and operations constitute the heart of value creation. All other business functions—marketing, finance, human resources, accounting, logistics—exist to support the production function. Production is the process through which inputs such as materials, labour, machines, capital, technology, and information are transformed into goods and services required by consumers.

In today's globalized environment, production management is no longer confined to factory operations. It deals with complex supply chains, global sourcing of materials, international standards of quality, and competition based on productivity, cost leadership, and innovation. Firms compete not only on price but on delivery speed, customization, design, reliability, and sustainability. The success of multinational corporations like Toyota, Samsung, Apple, and Tata Motors is largely attributed to efficient production and operations strategies that integrate technology, quality, and customer expectations.

### Introductory Case Study:

Operations Excellence at Toyota Motor Corporation\*\*

#### Background of the Organisation

Toyota Motor Corporation, headquartered in Japan, is one of the world's largest automobile manufacturers, operating production facilities across Asia, Europe, North America, and emerging markets. Toyota's global success is widely attributed to its superior production and operations management practices, particularly the Toyota Production System (TPS), which has influenced manufacturing and service organisations worldwide.

Toyota operates in a highly competitive global automobile industry characterised by intense cost pressure, fluctuating demand, technological innovation, and stringent quality expectations. Managing production across different countries requires coordination of suppliers, labour, technology, and logistics while maintaining consistent quality standards.

#### Contextual Trigger / Problem Situation

During the late 20th century, Toyota faced increasing competition from American and European automobile manufacturers. Traditional mass production systems were leading to high inventory levels, quality defects, and inflexible operations. Toyota realised that merely increasing production volume was not sufficient to remain competitive in global markets.

The company needed an operations system that could simultaneously reduce costs, improve quality, ensure timely delivery, and respond quickly to changing customer preferences across international markets.

**Stakeholders Involved**

- Corporate leadership and production managers
- Global suppliers and logistics partners
- Shop-floor workers and engineers
- Dealers and end customers across countries
- Governments and regulatory authorities

**Behavioural / Managerial Issues**

- Resistance to change from traditional production methods
- Need for workforce discipline and continuous improvement culture
- Balancing standardisation with local market requirements
- Coordinating global operations while minimising waste

**Why This Case Is Important for the Lesson**

This case illustrates how production and operations management forms the backbone of organisational success. It highlights the transformation of production from a routine operational activity into a strategic function that determines competitiveness in global markets.

**Linkage to Lesson Concepts**

The Toyota case directly relates to:

- <sup>80</sup> Meaning and scope of Production and Operations Management
- Evolution of production systems
- System concept of production
- Role of production management in global competitiveness

**<sup>4</sup> 3.2 Meaning and Definition of Production and Operations Management**

Production refers to the process of creating utility. In manufacturing industries, production involves converting raw materials into finished products using tools, equipment, processes, and labour. In service industries, production refers to delivering intangible value such as healthcare, education, banking, and transportation.

Operations Management is a broader term that includes production but extends beyond manufacturing. It deals with management of both manufacturing and service operations. Operations management ensures that all activities involving inputs, transformation, and output are conducted efficiently and effectively.

Several definitions explain POM:

- <sup>5</sup> **Production Management** is the process of planning, organizing, directing, and controlling activities related to the creation of goods.
- **Operations Management** is the management of systems that design, operate, and improve the processes that create and deliver products and services.

Thus, POM involves decision-making regarding plant location, process design, capacity planning, material management, scheduling, quality control, maintenance, and continuous improvement. It ensures that organizational resources are used optimally to produce goods that meet customer expectations in terms of quantity, quality, time, and cost.

### 3.3 Evolution of Production and Operations Management

The evolution of POM spans several centuries, beginning with the era of artisans and craftsmen. In ancient times, production was simple, based on custom-made goods and limited tools. Later, mass production began with the Industrial Revolution, which brought mechanization, factories, and division of labour.

#### a. Craft Production Era

Before the 18th century, goods were produced by skilled artisans in small workshops. Production volumes were low, and products were unique and customized. Although quality was high, costs were also high due to limited automation.

#### b. Industrial Revolution (1760–1840)

This era marked a drastic shift from manual labour to machine-based production. Steam engines, power looms, and mechanized tools were introduced, leading to mass production. Adam Smith's concept of division of labour improved productivity significantly.

#### c. Scientific Management (Early 20th Century)

Frederick Taylor introduced time study, method study, and wage incentive plans. The focus was on increasing efficiency and standardizing work. Henry Ford further revolutionized production with assembly-line techniques that enabled mass production of automobiles.

#### d. Human Relations Movement

In the 1930s–50s, Elton Mayo and others emphasized human factors, motivation, and employee satisfaction. The Hawthorne Studies revealed the importance of social and psychological elements in productivity.

#### e. Operations Research and Quantitative Techniques

During World War II, mathematical models and linear programming were used to optimize logistics and military operations. After the war, these tools were adopted by industries for decision-making.

#### f. Japanese Manufacturing Revolution (1950s–1980s)

Japan introduced path-breaking concepts such as *Just-in-Time (JIT)*, *Total Quality Management (TQM)*, *Kaizen*, *Lean Manufacturing*, and *Quality Circles*. Toyota Production System became a global benchmark.

#### g. Modern Digital Operations Management

Today's operations management integrates artificial intelligence, robotics, CAD/CAM, enterprise resource planning (ERP), supply chain management (SCM), and Industry 4.0 technologies. Modern production systems emphasize flexibility, sustainability, customization, and global supply networks.

### 3.4 System Concept of Production

Production is best understood as a system. A system is a set of interrelated components working together to achieve a common objective. In a production system, various elements such as machines, materials, manpower, money, methods, and information interact to convert inputs into outputs.

The production system operates on the principle of input–process–output, often referred to as the **transformation model**.

#### Inputs

Inputs include raw materials, components, labour, capital, energy, machines, and information. The availability and quality of inputs determine the efficiency of the production system.

#### Transformation Process

This is the core of production and includes operations such as machining, forming, assembling, chemical treatment, inspection, packaging, and material handling. The design of the transformation process determines costs, quality, and delivery schedules.

#### Outputs

Outputs are finished goods or services delivered to customers. The output should meet customer expectations regarding performance, durability, reliability, and aesthetics.

#### Feedback

Feedback loops provide information about defects, delays, customer complaints, or inefficiencies. This helps in corrective actions and continuous improvement.

#### Control Mechanisms

Production systems require scheduling, inventory control, capacity monitoring, and quality control to ensure the process runs smoothly.

The system concept helps managers integrate all elements of production and make effective decisions based on interdependencies.

### 3.5 Components of a Production System

A production system consists of the following major components:

#### 1. Inputs

These include raw materials, machinery, equipment, human resources, energy, and information.

## **2. Transformation Process**

Processes such as machining, assembling, transporting, and storing convert inputs into outputs.

## **3. Output**

Finished products, semi-finished goods, or services provided to customers.

## **4. Control Subsystem**

This ensures that production takes place according to planned schedules, specifications, and standards. It uses quality control, inspection, scheduling, and production monitoring.

## **5. Feedback Mechanism**

Data on production efficiency, customer satisfaction, defects, and productivity is fed back to the control system.

## **6. Environment**

The external environment such as competitors, government regulations, technological changes, suppliers, and economic conditions influences the production system.

### **3.6 Role and Importance of Production Management**

Production management is essential because it determines the cost of products, their quality, and the ability of a firm to meet customer demands. It plays a transformative role in shaping the competitiveness of a business.

#### **Enhancing Productivity**

Efficient operations reduce waste, improve resource utilization, and increase output, leading to better profitability.

#### **Quality Improvement**

Through quality assurance, TQM, and continuous improvement, production management ensures high-quality products.

#### **Cost Reduction**

Optimal use of machines, labour, and materials lowers production costs and improves profit margins.

#### **Customer Satisfaction**

Timely delivery, consistent quality, and customization ensure higher customer satisfaction and loyalty.

#### **Global Competitiveness**

Production management enables firms to adopt world-class manufacturing practices that help them compete in global markets.

### 3.7 Types of Production Systems

Production systems are classified based on the nature of the product, volume of production, and degree of customization. The main types include:

#### 1. Job Production

This system is used for custom-made products such as furniture, jewellery, and tailor-made garments. Each product is unique, and production volume is low.

#### 2. Batch Production

Goods are produced in batches or groups. This system is suitable for industries such as bakeries, pharmaceuticals, and textile dyeing. It offers moderate flexibility and medium volume.

#### 3. Mass Production

Large quantities of standardized products are produced on assembly lines. Examples include automobiles, mobile phones, and household appliances. Mass production requires high investment but provides economies of scale.

#### 4. Continuous Production

Production is carried out uninterrupted, often 24×7. Industries such as oil refining, cement manufacturing, and chemical processing use continuous production systems.

Each system has advantages and limitations depending on product design, demand patterns, and cost structures.

### 3.8 Production Functions and Responsibilities of a Production Manager

The production manager plays a vital role in planning, coordinating, and controlling the production process. Major responsibilities include:

- Designing the production system
- Planning plant layout and location
- Forecasting demand and planning capacity
- Scheduling production activities
- Managing materials and inventory
- Ensuring quality control and reliability
- Implementing maintenance strategies
- Managing labour and ensuring safety
- Monitoring productivity and initiating improvements

The production manager must balance customer needs, resource availability, and organizational goals to achieve operational excellence.

### **3.9 Challenges in Modern Global Production Systems**

Global production faces several challenges in the 21st century:

#### **Technological Disruptions**

Rapid advances in automation, robotics, and artificial intelligence require continuous investment.

#### **Supply Chain Volatility**

Global disruptions such as pandemics, wars, and trade restrictions affect sourcing and logistics.

#### **Quality and Compliance**

International markets demand adherence to stringent quality standards, safety norms, and environmental regulations.

#### **Sustainability**

Companies must adopt eco-friendly production processes, reduce carbon emissions, and follow ethical sourcing.

#### **Customization vs. Cost Efficiency**

Customers demand personalized products, yet firms must maintain cost competitiveness.

Handling these challenges requires a strategic approach that integrates technology, innovation, and workforce skill development.

### **Student Learning Activities**

#### **Activity 1: Concept Reflection**

##### **Task:**

Explain in your own words why production and operations management is considered the “heart” of an organisation.

##### **Expected Learning Outcome:**

Clear understanding of the central role of operations in business performance.

#### **Activity 2: Application-Based Task**

##### **Task:**

Identify a manufacturing or service organisation and list the inputs, transformation process, and outputs involved.

##### **Expected Learning Outcome:**

Ability to apply the system concept of production to real organisations.

### Activity 3: Analytical Writing Exercise

**Task:**

Write a short note (200 words) on how globalization has changed the role of production managers.

**Expected Learning Outcome:**

Enhanced analytical thinking on global operations challenges.

#### 4. SUMMARY

This lesson introduced the fundamental concepts of Production and Operations Management, highlighting its evolution from craft-based systems to modern digital manufacturing. The production system was explained using the input-process-output model, emphasizing the interdependence of various components. Different types of production systems—job, batch, mass, and continuous—were described, each suited to specific product and market requirements. The role of the production manager was discussed, along with the challenges faced by global operations in the modern world. Overall, POM serves as the foundation for organizational success by ensuring efficient resource utilization, high-quality output, and customer satisfaction.

#### 5. KEY WORDS

- Production System
- Operations Management
- Transformation Process
- World-Class Manufacturing
- Productivity
- Mass Production
- Batch Processing
- Plant Layout
- Production Manager
- Continuous Production

#### 6. SELF-ASSESSMENT QUESTIONS

##### 1. Short-Answer Questions (with Answers)

1. **What is Production and Operations Management?**

*Answer:* It is the management of processes that convert inputs into goods and services efficiently and effectively.

**2. Define a production system.**

*Answer:* A production system is a framework that transforms inputs into outputs through a conversion process.

**3. Mention any two components of a production system.**

*Answer:* Inputs and transformation process.

**4. What is mass production?**

*Answer:* Production of large volumes of standardized products using specialised equipment.

**5. Who is a production manager?**

*Answer:* A manager responsible for planning, organising, and controlling production activities.

**2. Essay-Type Questions (with Hints)****1. Explain the evolution of Production and Operations Management.**

*Hints:* Craft production, industrial revolution, mass production, modern operations.

**2. Discuss the system concept of production.**

*Hints:* Inputs, transformation, outputs, feedback and control.

**3. Describe different types of production systems.**

*Hints:* Job, batch, mass, continuous – features and examples.

**3. Analytical MCQs****1. Production and Operations Management is primarily concerned with:**

- a) Marketing strategy
- b) Financial accounting
- c) Conversion of inputs into outputs
- d) Shareholder relations

**Correct Answer:** c)

**2. Which production system is most suitable for customized products?**

- a) Mass production
- b) Continuous production
- c) Job production
- d) Assembly line production

**Correct Answer:** c).

**Case Study for Self-Assessment:**

Managing Production Systems at Tata Motors\*\*

**Case Description**

Tata Motors, a flagship company of the Tata Group, operates manufacturing plants in India, the United Kingdom, South Korea, and other regions. The company produces a wide range of vehicles, from passenger cars to commercial vehicles, serving both domestic and international markets.

As Tata Motors expanded globally through acquisitions such as Jaguar Land Rover, it faced challenges in integrating diverse production systems. Differences in technology levels, workforce skills, supplier networks, and quality standards created operational complexity. Managing job production, batch production, and mass production systems simultaneously became a strategic concern.

Operational inefficiencies in certain plants led to higher costs and delayed deliveries, affecting customer satisfaction. Senior management recognised the need to redesign production systems and align them with the company's global business strategy.

### Analytical Questions

1. Identify the types of production systems used by Tata Motors across its operations.
2. Analyse the role of production management in coordinating domestic and international plants.
3. How does the system concept of production apply to Tata Motors' operations?
4. What challenges arise when managing global production systems?
5. Suggest measures to improve operational efficiency and competitiveness.

### References and Suggested Readings

#### Text Books

1. Heizer, J., Render, B., & Munson, C., *Operations Management*, Pearson Education, New Delhi, 2020.
2. Slack, N., Brandon-Jones, A., & Johnston, R., *Operations Management*, Pearson Education, Harlow, 2022.
3. Krajewski, L.J., Malhotra, M.K., & Ritzman, L.P., *Operations Management: Processes and Supply Chains*, Pearson, New Delhi, 2021.
4. Stevenson, W.J., *Operations Management*, McGraw-Hill Education, New York, 2019.
5. Chase, R.B., Jacobs, F.R., & Aquilano, N.J., *Operations Management for Competitive Advantage*, McGraw-Hill, New York, 2018.

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#### Other References

- World Health Organization (WHO), *Global Supply Chain and Operations Reports*
- Government of India, Ministry of Commerce & Industry – Industrial Production Reports
- Economic Times – Articles on global manufacturing and operations management

## LESSON -2

## PRODUCTIVITY AND WORLD-CLASS MANUFACTURING

### 1. OBJECTIVES OF THE LESSON

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After studying this lesson, the learner will be able to:

- **Explain** the concept, importance, and measurement of productivity
- **Describe** different types and determinants of productivity
- **Analyse** methods for improving productivity in organisations
- **Explain** the philosophy and principles of World-Class Manufacturing (WCM)
- **Evaluate** the role of productivity and WCM in achieving global competitiveness

### 2. STRUCTURE OF THE LESSON

1. Introduction
2. Concept and Meaning of Productivity
3. Types of Productivity
4. Factors Affecting Productivity
5. Measurement of Productivity
6. Productivity Improvement Techniques
7. **Concept of World-Class Manufacturing**
8. **Elements of World-Class Manufacturing**
9. **Benefits and Challenges of WCM**
10. Summary
11. Key Words
12. Self-Assessment Questions
13. Reference Books

#### 3.1 Introduction

Productivity is one of the most important performance indicators for any business or national economy. It reflects the relationship between the inputs used in a production system and the amount of output generated. A productive organization can manufacture more goods or deliver more services with the same amount of resources, thereby improving its competitiveness and

profitability. Productivity gains reduce costs, enhance customer satisfaction, improve employee morale, and strengthen the organization's position in domestic and international markets.

The concept of productivity became highly significant during the Industrial Revolution, when machines replaced manual labour and output increased dramatically. Over time, managers realized that productivity is not only influenced by technology but also by the skills of workers, quality of raw materials, process design, maintenance, and innovation. Today, productivity is considered a strategic tool for achieving global competitiveness, especially for countries seeking to strengthen their manufacturing base.

In the globalized business environment, firms face unprecedented competition, forcing them to continuously improve their productivity levels. Companies such as Toyota, Samsung, and General Electric achieved global leadership by focusing on productivity-enhancing techniques like lean manufacturing, Just-in-Time systems, flexible automation, and employee involvement. Thus, productivity is not merely a technical measure but a philosophy that reflects the organization's commitment to excellence, efficiency, and continuous improvement.

### **Introductory Case Study:**

Productivity Transformation at Toyota Motor Corporation\*\*

#### **Background of the Organisation**

Toyota Motor Corporation is globally recognised for its exceptional productivity and operational efficiency. Operating manufacturing plants across multiple continents, Toyota competes in a capital-intensive, high-volume automobile industry where small improvements in productivity can generate significant cost advantages.

Toyota's success is rooted in its systematic approach to productivity improvement through the Toyota Production System (TPS), which integrates Just-in-Time production, quality at source, continuous improvement (Kaizen), and respect for people.

#### **Contextual Trigger / Problem Situation**

During the post-war period, Toyota faced severe resource constraints, limited capital, and intense competition from mass producers in the United States. Traditional productivity measures focusing only on output volume were insufficient. Toyota needed to improve productivity without increasing inventory, labour, or capital investment.

The challenge was to design a production system that maximised output per unit of input while maintaining high quality and flexibility across global markets.

#### **Stakeholders Involved**

- Top management and operations strategists
- Production engineers and supervisors
- Shop-floor employees and team leaders

- Global suppliers and logistics partners
- Customers and dealers worldwide

#### **Behavioural / Managerial Issues**

- Developing a culture of continuous improvement
- Encouraging employee participation in productivity initiatives
- Eliminating waste without increasing work pressure
- Balancing productivity improvement with quality and safety

#### **Why This Case Is Important for the Lesson**

This case demonstrates that productivity is not merely a numerical ratio but a holistic management philosophy. It highlights the transition from traditional productivity improvement to world-class manufacturing practices.

#### **Linkage to Lesson Concepts**

The case links directly to:

- Meaning and measurement of productivity
- Productivity improvement techniques
- Relationship between productivity and competitiveness
- Principles of World-Class Manufacturing

### **3.2 Concept and Meaning of Productivity**

Productivity refers to the ratio of output to inputs used in the production process. It measures how effectively an organization utilizes its resources. A higher productivity value indicates that fewer inputs are required to produce the same level of output or more output is produced with the same resources.

In simple terms:

#### **Productivity = Output / Input**

This basic definition applies across industries—manufacturing, agriculture, construction, and services. Productivity should not be confused with production. **Production refers to the volume of goods or services** produced, whereas productivity refers to the efficiency with which resources are used. For example, if a factory produces 500 units in 10 hours, productivity measures how efficiently labour, machines, materials, and time contributed to that production.

The importance of productivity lies in its impact on profitability, cost reduction, competitiveness, and national economic growth. Countries with higher productivity, such as Japan, Germany, South Korea, and the United States, enjoy higher income levels, better living standards, and stronger global positions.

### **3.3 Types of Productivity**

There are several types of productivity measures, each focusing on a specific input or combination of inputs. These include:

#### a. Labour Productivity

Labour productivity measures the output per worker or per labour hour. It helps organizations understand the efficiency of their workforce.

Example:

If 10 workers produce 200 units per day, labour productivity is 20 units per worker.

Labour productivity is influenced by worker skills, training, motivation, tools, and workplace environment.

#### b. Capital Productivity

Capital productivity measures the output generated by machinery, equipment, and technology. Modern industries invest heavily in automation, robotics, and IT systems to improve capital productivity.

#### c. Material Productivity

This measures how efficiently raw materials are used in production. High material waste reduces productivity. Industries aim to reduce scrap, rework, and defective products.

#### d. Total Factor Productivity (TFP)

TFP is a comprehensive measure that considers multiple inputs—labour, capital, materials, energy, and technology. It reflects the overall efficiency of a system and is widely used in macroeconomic analysis.

#### e. Machine Productivity

Machine productivity indicates how effectively machines are utilized. High breakdowns, idle time, or poor scheduling reduce machine productivity.

### 3.4 Factors Affecting Productivity

Productivity is influenced by both internal and external factors.

#### 1. Internal Factors

These are within the control of the organization:

- **Technology and automation:** Advanced machinery and digital tools improve efficiency.
- **Workforce skills and training:** Skilled labour performs tasks faster and with fewer errors.
- **Materials and quality:** High-quality materials reduce rework and waste.

- **Process design:** Efficient workflows reduce delays and bottlenecks.
- **Maintenance:** Preventive maintenance reduces downtime and increases equipment life.
- **Work environment:** Good lighting, ventilation, safety, and ergonomics enhance performance.
- **Management policies:** Fair incentives, delegation, and leadership style affect employee motivation.

## 2. External Factors

These affect productivity indirectly:

- Government industrial policies
- Tax structures
- Availability of power, transport, and infrastructure
- Market conditions
- Competition
- Global economic trends

Productivity improvement requires coordinated efforts at both micro (organizational) and macro (national) levels.

## 3.5 Measurement of Productivity

Measuring productivity is important for identifying inefficiencies, setting performance targets, and planning improvements. Productivity can be measured in several ways depending on the industry.

### a. Single-Factor Productivity

Measures output relative to one input, such as labour or materials.

Example:

Output	=	1000	units
Labour	hours	=	250

Labour productivity =  $1000 / 250 = 4$  units per hour

### b. Multifactor Productivity

Measures output relative to a combination of several inputs.

### c. Total Factor Productivity

TFP =  $\text{Output} / (\text{Labour} + \text{Capital} + \text{Material} + \text{Energy})$

Accurate measurement requires reliable data on input costs, usage, and output levels.

### 3.6 Productivity Improvement Techniques

Improving productivity is a continuous and systematic effort. Major techniques include:

#### 1. Work Study

Work study includes method study and work measurement. Method study evaluates the best way of performing a task, while work measurement determines the standard time required to complete it.

#### 2. Automation and Technology Upgradation

Automation reduces human error and increases speed. Robots are widely used in automobile manufacturing for welding, painting, and assembly.

#### 3. Quality Management

Improving quality reduces waste. Total Quality Management (TQM) and Six Sigma focus on defect reduction and customer satisfaction.

#### 4. Lean Manufacturing

Lean eliminates waste in all forms—overproduction, waiting time, unnecessary motion, excess inventory, and defective goods.

#### 5. Kaizen and Continuous Improvement

Kaizen encourages small, incremental improvements at all levels of the organization.

#### 6. Better Maintenance

Preventive and predictive maintenance ensure continuous machine availability.

#### 7. Employee Involvement

Employee empowerment and teamwork enhance productivity through ownership and motivation.

### 3.7 Concept of World-Class Manufacturing

World-Class Manufacturing (WCM) is a philosophy that enables companies to compete successfully on a global scale. It involves adopting best practices from leading manufacturers worldwide to achieve excellence in cost, quality, delivery, flexibility, and innovation.

WCM emerged from Japan's manufacturing revolution, particularly from Toyota's Production System (TPS). Companies adopting WCM strive for:

- Zero defects
- Zero waste
- Zero breakdowns

- Zero inventory
- High flexibility
- High customer focus

WCM demands a cultural transformation, involving top management commitment, employee involvement, and continuous improvement.

### 3.8 Elements of World-Class Manufacturing

The major elements of WCM include:

#### 1. Just-in-Time (JIT)

JIT eliminates waste by producing only what is required, <sup>36</sup> in the exact quantity, and at the right time.

#### 2. Total Quality Management (TQM)

TQM ensures every employee participates in improving quality through systematic problem-solving.

#### <sup>16</sup> 3. Lean Manufacturing

Lean focuses on eliminating non-value-added activities.

#### 4. Benchmarking

Comparing performance with the best organizations globally and adopting superior practices.

#### 5. Employee Empowerment

Employees are trained, motivated, and involved in decision-making.

#### 6. Flexible Manufacturing Systems (FMS)

These systems quickly adapt to product variations with minimal downtime.

#### 7. Total Productive Maintenance (TPM)

TPM involves all employees in maintenance activities to ensure zero breakdowns.

#### 8. Customer-Driven Production

Meeting and exceeding customer expectations is central to WCM.

### 3.9 Benefits and Challenges of World-Class Manufacturing

#### Benefits

- Improved quality and reduced defects

- Lower operational costs
- Faster response to customer demands
- Higher flexibility in production
- Stronger global competitiveness
- Improved employee morale and teamwork

**Challenges**

- High initial investment
- Need for cultural change
- Requirement of skilled workforce
- Resistance to change
- Complex coordination across departments

Despite challenges, WCM <sup>52</sup> is essential for surviving in a highly competitive global environment.

**Student Learning Activities****Activity 1: Productivity Calculation Exercise****Task:**

Identify a simple production or service activity and calculate labour productivity using output–input data.

**Expected Learning Outcome:**

Ability to measure and interpret productivity.

**Activity 2: Reflective Learning Task****Task:**

Explain why productivity improvement should focus on systems rather than individual workers.

**Expected Learning Outcome:**

Understanding of systemic approach to productivity enhancement.

**Activity 3: Mini Case Analysis****Task:**

Study a global manufacturing company and identify at least two WCM practices it follows.

**Expected Learning Outcome:**

Ability to connect WCM concepts with real organisational practices.

#### 4. SUMMARY

This lesson explained the concept of productivity, its importance, and various methods used to measure and improve it. Productivity influences the cost, quality, competitiveness, and long-term sustainability of organizations. Several factors—technological, human, material, and managerial—affect productivity. The lesson also introduced World-Class Manufacturing, a comprehensive management philosophy that focuses on global excellence through lean systems, continuous improvement, quality enhancement, and customer focus. Together, productivity and WCM enable organizations to compete effectively in both domestic and international markets.

#### 5. KEY WORDS

Productivity  
Labour Productivity  
Total Factor Productivity  
Lean Manufacturing  
Kaizen  
Just-in-Time  
Total Quality Management  
World-Class Manufacturing

#### 6. SELF-ASSESSMENT QUESTIONS

##### 1. Short-Answer Questions (with Answers)

- 1. Define productivity.**  
*Answer:* Productivity is the ratio of output produced to the inputs used.
- 2. What is labour productivity?**  
*Answer:* Output produced per unit of labour input.
- 3. What is total factor productivity?**  
*Answer:* Ratio of total output to combined inputs of labour, capital, and materials.
- 4. Define World-Class Manufacturing.**  
*Answer:* A set of best practices aimed at achieving superior performance in quality, cost, delivery, and flexibility.
- 5. What is Kaizen?**  
*Answer:* Continuous, incremental improvement involving all employees.

##### 2. Essay-Type Questions (with Hints)

1. **Explain the concept and importance of productivity.**  
*Hints:* Definition, economic growth, competitiveness, organisational performance.
2. **Discuss different types of productivity and their measurement.**  
*Hints:* Labour, capital, total factor productivity.
3. **Explain the principles and pillars of World-Class Manufacturing.**  
*Hints:* Lean, quality, JIT, continuous improvement, employee involvement.

### 3. Analytical MCQs

1. Which of the following best reflects productivity improvement?
  - a) Increasing output by increasing inputs
  - b) Reducing quality to increase speed
  - c) Increasing output with the same or fewer inputs
  - d) Increasing inventory levels

**Correct Answer:** c)

2. World-Class Manufacturing primarily focuses on:
  - a) Short-term profit
  - b) Output volume only
  - c) Integrated improvement of quality, cost, and delivery
  - d) Marketing efficiency

1. **Correct Answer:** c)

### Case Study for Self-Assessment:

World-Class Manufacturing Practices at Samsung Electronics\*\*

#### Case Description

Samsung Electronics operates large-scale manufacturing facilities across South Korea, Vietnam, China, India, and Eastern Europe. The company produces semiconductors, consumer electronics, and mobile devices in a highly competitive global market characterised by rapid technological change and short product life cycles.

As global competition intensified, Samsung faced pressure to improve productivity while simultaneously increasing product complexity and maintaining high quality standards. Variations in productivity across plants, rising defect rates in certain facilities, and increasing production costs posed significant managerial challenges.

To address these issues, Samsung adopted World-Class Manufacturing practices such as lean production, Six Sigma, automation, advanced analytics, and workforce skill development. The company invested heavily in standardising processes while allowing flexibility for local conditions.

#### Analytical Questions

1. How is productivity measured in a high-technology manufacturing environment like Samsung?
2. Identify the key productivity challenges faced by Samsung's global operations.
3. Explain how WCM principles help improve productivity and quality simultaneously.
4. Analyse the role of employee involvement in achieving world-class productivity.

Suggest additional productivity improvement measures suitable for global manufacturing firms.

## References and Suggested Readings

### Text Books

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Economic Times – Articles on productivity and manufacturing excellence

## LESSON -3

**PROCESS PLANNING, PROCESS DESIGN &  
MAKE-OR-BUY DECISIONS****1. OBJECTIVES OF THE LESSON**

3 After studying this lesson, the learner will be able to:

- **Explain** the concept and importance of process planning in operations management
- **Describe** key factors influencing process selection and process design
- **Analyse** different tools and techniques used in process design
- **Distinguish** between manufacturing and service process design decisions
- **Evaluate** make-or-buy decisions in the context of global operations

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Process Planning
3. Objectives and Importance of Process Planning
4. Steps in Process Planning
5. Factors Influencing Process Selection
6. Concept and Meaning of Process Design
7. Process Design in Manufacturing and Services
8. Tools and Techniques Used in Process Design
9. 5 Value Analysis and Value Engineering
10. Make-or-Buy Decisions: Concepts and Determinants
11. Strategic Implications of Make-or-Buy Decisions
12. Summary
13. Key Words
14. Self-Assessment Questions
15. Reference Books

**3.1 Introduction**

Process planning and design form the backbone of production and operations management. They determine how an organization converts raw materials into finished products or delivers services to customers. A well-designed process ensures that production activities are conducted efficiently, cost-effectively, and with consistent quality. Process planning involves identifying the sequence of operations, tools, machines, materials, and methods required to produce a product. It bridges the gap between product design and actual production.

In today's competitive global market, customers expect high quality, shorter lead time, customization, and cost-effective products. To meet these expectations, organizations must develop production processes that are flexible, technologically advanced, and optimized for speed and efficiency. Effective process planning reduces waste, lowers cost, improves productivity, and enhances competitiveness. Modern tools such as computer-aided process planning, flexible manufacturing systems, robotics, and automation have further transformed process design. The lesson explores these aspects in detail.

## Introductory Case Study:

Process Design Choices at Apple Inc.'s Global Manufacturing Network\*\*

### Background of the Organisation

Apple Inc. is one of the world's most valuable multinational corporations, known for its innovative consumer electronics such as the iPhone, iPad, and MacBook. While Apple designs its products in the United States, manufacturing and assembly are largely carried out through a global network of suppliers and contract manufacturers, primarily in China, India, and Southeast Asia.

Apple's operations strategy is built on highly sophisticated process planning and process design decisions that balance cost efficiency, quality, speed, flexibility, and protection of intellectual property.

### Contextual Trigger / Problem Situation

As global demand for Apple products surged and geopolitical risks increased, Apple faced critical process-related decisions. Should it continue outsourcing large parts of manufacturing, or should it internalise certain processes to gain greater control? Rising labour costs, supply chain disruptions, and quality risks highlighted the strategic importance of process design and make-or-buy decisions.

Apple had to decide which processes should be performed in-house and which should be outsourced, while ensuring consistent quality across global markets.

### Stakeholders Involved

- Corporate leadership and operations strategists
- Contract manufacturers and component suppliers
- Engineers and process planners

- Governments and regulatory bodies
- Global customers

### **Behavioural / Managerial Issues**

- Trade-off between cost savings and control over processes
- Dependence on external suppliers
- Coordination across geographically dispersed facilities
- Protection of proprietary technology

### **Why This Case Is Important for the Lesson**

This case demonstrates that process planning and process design are strategic decisions rather than purely technical activities. It also highlights how make-or-buy decisions shape global production structures.

### **Linkage to Lesson Concepts**

The case links directly to:

- Process planning steps
- Factors influencing process selection
- Manufacturing vs service process design
- Strategic importance of make-or-buy decisions

## **3.2 Concept and Meaning of Process Planning**

Process planning refers to determining the most effective and economical method to produce a product or deliver a service. It establishes the route or pathway that a product must follow from raw material to finished good. It includes the selection of materials, machines, operations, sequence of operations, tools, jigs, fixtures, inspection methods, and quality control procedures.

In simple terms, **process planning converts product specifications into detailed manufacturing instructions.**

Process planning acts as a roadmap for the manufacturing floor and ensures uniformity, efficiency, and cost-effectiveness. It is a crucial link between product design and actual production.

## **3.3 Objectives and Importance of Process Planning**

Process planning serves multiple objectives that contribute to the efficiency of production operations.

### **1. To determine the best manufacturing method**

Choosing the right method ensures higher productivity and lower cost.

**2. To select suitable tools and equipment**

Proper tool selection minimizes machine breakdowns and enhances output quality.

**3. To minimize manufacturing costs**

Efficient processes reduce waste, rework, and idle time.

**4. To standardize operations**

Standardization results in consistent product quality.

**5. To improve production efficiency**

Well-planned processes reduce bottlenecks and ensure smooth workflow.

**6. To facilitate training and supervision**

Clear process instructions help new workers learn operations faster.

**7. To enhance flexibility**

Well-designed processes can adapt to technological changes and market variations.

**3.4 Steps in Process Planning**

Process planning involves a systematic sequence of activities:

**1. Study of Product Design**

The planner studies product drawings, specifications, tolerances, and customer requirements.

**2. Selection of Raw Materials**

Material properties such as strength, durability, machinability, and cost are considered.

**3. Selection of Manufacturing Processes**

The planner identifies whether casting, forging, machining, welding, injection moulding, or other methods will be used.

**4. Determination of Operation Sequence**

The correct order of operations is established. Example: cutting → shaping → drilling → inspection → assembly.

**5. Selection of Machines and Tools**

Machines are chosen based on speed, accuracy, and capacity requirements.

**6. Determination of Standard Time**

Work measurement techniques are used to set the time required for each operation.

**7. Estimation of Costs**

Material, labour, overhead, and machine costs are calculated.

### **8. Preparation of Process Sheet**

The final process plan is documented for production personnel.

Effective process planning ensures that operations are aligned with organizational goals of quality, speed, and cost minimization.

### **3.5 Factors Influencing Process Selection**

Selecting the right process is critical for achieving operational efficiency. The choice depends on several factors:

#### **a. Nature of the Product**

Simple products may require minimal processing, while complex products require advanced technology.

#### **b. Production Volume**

Mass production requires highly automated processes, while job production requires flexible processes.

#### **c. Cost Considerations**

Processes must be chosen to minimize total cost (material, labour, overhead, maintenance).

#### **d. Flexibility Requirements**

Companies producing customized goods need flexible systems.

#### **e. Technology Availability**

Access to tools, software, machines, and expertise affects process selection.

#### **f. Quality Requirements**

Industries such as aerospace and medical equipment require ultra-precision processes.

#### **g. Layout and Facility Constraints**

Space and infrastructure limit the use of certain processes.

All these factors have long-term implications for productivity and profitability.

### **3.6 Concept and Meaning of Process Design**

Process design refers to developing efficient and effective production processes that convert inputs into outputs. It involves determining:

- How operations will be performed

- Which workflows will be adopted
- What equipment will be used
- How material and information will flow
- How quality will be controlled

Process design aims to achieve customer satisfaction by ensuring consistent quality, low cost, flexibility, and fast delivery.

### **Process Design in Manufacturing**

Manufacturing process design involves decisions related to:

- Equipment selection
- Plant layout
- Automation level
- Machine capacity
- Workstation design
- Material handling systems

### **Process Design in Services**

Service industries design processes relating to:

- Customer interaction
- Service layout (e.g., hospitals, banks, hotels)
- Waiting lines (queuing models)
- Scheduling
- Standardization of service delivery

Thus, process design is essential for both manufacturing and service operations.

### **3.7 Tools and Techniques Used in Process Design**

Several tools assist in designing efficient processes:

#### **1. Process Mapping**

Graphical representation of the flow of materials and information.

#### **2. Flow Charts**

Show operational steps in sequence.

### 3. Value Stream Mapping

Identifies value-added and non-value-added steps.

### 4. Computer-Aided Process Planning (CAPP)

Automates the process planning task using software.

### 5. Time and Motion Study

Determines the best method and standard time for operations.

### 6. Simulation

Predicts the performance of different process scenarios.

### 7. Work Sampling

Estimates the proportion of time spent on various activities.

Using these tools reduces inefficiencies and supports continuous improvement.

## 3.8 Value Analysis and Value Engineering

### Concept of Value

Value refers to the ratio of function to cost:

$$\text{Value} = \text{Function} / \text{Cost}$$

If function increases or cost decreases, value improves.

### Value Analysis (VA)

Value Analysis is applied to existing products. It aims to reduce cost without affecting product performance.

### Value Engineering (VE)

Value Engineering is applied during product design. It seeks <sup>14</sup> to achieve the required function at the lowest cost even before production begins.

### Benefits of VA/VE

- Reduction in manufacturing cost
- Improved product quality
- Enhanced reliability
- Elimination of unnecessary features
- Better use of materials and resources

VA/VE are powerful tools for achieving competitive advantage.

### 3.9 Make-or-Buy Decisions: Concepts and Determinants

<sup>74</sup> Make-or-buy decision refers to the strategic choice between manufacturing a component in-house or purchasing it from an external supplier.

#### When to “Make” In-House:

- When quality control is critical.
- When organization has specialized technology.
- When capacity utilization is required.
- When intellectual property must be protected.
- When cost advantage exists.

#### When to “Buy” from Outside:

- When suppliers offer lower cost.
- When production volume is low.
- When specialized skills are required.
- When the firm wants to reduce burden of overheads.
- When flexibility and speed are important.

### 3.10 Strategic Implications of Make-or-Buy Decisions

<sup>4</sup> Make-or-buy decisions have long-term effects on cost structure, quality, competitiveness, and flexibility.

#### Strategic implications include:

- Impact on supply chain structure
- Dependence on external suppliers
- Control over technology and quality
- Cost and profitability implications
- Effect on workforce and capacity planning
- Risk associated with outsourcing

Modern companies often adopt a hybrid strategy, making core components in-house and outsourcing non-core parts.

## Student Learning Activities

### Activity 1: Process Mapping Exercise

**Task:**

Select a simple product or service and prepare a basic process flow diagram showing major steps.

**Expected Learning Outcome:**

Ability to visualise and analyse operational processes.

### Activity 2: Reflective Task

**Task:**

Explain why process design decisions have long-term strategic implications for organisations.

**Expected Learning Outcome:**

Understanding the strategic nature of process design.

### Activity 3: Application-Based Writing

**Task:**

Write a short note (200–250 words) analysing a make-or-buy decision faced by a global company.

**Expected Learning Outcome:**

Ability to apply theoretical decision criteria to real-world cases.

## 4. SUMMARY

This lesson explored the detailed concepts of process planning and process design, which are essential for efficient production. It explained how process planning converts product design into operational instructions and how process design determines the workflow, equipment, and technology needed to produce goods or services. The lesson highlighted the significance of value analysis and value engineering for improving product value and reducing cost. A detailed discussion was provided on make-or-buy decisions, which influence cost, quality, technology, and competitiveness. In a global marketplace, effective process planning and design play a critical role in achieving operational excellence.

## 5. KEY WORDS

Process

Process

Value

Value

Make-or-Buy

Planning

Design

Analysis

Engineering

Decision

Process  
Flow  
CAPP  
Workflow

Selection  
Chart

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

1. **What is process planning?**

*Answer:* Process planning determines the sequence of operations required to convert raw materials into finished products.

2. **Define process design.**

*Answer:* Process design involves deciding how production or service activities will be performed.

3. **What is a process sheet?**

*Answer:* A document specifying operation sequence, machines, tools, and time standards.

4. **What is a make-or-buy decision?**

*Answer:* A decision regarding whether to produce internally or outsource externally.

5. **Mention one factor influencing make-or-buy decisions.**

*Answer:* Cost considerations.

### 2. Essay-Type Questions (with Hints)

1. **Explain the steps involved in process planning.**

*Hints:* Product study, process selection, operation sequence, time standards.

2. **Discuss factors influencing process design decisions.**

*Hints:* Volume, variety, flexibility, cost, technology.

3. **Analyse the strategic importance of make-or-buy decisions.**

*Hints:* Cost, control, risk, core competencies.

### 3. Analytical MCQs

1. Process planning primarily focuses on:
- Marketing strategy
  - Sequence of manufacturing operations
  - Financial reporting
  - Workforce motivation

**Correct Answer:** b)

2. A make-or-buy decision becomes strategic when:
- Labour cost is low
  - Products are standardised
  - Core competencies and long-term control are involved
  - Demand is stable

1. **Correct Answer:** c)

### Case Study for Self-Assessment:

Make-or-Buy Decisions at Boeing Commercial Aircraft\*\*

#### Case Description

Boeing, <sup>41</sup>one of the world's largest aerospace manufacturers, designs and produces commercial aircraft such as the Boeing 737 and 787 Dreamliner. Aircraft manufacturing involves extremely complex process planning, high precision, and strict regulatory compliance.

In the development of the Boeing 787, the company adopted an aggressive outsourcing strategy, sourcing major components such as wings, fuselage sections, and systems from global suppliers. The intention was to reduce costs, shorten development time, and leverage supplier expertise.

However, coordination failures, quality issues, and delays exposed weaknesses in Boeing's process planning and make-or-buy decisions. Boeing later had to bring several outsourced processes back in-house to regain control over quality and schedules.

#### Analytical Questions

1. What factors influenced Boeing's initial make-or-buy decisions?
2. Analyse the risks associated with excessive outsourcing of critical processes.
3. How do process planning and process design affect product quality and delivery?
4. Which processes should be retained in-house in high-technology industries?
5. Suggest guidelines for effective make-or-buy decisions in global operations.

#### References and Suggested Readings

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1. Heizer, J., Render, B., & Munson, C., *Operations Management*, Pearson Education, New Delhi, 2020.
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- Harvard Business Review – Articles on outsourcing and process design

Economic Times – Industry reports on global manufacturing strategies

## LESSON -4

# FACILITY LOCATION

### 1. OBJECTIVES OF THE LESSON

3 After studying this lesson, the learner will be able to:

1. **Explain** the concept and strategic importance of facility location decisions
2. **Identify** factors influencing national and international location choices
3. **Analyse** different methods used for evaluating location alternatives
4. **Distinguish** between manufacturing and service facility location decisions
5. **Evaluate** the impact of facility location on cost, competitiveness, and global operations

### 2. STRUCTURE OF THE LESSON

1. Introduction
2. Concept and Meaning of Facility Location
3. Types of Location Decisions
4. Importance of Facility Location
5. Factors Influencing Facility Location
6. Location Planning for Manufacturing vs. Services
7. Location Analysis Techniques
8. Break-Even Analysis for Facility Location
9. Challenges in Facility Location Decisions
10. Summary
11. Key Words
12. Self-Assessment Questions
13. Reference Books

#### 3.1 Introduction

Facility location is one of the most critical long-term strategic decisions in production and operations management. It involves selecting the most suitable geographical site for establishing a factory, office, warehouse, retail store, hospital, or service centre. A well-chosen location increases operational efficiency, reduces costs, and provides access to markets and resources. Poor location decisions, on the other hand, can lead to increased transportation costs, high labour turnover, supply shortages, and reduced competitiveness.

Location decisions are not easily reversible. Once a plant or facility is established, relocating it requires significant financial investment, time, and administrative procedures. Therefore, organizations conduct detailed location analysis to identify the best possible site from several alternatives. Factors such as proximity to raw materials, availability of labour, infrastructure facilities, government policies, environmental factors, and market accessibility play a vital role in this analysis.

In an era of globalization, multinational corporations strategically select plant locations across countries to take advantage of lower production costs, tax benefits, access to skilled labour, and closeness to international markets. Examples include global electronics companies establishing plants in China, Vietnam, and India, and automobile companies setting up manufacturing clusters in Mexico, Eastern Europe, and Southeast Asia. Thus, facility location is a strategic decision that has far-reaching implications for competitiveness and efficiency.

## Introductory Case Study:

Global Facility Location Decisions at Amazon\*\*

### Background of the Organisation

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Amazon is one of the world's largest multinational e-commerce and technology companies, operating fulfilment centres, data centres, and logistics hubs across North America, Europe, Asia, and emerging markets. Its business model relies heavily on fast order processing, efficient distribution, and proximity to customers.

Facility location decisions play a critical role in Amazon's ability to deliver products quickly while managing logistics costs and service quality in different countries.

### Contextual Trigger / Problem Situation

As Amazon expanded internationally, it faced complex location decisions regarding where to establish fulfilment centres and last-mile delivery hubs. Factors such as land cost, labour availability, transportation infrastructure, tax incentives, regulatory environment, and customer proximity varied significantly across regions.

Poorly chosen locations could increase delivery time, transportation cost, and operational risk, directly affecting customer satisfaction and competitiveness.

### Stakeholders Involved

- Corporate strategy and operations managers
- Logistics and supply chain partners
- Local governments and regulatory agencies
- Employees and local communities
- Customers across global markets

**Behavioural / Managerial Issues**

- Balancing cost efficiency with service responsiveness
- Managing political and regulatory risks across countries
- Community and environmental concerns
- Coordination between global and local operational priorities

**Why This Case Is Important for the Lesson**

This case highlights that facility location is a long-term strategic decision with significant cost and service implications. It demonstrates the complexity of global location planning in modern operations management.

**Linkage to Lesson Concepts**

The case links directly to:

- Importance of facility location decisions
- Factors affecting domestic and international location
- Strategic role of location in operations management

**3.2 Concept and Meaning of Facility Location**

Facility location refers to the process of identifying the most suitable geographical site for establishing an organization's operations. It involves determining where to situate the plant or service unit so that operations are efficient and cost-effective.

In manufacturing, facility location determines the physical site of the factory, warehouse, or distribution centre. In service organizations, it determines where the service facility such as a hospital, bank, retail store, or educational institution should be located to conveniently serve customers.

Facility location decisions answer questions such as:

- Where should we locate our manufacturing plant?
- Should we locate near raw material sources or near markets?
- Which region or state offers better incentives and labour availability?
- What is the cost of land, power, taxes, and transportation?
- What facilities and services does the region provide?

The objective of facility location is to identify a site that minimizes cost and maximizes customer service and productivity.

**3.3 Types of Location Decisions**

Location decisions can be classified into the following types:

**1. New Location**

When a company begins operations for the first time or expands by setting up a new facility, it must choose a fresh site.

## **2. Relocation**

Sometimes companies shift from one site to another due to unfavourable conditions such as rising costs, lack of skilled labour, or inadequate infrastructure.

## **3. Expansion at Existing Location**

Instead of moving, an organization may expand by adding more buildings, machinery, or departments.

## **4. Multi-Plant Location**

Large organizations may open multiple plants in different regions to reduce costs and reach customers faster.

## **5. Global Location**

Companies may choose international locations to benefit from foreign markets, tax concessions, low-wage labour, or availability of raw materials.

Each type of location decision requires careful evaluation of internal and external factors.

### **3.4 Importance of Facility Location**

Facility location has long-term consequences for cost and performance. A good location provides the following benefits:

#### **a. Cost Reduction**

Transportation cost, labour cost, and rent vary from place to place. Selecting a cost-efficient site reduces overall production expenses.

#### **b. Availability of Labour**

Locating in regions with skilled labour ensures high productivity and lower training costs.

#### **c. Market Proximity**

Being closer to customers reduces delivery time and transportation expenses.

#### **d. Access to Inputs**

Raw materials and suppliers are easily accessible at some locations, making operations smoother.

#### **e. Better Infrastructure**

Facilities such as power supply, water, roads, ports, and telecommunication are crucial for smooth operations.

**f. Competitive Advantage**

Strategically located facilities help companies respond faster to market demands and outperform competitors.

**g. Favourable Government Policies**

Tax incentives, subsidies, and relaxed regulations help organizations reduce costs.

Thus, choosing the right facility location is essential for achieving operational excellence.

**3.5 Factors Influencing Facility Location**

Facility location decisions are influenced by various factors, which vary according to the nature of the business. These include:

**1. Raw Material Availability**

Industries such as steel, cement, and food processing depend heavily on raw materials. Locating near raw material sources reduces transportation cost.

**2. Labour Availability**

Availability of skilled, semi-skilled, and unskilled labour is crucial.

**3. Transportation Facilities**

Good road, rail, air, and port facilities reduce logistic delays and costs.

**4. Infrastructure**

Reliable power, water supply, waste disposal, and telecommunication are necessary.

**5. Market Proximity**

Industries producing perishable goods prefer locations near markets.

**6. Government Policies**

Tax exemptions, subsidies, industrial estates, and relaxed labour laws attract industries.

**7. Climate and Environmental Conditions**

Some industries require specific climatic conditions. Also, pollution control norms restrict certain industries.

**8. Community and Social Factors**

Local attitudes, lifestyle, and living standards influence worker availability and productivity.

**9. Cost of Land and Construction**

Land prices and rental costs vary across regions.

**10. Safety and Risk Factors**

Regions prone to floods, earthquakes, or political instability may not be suitable.

A combination of these factors is evaluated before finalizing the location.

### **3.6 Location Planning for Manufacturing vs. Services**

#### **Manufacturing Location Decisions**

Manufacturing facilities focus on:

- Control of production cost
- Proximity to raw materials
- Large land area
- Infrastructure
- Access to suppliers
- Transportation costs
- Skilled labour

Since manufacturing plants do not require close customer contact, they can be located in remote areas if resources and infrastructure are available.

#### **Service Location Decisions**

Service facilities depend on:

- Customer accessibility
- Visibility and convenience
- Traffic patterns
- Population density
- Competition
- Local demand

Examples:

- Banks prefer commercial areas
- Hospitals choose central locations
- Retail outlets need high footfall

Thus, manufacturing focuses on cost and logistics, while services focus on customer convenience.

### 3.7 Location Analysis Techniques

Organizations use several methods to evaluate alternative locations.

#### 1. Factor Rating Method

Factors are assigned weights and scores. <sup>28</sup> The location with the highest total score is selected.

#### 2. Cost-Benefit Analysis

All costs (land, labour, transport) are compared across alternative sites.

#### 3. Centre-of-Gravity Method

Used for locating warehouses and distribution centres based on transportation cost minimization.

#### 4. Break-Even Analysis

Used to compare costs at different locations and determine where profits will be maximized.

#### 5. Trade-Off Analysis

Evaluates trade-offs between cost, accessibility, labour, and infrastructure.

#### 6. Geographic Information Systems (GIS)

GIS helps analyze population density, traffic, distances, and environmental factors.

Each technique provides a different perspective for decision-making.

### 3.8 Break-Even Analysis for Facility Location

Break-even analysis is a quantitative tool that compares fixed and variable costs across alternative locations. It helps identify which location will be more profitable under different levels of production.

#### Steps:

1. Identify <sup>8</sup> fixed and variable costs for each location.
2. Determine expected selling price and production volume.
3. Plot total revenue and total cost lines.
4. <sup>8</sup> The break-even point indicates where total cost equals total revenue.
5. The location with the lowest break-even point or highest profit is chosen.

Break-even analysis is particularly useful when locations differ significantly in land price, labour cost, or operational expenses.

### 3.9 Challenges in Facility Location Decisions

Organizations face several challenges:

**a. Uncertainty**

Future demand, labour availability, and government policies may change.

**b. Global Competition**

Companies must evaluate international locations, which adds complexity.

**c. Environmental Regulations**

Strict pollution norms may restrict certain industries.

**d. Land Acquisition Issues**

Legal and social conflicts may arise in land acquisition.

**e. High Fixed Costs**

Relocation or expansion requires large investments.

**f. Community Resistance**

Communities may oppose hazardous or polluting industries.

Despite these challenges, a systematic approach helps organizations make optimal location decisions.

### **Student Learning Activities**

#### **Activity 1: Location Analysis Task**

**Task:**

Identify a manufacturing or service organisation and list key factors that influenced its location choice.

**Expected Learning Outcome:**

Understanding practical considerations in facility location decisions.

#### **Activity 2: Reflective Question**

**Task:**

Explain why facility location decisions are considered irreversible or difficult to reverse.

**Expected Learning Outcome:**

Appreciation of the long-term strategic impact of location decisions.

#### **Activity 3: Application-Based Exercise**

**Task:**

Assume you are planning a new production facility for an export-oriented firm. List and prioritise five location factors.

**Expected Learning Outcome:**

Ability to apply theoretical frameworks to real decision contexts.

**4. SUMMARY**

Facility location is a strategic decision that determines the geographical placement of a company's production or service operations. It has a long-term impact on cost, productivity, customer service, and competitiveness. Several factors such as labour availability, infrastructure, raw materials, transportation, market proximity, government policies, and environmental conditions influence location decisions. Organizations use various analytical techniques such as factor rating, cost-benefit analysis, centre-of-gravity method, and break-even analysis to evaluate alternative sites. Effective location planning helps organizations minimize cost, ensure timely delivery, and achieve operational efficiency.

**5. KEY WORDS**

Facility	Location
Plant	Location
Factor	Rating
Break-Even	Analysis
Infrastructure	
Market	Proximity
Global	Location
Cost-Benefit Analysis	

**6. SELF-ASSESSMENT QUESTIONS****1. Short-Answer Questions (with Answers)**

- What is facility location?**  
*Answer:* Facility location refers to the selection of a geographical site for operations.
- Why are location decisions strategic?**  
*Answer:* They involve high investment and long-term commitment.
- Mention two factors affecting plant location.**  
*Answer:* Availability of labour and transportation facilities.
- What is break-even analysis in location selection?**  
*Answer:* A method comparing costs and output levels of alternative locations.
- Define service facility location.**  
*Answer:* Location decisions aimed at maximising customer accessibility and service quality.

**2. Essay-Type Questions (with Hints)**

- Explain the importance of facility location decisions.**  
*Hints:* Cost, service level, competitiveness, long-term impact.

**2. Discuss factors influencing international facility location.**

*Hints:* Political risk, labour cost, infrastructure, market access.

**3. Describe methods used for evaluating location alternatives.**

*Hints:* Factor rating, break-even analysis, qualitative methods.

**3. Analytical MCQs****1. Which factor is most critical for service facility location?**

- a) Proximity to raw materials
- b) Customer accessibility
- c) Availability of land
- d) Export incentives

**Correct Answer:** b)

**2. Facility location decisions are difficult to reverse because:**

- a) Labour is immobile
- b) Marketing strategies change
- c) They involve high fixed investment
- d) Demand is unpredictable

**Correct Answer:** c)

**Case Study for Self-Assessment:**

Location Strategy of Hyundai Motor Company in India\*\*

**Case Description**

Hyundai Motor Company, a South Korean automobile manufacturer, entered the Indian market by establishing a large manufacturing facility near Chennai, Tamil Nadu. The decision was influenced by access to ports, availability of skilled labour, supportive government policies, and proximity to suppliers.

As Hyundai expanded production for both domestic sales and exports, the location provided logistical advantages but also presented challenges such as infrastructure congestion and rising labour costs. The company had to continuously evaluate whether to expand existing facilities or establish new plants in alternative regions.

**Analytical Questions**

1. Identify the factors that influenced Hyundai's choice of Chennai as a manufacturing location.
2. Analyse how facility location affects supply chain efficiency and export performance.
3. Distinguish between location considerations for domestic and export-oriented plants.
4. What risks arise from concentration of facilities in a single region?
5. Suggest strategies for improving location flexibility in global manufacturing firms.

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**LESSON -5****FACILITY LAYOUT AND LINE BALANCING****1. OBJECTIVES OF THE LESSON**

3 After studying this lesson, the learner will be able to:

1. **Explain** the concept and objectives of facility layout
2. **Describe** different types of facility layouts used in organisations
3. **Analyse** factors influencing layout design decisions
4. **Explain** the concept and importance of assembly line balancing
5. **Evaluate** the role of effective layout and line balancing in improving productivity

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Facility Layout
3. Objectives of Facility Layout
4. Importance of Effective <sup>45</sup>Layout Planning
5. Types of Facility Layout
6. Process Layout
7. Product Layout
8. Group Technology (Cellular) Layout
9. Principles of Good Layout
10. Systematic Layout Planning (SLP)
11. Computer-Aided Layout Techniques: CRAFT, ALDEP, CORELAP
12. Concept of Assembly Line
13. Line Balancing: Meaning and Purpose
14. Methods of Line Balancing
15. Mass Production and its Relevance
16. Summary
17. Key Words
18. Self-Assessment Questions

## 19. Reference Books

### 3.1 Introduction

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Facility layout refers to the physical arrangement of machines, equipment, workstations, storage areas, material handling systems, and service departments within a plant or service facility. Effective layout planning is essential for achieving smooth workflow, minimizing material movement, reducing production costs, and ensuring worker safety. Layout decisions directly influence the efficiency of operations, the speed of production, and the overall productivity of the system.

In manufacturing, layout planning ensures that raw materials move through processes in a logical sequence with minimal delays. In service organizations such as hospitals, banks, and restaurants, layout design ensures customer convenience, employee efficiency, and smooth service delivery.

Similarly, assembly lines are widely used in mass production industries such as automotive manufacturing, electronics, and household appliances. Line balancing ensures that work is evenly distributed across all stations, eliminating bottlenecks and idle time. Together, facility layout and line balancing form the backbone of efficient production systems.

#### **Introductory Case Study:**

Facility Layout and Line Efficiency at Maruti Suzuki India Limited\*\*

#### **Background of the Organisation**

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Maruti Suzuki India Limited is the largest passenger car manufacturer in India, operating large-scale production facilities at Gurugram, Manesar, and Gujarat. The company produces multiple car models using assembly-line production systems and serves both domestic and export markets.

Efficient facility layout and balanced assembly lines are critical for Maruti Suzuki due to high production volumes, model variety, and intense competition in the automobile industry.

#### **Contextual Trigger / Problem Situation**

As demand increased and new car models were introduced, Maruti Suzuki faced challenges related to congestion on shop floors, uneven workload across workstations, and bottlenecks in assembly lines. Certain stations experienced idle time, while others were overburdened, leading to delays and reduced productivity.

Management realised that improving layout design and line balancing was essential to maintain throughput, reduce material handling costs, and ensure smooth workflow.

#### **Stakeholders Involved**

- Operations and production managers
- Industrial engineers and layout planners

- Assembly line workers and supervisors
- Suppliers and logistics partners
- Customers and dealers

**Behavioural / Managerial Issues**

- Resistance to layout changes from workers
- Training requirements for redesigned workflows
- Coordination between engineering and production teams
- Balancing efficiency with worker ergonomics and safety

**Why This Case Is Important for the Lesson**

This case demonstrates how facility layout and line balancing directly influence productivity, cost, and delivery performance in high-volume manufacturing environments.

**Linkage to Lesson Concepts**

The case links directly to:

- Objectives and principles of facility layout
- Types of layouts
- Assembly line balancing concepts
- Productivity improvement through layout optimisation

**3.2 Concept and Meaning of Facility Layout**

Facility layout refers to the arrangement of physical facilities such as machines, tools, storage areas, and workstations in a plant. The purpose is to ensure the most efficient flow of materials, people, and information throughout the production process.

A good layout reduces material handling cost, minimizes delays, ensures safety, and improves employee morale. Poor layout results in congestion, unnecessary movement, higher cost, and lower productivity.

Facility layout is required when:

- A new plant is built
- A new product is introduced
- The volume of production changes
- The existing layout becomes inefficient
- New technology is introduced

**3.3 Objectives of Facility Layout**

The major objectives of effective facility layout include:

**1. Minimizing Material Handling**

Reducing movement of materials lowers cost and increases efficiency.

### **2. Efficient Use of Space**

Optimal utilization of floor area reduces construction and rental cost.

### **3. Smooth Workflow**

Logical sequence of operations reduces bottlenecks and delays.

### **4. Worker Safety and Comfort**

Proper design reduces accidents and improves morale.

### **5. Increased Flexibility**

Layouts should adapt easily to product and process changes.

### **6. Better Supervision**

Clear visibility across work areas helps supervisors monitor activities effectively.

### **7. Improved Productivity**

Efficient layout reduces idle time and increases output.

## **3.4 Importance of Effective Layout Planning**

Effective layout planning contributes to:

- Lower production and operating cost
- Improved product quality
- Reduced cycle time
- Better employee morale
- Higher capacity utilization
- Reduced inventory and waiting time
- Enhanced customer satisfaction in services

Given its importance, layout planning is one of the most critical decisions in production management.

## **3.5 Types of Facility Layout**

There are three primary types of layout used in industries:

### **1. Process Layout (Functional Layout)**

## 2. Product Layout (Line Layout)

### 3. Group Technology / Cellular Layout

Each type has distinct features, advantages, and limitations.

#### 3.6 Process Layout

A process layout groups similar machines or processes together. It is suitable for industries where products are manufactured in small batches or customized according to customer requirements.

##### Characteristics:

- Machines performing similar operations are grouped (e.g., drilling machines in one area).
- Material moves between departments depending on the product route.
- High flexibility for different products.
- Work-in-progress inventory is usually high.

##### Examples:

- Machine shops
- Hospitals (similar wards grouped)
- Universities (departments grouped by subjects)

##### Advantages:

- High flexibility
- Better utilization of machines
- Customization is possible

##### Limitations:

- Complex material handling
- Higher production time
- Low production planning efficiency

#### 3.7 Product Layout

In product layout, machines and workstations are arranged according to the sequence of operations required for a specific product. It is suitable for mass production of standardized products.

##### Characteristics:

- Linear arrangement of machines
- Continuous flow of materials
- Low material handling cost
- High degree of automation

**Examples:**

- Automobile assembly lines
- Electronics manufacturing
- Bottling plants

**Advantages:**

- High efficiency
- Low material handling cost
- Easy supervision
- Lower work-in-progress inventory

**Limitations:**

- Low flexibility
- High initial investment
- Breakdown at one station affects the entire line

**3.8 Group Technology (Cellular) Layout**

Group Technology (GT) layout combines the advantages of both process and product layouts. It groups parts with similar characteristics into families and arranges their machines into cells.

**Characteristics:**

- Product families processed in cells
- Reduced movement within the cell

**Advantages:**

- Reduced setup time
- Lower material movement
- Improved quality

**Limitations:**

- Requires detailed analysis of part characteristics
- High initial cost

### **3.9 Principles of Good Layout**

Some important principles include:

- Minimum movement of materials
- Straight-line flow
- Space for future expansion
- Smooth and continuous flow
- Safety and comfort for workers
- Efficient utilization of machines and labour

### **3.10 Systematic Layout Planning (SLP)**

Systematic Layout Planning is a step-by-step approach used to design efficient layouts. Developed by Richard Muther, SLP uses a flow-based analysis to determine the best arrangement of facilities.

#### **Steps in SLP:**

1. Identify input data (products, volume, routing).
2. Determine activity relationships.
3. Develop relationship diagrams.
4. Create layout alternatives.
5. Evaluate alternatives based on cost and feasibility.
6. Select the best layout.

SLP provides a structured and logical framework for layout planning.

### **3.11 Computer-Aided Layout Tools: CRAFT, ALDEP, CORELAP**

#### **1. CRAFT (Computerized Relative Allocation of Facilities Technique)**

This tool improves an initial layout by making iterative changes to reduce material handling cost.

#### **2. ALDEP (Automated Layout Design Program)**

Generates layout alternatives based on closeness ratings and material flow.

### **3. CORELAP (Computerized Relationship Layout Planning)**

Focuses on relationship data (closeness ratings) to develop block layouts.

These tools help reduce time and errors in layout planning.

#### **3.12 Concept of Assembly Line**

An assembly line is a series of sequential workstations where specific operations are performed to assemble a product. Each station performs a small portion of the total task, and the product moves from one station to another.

##### **Examples:**

- Automobile manufacturing
- Smartphone assembly
- Home appliances

Assembly lines are ideal for mass production of standardized goods.

#### **3.13 Line Balancing: Meaning and Purpose**

Line balancing refers to assigning tasks to workstations in such a way that each workstation has approximately equal workload. The aim is to minimize idle time and ensure smooth production flow.

##### **Objectives of Line Balancing:**

- Reduce bottlenecks
- Increase production rate
- Minimize workstation idle time
- Improve labour and machine utilization
- Reduce cost per unit

Good line balancing improves overall plant productivity.

#### **3.14 Methods of Line Balancing**

##### **1. Heuristic Methods**

Simple rules such as:

- Largest Candidate Rule

- Kilbridge and Wester Method
- Ranked Positional Weight Method

## 2. Analytical Methods

These involve mathematical optimization but are more complex.

### 3.15 Mass Production and its Relevance

Mass production involves producing large volumes of standardized goods using highly automated equipment and assembly lines. It is relevant when:

- Demand is stable
- Products are standardized
- Large-scale production reduces cost

Mass production is used in industries such as automobiles, FMCG, electronics, and textiles.

## Student Learning Activities

### Activity 1: Layout Identification Task

**Task:**

Observe a nearby manufacturing or service facility and identify the type of layout used.

**Expected Learning Outcome:**

Ability to recognise layout types in real organisations.

### Activity 2: Line Balancing Exercise

**Task:**

Given a list of tasks and times, arrange tasks across workstations to minimise idle time.

**Expected Learning Outcome:**

Understanding of basic line balancing principles.

### Activity 3: Reflective Writing

**Task:**

Write a short note (200 words) on how poor facility layout can increase operational costs.

**Expected Learning Outcome:**

Awareness of cost implications of layout decisions.

#### 4. SUMMARY

This lesson covered in detail the concepts of facility layout, its importance, and various types used in industries. Process, product, and group technology layouts suit different production environments depending on product variety and volume. Systematic Layout Planning provides a structured approach to designing efficient layouts. Computer-aided tools such as CRAFT, ALDEP, and CORELAP support faster and more accurate layout decisions. The lesson also explained assembly lines used in mass production systems and the importance of line balancing in improving productivity, reducing idle time, and achieving efficient workflow.

#### 5. KEY WORDS

Facility		Layout
Process		Layout
Product		Layout
Group	Technology	Layout
Systematic	Layout	Planning
CRAFT		
ALDEP		
CORELAP		
Assembly		Line
Line Balancing		

#### 6. SELF-ASSESSMENT QUESTIONS

##### 1. Short-Answer Questions (with Answers)

- 1. What is facility layout?**  
*Answer:* Facility layout refers to the physical arrangement of machines, workstations, and materials within a facility.
- 2. What is a product layout?**  
*Answer:* A layout where equipment is arranged according to the sequence of operations.
- 3. Define process layout.**  
*Answer:* layout in which similar machines or processes are grouped together.
- 4. What is line balancing?**  
*Answer:* the process of assigning tasks to workstations to equalise workload.
- 5. What is cycle time?**  
*Answer:* The maximum time allowed at each workstation to complete assigned tasks.

##### 2. Essay-Type Questions (with Hints)

- 1. Explain objectives and principles of facility layout.**  
*Hints:* Smooth flow, minimum handling, flexibility, safety.

2. **Discuss different types of facility layouts with examples.**

*Hints:* Product, process, fixed-position, cellular.

3. **Explain the concept and importance of line balancing.**

*Hints:* Workload distribution, idle time reduction, productivity.

### 3. Analytical MCQs

1. **Which layout is most suitable for mass production?**
  - a) Process layout
  - b) Fixed-position layout
  - c) Product layout
  - d) Cellular layout

**Correct Answer:** c)

2. Line balancing primarily aims to:
  - a) Increase inventory
  - b) Equalise workload among workstations
  - c) Increase machine capacity
  - d) Reduce product variety

1. **Correct Answer:** b)

### Case Study for Self-Assessment:

Assembly Line Balancing at **Foxconn Technology Group**\*\*

#### Case Description

**Foxconn Technology Group** is one of the world's largest electronics manufacturing services providers, assembling products for companies such as Apple and Dell. Its large manufacturing plants employ thousands of workers operating complex assembly lines.

Foxconn faced challenges related to fluctuating demand, frequent product changes, and uneven distribution of tasks across workstations. Poor line balancing resulted in idle time at some stations and excessive workload at others, leading to worker fatigue and lower overall efficiency.

To address these issues, Foxconn implemented systematic line balancing techniques, redesigned facility layouts, and invested in automation and worker training to improve flow and productivity.

#### Analytical Questions

1. Identify the type of facility layout used by Foxconn and justify your answer.
2. Analyse the causes and consequences of poor line balancing.
3. Explain how effective line balancing improves productivity and worker morale.
4. What factors should be considered while redesigning facility layouts in electronics manufacturing?

5. Suggest measures to handle demand variability while maintaining balanced assembly lines.

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**LESSON-6****MATERIALS MANAGEMENT AND  
INVENTORY CONTROL****1. OBJECTIVES OF THE LESSON**

3 After studying this lesson, the learner will be able to:

1. **Explain** the concept, scope, and objectives of materials management
2. **Describe** the functions and components of an integrated materials management system
3. **Analyse** different inventory types and inventory-related costs
4. **Apply** inventory control techniques used in manufacturing and service organisations
5. **Evaluate** the strategic role of materials and inventory management in global operations

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Materials Management
3. Scope and Functions of Materials Management
4. Objectives and Importance of Materials Management
5. Concept and Need for Inventory
6. Types of Inventory
7. Inventory Costs
8. Inventory Control Techniques
9. Economic Order Quantity (EOQ)
10. Purchase Model (Instantaneous Replenishment, No Shortage)
11. Manufacturing Model (No Shortage)
12. Concept of Material Handling
13. Material Handling Principles
14. Unit Load Concept
15. Classification of Material Handling Equipment
16. Summary

17. Key Words

18. Self-Assessment Questions

19. Reference Books

### 3.1 Introduction

Materials management plays a vital role in ensuring the smooth functioning of production and operations. It is concerned with the **planning, sourcing, purchasing, moving, storing, and controlling of materials in an optimum manner**. For any manufacturing industry, materials constitute a major portion of total production cost—usually between 50% to 70%. Therefore, effective management of materials helps reduce cost, avoid shortages, and improve production efficiency.

Inventory control, a major component of materials management, **ensures that materials are available when needed and in the right quantity**. Poor inventory management leads to production delays, increased carrying costs, and financial strain. On the other hand, too much inventory results in storage issues, wastage, and blocking of working capital.

Today's globally integrated supply chains demand advanced materials management strategies supported by modern tools such as ERP systems, Just-in-Time practices, automated storage systems, and barcoding technologies. This lesson explores these concepts in depth.

#### Introductory Case Study:

Inventory Management Challenges at Apollo Hospitals Enterprise Limited\*\*

#### Background of the Organisation

Apollo Hospitals Enterprise **Limited is one of India's largest private healthcare providers, operating a network of multi-specialty hospitals**, pharmacies, and diagnostic centres across India and overseas. The organisation handles thousands of medical items ranging from high-value implants to fast-moving consumables and life-saving drugs.

Effective materials management is critical in healthcare, where inventory shortages can directly affect patient care, while excess inventory increases costs and waste due to expiry.

#### Contextual Trigger / Problem Situation

Apollo Hospitals experienced recurring issues related to stock-outs of critical medical supplies in certain hospitals and overstocking of slow-moving items in others. Decentralised procurement practices, lack of real-time inventory visibility, and variations in demand across locations led to inefficiencies.

The management recognised the need for a systematic materials management and inventory control framework to balance service quality with cost efficiency.

#### Stakeholders Involved

- Hospital administrators and procurement managers
- Doctors, nurses, and clinical staff
- Suppliers and distributors
- Patients and insurance providers
- Regulatory authorities

#### **Behavioural / Managerial Issues**

- Coordination between clinical and procurement teams
- Resistance to standardisation of materials
- Managing expiry and obsolescence risks
- Accountability for inventory-related decisions

#### **Why This Case Is Important for the Lesson**

This case highlights the importance of inventory control beyond manufacturing, demonstrating its relevance in service organisations and healthcare systems.

#### **Linkage to Lesson Concepts**

The case links directly to:

- Objectives and scope of materials management
- Inventory types and costs
- Importance of scientific inventory control
- Role of materials management in service quality

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### **3.2 Concept and Meaning of Materials Management**

Materials management refers to the process of planning, organizing, and controlling the flow of material<sup>50</sup> from their purchase to delivery to the finished goods stage. It ensures the availability of materials of the right quality, in the right quantity, at the right place, at the right time, and at the right cost.

It encompasses several activities such as:

- Forecasting material requirements
- Purchasing
- Receiving and inspection
- Inventory control
- Material handling
- Warehousing
- Disposal of scrap and surplus materials

Materials management is a strategic function because the performance of production systems depends heavily on the timely and efficient supply of materials.

### **3.3 Scope and Functions of Materials Management**

Materials management covers a broad range of activities that ensure smooth production operations. The key functions include:

#### **1. Materials Planning**

Estimating the quantitative and qualitative requirements of materials based on production schedules.

#### **2. Purchasing**

Selecting suppliers, negotiating prices, and acquiring materials.

#### **3. Inventory Control**

Ensuring optimal inventory levels to avoid shortages or overstocking.

#### **4. Receiving and Inspection**

Checking materials for quality and quantity before storing.

#### **5. Warehousing**

Storing materials in an orderly and safe manner.

#### **6. Material Handling**

Moving materials from one place to another efficiently.

#### **7. Standardization and Simplification**

Reducing the variety of materials to improve efficiency.

#### **8. Scrap and Surplus Disposal**

Selling unused or waste materials profitably.

### **3.4 Objectives and Importance of Materials Management**

#### **Objectives:**

- To ensure continuous supply of materials
- To minimize material cost
- To improve production efficiency
- To maintain optimal inventory levels
- To reduce wastage and pilferage

- To improve supplier relationships
- To enhance overall productivity

**Importance:**

- Reduces cost of production
- Improves working capital utilization
- Increases efficiency of purchase and storage
- Enhances customer satisfaction through timely delivery
- Reduces stockouts and production delays

Materials management has become increasingly important in modern industries that rely on global sourcing and just-in-time production systems.

**3.5 Concept and Need for Inventory**

Inventory refers to the stock of raw materials, components, work-in-progress, and finished goods stored for future use. Inventory acts as a buffer between supply and demand.

The need for inventory arises due to:

- Uncertainty in demand
- Unpredictable lead times
- Discounts from bulk purchases
- Maintaining continuous production
- Seasonal or cyclical variations

Without adequate inventory, production may stop, causing losses and customer dissatisfaction.

**3.6 Types of Inventory****1. Raw Materials**

Basic materials used in production.

**2. Work-in-Progress (WIP)**

Partially completed goods.

**3. Finished Goods**

Completed products ready for sale.

**4. Maintenance, Repair, and Operating (MRO) Supplies**

Items needed for support functions like tools and lubricants.

### **5. Pipeline Inventory**

Inventory in transit between locations.

### **3.7 Inventory Costs**

Inventory involves three main categories of costs:

#### **1. Purchase or Production Cost**

Cost of buying or manufacturing the product.

#### **2. Ordering Cost**

Cost incurred in placing and receiving orders such as paperwork, transportation, and administrative expenses.

#### **3. Carrying (Holding) Cost**

Includes:

- Storage cost
- Insurance cost
- Cost of capital
- Obsolescence cost
- Depreciation

#### **4. Shortage Cost**

Cost incurred due to stockouts, loss of sales, or production delays.

Minimizing total inventory cost is the objective of inventory control.

### **3.8 Inventory Control Techniques**

Inventory control involves regulating inventory levels using various techniques:

#### **1. ABC Analysis**

Categorizes items into A (high value), B (medium value), and C (low value) for selective control.

#### **2. VED Analysis**

Classifies items into Vital, Essential, and Desirable (mainly used in hospitals).

#### **3. FSN Analysis**

Categories items based on movement frequency: Fast-moving, Slow-moving, Non-moving.

#### 4. HML Analysis

Based on price—High, Medium, and Low.

#### 5. Economic Order Quantity (EOQ)

Determines the most economical order quantity.

#### 6. Just-in-Time (JIT)

Aiming for zero inventory through synchronization.

#### 7. Two-Bin System

Simple method for replenishment.

These tools support efficient materials management by minimizing stockouts and reducing carrying costs.

#### 3.9 Economic Order Quantity (EOQ)

EOQ is a widely used inventory model that determines the optimal order quantity that minimizes total cost (ordering + holding cost).

The classical EOQ formula assumes instantaneous replenishment and no shortages.

$$EOQ = \sqrt{2DS / H}$$

Where:

D = annual demand

S = ordering cost per order

H = holding cost per unit per year

The EOQ model helps organizations balance ordering frequency with carrying cost.

#### 3.10 Purchase Model (Instantaneous Replenishment, No Shortage)

In this model, inventory is replenished instantly when an order is placed. There is no shortage allowed, and stock reaches its maximum level immediately after receipt.

##### Characteristics:

- Useful for items purchased from outside suppliers
- Constant demand
- Lead time known and predictable
- No backorders allowed
- Order arrives as a single lot

This model helps organizations determine the point at which new orders must be placed to avoid shortages.

### 3.11 Manufacturing Model (No Shortage)

Also known as the **Production Order Quantity Model**, this applies to items manufactured in-house rather than purchased.

#### Characteristics:

- Production rate (P) is higher than demand rate (D)
- Replenishment is gradual
- Inventory builds up slowly
- No shortages allowed

This model better reflects actual production systems where inventory accumulates gradually as items are produced.

### 3.12 Concept of Material Handling

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Material handling involves the movement, protection, storage, and control of materials throughout the manufacturing process. It includes equipment like cranes, conveyors, forklifts, pallet trucks, and automated guided vehicles (AGVs).

Effective material handling improves productivity, reduces cost, and enhances safety.

### 3.13 Material Handling Principles

Some key principles include:

#### 1. Planning Principle

Material handling must be part of the plant layout and overall production plan.

#### 2. System Principle

Material handling should be integrated with receiving, storage, and shipping.

#### 3. Unit Load Principle

Materials should be moved as a single load rather than individually.

#### 4. Gravity Principle

Use gravity to reduce manual effort and energy.

#### 5. Safety Principle

Ensure worker safety during material movement.

#### 6. Flexibility Principle

Material handling systems must adapt to changes.

### 3.14 Unit Load Concept

The unit load concept refers to combining several items into a single load to be moved as one entity. Examples include:

- Pallets
- Containers
- Crates
- Boxes
- Bulk carriers

#### Advantages:

- Lower cost per unit
- Faster movement
- Reduced damage
- Easier loading and unloading

### 3.15 Classification of Material Handling Equipment

Material handling equipment can be classified into:

#### 1. Conveyors

Used for continuous movement—belt conveyors, roller conveyors.

#### 2. Industrial Trucks

Forklifts, pallet trucks, and platform trucks.

#### 3. Cranes and Hoists

Used for lifting heavy materials.

#### 4. Automated Systems

AGVs, robotics, automated storage and retrieval systems (AS/RS).

#### 5. Storage Systems

Racks, shelves, bins, and warehouses.

The selection of equipment depends on load characteristics, movement needs, and cost.

## Student Learning Activities

### Activity 1: Inventory Identification Task

**Task:**

List different types of inventory maintained by a manufacturing or service organisation of your choice.

**Expected Learning Outcome:**

Ability to classify inventory based on its role in operations.

### Activity 2: Reflective Question

**Task:**

Explain why excess inventory is considered a hidden cost for organisations.

**Expected Learning Outcome:**

Understanding of inventory-related cost implications.

### Activity 3: Application-Based Exercise

**Task:**

Prepare a short note (200–250 words) on how inventory control improves customer service levels.

**Expected Learning Outcome:**

Ability to link inventory management practices with service outcomes

## 4. SUMMARY

This lesson provided a detailed understanding of materials management and inventory control. It highlighted the scope, objectives, and importance of materials management in ensuring cost-effective and efficient production. Different types of inventory, inventory costs, and control techniques were explained. EOQ, purchase models, and manufacturing models were discussed as essential tools for inventory optimization. The lesson also elaborated on material handling, [12](#) principles, and equipment classification. Overall, materials management plays a crucial role in [reducing](#) cost, [improving](#) productivity, and [ensuring](#) timely availability [of](#) materials.

## 5. KEY WORDS

Materials Management

Inventory

EOQ

Inventory Control

Material Handling

Unit Load  
Purchase Model  
Manufacturing Model  
MRO Supplies

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

- 1. What is materials management?**  
*Answer:* Materials management involves planning, procuring, storing, and controlling materials efficiently.
- 2. Define inventory.**  
*Answer:* Inventory refers to stock of materials or goods held for future use or sale.
- 3. Mention two objectives of inventory control.**  
*Answer:* Avoid stock-outs and minimise inventory carrying costs.
- 4. What is EOQ?**  
*Answer:* Economic Order Quantity is the optimal order size that minimises total inventory cost.
- 5. What is carrying cost?**  
*Answer:* Cost of holding inventory, including storage, insurance, and obsolescence.

### 2. Essay-Type Questions (with Hints)

- 1. Explain the scope and objectives of materials management.**  
*Hints:* Procurement, storage, cost reduction, continuity of supply.
- 2. Discuss different types of inventory and associated costs.**  
*Hints:* Raw materials, WIP, finished goods, ordering and carrying costs.
- 3. Explain inventory control techniques used in organisations.**  
*Hints:* EOQ, ABC analysis, JIT, safety stock.

### 3. Analytical MCQs

1. EOQ model primarily aims to:
  - a) Maximise inventory
  - b) Minimise total inventory cost
  - c) Eliminate ordering
  - d) Increase carrying cost

**Correct Answer:** b)

2. Which inventory is directly linked to production process?
  - a) Finished goods
  - b) Maintenance inventory
  - c) Work-in-process
  - d) Safety stock

**Correct Answer:** c)

## Case Study for Self-Assessment:

Global Inventory Management at Walmart Inc.\*\*

### Case Description

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Walmart Inc. operates one of the world's largest retail supply chains, serving millions of customers daily across multiple countries. The company manages massive volumes of inventory, including fast-moving consumer goods, electronics, and perishables.

Walmart's competitive advantage is built on efficient inventory control through advanced information systems, vendor-managed inventory, and cross-docking practices. However, fluctuations in demand, supply chain disruptions, and international sourcing complexities pose continuous challenges.

The company must balance low inventory levels with high product availability to maintain customer satisfaction while controlling costs.

### Analytical Questions

1. Identify the types of inventory managed by Walmart across its operations.
2. Analyse the inventory-related costs faced by large retail organisations.
3. Explain how technology supports effective inventory control at Walmart.
4. Discuss the risks of overstocking and stock-outs in global supply chains.
5. Suggest measures to improve inventory visibility and responsiveness.

### References and Suggested Readings

#### Text Books

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## LESSON- 7

# AGGREGATE SALES AND OPERATIONS PLANNING

### 1. OBJECTIVES OF THE LESSON

3 After studying this lesson, the learner will be able to:

1. **Explain** the concept and objectives of Aggregate Sales and Operations Planning (S&OP)
2. **Describe** demand forecasting inputs used in aggregate planning
3. **Analyse** alternative aggregate planning strategies
4. **Apply** quantitative and qualitative techniques in aggregate planning decisions
5. **Evaluate** the role of S&OP in coordinating global operations

### 2. STRUCTURE OF THE LESSON

1. Introduction
2. Meaning and Concept of Aggregate Sales and Operations Planning 8
3. Objectives of Aggregate Planning
4. The Production Planning Environment
5. Inputs to Aggregate Planning
6. Aggregate Planning Strategies
7. Approaches to Aggregate Planning
8. Demand Options in Aggregate Planning
9. Supply Options in Aggregate Planning
10. Aggregate Planning Methods
11. Role of Aggregate Planning in Operations Management
12. Applications in Manufacturing and Services
13. Challenges in Aggregate Planning
14. Summary
15. Key Words

16. Self-Assessment Questions

17. Reference Books

### 3.1 Introduction

Aggregate Sales and Operations Planning (S&OP) is a vital process in operations management. It involves developing, analyzing, and maintaining a preliminary plan for the company's overall operations. The plan typically spans a medium-term horizon of 3 to 18 months. Aggregate planning helps synchronize the company's production capacity with expected customer demand, ensuring that resources such as labour, materials, and machinery are used efficiently.

In today's competitive business environment, fluctuations in demand, supply chain uncertainties, seasonal variations, and global competition make aggregate planning an essential tool. It provides organizations with the ability to balance supply and demand, stabilize employment, optimize inventory, and reduce operational costs. Effective aggregate planning integrates marketing, operations, finance, and HR to create a unified organizational strategy.

#### Introductory Case Study:

Aggregate Planning Challenges at Hindustan Unilever Limited (HUL)\*\*

#### Background of the Organisation

Hindustan Unilever Limited (HUL), a subsidiary of Unilever PLC, is one of India's largest fast-moving consumer goods (FMCG) companies. It manufactures and markets products across food, personal care, and home care categories, serving millions of customers daily through an extensive distribution network.

Given the seasonal nature of demand and frequent promotional campaigns, aggregate sales and operations planning plays a critical role in ensuring product availability while controlling costs.

#### Contextual Trigger / Problem Situation

HUL faces significant demand fluctuations due to seasonality, regional preferences, and marketing promotions. Inadequate coordination between sales forecasts and production planning can result in either stock-outs during peak demand or excess inventory during lean periods.

The challenge lies in developing an aggregate plan that aligns sales expectations with production capacity, workforce levels, and inventory policies across multiple manufacturing locations.

#### Stakeholders Involved

- Sales and marketing teams
- Operations and production managers
- Supply chain planners

- Distributors and retailers
- End customers

#### **Behavioural / Managerial Issues**

- Conflicting priorities between sales and operations
- Forecast inaccuracies and demand uncertainty
- Workforce planning and labour flexibility
- Communication and coordination challenges

#### **Why This Case Is Important for the Lesson**

This case illustrates the need for integrated sales and operations planning to balance demand and supply in large, complex organisations.

#### **Linkage to Lesson Concepts**

The case links directly to:

- Objectives of aggregate planning
- Demand forecasting and capacity planning
- Aggregate planning strategies
- Importance of S&OP coordination

### **3.2 Meaning and Concept of Aggregate Sales and Operations Planning**

Aggregate Sales and Operations Planning is the process of determining the quantity and timing of production for the intermediate future. It aims to ensure that the organization can meet demand while minimizing cost.

The term “aggregate” refers to the grouping of products into families rather than individual SKUs (Stock Keeping Units). This simplifies planning and provides a broader perspective.

#### **Definition:**

Aggregate planning is a medium-range capacity planning process that determines the best way to meet forecasted demand by adjusting production rate, workforce levels, inventory, and other controllable variables.

#### **Key features:**

- Concerned with total output rather than individual product styles
- Balances demand and supply at the aggregate level
- Focuses on medium-term planning
- Involves trade-offs between cost, capacity, and service levels

Effective S&OP results in an integrated plan that aligns the organization’s operational capabilities with market expectations.

### **3.3 Objectives of Aggregate Planning**

Aggregate planning aims to achieve multiple objectives that contribute to operational and financial efficiency:

#### **1. To Meet Forecasted Demand**

Ensuring that all customer orders are fulfilled on time.

#### **2. To Minimize Cost**

Minimizing total cost, including inventory, labour, production, and backorder costs.

#### **3. To Maintain Stable Workforce**

Avoiding frequent hiring and layoffs to enhance productivity and morale.

#### **4. To Minimize Inventory Levels**

Maintaining optimal inventory to reduce holding costs.

#### **5. To Utilize Resources Efficiently**

Ensuring effective use of labour, machines, and material handling systems.

#### **6. To Ensure Smooth Production Flow**

Reducing fluctuations in production levels to avoid bottlenecks and idle time.

### **3.4 The Production Planning Environment**

The production planning environment includes all aspects that influence the aggregate planning process. It is shaped by:

#### **1. Organizational Policies**

Policies regarding overtime, subcontracting, inventory levels, and workforce variations.

#### **2. Production System**

Whether the company uses a make-to-order or make-to-stock system.

#### **3. Product Characteristics**

Products that are highly seasonal or perishable require careful planning.

#### **4. Capacity Constraints**

Available machinery, labour skills, plant layout, and material availability.

#### **5. Demand Characteristics**

Demand patterns such as seasonal demand, cyclical variations, or uncertain demand.

#### **6. Organizational Structure**

Coordination between marketing, operations, finance, and HR.

The production planning environment ensures that aggregate planning is realistic, achievable, and aligned with strategic goals.

### **3.5 Inputs to Aggregate Planning**

Aggregate planning requires three major inputs:

#### **1. Demand Forecasts**

Forecasts of anticipated customer demand over the planning period.

#### **2. Capacity Constraints**

Information on available workforce, equipment, facilities, and material supply.

#### **3. Organizational Policies**

Policies regarding overtime, outsourcing, inventory, workforce size, and minimum service levels.

These inputs help planners determine feasible production alternatives that minimize cost while meeting demand.

### **3.6 Aggregate Planning Strategies**

There are two fundamental strategies for aggregate planning:

#### **1. Chase Strategy**

Production is adjusted to match demand exactly.

##### **Characteristics:**

- Workforce level varies with demand
- Inventory levels remain low
- Suitable for industries with flexible labour

##### **Examples:**

- Food processing
- Garment manufacturing during festivals
- Bakeries

## 2. Level Strategy

Production remains constant, while inventory is allowed to fluctuate.

### Characteristics:

- Stable workforce
- Inventory used to absorb demand changes
- Suitable for long-term, stable demand

### Examples:

- Automobile production
- Consumer electronics

Most companies use a combination of the two strategies, known as the **mixed strategy**, to achieve a cost-effective and stable plan.

## 3.7 Approaches to Aggregate Planning

### 1. Graphical and Charting Methods

Simple and easy to use. Uses graphs to show demand, production, and capacity.

### 2. Mathematical Techniques

Include linear programming, transportation method, and simulation.

### 3. Heuristic Approaches

Use trial-and-error methods based on practical experience.

### 4. Computer-Aided Tools

Modern ERP systems such as SAP, Oracle, and Microsoft Dynamics support aggregate planning.

## 3.8 Demand Options in Aggregate Planning

Organizations can use demand-side approaches to influence or manage customer demand.

### 1. Pricing

Adjusting prices to influence demand during peak and off-peak seasons.

### 2. Promotion

Marketing campaigns to stimulate demand.

**3. Backordering**

Delaying fulfillment until the product is available.

**4. New Demand Creation**

Developing complementary products to stabilize demand.

**5. Reservations**

Service firms (hotels, airlines) regulate demand through reservations.

**3.9 Supply Options in Aggregate Planning**

Supply-side options involve adjusting internal operations to match demand.

**1. Hiring or Laying Off Workers**

Increasing workforce size during high demand.

**2. Overtime and Undertime**

Using overtime to increase production temporarily.

**3. Subcontracting**

Outsourcing production to external suppliers.

**4. Changing Inventory Levels**

Building up inventory during low demand to meet future demand.

**5. Part-Time Workers**

Used in industries such as retail and hospitality.

**6. Cross-Training Workers**

Improves flexibility and reduces dependence on hiring.

**3.10 Aggregate Planning Methods****1. Cut-and-Try Method**

Trial-and-error approach used by small businesses.

**2. Transportation Method**

Compared cost of different plans using a transportation matrix.

**3. Linear Programming**

Optimizes cost while meeting constraints.

#### **4. Simulation Models**

Used to test different scenarios without affecting actual operations.

#### **5. Computerized Planning Systems**

ERP systems automate demand forecasting, capacity planning, and resource allocation.

### **3.11 Role of Aggregate Planning in Operations Management**

Aggregate planning plays a vital role by:

- Providing a link between strategic planning and short-term scheduling
- Reducing fluctuations in production rates
- Ensuring efficient use of capacity
- Minimizing total cost
- Reducing stockouts and backorders
- Improving customer service
- Coordinating different departments

It integrates marketing forecasts with operational capabilities.

### **3.12 Applications in Manufacturing and Services**

#### **Manufacturing:**

- Automotive companies use aggregate planning to balance production and demand.
- FMCG companies plan for seasonal peaks.

#### **Services:**

- Hospitals plan bed capacity, staff, and equipment.
- Airlines use yield management and reservation systems.
- Hotels plan staffing for peak tourist seasons.

Aggregate planning is essential for all industries facing variable demand.

### **3.13 Challenges in Aggregate Planning**

Organizations face several challenges:

#### **1. Demand Uncertainty**

Unpredictable demand complicates planning.

### **2. Supply Chain Disruptions**

Material shortages or supplier delays impact production.

### **3. Labour Constraints**

Shortage of skilled labour affects capacity.

### **4. Inaccurate Forecasts**

Poor forecasts lead to inefficient plans.

### **5. Cost Variability**

Fluctuating costs affect budget planning.

Despite these challenges, aggregate planning is a powerful tool for achieving stability and efficiency.

## **Student Learning Activities**

### **Activity 1: Demand Forecast Reflection**

#### **Task:**

Identify a product with seasonal demand and explain how aggregate planning can address demand fluctuations.

#### **Expected Learning Outcome:**

Understanding of demand–supply coordination.

### **Activity 2: Strategy Comparison Task**

#### **Task:**

Compare level and chase strategies in terms of cost, workforce stability, and customer service.

#### **Expected Learning Outcome:**

Ability to evaluate aggregate planning strategies.

### **Activity 3: Application-Based Writing**

#### **Task:**

Write a short note (200–250 words) on the importance of S&OP in global supply chains.

#### **Expected Learning Outcome:**

Ability to relate S&OP concepts to global operations.

## **4. SUMMARY**

This lesson explained the concept, importance, and strategies of aggregate sales and operations planning. It highlighted how aggregate planning acts as a bridge between long-term strategic decisions and short-term scheduling. The lesson discussed chase, level, and mixed strategies, demand and supply options, and mathematical methods used in aggregate planning. Applications in manufacturing and services illustrated the importance of S&OP in balancing demand and supply, minimizing cost, and ensuring smooth operations.

## 5. KEY WORDS

Aggregate Planning  
Sales and Operations Planning (S&OP)  
Chase Strategy  
Level Strategy  
Demand Management  
Capacity Planning  
ERP Systems

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

- 1. What is aggregate planning?**  
*Answer:* Aggregate planning determines overall production levels to meet forecasted demand.
- 2. Define S&OP.**  
*Answer:* Sales and Operations Planning aligns sales forecasts with operational capabilities.
- 3. What is a level strategy?**  
*Answer:* Maintaining a constant production rate regardless of demand fluctuations.
- 4. What is a chase strategy?**  
*Answer:* Adjusting production rates to match demand changes.
- 5. What is a hybrid strategy?**  
*Answer:* A combination of level and chase strategies.

### 2. Essay-Type Questions (with Hints)

- 1. Explain objectives and importance of aggregate sales and operations planning.**  
*Hints:* Demand–supply balance, cost control, coordination.
- 2. Discuss different aggregate planning strategies.**  
*Hints:* Level, chase, hybrid – advantages and limitations.
- 3. Analyse challenges in implementing S&OP.**  
*Hints:* Forecasting errors, coordination, data integration.

### 3. Analytical MCQs

1. Aggregate planning is typically done for a time horizon of:
  - a) One week
  - b) One month
  - c) 6–18 months
  - d) 5 years

**Correct Answer:** c)

2. The primary objective of S&OP is to:
  - a) Maximise sales only
  - b) Minimise production cost only
  - c) Align demand and supply plans
  - d) Increase workforce size

**Correct Answer:** c)

### **Case Study for Self-Assessment:**

Sales and Operations Planning at Nestlé India\*\*

#### **Case Description**

Nestlé India manufactures food and beverage products such as milk products, confectionery, and instant foods across several plants. Demand for these products varies based on seasonality, regional consumption patterns, and promotional activities.

Nestlé India faced challenges in aligning sales forecasts with production plans due to frequent changes in market demand. Delays in updating aggregate plans resulted in inefficiencies such as excess inventory of certain products and shortages of others.

To address these issues, Nestlé strengthened its S&OP process by integrating sales forecasts, production capacity, inventory policies, and distribution planning into a single coordinated framework.

#### **Analytical Questions**

3. Explain the role of aggregate planning in Nestlé India's operations.
2. Analyse the impact of inaccurate sales forecasts on production and inventory.
3. Compare different aggregate planning strategies suitable for FMCG firms.
4. Discuss the importance of cross-functional coordination in S&OP.
5. Suggest measures to improve aggregate planning effectiveness in large organisations.

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**LESSON -8**

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**MATERIAL REQUIREMENT PLANNING (MRP)  
& PRODUCTION PLANNING AND CONTROL  
(PPC)****1. OBJECTIVES OF THE LESSON**

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After studying this lesson, the learner will be able to:

1. **Explain** the concepts and objectives of MRP and Production Planning and Control
2. **Describe** the inputs, outputs, and logic of the MRP system
3. **Analyse** the stages and functions of Production Planning and Control
4. **Apply** MRP techniques for scheduling and inventory coordination
5. **Evaluate** the role of MRP and PPC in achieving operational efficiency

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Material Requirement Planning (MRP)
3. Objectives and Importance of MRP
4. Inputs to the MRP System
5. **Master Production Schedule (MPS)**
6. **Bill of Materials (BOM)**
7. **Inventory Status File**
8. MRP Logic and Process
9. Benefits and Limitations of MRP
10. Concept and Meaning of Production Planning and Control (PPC)
11. Objectives and Scope of PPC
12. Phases of PPC: Planning, Action, and Control
13. Functions of Production Planning and Control
14. PPC in Modern Production Systems
15. Challenges in Implementing MRP and PPC

16. Summary

17. Key Words

18. Self-Assessment Questions

19. Reference Books

### 3.1 Introduction

In today's competitive manufacturing environment, organizations must ensure that materials are available exactly when needed to prevent production delays and to reduce inventory carrying costs. Material Requirement Planning (MRP) is a powerful inventory management and production planning tool designed to ensure timely availability of materials for production while minimizing inventory levels. MRP converts the demand for final products into demand for components and raw materials.

Production Planning and Control (PPC) complements MRP by ensuring that production is planned, scheduled, executed, and monitored in a coordinated manner. PPC aims to optimize resource utilization, ensure smooth workflow, and maintain production efficiency. Together, MRP and PPC form the backbone of modern manufacturing systems.

### Introductory Case Study:

Implementation of MRP at Tata Steel Limited\*\*

#### Background of the Organisation

Tata Steel Limited is one of India's largest integrated steel producers with operations in India, Europe, and Southeast Asia. Steel production involves complex, capital-intensive processes with long lead times and high inventory costs.

To manage raw materials such as iron ore, coal, and alloys effectively, Tata Steel relies on systematic production planning and control mechanisms supported by Material Requirement Planning systems.

#### Contextual Trigger / Problem Situation

Tata Steel faced challenges related to excessive inventory levels, delayed production schedules, and poor coordination between procurement and production departments. Manual planning methods were unable to cope with demand variability and production complexity.

The company implemented an MRP-based system integrated with enterprise resource planning (ERP) to improve material availability, reduce inventory carrying costs, and ensure timely production.

#### Stakeholders Involved

- Production planners and operations managers

- Procurement and materials management teams
- IT and systems integration teams
- Suppliers and logistics partners
- Customers in domestic and international markets

**Behavioural / Managerial Issues**

- Resistance to system-driven planning
- Data accuracy and discipline in bill of materials
- Training requirements for planners
- Cross-functional coordination challenges

**Why This Case Is Important for the Lesson**

This case illustrates the practical relevance of MRP and PPC in large-scale manufacturing environments where planning precision is essential.

**Linkage to Lesson Concepts**

The case links directly to:

- Objectives and components of MRP
- PPC functions such as planning, routing, scheduling, and control
- Integration of MRP with organisational planning systems

**3.2 Concept and Meaning of Material Requirement Planning (MRP)**

Material Requirement Planning (MRP) is a computer-based planning tool used to determine the quantity and timing of materials required for production. It ensures that material components are available for production as per the schedule while maintaining minimum inventory levels.

MRP is particularly useful for companies that produce products with multiple components, subassemblies, and raw materials. It works backward from the demand for finished goods to determine the requirements for raw materials.

**Definition:**

MRP is a systematic approach that uses the demand for final products to calculate the dependent demand for components and materials.

Dependent demand items are those whose demand depends on the demand for finished goods. Examples include bolts, screws, electronic parts, and subassemblies.

**3.3 Objectives and Importance of MRP****Objectives of MRP:**

- To ensure availability of materials for production

- To maintain minimum inventory levels
- To plan manufacturing activities and delivery schedules
- To reduce production delays and shortages
- To improve customer service by ensuring timely delivery

**Importance of MRP:**

- Enhances efficiency by synchronizing materials with production schedules
- Reduces inventory carrying cost
- Helps in accurate production scheduling
- Improves coordination among departments
- Supports decision-making and resource optimization

MRP is considered the foundation of modern manufacturing systems.

**3.4 Inputs to the MRP System**

MRP requires three major inputs:

**1. Master Production Schedule (MPS)**

Specifies what items are to be produced, how many, and when.

**2. Bill of Materials (BOM)**

Lists all components, parts, and raw materials required to make one unit of final product.

**3. Inventory Status File**

Contains information about current stock levels, scheduled receipts, and lead times.

Together, these inputs allow MRP to calculate material needs accurately.

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**3.5 Master Production Schedule (MPS)**

The Master Production Schedule is a detailed plan that outlines:

- What products need to be produced
- In what quantities
- At what time

MPS is derived from customer orders, sales forecasts, and production capacity. It drives the entire MRP system.

**Characteristics of MPS:**

- Focuses on end items
- Covers medium-term planning
- Considers capacity and labour constraints
- Helps plan production and purchasing activities

A realistic MPS ensures that the production schedule is achievable and aligns with customer demand.

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**3.6 Bill of Materials (BOM)**

A Bill of Materials is a structured list of components, parts, raw materials, and subassemblies used to manufacture one finished product. It provides complete information about:

- Part name
- Part number
- Quantity required
- Level in the product structure
- Description

**Types of BOM Structures:****1. Single-Level BOM**

Lists only direct components needed to produce the final product.

**2. Multi-Level BOM**

Shows hierarchical relationships among components.

**3. Indented BOM**

Represents components using an indented format to indicate levels.

**4. Modular BOM**

Used for modular products where components can be swapped.

BOM accuracy is crucial because errors result in production delays and shortages.

**3.7 Inventory Status File**

This file contains essential information about:

- Inventory on hand

- Scheduled receipts
- Lead times for procurement
- Safety stock levels
- Lot size constraints

The MRP system uses this file to determine whether new material needs to be ordered or existing inventory is sufficient.

### **3.8 MRP Logic and Process**

MRP uses a backward scheduling process:

#### **Step 1: Gross Requirements**

These are total needs for finished products based on the Master Production Schedule.

#### **Step 2: Scheduled Receipts**

These include materials already ordered but not yet received.

#### **Step 3: Net Requirements**

Net requirement = Gross requirements – Available inventory – Scheduled receipts

#### **Step 4: Planned Order Receipts**

These are quantities planned to be received to meet net requirements.

#### **Step 5: Planned Order Releases**

These determine when an order should be placed, considering lead time.

MRP generates time-phased schedules for all components.

### **3.9 Benefits and Limitations of MRP**

#### **Benefits:**

- Reduces inventory levels
- Eliminates production stoppages
- Improves customer service
- Enhances coordination between departments
- Helps in capacity planning
- Supports decision-making

**Limitations:**

- Requires accurate data input
- Complex to implement
- Assumes fixed lead times
- Dependent on computer systems
- Not suitable for all industries

Despite limitations, MRP remains one of the most widely used planning tools in manufacturing.

**3.10 Concept and Meaning of Production Planning and Control (PPC)**

Production Planning and Control (PPC) is the process of planning, coordinating, and controlling production activities. PPC ensures that materials, equipment, and labour are available when required, and production proceeds smoothly.

**Definition:**

PPC is a managerial function that plans, organizes, directs, and controls production to ensure efficient utilization of resources and timely delivery of products.

**3.11 Objectives and Scope of PPC****Objectives:**

- Ensure timely availability of materials and resources
- Achieve continuous production
- Minimize production costs
- Maintain product quality
- Utilize resources efficiently
- Meet customer delivery schedules

**Scope:**

PPC covers a wide range of activities, including routing, scheduling, dispatching, loading, follow-up, and control.

**3.12 Phases of PPC: Planning, Action, and Control****1. Planning Phase**

Involves determining:

- What to produce
- How much to produce
- How to produce
- When to produce
- Required resources

## **2. Action Phase**

Involves execution through:

- Dispatching work orders
- Distributing materials
- Guiding workers
- Managing operations

## **3. Control Phase**

Ensures production progresses as planned by:

- Monitoring performance
- Identifying deviations
- Taking corrective measures
- Adjusting schedules

PPC ensures coordination across departments.

### **3.13 Functions of Production Planning and Control**

Major functions of PPC include:

#### **1. Routing**

Determines the path that materials follow.

#### **2. Scheduling**

Establishes timelines for each operation.

#### **3. Loading**

Assigns jobs to machines based on capacity.

#### **4. Dispatching**

Issues instructions for the start of work.

**5. Expediting/Follow-up**

Ensures progress and removes bottlenecks.

**6. Inspection**

Verifies quality of output.

**7. Evaluation**

Assesses performance based on standards.

**3.14 PPC in Modern Production Systems**

Modern production environments use advanced technologies to enhance PPC:

- Enterprise Resource Planning (ERP)
- Just-in-Time (JIT)
- Lean manufacturing
- Robotics and automation
- Real-time data tracking
- Advanced scheduling tools

These tools improve accuracy and reduce lead times.

**3.15 Challenges in Implementing MRP and PPC**

Organizations face several challenges:

- Inaccurate BOM or inventory data
- Long and unpredictable lead times
- Lack of coordination among departments
- Resistance from employees
- High cost of implementation
- Poor capacity planning

Proper training, accurate data, and strong coordination are essential for success.

**Student Learning Activities****Activity 1: MRP Logic Understanding**

**Task:**

Explain the relationship between Master Production Schedule (MPS) and Bill of Materials (BOM).

**Expected Learning Outcome:**

Understanding of fundamental MRP logic.

**Activity 2: Reflective Task****Task:**

Explain why inaccurate data can lead to failure of MRP systems.

**Expected Learning Outcome:**

Appreciation of data discipline in planning systems.

**Activity 3: Application-Based Exercise****Task:**

Prepare a short note (200–250 words) on how PPC contributes to on-time delivery performance.

**Expected Learning Outcome:**

Ability to connect PPC functions with operational outcomes.

**4. SUMMARY**

This lesson explained the concepts and functions of Material Requirement Planning (MRP) and Production Planning and Control (PPC). MRP ensures timely availability of materials by converting demand for final products into demand for components. PPC ensures that production activities are well-planned, scheduled, executed, and controlled. It plays a crucial role in coordinating resources, maintaining quality, and ensuring timely delivery. Together, MRP and PPC enhance production efficiency, reduce cost, and support organizational competitiveness.

**5. KEY WORDS**

Material Requirement Planning  
Bill of Materials  
Master Production Schedule  
PPC  
Routing  
Scheduling  
Planned Order Releases  
Inventory Status File

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

- 1. What is MRP?**  
*Answer:* MRP is a system used to determine material requirements based on production schedules.
- 2. Define PPC.**  
*Answer:* Production Planning and Control involves planning and controlling production activities.
- 3. What is a Bill of Materials?**  
*Answer:* A structured list of components required to manufacture a product.
- 4. What is routing?**  
*Answer:* Determining the sequence of operations in production.
- 5. What is scheduling?**  
*Answer:* Assigning start and finish times to production activities.

### 2. Essay-Type Questions (with Hints)

- 1. Explain the objectives and components of MRP.**  
*Hints:* Input processing logic, outputs, benefits.
- 2. Discuss the functions of Production Planning and Control.**  
*Hints:* Planning, routing, scheduling, dispatching, control.
- 3. Analyse the benefits and limitations of MRP systems.**  
*Hints:* Inventory reduction, coordination, data dependency.

### 3. Analytical MCQs

- 20 Which of the following is an input to the MRP system?
  - a) Dispatch list
  - b) Bill of Materials
  - c) Inspection report
  - d) Payroll data

**Correct Answer:** b)

2. PPC primarily aims to:
  - a) Increase inventory levels
  - b) Control marketing activities
  - c) Ensure smooth production flow
  - d) Reduce workforce size

**Correct Answer:** c)

### Case Study for Self-Assessment:

Production Planning and Control at Bosch Limited\*\*

### Case Description

Bosch Limited, a leading automotive component manufacturer, supplies products to automobile manufacturers across India and global markets. The company operates multiple plants producing a wide variety of components with differing demand patterns.

Bosch faced challenges in coordinating production schedules, managing component inventories, and meeting delivery deadlines. Ineffective production control resulted in frequent rescheduling, excess inventory of certain parts, and shortages of others.

To overcome these challenges, Bosch strengthened its PPC framework by integrating MRP outputs with shop-floor control systems and performance monitoring.

### Analytical Questions

1. Explain the role of MRP in coordinating material availability at Bosch.
2. Analyse the functions of PPC in ensuring smooth production flow.
3. How does accurate data improve the effectiveness of MRP systems?
4. Discuss the limitations of MRP in dynamic demand environments.
5. Suggest measures to improve PPC effectiveness in multi-product plants.

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## LESSON- 9

**SCHEDULING TECHNIQUES – SINGLE  
MACHINE SCHEDULING, FLOW SHOP  
SCHEDULING & JOHNSON’S RULE****1. OBJECTIVES OF THE LESSON**

After studying this lesson, the learner will be able to:

1. **Explain** the concept and objectives of production scheduling
2. **Describe** the characteristics of single machine scheduling problems
3. **Analyse** flow shop scheduling environments and their constraints
4. **Apply** Johnson’s Rule to minimise total elapsed time in two-machine flow shops
5. **Evaluate** the importance of effective scheduling in operational performance

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Scheduling
3. Objectives and Importance of Scheduling
4. Types of Scheduling Problems
5. Single Machine Scheduling (SMS)
6. Performance Measures in SMS
7. Scheduling Rules: SPT, EDD, Weighted SPT
8. Flow Shop Scheduling
9. Johnson’s Rule for Two-Machine Flow Shop
10. Extension of Johnson’s Rule
11. Comparison of Job Shop, Flow Shop, and Single Machine Scheduling
12. Challenges in Scheduling
13. Summary
14. Key Words
15. Self-Assessment Questions
16. Reference Books

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### 3.1 Introduction

Scheduling is a key aspect of production management. It determines the allocation of scarce sources—such as machines, labour, and tools—to various jobs over a specific time horizon. The main goal of scheduling is to ensure that jobs are processed efficiently, delivery deadlines are met, and costs are minimized.

In manufacturing systems, poor scheduling often leads to bottlenecks, increased waiting time, higher work-in-progress inventory, and customer dissatisfaction. Effective scheduling, on the other hand, enhances productivity, ensures timely delivery, maximizes machine utilization, and reduces operational costs. Modern production systems rely heavily on scheduling techniques to plan daily operations.

Scheduling plays an equally important role in service industries such as hospitals, airlines, call centers, and retail stores, where resources must be allocated optimally to serve customers.

## Introductory Case Study:

Scheduling Challenges at Larsen & Toubro Heavy Engineering Division\*\*

### Background of the Organisation

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Larsen & Toubro (L&T) is a major Indian multinational engaged in engineering, construction, and heavy manufacturing. Its Heavy Engineering Division produces customised equipment such as reactors, boilers, and pressure vessels for infrastructure, energy, and process industries.

The division operates in a job-order production environment where efficient scheduling is critical due to high-value equipment, long processing times, and limited machine availability.

### Contextual Trigger / Problem Situation

L&T faced recurring delays in project deliveries due to ineffective scheduling of critical machines. Multiple jobs competed for the same machines, leading to long waiting times, machine idle time, and frequent rescheduling.

Traditional intuitive scheduling approaches were no longer sufficient to manage growing complexity. The management realised the need for systematic scheduling techniques such as single machine scheduling rules and flow shop scheduling methods to improve delivery performance.

### Stakeholders Involved

- Production planners and schedulers
- Shop-floor supervisors and engineers
- Project managers
- Customers and regulatory agencies
- Senior management

**Behavioural / Managerial Issues**

- Conflicts between project priorities
- Pressure to meet committed delivery dates
- Coordination between planning and execution teams
- Accountability for schedule adherence

**Why This Case Is Important for the Lesson**

This case highlights the role of scientific scheduling techniques in minimising delays, improving machine utilisation, and meeting customer commitments.

**Linkage to Lesson Concepts**

The case links directly to:

- Objectives of scheduling
- Single machine scheduling rules
- Flow shop scheduling environments
- Importance of systematic scheduling techniques

**3.2 Concept and Meaning of Scheduling**

Scheduling refers to the assignment of jobs or tasks to resources (machines, labour, workstations) and the determination of their start and finish times. It provides a timetable for performing operations.

**Definition:**

Scheduling is the process of deciding the time order in which jobs are to be processed on machines to achieve organizational objectives such as minimizing completion time, lateness, idle time, or cost.

Scheduling answers the following questions:

- What job should be done first?
- On which machine should it be done?
- When should the job begin and end?
- What is the sequence of processing?

**3.3 Objectives and Importance of Scheduling****Objectives of Scheduling:**

1. Minimize production time
2. Optimize machine and labour utilization

3. Reduce waiting time and idle time
4. Minimize work-in-progress inventory
5. Meet delivery deadlines
6. Improve customer satisfaction
7. Increase productivity and reduce cost

**Importance:**

- Ensures smooth workflow
- Coordinates different operations
- Prevents bottlenecks
- Enhances operational efficiency
- Supports better planning and control

Scheduling is critical in industries with multiple jobs competing for limited resources.

**3.4 Types of Scheduling Problems****1. Single Machine Scheduling**

All jobs are processed on one machine.

**2. Parallel Machine Scheduling**

Jobs are processed on parallel identical or different machines.

**3. Flow Shop Scheduling**

Jobs follow the same sequence of machines (e.g.,  $M1 \rightarrow M2 \rightarrow M3$ ).

**4. Job Shop Scheduling**

Jobs follow different routes and sequences.

**5. Open Shop Scheduling**

Jobs can be processed in any order.

**6. Assembly Line Scheduling**

Used in mass production for sequential operations.

Each type has different complexity and performance criteria.

**3.5 Single Machine Scheduling (SMS)**

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Single Machine Scheduling deals with sequencing a set of jobs to be processed on a single machine. This is the simplest form of scheduling but forms the foundation for more complex systems.

Jobs differ in:

- Processing time
- Due dates
- Priority
- Weight (importance)

**Key Questions in SMS:**

- How to minimize mean flow time?
- How to minimize the maximum lateness?
- How to meet due dates effectively?

**3.6 Performance Measures in SMS**

Several performance measures are used:

**1. Flow Time (Ti)**

Total time a job spends in the system:

Flow time = Completion time – Arrival time

**2. Mean Flow Time**

Average of all job flow times.

**3. Lateness (Li)**

$Li = \text{Completion time} - \text{Due date}$

**4. Tardiness (Ti)**

$Ti = \max(0, \text{Lateness})$

**5. Makespan**

Time taken to complete all jobs.

**6. Idle Time**

Time the machine remains idle due to poor scheduling.

The aim is to minimize flow time, lateness, and tardiness.

### 3.7 Scheduling Rules: SPT, EDD, Weighted SPT

#### 1. Shortest Processing Time (SPT)

SPT schedules jobs in ascending order of processing time.

##### Advantages:

- Minimizes mean flow time
- Reduces waiting time
- Improves machine utilization

This is widely used in industries where minimizing flow time is critical.

#### 2. Earliest Due Date (EDD)

Jobs are scheduled in order of increasing due dates.

##### Advantages:

- Minimizes maximum lateness
- Useful in industries where meeting deadlines is essential

EDD is used in printing, publishing, and custom manufacturing.

#### 3. Weighted SPT (WSPT)

Used when jobs have different priorities (weights).

$WSPT = \text{Processing Time} / \text{Weight}$

Jobs with higher weight (importance) are scheduled first.

### 3.8 Flow Shop Scheduling

Flow shop scheduling involves sequencing jobs that must pass through the same sequence of machines. Each job follows the same route.

##### Examples:

- Automobile assembly
- Chemical processing
- Printed circuit board manufacturing

Flow shop scheduling focuses on:

- Minimizing makespan

- Reducing idle time
- Avoiding bottlenecks
- Improving production throughput

Flow shop scheduling can be simple (2-machine) or complex (multi-machine).

### 3.9 Johnson's Rule for Two-Machine Flow Shop Scheduling

Johnson's Rule offers an optimal solution for two-machine flow shop problems where each job must be processed on Machine 1 and then Machine 2.

#### Objective:

Minimize makespan (total time to complete all jobs).

#### Applicability:

- Two machines only
- Each job processed first on M1, then on M2
- Processing times known and deterministic
- No preemption

#### Steps in Johnson's Rule:

1. Select the job with the shortest processing time among all jobs.
2. If the shortest time is on M1 → Schedule the job as early as possible.
3. If the shortest time is on M2 → Schedule the job as late as possible.
4. Remove the job from the list and repeat the process.

Johnson's rule results in an optimal job sequence that minimizes makespan and machine idle time.

#### Example (Conceptual):

Suppose five jobs need to be scheduled on two machines M1 and M2. Determine the job sequence that minimizes makespan.

Using Johnson's Rule, jobs are arranged optimally based on their processing times.

### 3.10 Extension of Johnson's Rule

For three machines (M1, M2, M3), Johnson's rule can be used only if:

- Processing times on M2 are greater than or equal to times on M1, and
- Processing times on M2 are greater than or equal to times on M3

OR

- Times on M2 are less than or equal to times on M1 and M3

In such cases, the three-machine problem can be reduced to a two-machine equivalent by forming:

- Machine A = M1 + M2
- Machine B = M2 + M3

Then Johnson's rule is applied.

Multi-machine scheduling is more complex and often solved using heuristic or meta-heuristic techniques.

### 3.11 Comparison of Job Shop, Flow Shop, and Single Machine Scheduling

#### Single Machine Scheduling:

- Simplest system
- One machine only
- Few constraints
- Primary focus on sequencing tasks

#### Flow Shop Scheduling:

- Multiple machines
- Fixed routing
- Jobs follow the same sequence
- Used in repetitive production

#### Job Shop Scheduling:

- Complex routing
- Every job has its own sequence
- Used in customized or batch production
- Difficult to optimize

Flow shop scheduling lies between the simplicity of SMS and the complexity of job shop scheduling.

### **3.12 Challenges in Scheduling**

Organizations face several difficulties:

#### **1. Variability in Processing Times**

Actual processing times may differ from estimates.

#### **2. Machine Breakdowns**

Unexpected failures disrupt schedules.

#### **3. Rush Orders**

Urgent jobs may disrupt existing plans.

#### **4. Labour Shortages**

Skilled labour availability affects performance.

#### **5. Complexity in Multi-Machine Systems**

Scheduling complexity increases exponentially with job and machine numbers.

#### **6. Balancing Trade-Offs**

Managing lateness, makespan, idle time, and inventory simultaneously is difficult.

Despite challenges, scheduling rules and tools provide systematic approaches to improve performance.

### **Student Learning Activities**

#### **Activity 1: Sequencing Exercise**

**Task:**

Given processing times for multiple jobs on a single machine, sequence the jobs using any priority rule.

**Expected Learning Outcome:**

Understanding of basic single machine scheduling techniques.

#### **Activity 2: Johnson's Rule Application**

**Task:**

Apply Johnson's Rule to a two-machine flow shop problem provided in the lesson.

**Expected Learning Outcome:**

Ability to apply Johnson's Rule for optimal sequencing.

**Activity 3: Reflective Task****Task:**

Explain how poor scheduling can increase production lead time and customer dissatisfaction.

**Expected Learning Outcome:**

Awareness of managerial implications of scheduling decisions.

**4. SUMMARY**

This lesson explained the concepts and techniques of scheduling in production systems. Scheduling ensures optimal allocation of jobs to machines to minimize flow time, lateness, and cost. The lesson covered Single Machine Scheduling, performance measures, and sequencing rules such as SPT, EDD, and Weighted SPT. Flow shop scheduling was discussed, highlighting Johnson's Rule as an effective method for minimizing makespan in two-machine flow shops. The lesson also compared different scheduling systems and explored real-world challenges. Proper scheduling enhances productivity, reduces delay, and ensures efficient utilization of resources.

**5. KEY WORDS**

4

Scheduling

Single Machine Scheduling

SPT

EDD

Flow Shop Scheduling

Johnson's Rule

Makespan

Sequencing

Tardiness

**6. SELF-ASSESSMENT QUESTIONS****1. Short-Answer Questions (with Answers)****1. What is scheduling?**

*Answer:* Scheduling is the process of determining the sequence and timing of jobs on machines.

**2. What is single machine scheduling?**

*Answer:* Scheduling jobs that are processed on only one machine.

**3. Define flow shop scheduling.**

*Answer:* A scheduling environment where all jobs follow the same machine sequence.

**4. What is Johnson's Rule?**

*Answer:* A sequencing rule used to minimise total elapsed time in two-machine flow shops.

**5. What is makespan?**

*Answer:* The total time required to complete all scheduled jobs.

**2. Essay-Type Questions (with Hints)****1. Explain objectives and importance of production scheduling.**

*Hints:* Delivery reliability, machine utilisation, lead time.

**2. Discuss single machine scheduling rules.**

*Hints:* FCFS, SPT, EDD – advantages and limitations.

**3. Explain Johnson's Rule with an example.**

*Hints:* Two-machine flow shop, sequencing logic, benefits.

**3. Analytical MCQs****1. Which rule minimises average completion time on a single machine?**

- a) FCFS
- b) EDD
- c) SPT
- d) Random sequencing

**Correct Answer:** c)

**2. Johnson's Rule is applicable when:**

- a) There are more than two machines
- b) Jobs follow different sequences
- c) There are exactly two machines in sequence
- d) Processing times are equal

**Correct Answer:** c)

**Case Study for Self-Assessment:**

Application of Johnson's Rule at Bharat Heavy Electricals Limited (BHEL)\*\*

**Case Description**

Bharat Heavy Electricals Limited (BHEL) manufactures power generation and industrial equipment through complex production processes involving multiple machines. In certain product lines, jobs must pass through two critical machines in the same sequence, forming a two-machine flow shop environment.

BHEL experienced extended total processing time due to improper sequencing of jobs. Delays in the early stages cascaded into later operations, resulting in late deliveries and customer dissatisfaction.

Production planners decided to apply Johnson's Rule to determine the optimal job sequence that would minimise total elapsed time and improve machine utilisation.

### Analytical Questions

1. Identify the characteristics of a two-machine flow shop scheduling problem at BHEL.
2. Explain how Johnson's Rule helps in sequencing jobs.
3. Analyse the impact of proper scheduling on machine utilisation and lead time.
4. What limitations does Johnson's Rule have in real-world production environments?
5. Suggest improvements to scheduling practices in complex manufacturing systems

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- Economic Times – Articles on production planning and scheduling

**LESSON- 10****5**  
**PROJECT MANAGEMENT – CPM, PERT,  
GANTT CHART & WORK STUDY (METHOD  
STUDY, TIME STUDY)****1. OBJECTIVES OF THE LESSON**

**3**  
After studying this lesson, the learner will be able to:

1. **Explain** the concept and significance of project management in operations
2. **Describe** CPM, PERT, and Gantt chart techniques used in project planning
3. **Analyse** project networks to identify critical paths and time estimates
4. **Apply** work study techniques such as method study and time study
5. **Evaluate** the role of project management and work study in improving productivity

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Project Management
3. Characteristics of Projects
4. Importance of Project Management
5. CPM (Critical Path Method)
6. Steps in CPM
7. CPM Calculations and Network Analysis
8. Float (Slack) and Its Types
9. **70** **PERT (Program Evaluation and Review Technique)**
10. Comparison of CPM and PERT
11. Gantt or Time Chart
12. Work Study: Concept and Importance
13. Method Study: Procedure
14. Time Study: Procedure and Tools
15. Motion Study: Concept and Objectives
16. Summary
17. Key Words

18. Self-Assessment Questions

19. Reference Books

### 3.1 Introduction

Project management is an important managerial function that involves **planning, organizing, coordinating, and controlling resources to achieve specific objectives within a defined timeframe** and budget. Projects are unique, non-routine, and time-bound activities. Examples include construction projects, new product development, software implementation, factory layout redesign, and research studies.

In operations management, several projects require systematic planning. Tools such as CPM, PERT, and Gantt charts help **plan activities, allocate resources, estimate timelines, and control project progress**. Work study **techniques such as method study and time study** improve productivity by analyzing and optimizing human effort and work processes.

#### Introductory Case Study:

Project Scheduling at Delhi Metro Rail Corporation (DMRC)\*\*

#### Background of the Organisation

Delhi Metro Rail Corporation (DMRC) is a public sector enterprise **responsible for planning, construction, and operation of the Delhi Metro**. The organisation manages large-scale infrastructure projects involving multiple contractors, tight deadlines, and public accountability.

Project management tools such as CPM, PERT, and Gantt charts have been extensively used by DMRC to **complete projects on time and within budget**.

#### Contextual Trigger / Problem Situation

During the expansion phases of the Delhi Metro, DMRC faced challenges related to coordination among contractors, sequencing of activities, and time overruns. Delays in one activity often affected several downstream activities.

To manage these complexities, DMRC adopted scientific project management techniques to plan activities, monitor progress, and control timelines effectively.

#### Stakeholders Involved

- Project managers and engineers
- Contractors and suppliers
- Government authorities
- Funding agencies
- Commuters and the general public

#### Behavioural / Managerial Issues

- Coordination across multiple agencies
- Accountability for project delays
- Resource allocation conflicts
- Pressure to meet public deadlines

### Why This Case Is Important for the Lesson

This case demonstrates the practical application of project management tools in managing complex, time-bound projects.

### Linkage to Lesson Concepts

The case links directly to:

- Project planning and scheduling
- CPM and PERT techniques
- Gantt charts for monitoring progress
- Importance of project control

## 3.2 Concept and Meaning of Project Management

Project management involves applying knowledge, skills, tools, and techniques to project activities to meet project requirements. It includes initiation, planning, execution, monitoring, and closure.

### Key aspects:

- Clear objectives
- Defined start and end
- Limited resources
- Unique deliverables
- Cross-functional coordination

Project management ensures that activities are completed on schedule, within budget, and with the desired quality.

## 3.3 Characteristics of Projects

- **Unique:** No two projects are exactly alike.
- **Temporary:** Defined beginning and end.
- **Goal-Oriented:** Measurable deliverables.
- **Complex:** Interdependent activities.
- **Resource-Constrained:** Manpower, money, machines, materials.

- **Risk-Prone:** Uncertainties in time, cost, and performance.

These characteristics make project management essential for success.

### 3.4 Importance of Project Management

Project management is important because:

- It improves planning and scheduling.
- It ensures effective resource utilization.
- It minimizes delays and cost overruns.
- It improves coordination and communication.
- It manages risks and uncertainties.
- It enhances project success rate.

Project management tools support decision-making and execution.

### 3.5 CPM (Critical Path Method)

The Critical Path Method (CPM), developed by DuPont, is a deterministic project scheduling technique used when activity times are known and predictable. It identifies the critical path—the longest sequence of activities that determines project duration.

#### Key Concepts:

- **Activity:** A task requiring time and resources.
- **Event (Node):** Completion of one or more activities.
- **Network:** Diagram connecting activities in sequence.
- **Critical Path:** The longest path with zero slack.
- **Slack (Float):** Allowable delay without affecting project time.

CPM helps determine project completion time, identify bottlenecks, and allocate resources effectively.

### 3.6 Steps in CPM

1. Identify project activities.
2. Determine sequence (precedence relationships).
3. Draw a network diagram (nodes and arrows).

4. Estimate activity times.
5. Perform forward pass to calculate earliest times.
6. Perform backward pass to calculate latest times.
7. Identify critical path.
8. Calculate slack/float for non-critical activities.

These steps provide a structured approach to scheduling and controlling projects.

### 3.7 CPM Calculations and Network Analysis

#### Forward Pass Calculation:

Determines the earliest start (ES) and earliest finish (EF) times.

- $ES(\text{first activity}) = 0$
- $EF = ES + \text{activity duration}$

#### Backward Pass Calculation:

Determines latest start (LS) and latest finish (LF) times.

- $LF(\text{last activity}) = \text{project duration}$
- $LS = LF - \text{activity duration}$

#### Critical Path:

- Activities where  $ES = LS$  and  $EF = LF$
- Zero slack

#### Slack (Float):

$\text{Slack} = LS - ES$

$\text{Slack} = LF - EF$

Critical activities have zero slack, meaning any delay will delay the entire project.

### 3.8 Float and Its Types

#### 1. Total Float

Maximum time an activity can be delayed without delaying project completion.

#### 2. Free Float

Time an activity can be delayed without delaying the early start of its successor.

### 3. Independent Float

Amount of delay allowed without affecting preceding or succeeding activities.

Understanding float helps managers allocate resources and monitor risks.

### 3.9 PERT (Program Evaluation and Review Technique)

PERT was developed by the U.S. Navy for the Polaris missile program. It is used when activity times are uncertain.

#### Characteristics of PERT:

- Probabilistic time estimates
- Useful for R&D projects
- Incorporates uncertainty and risk

#### Three Time Estimates in PERT:

1. **Optimistic Time (O):** Shortest possible time
2. **Most Likely Time (M):** Realistic time
3. **Pessimistic Time (P):** Longest possible time

#### Expected Time (TE):

$$TE = (O + 4M + P) / 6$$

#### Variance:

$$\text{Var} = [(P - O) / 6]^2$$

PERT helps determine project duration with probability.

### 3.10 Comparison of CPM and PERT

Feature	CPM	PERT
Time estimates	Deterministic	Probabilistic
Application	Construction, manufacturing	R&D, new projects
Focus	Time-cost tradeoff	Time control
Activity time	Single time estimate	Three time estimates
Use	Repetitive jobs	Non-repetitive jobs

Both techniques are widely used for planning and controlling projects.

### 3.11 Gantt or Time Chart

A Gantt chart is a bar chart that shows the schedule of activities over time.

**Features:**

- Horizontal bars indicate time duration
- Easy to understand
- Shows start and finish times
- Useful for monitoring progress
- Shows overlaps, delays, and resource allocation

Although simple, Gantt charts are widely used in project tracking and communication.

### 3.12 Work Study: Concept and Importance

Work study involves analyzing work systems to improve productivity. It has two main components:

1. **Method Study**
2. **Work Measurement (Time Study)**

**Objectives of Work Study:**

- Increase productivity
- Eliminate waste
- Improve working methods
- Reduce fatigue
- Reduce production cost
- Standardize operations

Work study forms the basis for continuous improvement.

### 3.13 Method Study: Procedure

Method study focuses on finding the best method of doing a job.

**Steps:**

1. Select the job to be studied
2. Record all facts (charts, diagrams)
3. Examine critically to eliminate unnecessary work

4. Develop a new method
5. Install the new method
6. Maintain and review

Tools used <sup>13</sup> include:

- Flow process charts
- Operation charts
- Two-handed process charts
- String diagrams

Method study leads to systematic improvements.

### 3.14 Time Study: Procedure and Tools

Time study determines the time required to complete a job using a stopwatch or modern devices.

#### Steps:

1. Select the job
2. Record time using stopwatch
3. Determine normal time:
4. **Normal Time = Observed Time × Rating Factor**
5. Determine allowance (fatigue, delay, personal)
6. Standard Time = Normal Time + Allowances

Time study is used for:

- Standardizing work
- Determining labour efficiency
- Setting wages and incentives
- Planning manpower

### 3.15 Motion Study: Concept and Objectives

Motion study focuses on eliminating unnecessary movements of workers. It was pioneered by Frank and Lillian Gilbreth.

#### Objectives:

- Reduce worker fatigue
- Improve workplace design
- Simplify work motions
- Increase efficiency

Motion study techniques include filming workers, studying their motions, analyzing wasteful movements, and redesigning workstations.

### **Student Learning Activities**

#### **Activity 1: Network Diagram Exercise**

**Task:**

Prepare a simple project network diagram and identify the critical path.

**Expected Learning Outcome:**

Ability to apply CPM/PERT concepts.

#### **Activity 2: Work Study Observation**

**Task:**

Observe a simple work activity and list steps that can be improved using method study.

**Expected Learning Outcome:**

Understanding of method study application.

#### **Activity 3: Reflective Writing**

**Task:**

Write a short note (200–250 words) on how project delays affect organisational performance.

**Expected Learning Outcome:**

Awareness of managerial implications of poor project control.

### **4. SUMMARY**

This lesson explained the key concepts of project management and work study. CPM and PERT are powerful tools for planning and controlling projects. CPM uses deterministic times to identify the critical path, while PERT uses probabilistic estimates to handle uncertainty. Gantt charts help visualize project schedules. The lesson also described work study, method study, time study, and motion study as scientific management tools for improving productivity. Together, these techniques improve planning, execution, and efficiency in production and service operations.

## 5. KEY WORDS

5

Project Management

CPM

PERT

Critical Path

Gantt Chart

Work Study

Method Study

Time Study

Motion Study

Float

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

1. **What is project management?**

*Answer:* Project management involves planning, executing, and controlling projects to achieve objectives.

2. **Define CPM.**

*Answer:* Critical Path Method identifies the longest sequence of activities in a project.

3. **What is PERT?**

*Answer:* Program Evaluation and Review Technique uses probabilistic time estimates.

4. **What is a Gantt chart?**

*Answer:* A bar chart showing project activities against time.

5. **Define method study.**

*Answer:* Method study analyses work methods to improve efficiency.

### 2. Essay-Type Questions (with Hints)

1. **Explain CPM and PERT techniques.**

*Hints:* Network diagrams, time estimation, critical path.

2. **Discuss the uses and limitations of Gantt charts.**

*Hints:* Planning, monitoring, simplicity, limitations.

3. **Explain work study and its components.**

*Hints:* Method study, time study, productivity improvement.

### 3. Analytical MCQs

1. The critical path in a project network represents:

- a) Shortest sequence of activities
- b) Sequence with maximum slack
- c) Longest duration path
- d) Least cost path

**Correct Answer:** c)

2. Time study is primarily used to:
- Improve layout
  - Measure standard time
  - Reduce inventory
  - Schedule projects

**Correct Answer:** b)

### **Case Study for Self-Assessment:**

Work Study Implementation at Larsen & Toubro Construction\*\*

#### **Case Description**

Larsen & Toubro (L&T) Construction undertakes large infrastructure and industrial projects requiring extensive manual and machine-based operations. Variations in work methods and time taken for similar tasks led to productivity differences across project sites.

To improve efficiency, L&T introduced systematic work study techniques, including method study to standardise procedures and time study to establish realistic performance standards.

The initiative resulted in improved labour productivity, reduced project duration, and better cost control.

#### **Analytical Questions**

- Explain how CPM and PERT support project planning and control.
- Analyse the importance of identifying the critical path in large projects.
- How do Gantt charts help in monitoring project progress?
- Explain the role of method study in improving work efficiency.
- Discuss how time study contributes to productivity improvement.

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- Economic Times – Articles on project execution and productivity

**LESSON -11****QUALITY CONTROL – CONTROL CHARTS,  
ACCEPTANCE SAMPLING & QUALITY  
SYSTEMS****1. OBJECTIVES OF THE LESSON**

After studying this lesson, the learner will be able to:

1. **Explain** the concept and importance of quality control in operations management
2. **Describe** different types of control charts used for quality monitoring
3. **Analyse** acceptance sampling plans and their applications
4. **Apply** statistical quality control techniques to operational situations
5. **Evaluate** the role of quality systems in achieving organisational excellence

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Quality
3. Evolution of Quality and Quality Management
4. Need for Quality Control
5. Definition and Components of a Quality System
6. Classification of Quality Control Techniques
7. Statistical Quality Control (SQC)
8. Control Charts – Concept and Purpose
9. Control Charts for Variables ( $\bar{X}$  and R Charts)
10. Control Charts for Attributes (p, np, c, u Charts)
11. Acceptance Sampling: Concept and Importance
12. Types of Acceptance Sampling Plans
13. Operating Characteristic (OC) Curve
14. Single Sampling Plan
15. Advantages and Limitations of Acceptance Sampling
16. Summary

17. Key Words

18. Self-Assessment Questions

19. Reference Books

### 3.1 Introduction

Quality has become a critical competitive weapon in global business. Organizations that consistently deliver high-quality products and services earn customer trust, improve market share, and reduce costs associated with defects and rework. Quality control ensures that products meet predetermined standards of performance, reliability, and durability.

The growth of global competition, technological advancements, and increasing customer expectations have made quality an essential component of manufacturing and service systems. Statistical tools and quality systems help monitor, measure, and improve quality across all stages of production.

This lesson discusses essential concepts in **quality control**, including **control charts**, **acceptance sampling**, and **quality systems**.

#### Introductory Case Study:

Quality Control Practices at Dr. Reddy's Laboratories\*\*

#### Background of the Organisation

Dr. Reddy's Laboratories is a leading Indian pharmaceutical company with global operations spanning the United States, Europe, and emerging markets. Pharmaceutical manufacturing is governed by stringent quality standards due to direct implications for patient safety and regulatory compliance.

The company follows strict quality control procedures, including statistical process control and acceptance sampling, to ensure product consistency and compliance with international regulatory norms.

#### Contextual Trigger / Problem Situation

As Dr. Reddy's expanded its global footprint, it faced challenges in maintaining uniform quality standards across multiple manufacturing facilities. Variations in process parameters occasionally resulted in deviations that could lead to batch rejections and regulatory scrutiny.

To address these issues, the organisation strengthened its quality control systems by implementing control charts, acceptance sampling techniques, and internationally recognised quality management systems.

#### Stakeholders Involved

- Quality assurance and quality control teams
- Production and operations managers

- Regulatory authorities (FDA, WHO, CDSCO)
- Healthcare professionals and patients
- Suppliers of raw materials

**Behavioural / Managerial Issues**

- Adherence to standard operating procedures
- Training and discipline among shop-floor employees
- Managing cost of quality
- Accountability for quality failures

**Why This Case Is Important for the Lesson**

This case demonstrates the critical importance of quality control systems in industries where defects can have severe consequences.

**Linkage to Lesson Concepts**

The case links directly to:

- Meaning and objectives of quality control
- Use of control charts for process monitoring
- Acceptance sampling in quality assurance
- Role of quality systems in global operations

**3.2 Concept and Meaning of Quality**

Quality refers to the degree to which a product or service satisfies customer requirements. It encompasses multiple dimensions such as:

- Performance
- Reliability
- Durability
- Conformance to standards
- Aesthetics
- Features
- Serviceability
- Perceived quality

A high-quality product consistently meets or exceeds customer expectations.

**3.3 Evolution of Quality and Quality Management****First Era: Inspection**

Early quality efforts focused only on final inspection to detect defective products.

### **Second Era: Quality Control**

Statistical methods were introduced by Walter Shewhart in the 1920s.

### **Third Era: Quality Assurance**

Quality became integrated with all functions—design, process control, supplier quality, and maintenance.

### **Fourth Era: Strategic Quality Management**

Modern organizations adopt comprehensive frameworks like:

- Total Quality Management (TQM)
- Six Sigma
- ISO 9001 Certification
- Lean Quality

Quality is now a strategic tool for customer satisfaction and competitive advantage.

### **3.4 Need for Quality Control**

Quality control is needed to:

- Reduce defect rates and rework
- Lower production cost
- Improve customer satisfaction
- Ensure product consistency
- Meet regulatory standards
- Enhance brand value
- Improve productivity and resource utilization

Effective quality control minimizes variation and ensures predictable output.

### **3.5 Definition and Components of a Quality System**

A quality system is an organized structure of responsibilities, activities, procedures, and resources that ensures quality requirements are met.

#### **Components:**

1. Quality policy

2. Quality planning

3. Quality control

4. Quality assurance

5. Quality improvement

Examples of quality systems include ISO 9000 standards, Six Sigma systems, and TQM frameworks.

### 3.6 Classification of Quality Control Techniques

Quality control techniques fall into two major categories:

#### 1. Statistical Techniques

- Control charts
- Acceptance sampling
- Process capability analysis
- Design of experiments

#### 2. Non-Statistical Techniques

- Benchmarking
- Quality audits
- Checklists
- Flowcharts
- Cause-and-effect (Fishbone) diagrams

Statistical methods are quantitative, while non-statistical approaches are qualitative.

### 3.7 Statistical Quality Control (SQC)

SQC uses statistical methods to monitor, control, and improve the quality of processes and products. It helps identify abnormal variations caused by assignable causes.

**Two major components:**

#### 1. Process Control

Ensures stability of the process during production using control charts.

#### 2. Acceptance Sampling

Determines whether a batch should be accepted or rejected.

SQC is widely used in manufacturing and services.

### 3.8 Control Charts – Concept and Purpose

Control charts, developed by Shewhart, are graphical tools used to monitor the stability of processes over time.

#### Objectives:

- Distinguish between common and assignable causes of variation
- Identify process instability
- Maintain consistent quality
- Support continuous improvement

A control chart includes:

- Central Line (CL)
- Upper Control Limit (UCL)
- Lower Control Limit (LCL)

If all points fall within limits and show no pattern, the process is under control.

### 3.9 Control Charts for Variables ( $\bar{X}$ and R Charts)

Variable control charts measure quality characteristics that can be expressed numerically, such as length, weight, or temperature.

#### 1. $\bar{X}$ Chart (Mean Chart)

Monitors changes in the process average.

#### 2. R Chart (Range Chart)

Monitors the spread or variability of the process.

#### Uses:

- Precision machining
- Chemical processing
- Metal forming
- Dimensional inspections

#### Interpretation:

- Points outside UCL or LCL indicate out-of-control process

- Patterns (trend, cycle) indicate assignable causes

$\bar{X}$  and R charts are widely used in process industries.

### 3.10 Control Charts for Attributes (p, np, c, u Charts)

Attribute charts measure quality based on countable characteristics such as defects or defective items.

#### 1. p Chart

Tracks proportion of defective items in a sample.

#### 2. np Chart

Tracks number of defectives (sample size constant).

#### 3. c Chart

Tracks number of defects per unit when the opportunity for defects is constant.

#### 4. u Chart

Tracks defects per unit when sample size varies.

#### Examples:

- Number of errors in bills
- Number of defects on a printed circuit board
- Proportion of faulty packages

These charts help monitor service-quality problems and manufacturing defects.

### 3.11 Acceptance Sampling: Concept and Importance

Acceptance sampling involves evaluating a sample of items from a lot to determine whether the entire lot should be accepted or rejected.

#### Purpose:

- Reduce inspection cost
- Speed up decision making
- Handle destructive testing situations
- Ensure supplier quality

Acceptance sampling is widely used in incoming and outgoing quality control.

### 3.12 Types of Acceptance Sampling Plans

#### 1. Single Sampling Plan

Decision is based on one sample.

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#### 2. Double Sampling Plan

Two samples used if the first sample is inconclusive.

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#### 3. Multiple Sampling Plan

Several smaller samples are taken until a decision is made.

#### 4. Sequential Sampling Plan

Each item is inspected sequentially until acceptance or rejection.

Single sampling plans are easy to use and most widely applied.

### 3.13 Operating Characteristic (OC) Curve

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The OC curve describes the performance of a sampling plan. It shows the probability of accepting a lot at various levels of lot quality.

#### Interpretation:

- Steeper curves indicate better discrimination
- Poor-quality lots have lower acceptance probability
- Helps managers compare different sampling plans

OC curves are essential in designing sampling plans.

### 3.14 Single Sampling Plan

A single sampling plan involves:

1. Selecting sample size (n)
2. Determining acceptance number (c)

#### Decision Rules:

- If number of defectives  $\leq c \rightarrow$  Accept the lot
- If defectives  $> c \rightarrow$  Reject the lot

#### Example:

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$n = 50$  items,  $c = 3$  defects allowed

If inspection finds 2 defects → Accept

If 5 defects → Reject

**Advantages:**

- Simple and easy
- Low administrative effort
- Adequate for routine inspection

**Limitations:**

- May require large sample size
- Does not guarantee perfect quality

Single sampling plans balance cost and risk.

### Student Learning Activities

#### Activity 1: Control Chart Interpretation

**Task:**

Interpret a given control chart and identify whether the process is under control.

**Expected Learning Outcome:**

Ability to read and analyse control charts.

#### Activity 2: Reflective Task

**Task:**

Explain why prevention of defects is preferred over detection.

**Expected Learning Outcome:**

Understanding of modern quality management philosophy.

#### Activity 3: Application-Based Exercise

**Task:**

Write a short note (200–250 words) on the importance of quality systems in global manufacturing.

**Expected Learning Outcome:**

Ability to link quality systems with global competitiveness.

### 4. SUMMARY

This lesson explained the concepts and techniques of quality control. Quality is essential for customer satisfaction and competitiveness. Statistical quality control uses tools such as control

charts and acceptance sampling to measure and control variation in processes. Control charts monitor process stability using variables ( $\bar{X}$ , R) and attributes (p, np, c, u). Acceptance sampling helps decide whether to accept or reject a lot using single, double, or sequential plans. OC curves describe the effectiveness of sampling plans. Together, these tools support organizations in achieving consistent quality and continuous improvement.

## 5. KEY WORDS

Quality Control  
Control Charts  
 $\bar{X}$  Chart  
R Chart  
p Chart  
Acceptance Sampling  
OC Curve  
Single Sampling Plan  
Defects  
Quality System

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

32  
1. What is quality control?

Answer: Quality control involves techniques used to ensure products meet specified standards.

52  
2. What is a control chart?

Answer: A graphical tool used to monitor process variation over time.

9  
3. Define acceptance sampling.

Answer: A statistical method for deciding whether to accept or reject a lot based on sample inspection.

4. What is ISO 9001?

Answer: An international quality management system standard.

60  
5. What is TQM?

Answer: Total Quality Management focuses on continuous improvement involving all employees.

### 2. Essay-Type Questions (with Hints)

1. Explain the concept and objectives of quality control.

Hints: Customer satisfaction, defect reduction, process control.

2. Discuss different types of control charts.

Hints: Variables charts, attributes charts.

3. Analyse the role of quality systems in organisational performance.

Hints: Standardisation, continuous improvement, competitiveness.

### 3. Analytical MCQs

1. A process is considered out of control when:
  - a) Points fall within control limits
  - b) Points show random variation only
  - c) Points fall outside control limits
  - d) Mean remains constant

**Correct Answer:** c)

2. Acceptance sampling is most suitable when:
  - a) 100% inspection is economical
  - b) Inspection is destructive or costly
  - c) Defects are impossible
  - d) Demand is low

**Correct Answer:** b)

### Case Study for Self-Assessment:

Implementation of Quality Systems at Tata Motors\*\*

#### Case Description

Tata Motors operates manufacturing facilities across India and international markets, producing passenger and commercial vehicles. Maintaining consistent quality across diverse product lines and plants is a major operational challenge.

The company adopted comprehensive quality systems such as ISO 9001 and Total Quality Management (TQM) to standardise processes, reduce defects, and improve customer satisfaction. Statistical quality control tools, including control charts and acceptance sampling, are routinely used to monitor production quality.

#### Analytical Questions

1. Explain how control charts help Tata Motors monitor process performance.
2. Analyse the role of acceptance sampling in incoming material inspection.
3. Discuss the benefits of implementing formal quality systems.
4. What challenges arise in sustaining quality improvement initiatives?
5. Suggest measures to strengthen quality culture in manufacturing organisations.

#### References and Suggested Readings

##### Text Books

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**LESSON -12****MAINTENANCE PLANNING AND CONTROL –  
RELIABILITY, JIT, SIX SIGMA, TQM, LEAN &  
KAIZEN****1. OBJECTIVES OF THE LESSON**

After studying this lesson, the learner will be able to:

1. **Explain** the concepts and objectives of maintenance planning and control
2. **Describe** reliability and preventive maintenance approaches
3. **Analyse** the principles of JIT, Lean, and Kaizen in operations
4. **Apply** Six Sigma and TQM tools for process improvement
5. **Evaluate** the role of integrated maintenance and improvement systems in global competitiveness

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Meaning and Concept of Maintenance
3. Objectives and Importance of Maintenance
4. Types of Maintenance
5. Preventive Maintenance and Predictive Maintenance
6. Replacement Decisions
7. Concept of Reliability
8. Reliability Improvement
9. Just-in-Time (JIT): Concept and Principles
10. Six Sigma: Concept and Methodology
11. Total Quality Management (TQM)
12. Lean Manufacturing: Concepts and Tools
13. Kaizen and Continuous Improvement
14. Integration of Maintenance with Modern Production Systems
15. Summary
16. Key Words
17. Self-Assessment Questions

## 18. Reference Books

### 3.1 Introduction

Maintenance management <sup>36</sup> plays a vital role in ensuring uninterrupted production, reducing downtime, and maintaining equipment efficiency. As machines and technologies become more sophisticated, the need for systematic maintenance increases. Modern production systems such as JIT, Lean, and TQM depend heavily on reliable equipment.

Effective maintenance planning ensures long equipment life, reduced cost of breakdowns, improved safety, and increased productivity. It also integrates with modern techniques such as Six Sigma and Kaizen to create a culture of continuous improvement.

This lesson discusses maintenance management, reliability concepts, and modern production systems in detail.

### Introductory Case Study:

Reliability-Centred Maintenance at <sup>68</sup> Indian Oil Corporation Limited (IOCL)\*\*

#### Background of the Organisation

Indian Oil Corporation Limited (IOCL) is India's largest commercial enterprise, operating refineries, pipelines, and fuel marketing infrastructure across the country. The company's operations are capital-intensive and highly sensitive to equipment reliability and safety.

Unplanned equipment failures can lead to production losses, environmental risks, and safety hazards. Hence, maintenance planning and control are critical for sustaining continuous operations.

#### Contextual Trigger / Problem Situation

IOCL faced challenges related to ageing equipment, increasing maintenance costs, and unplanned shutdowns in some refinery units. Traditional breakdown maintenance approaches were proving costly and inefficient.

To address these issues, IOCL adopted reliability-centred maintenance (RCM) supported by preventive maintenance schedules, Lean practices, and continuous improvement initiatives.

#### Stakeholders Involved

- Maintenance engineers and operations managers
- Safety and environmental compliance teams
- Equipment suppliers and service contractors
- Government regulators
- Customers and distributors

#### Behavioural / Managerial Issues

- Resistance to shift from reactive to preventive maintenance
- Skill development requirements for maintenance staff
- Coordination between operations and maintenance teams
- Accountability for downtime and failures

**Why This Case Is Important for the Lesson**

This case highlights how maintenance planning integrates with reliability, safety, and operational excellence.

**Linkage to Lesson Concepts**

The case links directly to:

- Maintenance planning and control
- Reliability and preventive maintenance
- Lean and Kaizen practices
- Role of continuous improvement in operations

**3.2 Meaning and Concept of Maintenance**

Maintenance refers to all activities aimed at keeping equipment, machines, and facilities in good working condition. It includes inspection, lubrication, repairs, adjustments, and replacements.

**Definition:**

Maintenance is the process of preserving equipment by scheduling activities that reduce breakdowns and extend its useful life.

Maintenance is required for:

- Smooth production
- Safety of workers
- Product quality
- Long-term equipment reliability
- Cost reduction

**3.3 Objectives and Importance of Maintenance****Objectives:**

- Minimize equipment downtime
- Reduce repair and replacement costs
- Increase equipment life

- Improve system reliability
- Ensure safety
- Maintain product quality
- Optimize maintenance cost

**Importance:**

- Breakdowns disrupt production schedules
- Downtime increases operational cost
- Poor maintenance affects product quality
- Preventive maintenance reduces long-term costs
- Reliable systems enhance customer satisfaction

**3.4 Types of Maintenance**

Maintenance can be classified into:

**1. Breakdown (Corrective) Maintenance**

Performed after equipment fails.

**Advantages:**

- Simple to implement
- No planning required

**Disadvantages:**

- Unexpected downtime
- Higher repair costs
- Potential safety hazards
- Poor equipment life

**2. Preventive Maintenance**

Performed at regular intervals to prevent breakdowns.

**Advantages:**

- Reduces breakdown frequency
- Improves equipment life
- Supports planning and scheduling

### 3. Predictive Maintenance

Uses tools like vibration analysis, thermography, and sensors to predict failures before they happen.

### 4. Scheduled Maintenance

Performed as per a time-based plan (weekly, monthly, yearly).

### 5. Condition-Based Maintenance

Monitors real-time conditions (temperature, vibration) to determine maintenance needs.

## 3.5 Preventive Maintenance and Predictive Maintenance

### Preventive Maintenance (PM):

Involves routine inspections, lubrication, cleaning, replacement, and adjustments.

### Predictive Maintenance (PdM):

Uses advanced diagnostic tools to predict failures.

#### Examples:

- Vibration analysis for rotating machines
- Oil analysis for contamination
- Infrared thermography for overheating
- Ultrasonic testing for cracks

Predictive maintenance reduces unnecessary maintenance and improves reliability.

### 3.6 Replacement Decisions

Replacement decisions involve determining when to replace equipment instead of repairing it.

#### Factors considered:

- Age of equipment
- Maintenance cost
- Downtime impact
- Technological obsolescence
- Energy efficiency

Companies use economic life analysis and cost-benefit analysis for replacement decisions.

### 3.7 Concept of Reliability

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Reliability refers to the probability that a system performs its intended function without failure for a specified period.

#### Definition:

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Reliability is the likelihood that equipment will operate without failure under stated conditions for a specified time.

#### Importance of Reliability:

- Ensures consistent production
- Reduces downtime and cost
- Improves customer satisfaction
- Essential for safety-critical industries (aerospace, healthcare)

### 3.8 Reliability Improvement

Reliability can be improved through:

#### 1. Better Design

Using high-quality materials and advanced engineering principles.

#### 2. Redundancy

Adding backup components (e.g., two pumps instead of one).

#### 3. Preventive and Predictive Maintenance

Regular inspections and diagnostics.

#### 4. Operator Training

Skilled workers reduce misoperations.

#### 5. Quality Control

Reducing variation and defects in production.

Improving reliability increases efficiency and reduces total cost of ownership.

### 3.9 Just-in-Time (JIT): Concept and Principles

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JIT is a production philosophy that aims to eliminate waste and produce only what is needed, when it is needed, and in the required quantity.

#### Principles of JIT:

- Zero inventory

- Small batch sizes
- Continuous improvement
- Quick setup and changeover
- Close supplier relationships
- Quality at the source
- Smooth production flow

**Benefits:**

- Reduced inventory cost
- Improved quality
- Increased productivity
- Flexible production

JIT demands highly reliable equipment and effective maintenance.

**3.10 Six Sigma: Concept and Methodology**

Six Sigma is a data-driven methodology aimed at improving quality by reducing defects and variability.

**Key Concepts:**

- Defects per million opportunities (DPMO)
- Sigma level ( $6\sigma = 3.4$  defects per million)

**DMAIC Framework:**

1. Define the problem
2. Measure current performance
3. Analyze root causes
4. Improve processes
5. Control improvements

Six Sigma integrates with maintenance to reduce variability and improve process capability.

**3.11 Total Quality Management (TQM)**

TQM is an organizational philosophy focused on continuous improvement and customer satisfaction.

**Principles of TQM:**

- Customer focus

- Employee involvement
- Continuous improvement
- Process-centered approach
- Integrated system
- Data-driven decision making

TQM strengthens the relationship between quality, maintenance, and productivity.

### 3.12 Lean Manufacturing: Concepts and Tools

<sup>10</sup> Lean manufacturing focuses on eliminating waste and improving efficiency.

#### <sup>16</sup> Types of Waste (Muda):

- Overproduction
- Waiting
- Transportation
- Over-processing
- Inventory
- Motion
- Defects

#### Lean Tools:

- 5S
- Value stream mapping
- Kanban
- Poka-yoke (error proofing)
- SMED (quick changeover)

Lean systems require high maintenance standards and equipment reliability.

### 3.13 Kaizen and Continuous Improvement

<sup>10</sup> Kaizen is a Japanese philosophy meaning “continuous improvement.”

#### Principles:

- Small, incremental changes
- Employee involvement
- Standardization

- Waste reduction
- Bottom-up improvement

Kaizen fosters a culture of continuous learning and innovation.

### 3.14 Integration of Maintenance with Modern Production Systems

Modern production systems depend heavily on efficient maintenance. For example:

- **JIT** requires zero breakdowns
- **Lean** needs reliable equipment to eliminate waste
- **Six Sigma** requires consistent processes
- **TQM** needs standardized work

Thus, maintenance is not merely a repair function but a strategic capability.

### Student Learning Activities

#### Activity 1: Maintenance Classification Task

**Task:**

Classify maintenance activities of an organisation into preventive and corrective maintenance.

**Expected Learning Outcome:**

Understanding of maintenance strategies.

#### Activity 2: Reflective Task

**Task:**

Explain why preventive maintenance is preferred over breakdown maintenance.

**Expected Learning Outcome:**

Appreciation of cost and reliability benefits.

#### Activity 3: Application-Based Exercise

**Task:**

Write a short note (200–250 words) on how Lean and Kaizen support maintenance efficiency.

**Expected Learning Outcome:**

Ability to integrate maintenance concepts with improvement philosophies.

#### 4. SUMMARY

This lesson covered the concepts and importance of maintenance management and modern production philosophies. It explained preventive, predictive, and breakdown maintenance, replacement decisions, and the concept of reliability. Modern systems such as JIT, Six Sigma, TQM, Lean manufacturing, and Kaizen were discussed as essential components of contemporary operations management. Maintenance integrates closely with these systems to ensure reliable equipment, reduced waste, improved quality, and higher productivity.

#### 5. KEY WORDS

Maintenance  
Preventive Maintenance  
Predictive Maintenance  
Reliability  
JIT  
Six Sigma  
Lean Manufacturing  
Kaizen  
TQM  
Condition Monitoring

#### 6. SELF-ASSESSMENT QUESTIONS

##### 1. Short-Answer Questions (with Answers)

- 1. What is maintenance planning?**  
*Answer:* Maintenance planning involves scheduling and controlling maintenance activities to ensure equipment reliability.
- 2. Define reliability.**  
*Answer:* Reliability is the probability that equipment performs its intended function without failure.
- 3. What is JIT?**  
*Answer:* Just-in-Time aims to reduce inventory and waste through timely production.
- 4. Define Six Sigma.**  
*Answer:* Six Sigma is a data-driven methodology for reducing defects and variation.
- 5. What is Kaizen?**  
*Answer:* Kaizen refers to continuous, incremental improvement.

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##### 2. Essay-Type Questions (with Hints)

- 1. Explain maintenance planning and control systems.**  
*Hints:* Planning, scheduling, execution, control.
- 2. Discuss reliability and preventive maintenance approaches.**  
*Hints:* Failure prevention, cost reduction, safety.

3. **Analyse the role of Lean, Six Sigma, TQM, and Kaizen in operational excellence.**

*Hints:* Waste elimination, quality improvement, culture.

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### 3. Analytical MCQs

1. The bathtub curve is used to explain:
  - a) Inventory levels
  - b) Failure rate over time
  - c) Production output
  - d) Demand forecasting

**Correct Answer:** b)

2. Six Sigma primarily aims to:
  - a) Increase production volume
  - b) Reduce process variation
  - c) Increase inventory
  - d) Improve marketing

**Correct Answer:** b)

### Case Study for Self-Assessment:

Lean, Six Sigma, and TQM at General Electric (GE)\*\*

#### Case Description

General Electric (GE) is a multinational conglomerate with operations in aviation, healthcare, power, and manufacturing. GE is globally recognised for its early and successful adoption of Six Sigma, Lean, and Total Quality Management principles.

GE used Six Sigma methodologies to reduce process variation, improve equipment reliability, and enhance customer satisfaction. Lean and Kaizen initiatives were introduced to eliminate waste, streamline maintenance processes, and improve turnaround time.

The integration of maintenance planning with continuous improvement resulted in significant cost savings and productivity gains.

#### Analytical Questions

1. Explain how reliability concepts support maintenance planning at GE.
2. Analyse the role of JIT and Lean in reducing downtime and waste.
3. Discuss how Six Sigma improves maintenance and process performance.
4. Explain the contribution of TQM and Kaizen to organisational culture
5. Suggest strategies for integrating maintenance with continuous improvement initiatives.

## References and Suggested Readings

### Text Books

1. Heizer, J., Render, B., & Munson, C., *Operations Management*, Pearson Education, New Delhi, 2020.
2. Slack, N., Brandon-Jones, A., & Johnston, R., *Operations Management*, Pearson Education, Harlow, 2022.
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- Government of India – Industrial Maintenance and Safety Reports

**LESSON -13****GLOBAL PRODUCTION SYSTEMS & WORLD-CLASS MANUFACTURING****1. OBJECTIVES OF THE LESSON**

After studying this lesson, the learner will be able to:

- **Explain** the concept and evolution of global production systems
- **Describe** the characteristics of world-class manufacturing organisations
- **Analyse** global production strategies adopted by multinational firms
- **Apply** world-class manufacturing practices to improve operational performance
- **Evaluate** challenges and opportunities in managing global production systems

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Meaning and Concept of Global Production Systems
3. Evolution and Drivers of Global Manufacturing
4. Features of Global Production Systems
5. Components of Global Production Networks
6. Strategies for Global Manufacturing Competitiveness
7. Concept of World-Class Manufacturing (WCM)
8. Principles and Pillars of WCM
9. Characteristics of World-Class Manufacturing Organizations
10. Role of Automation and Advanced Manufacturing Technologies
11. Benchmarking and Global Best Practices
12. Role of Supply Chain Integration in Global Production
13. Flexibility, Agility, and Responsiveness
14. Continuous Improvement and Sustainable Manufacturing
15. Summary
16. Key Words
17. Self-Assessment Questions

## 18. Reference Books

### 3.1 Introduction

Globalization has transformed production and operations management. Companies are no longer confined to producing goods within national borders. Instead, they operate in global production systems involving multiple countries, suppliers, technologies, and markets. Multinational corporations (MNCs) distribute their operations across continents to optimize cost, quality, and productivity.

As competition intensifies, organizations aim to achieve world-class standards in manufacturing. World-Class Manufacturing (WCM) includes the adoption of advanced technologies, lean systems, continuous improvement, superior quality management, and agile supply chains. Leading companies such as Toyota, Honda, Samsung, Apple, Siemens, and General Electric have adopted WCM practices to dominate global markets.

This lesson explains global production systems, their components, and the principles of world-class manufacturing.

#### Introductory Case Study:

Global Production Strategy of Toyota Motor Corporation\*\*

#### Background of the Organisation

Toyota Motor Corporation operates manufacturing plants across Japan, North America, Europe, Asia, and emerging markets. The company follows a globally integrated production system that combines standardised processes with local responsiveness.

Toyota's production philosophy, popularly known as the Toyota Production System (TPS), is considered a benchmark for world-class manufacturing and has influenced organisations worldwide.

#### Contextual Trigger / Problem Situation

As Toyota expanded globally, it faced challenges related to maintaining consistent quality, coordinating suppliers across countries, and adapting production systems to local conditions. Differences in labour skills, regulatory requirements, and infrastructure posed operational risks.

The company needed a global production system that ensured efficiency, quality, and flexibility while supporting rapid market expansion.

#### Stakeholders Involved

- Global operations and production managers
- International suppliers and logistics partners
- Plant-level managers and workforce
- Governments and regulatory authorities

- Global customers

**Behavioural / Managerial Issues**

- Balancing standardisation with localisation
- Knowledge transfer across international plants
- Cultural differences in work practices
- Maintaining quality consistency worldwide

**Why This Case Is Important for the Lesson**

This case illustrates how global production systems support competitive advantage and operational excellence in multinational enterprises.

**Linkage to Lesson Concepts**

The case links directly to:

- Meaning and scope of global production systems
- Characteristics of world-class manufacturing
- Global integration and coordination mechanisms

**3.2 Meaning and Concept of Global Production Systems**

A global production system refers to the geographically dispersed activities involved in producing goods and services across multiple countries. It involves coordination of:

- Production facilities
- Suppliers
- Logistics and transportation
- Design and engineering
- Technology and information systems
- Human resources

In a global production system, each part of the value chain is located in a region that offers competitive advantage such as low cost, skilled labour, proximity to markets, or advanced technology.

**Examples:**

- Apple designs products in the USA, sources components from Japan and Korea, and manufactures in China.
- Automobile companies have global manufacturing hubs in Mexico, India, Brazil, and Eastern Europe.

- Electronics companies rely on global supplier networks from Taiwan, Singapore, and South Korea.

### **3.3 Evolution and Drivers of Global Manufacturing**

The growth of global production is influenced by several drivers:

#### **1. Cost Advantages**

Companies seek low-cost labour, raw materials, and production facilities.

#### **2. Market Expansion**

Companies want to reach consumers in multiple countries.

#### **3. Technological Advancements**

IT, automation, and digital platforms enable real-time coordination across borders.

#### **4. Trade Liberalization**

Reduction in tariffs and emergence of free trade zones encourage global production.

#### **5. Transportation and Logistics Improvements**

Containerization, air freight, and global shipping networks reduce delivery time and cost.

#### **6. Access to Skilled Workforce**

Countries like China, India, and Malaysia offer abundant technical talent.

#### **7. Competition**

Global competition pushes companies to improve efficiency and reduce cost.

These drivers push companies to develop global production networks.

### **3.4 Features of Global Production Systems**

Global production systems have several defining characteristics:

#### **1. Geographical Dispersion**

Production activities are spread across countries.

#### **2. Outsourcing and Offshoring**

Companies outsource non-core activities to specialized vendors.

#### **3. Standardized Processes**

Uniform standards ensure consistency across global plants.

#### **4. Use of ICT & Digital Integration**

ERP, cloud systems, AI, and IoT enable integrated global planning.

#### **5. Supply Chain Synchronization**

Materials, information, and finances flow across borders in real time.

#### **6. Focus on Core Competencies**

Companies invest in design, innovation, and branding while outsourcing manufacturing.

#### **7. Strategic Partnerships**

Joint ventures and alliances enable access to technology and markets.

### **3.5 Components of Global Production Networks**

#### **1. Global Sourcing**

Purchasing materials and components from international suppliers.

#### **2. International Manufacturing Facilities**

Owned or contracted factories located abroad.

#### **3. Global Distribution Systems**

Warehouses, logistics providers, and transportation networks.

#### **4. Technology and Innovation Centers**

R&D labs located in innovation hubs.

#### **5. Global Workforce**

Cross-cultural teams and international talent.

#### **6. Information Systems Integration**

ERP, SCM software, cloud computing.

Global networks create economies of scale and learning advantages.

### **3.6 Strategies for Global Manufacturing Competitiveness**

#### **1. Cost Leadership Strategy**

Reducing production cost through scale, efficiency, and outsourcing.

#### **2. Differentiation Strategy**

Offering innovative and high-quality products.

#### **3. Flexible Manufacturing**

Adapting quickly to global market changes.

#### **4. Localization Strategy**

Customizing products for different markets.

#### **5. Standardization Strategy**

Using uniform processes across global facilities.

#### **6. Technology Leadership**

Investing in automation, robotics, and advanced manufacturing.

#### **7. Lean Operations**

Eliminating waste in global processes.

These strategies ensure competitiveness in global markets.

### **3.7 Concept of World-Class Manufacturing (WCM)**

World-Class Manufacturing refers to a set of best practices that enable companies to achieve superior performance in quality, productivity, cost, and customer satisfaction.

WCM combines:

- Lean systems
- Just-in-Time
- Total Quality Management (TQM)
- Six Sigma
- Advanced manufacturing technology
- Continuous improvement
- Employee involvement

WCM is a holistic approach rather than a single technique.

### **3.8 Principles and Pillars of World-Class Manufacturing**

WCM is built on several core principles:

#### **1. Zero Defects**

Producing defect-free products consistently.

#### **2. Zero Waste**

Eliminating all forms of waste.

**3. Zero Accidents**

Ensuring safety and ergonomic work environments.

**4. Continuous Improvement (Kaizen)**

Incremental and ongoing improvement.

**5. Just-in-Time Production**

Producing only what is required, when required.

**6. Total Productive Maintenance (TPM)**

Ensuring machines operate with maximum reliability.

**7. Employee Empowerment**

Encouraging participation and problem-solving.

**8. Customer Focus**

Meeting and exceeding customer expectations.

**9. Standardized Work**

Use of uniform procedures to reduce variation.

**3.9 Characteristics of World-Class Manufacturing Organizations**

World-class manufacturers exhibit several distinctive characteristics:

**1. Strong Leadership and Vision**

Commitment to excellence from top management.

**2. Customer-Centric Approach**

Customer needs drive all decisions.

**3. Lean and Agile Operations**

Elimination of waste and rapid response to change.

**4. High Product Quality**

Low defect rates and consistent performance.

**5. Advanced Technology Adoption**

Use of robotics, automation, and AI.

**6. Skilled Workforce**

Continuous training and involvement.

#### **7. Global Benchmarking**

Learning from the best practices worldwide.

#### **8. Sustainable Manufacturing**

Focus on environmental responsibility.

Companies like Toyota, Honda, and Samsung stand out as world-class manufacturers.

### **3.10 Role of Automation and Advanced Manufacturing Technologies**

Modern technologies enhance global production efficiency:

#### **1. Robotics and Automation**

Increase precision and reduce labour cost.

#### **2. Computer-Integrated Manufacturing (CIM)**

Integrates design, production, and logistics.

#### **3. Flexible Manufacturing Systems (FMS)**

Handle variety with high flexibility.

#### **4. Additive Manufacturing (3D Printing)**

Enables rapid prototyping and customization.

#### **5. Internet of Things (IoT)**

Real-time machine monitoring and predictive maintenance.

#### **6. Artificial Intelligence (AI)**

Supports forecasting, scheduling, and quality control.

#### **7. Big Data Analytics**

Improves decision-making and efficiency.

Advanced technologies are foundational for world-class performance.

### **3.11 Benchmarking and Global Best Practices**

Benchmarking compares a company's performance with industry leaders.

#### **Types of Benchmarking:**

- **Internal Benchmarking**

- **Competitive Benchmarking**
- **Functional Benchmarking**
- **Strategic Benchmarking**

**Global best practices include:**

- Toyota Production System (TPS)
- Six Sigma of GE and Motorola
- Lean techniques of Honda
- Digital factories of Siemens

Benchmarking enables continuous improvement.

### 3.12 Role of <sup>27</sup>Supply Chain Integration in Global Production

Supply chain integration ensures smooth <sup>27</sup>flow of materials and information.

**Components:**

- **Supplier** collaboration
- Real-time data sharing
- Integrated planning
- Logistics optimization
- Global inventory visibility

Supply chain integration reduces lead time, cost, and risk.

### 3.13 Flexibility, Agility, and Responsiveness

Global markets demand:

#### 1. Flexibility

Ability to produce different products quickly.

#### 2. Agility

Rapid response to changes in market demand.

#### 3. Responsiveness

Meeting customer expectations in real time.

Agile systems combine lean production, digital technology, and skilled workforce.

### 3.14 Continuous Improvement and Sustainable Manufacturing

World-class companies focus on continuous improvement through:

- Kaizen
- Lean Six Sigma
- Value stream mapping
- Problem-solving teams
- PDCA cycle

Sustainable manufacturing aims to reduce:

- Energy consumption
- Waste
- Pollution
- Carbon footprint

Sustainability enhances global reputation and long-term competitiveness.

#### Student Learning Activities

##### Activity 1: Global Operations Analysis

**Task:**

Identify a multinational company and describe how it manages production across countries.

**Expected Learning Outcome:**

Understanding of global production coordination.

##### Activity 2: Reflective Task

**Task:**

Explain why world-class manufacturing is essential for competing in global markets.

**Expected Learning Outcome:**

Awareness of competitive implications of manufacturing excellence.

##### Activity 3: Application-Based Writing

**Task:**

Write a short note (200–250 words) on challenges faced by firms in implementing global production systems.

**Expected Learning Outcome:**

Ability to critically analyse global operations issues.

**4. SUMMARY**

This lesson explored global production systems, their characteristics, and the drivers behind global manufacturing. It discussed components of global production networks and strategies used by companies to remain competitive. The lesson also explained the concept, principles, and characteristics of world-class manufacturing. Topics such as automation, benchmarking, supply chain integration, flexibility, agility, continuous improvement, and sustainability highlighted the capabilities required to compete globally.

**5. KEY WORDS**

Global Production

World-Class Manufacturing

Lean

Benchmarking

JIT

Automation

Agility

Global Supply Chain

Continuous Improvement

Kaizen

**6. SELF-ASSESSMENT QUESTIONS****1. Short-Answer Questions (with Answers)****1. What is a global production system?**

*Answer:* A network of production facilities coordinated across countries to serve global markets.

**2. Define world-class manufacturing.**

*Answer:* Manufacturing practices that achieve superior performance in quality, cost, delivery, and flexibility.

**3. Mention one advantage of global production systems.**

*Answer:* Cost optimisation through global resource utilisation.

**4. What is standardisation in global manufacturing?**

*Answer:* Use of uniform processes and standards across plants.

**5. What is localisation?**

*Answer:* Adapting production processes to local market requirements.

**2. Essay-Type Questions (with Hints)**

1. **Explain the concept and importance of global production systems.**  
*Hints:* Global integration, competitiveness, efficiency.
2. **Discuss characteristics of world-class manufacturing organisations.**  
*Hints:* Quality focus, continuous improvement, flexibility.
3. **Analyse challenges in managing global manufacturing operations.**  
*Hints:* Culture, coordination, technology, regulations.

### 3. Analytical MCQs

1. World-class manufacturing primarily focuses on:
  - a) High inventory levels
  - b) Local optimisation only
  - c) Continuous improvement and excellence
  - d) Marketing efficiency

**Correct Answer:** c)

2. A key challenge in global production systems is:
  - a) Excess demand
  - b) Cultural and regulatory differences
  - c) Excess automation
  - d) Over-standardisation

**Correct Answer:** b)

### Case Study for Self-Assessment:

World-Class Manufacturing at Siemens Global Operations\*\*

#### Case Description

Siemens, a multinational conglomerate operating in energy, healthcare, and industrial automation, manages a network of global production facilities. The company adopts world-class manufacturing principles such as digitalisation, Lean production, Six Sigma, and continuous improvement.

Siemens faced challenges in aligning production performance across plants located in developed and emerging economies. Differences in productivity, quality levels, and technological adoption required a unified global manufacturing framework.

Through global benchmarking, standard operating procedures, and digital manufacturing platforms, Siemens improved efficiency and quality across its international operations.

#### Analytical Questions

1. Explain the features of a global production system adopted by Siemens.
2. Analyse the role of world-class manufacturing practices in standardising operations.
3. Discuss the challenges of managing production across different countries.
4. How does technology support coordination in global production systems?

5. Suggest measures to sustain world-class manufacturing performance globally.

## References and Suggested Readings

### Text Books

1. Heizer, J., Render, B., & Munson, C., *Operations Management*, Pearson Education, New Delhi, 2020.
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- Economic Times – Articles on global manufacturing strategies

**LESSON -14****PRODUCTIVITY – CONCEPTS,  
MEASUREMENT & DETERMINANTS****1. OBJECTIVES OF THE LESSON**

3 After studying this lesson, the learner will be able to:

1. **Explain** the concept and significance of productivity in operations management
2. **Distinguish** between different measures of productivity
3. **Analyse** factors influencing productivity in organisations
4. **Apply** productivity measurement techniques to operational situations
5. **Evaluate** strategies for improving productivity in global enterprises

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Productivity
3. Types of Productivity
4. Productivity Measurement
5. Factors Influencing Productivity
6. Productivity at Industry and National Levels
7. Techniques for Productivity Improvement
8. Relationship between Productivity, Quality & Cost
9. Barriers to Productivity Improvement
10. Productivity in Service Industries
11. Role of Technology in Productivity Enhancement
12. Human Factors and Work Culture
13. Government Policies for Productivity Improvement
14. Summary
15. Key Words
16. Self-Assessment Questions
17. Reference Books

### 3.1 Introduction

Productivity is a key performance indicator in operations management. It reflects how efficiently an organization converts inputs (materials, labour, machines, and capital) into outputs (products or services). High productivity leads to lower costs, higher profits, better competitiveness, and improved standards of living. In today's competitive global environment, organizations must continuously evaluate and improve their productivity to survive and grow.

The increasing influence of technology, automation, digitalization, and global competition has made productivity improvement essential. This lesson provides an in-depth understanding of productivity concepts, measurement techniques, determinants, and methods of improvement.

#### Introductory Case Study:

Productivity Improvement at Maruti Suzuki India Limited\*\*

#### Background of the Organisation

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Maruti Suzuki India Limited is the largest passenger car manufacturer in India, with production facilities at Gurugram and Manesar. Operating in a highly competitive automotive market, productivity is a critical determinant of cost efficiency, quality, and delivery performance.

The company benchmarks its operations against global best practices and continuously invests in technology, skill development, and process improvement to enhance productivity.

#### Contextual Trigger / Problem Situation

With increasing competition from global automobile manufacturers and rising input costs, Maruti Suzuki faced pressure to improve labour and capital productivity. Variations in output per employee and machine utilisation rates were affecting operational efficiency.

To address these challenges, the company introduced productivity measurement systems, automation, Lean practices, and continuous training programmes.

#### Stakeholders Involved

- Production and operations managers
- Shop-floor employees and supervisors
- Suppliers and logistics partners
- Customers and dealers
- Trade unions and regulatory authorities

#### Behavioural / Managerial Issues

- Employee resistance to productivity-linked changes
- Skill gaps affecting labour productivity
- Balancing automation with employment concerns
- Sustaining continuous improvement culture

### Why This Case Is Important for the Lesson

This case demonstrates how systematic productivity measurement and improvement initiatives contribute to competitiveness in manufacturing organisations.

### Linkage to Lesson Concepts

The case links directly to:

- Meaning and importance of productivity
- Partial and total productivity measures
- Determinants of productivity
- Productivity improvement strategies

### 3.2 Concept and Meaning of Productivity

Productivity refers to <sup>14</sup> the ratio of output to input. It is a measure of how effectively an organization utilizes its resources.

#### Definition:

Productivity <sup>14</sup> is the relationship between the quantity of output produced and the quantity of inputs used to produce that output.

#### Importance of Productivity:

- Reduces production cost
- Enhances competitiveness
- Improves profitability
- Promotes economic growth
- Increases wages and living standards
- Improves resource utilization

Productivity improvement is essential for organizational and national development.

### 3.3 Types of Productivity

#### 1. Partial Productivity

Measures productivity with respect to a single input.

Examples:

- **Labour Productivity** = Output / Labour Hours
- **Machine Productivity** = Output / Machine Hours

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- **Capital Productivity** = Output / Capital Invested
- **Material Productivity** = Output / Material Input

## 2. Multifactor Productivity (MFP)

Measures output against a combination of inputs such as labour and capital.

$$\text{MFP} = \text{Output} / (\text{Labour} + \text{Capital} + \text{Materials})$$

## 3. Total Productivity

Measures overall efficiency of all inputs.

$$\text{Total Productivity} = \text{Total Output} / \text{Total Inputs}$$

Total productivity gives a comprehensive picture of efficiency.

## 3.4 Productivity Measurement

### 1. Output-Based Measures

Measures number of units produced or services delivered.

### 2. Revenue-Based Measures

Uses sales revenue as output.

### 3. Standard Hour Measures

Uses standard time required to complete tasks.

### 4. Value-Added Measures

Measures net output after deducting purchased inputs.

### 5. Physical Measures

Weight, volume, energy use, etc.

### 6. Service Sector Measures

Often difficult due to intangible outputs, variability, and customer involvement.

#### Factors required for accurate measurement:

- Standard definitions
- Consistent data
- Reliable measurement tools
- Appropriate input-output relationships

### **3.5 Factors Influencing Productivity**

Productivity is influenced by factors at multiple levels:

#### **A. Organizational Factors**

##### **1. Technology**

Automation, robotics, and digital tools improve efficiency.

##### **2. Work Methods**

Efficient processes improve throughput.

##### **3. Layout and Workflow**

Good layout reduces movement and time wastage.

##### **4. Quality of Inputs**

High-quality materials reduce rework.

##### **5. Maintenance**

Reliable machines prevent breakdowns and delays.

##### **6. Human Resources**

Skilled and motivated workforce enhances productivity.

#### **B. Individual Factors**

- Attitude and motivation
- Health and safety
- Training and skills
- Work environment
- Job satisfaction

#### **C. External Factors**

- Government policies
- Economic conditions
- Infrastructure
- Availability of raw materials
- Competition

### **3.6 Productivity at Industry and National Levels**

#### **Industry Level Productivity**

Industry-level productivity depends on:

- Technology level
- Scale of operations
- Industrial policies
- Labour skills
- Supply chain efficiency

Industries with high automation and specialization typically show higher productivity.

#### **National Level Productivity**

At the macro level, productivity contributes to:

- Economic growth
- International competitiveness
- Higher GDP
- Better employment
- Improved living standards

Countries like Japan, South Korea, and Germany are known for their high national productivity due to technology, education, and work culture.

### **3.7 Techniques for Productivity Improvement**

Organizations use several techniques to improve productivity:

#### **1. Work Study (Method Study & Time Study)**

Improves work methods and standard times.

#### **2. Lean Manufacturing**

Reduces waste and increases efficiency.

#### **3. Total Quality Management (TQM)**

Improves quality and reduces defects.

#### **4. Automation & Robotics**

Enhances speed and accuracy.

#### **5. Inventory Management Techniques**

EOQ, JIT reduce carrying cost and waste.

#### **6. Kaizen (Continuous Improvement)**

Small improvements lead to big results over time.

#### **7. Benchmarking**

Learning from best performers.

#### **8. Training and Development**

Improves employee competency.

#### **9. Ergonomics**

Designing workplaces for comfort and efficiency.

#### **10. IT and Digital Tools**

ERP, IoT, AI, analytics support better decision-making.

### **3.8 Relationship Between Productivity, Quality & Cost**

These three aspects are interconnected:

#### **1. Productivity & Quality**

High quality reduces rework, scrap, and delays, improving productivity.

#### **2. Productivity & Cost**

Improved productivity reduces cost per unit.

#### **3. Quality & Cost**

Better quality reduces warranty claims and customer complaints.

Organizations must balance all three for competitive advantage.

### **3.9 Barriers to Productivity Improvement**

Organizations face several challenges:

#### **1. Resistance to Change**

Employees may resist new methods or technologies.

#### **2. Lack of Training**

Unskilled workforce reduces productivity.

### **3. Poor Work Culture**

Lack of motivation and discipline affects efficiency.

### **4. Inadequate Technology**

Outdated machines cause delays.

### **5. Poor Management Practices**

Lack of planning and coordination.

### **6. Supply Chain Issues**

Shortages, delays, and quality problems reduce productivity.

## **3.10 Productivity in Service Industries**

Service productivity is challenging because:

- Output is intangible
- Customer involvement varies
- Quality is difficult to measure
- Services are heterogeneous
- Labour plays a dominant role

### **Improvement practices include:**

- Standardization of processes
- Use of technology (ATMs, online banking)
- Queue management
- Staff training
- Automation (self-check-in kiosks, IVR systems)

Examples of high-productivity service sectors include IT services, airlines, and banking.

## **3.11 Role of Technology in Productivity Enhancement**

Technology improves productivity by:

- Reducing manual effort
- Increasing accuracy

- Speeding up production
- Improving communication
- Enhancing planning and scheduling
- Facilitating innovations

Technologies such as ERP, IoT, robotics, AI, and automation have revolutionized productivity.

### **3.12 Human Factors and Work Culture**

Human factors play a central role in productivity:

- Leadership
- Employee involvement
- Incentive systems
- Safety and ergonomics
- Communication
- Organizational culture

Countries like Japan emphasize discipline and continuous improvement, resulting in higher productivity.

### **3.13 Government Policies for Productivity Improvement**

Governments support productivity through:

#### **1. Industrial Policies**

Encourage modernization and efficiency.

#### **2. Infrastructure Development**

Better transport and communication systems.

#### **3. Labour Reforms**

Promote flexibility and skills development.

#### **4. Technological Support**

Innovation funding, R&D support.

#### **5. Education & Training**

Skill development programs improve workforce competency.

## **6. Incentives for Modernization**

Tax benefits for automation and modernization.

Government interventions create a conducive environment for productivity growth.

### **Student Learning Activities**

#### **Activity 1: Productivity Calculation Exercise**

**Task:**

Calculate labour productivity using given input and output data.

**Expected Learning Outcome:**

Ability to measure productivity accurately.

#### **Activity 2: Reflective Task**

**Task:**

Explain why productivity improvement is critical for national economic growth.

**Expected Learning Outcome:**

Understanding of macro-level implications of productivity.

#### **Activity 3: Application-Based Writing**

**Task:**

Write a short note (200–250 words) on factors affecting productivity in service industries.

**Expected Learning Outcome:**

Ability to analyse productivity determinants beyond manufacturing.

## **4. SUMMARY**

This lesson explained the meaning, types, measurement, and determinants of productivity. Productivity is a critical indicator of efficiency in both manufacturing and services. Various factors influence productivity, including technology, work methods, labour efficiency, management practices, and external environment. The lesson also discussed barriers to productivity improvement and highlighted techniques for improving productivity at the organizational and national levels. The role of technology, human factors, and policy interventions were emphasized as key contributors to productivity enhancement.

## **5. KEY WORDS**

Productivity

Partial Productivity

Total Productivity

Multifactor Productivity  
Work Study  
Lean  
Kaizen  
Automation  
Efficiency  
Competitiveness

## 6. SELF-ASSESSMENT QUESTIONS

### 1. Short-Answer Questions (with Answers)

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1. **What is productivity?**  
*Answer:* Productivity is the ratio of output produced to inputs used.
2. **Define labour productivity.**  
*Answer:* Output produced per unit of labour input.
3. **What is total productivity?**  
*Answer:* Ratio of total output to total inputs used.
4. **Mention one determinant of productivity.**  
*Answer:* Technology.
5. **What is productivity improvement?**  
*Answer:* Increasing output with the same or fewer inputs.

### 2. Essay-Type Questions (with Hints)

1. **Explain the concept and importance of productivity.**  
*Hints:* Efficiency, competitiveness, economic growth.
2. **Discuss methods of measuring productivity.**  
*Hints:* Partial productivity, total productivity.
3. **Analyse factors influencing productivity in organisations.**  
*Hints:* Human, technological, managerial factors.

### 3. Analytical MCQs

1. Labour productivity is calculated as:
  - a) Labour input ÷ Output
  - b) Output ÷ Labour input
  - c) Capital ÷ Labour
  - d) Output ÷ Capital

**Correct Answer:** b)

2. Which factor directly influences productivity improvement?
  - a) Increased inventory
  - b) Improved technology
  - c) Higher defects
  - d) Longer lead time

**Correct Answer:** b)

### Case Study for Self-Assessment:

Productivity Enhancement at Amazon Global Fulfilment Centres\*\*

#### Case Description

Amazon operates a vast network of global fulfilment centres to support its e-commerce operations. High productivity is essential to manage large order volumes, ensure quick delivery, and control operational costs.

Amazon measures productivity using input per employee, order fulfilment time, and warehouse utilisation metrics. Advanced technologies such as automation, robotics, and data analytics are deployed to improve productivity. At the same time, the company faces challenges related to workforce management, employee fatigue, and sustainability.

#### Analytical Questions

1. Explain how productivity is measured in Amazon's fulfilment centres.
2. Analyse the role of technology in improving productivity.
3. Discuss human factors affecting productivity in service operations.
4. Evaluate the trade-offs between productivity improvement and employee well-being.
5. Suggest strategies for sustaining productivity growth in global service organisations.

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## LESSON -15

**SUPPLY CHAIN MANAGEMENT & LOGISTICS****1. OBJECTIVES OF THE LESSON**

After studying this lesson, the learner will be able to:

1. **Explain** the concept and scope of supply chain management
2. **Describe** major components and flows in a supply chain
3. **Analyse** logistics and distribution strategies in global supply chains
4. **Apply** supply chain coordination concepts to business situations
5. **Evaluate** challenges and performance issues in international logistics

**2. STRUCTURE OF THE LESSON**

1. Introduction
2. Concept and Meaning of Supply Chain
3. Evolution and Scope of Supply Chain Management
4. Components of the Supply Chain
5. Functions of Supply Chain Management
6. Logistics Management – Meaning and Scope
7. Transportation in Logistics
8. Warehousing and Distribution
9. Inventory Management
10. Supply Chain Integration and Coordination
11. Bullwhip Effect and Its Control
12. Global Supply Chains
13. Digital Supply Chain Technologies
14. Supply Chain Risks and Resilience
15. Best Practices in Modern SCM
16. Summary
17. Key Words
18. Self-Assessment Questions

## 19. Reference Books

### 3.1 Introduction

Supply chain management has emerged as a powerful discipline in modern production and service systems. As organizations compete globally, the efficiency of their supply chains determines their competitiveness. The supply chain encompasses everything from procurement of raw materials to the delivery of finished products to customers.

Logistics, a major component of SCM, deals with transportation, warehousing, inventory control, and distribution. Effective logistics ensures products reach customers in the right quantity, at the right time, and at minimum cost.

Technological advancements such as blockchain, artificial intelligence, the Internet of Things (IoT), and cloud computing have revolutionized modern supply chains. This lesson explains the fundamental concepts, functions, technology, challenges, and best practices of SCM.

#### Introductory Case Study:

Supply Chain Integration at Flipkart\*\*

#### Background of the Organisation

Flipkart is one of India's largest e-commerce platforms, operating a complex supply chain that connects thousands of sellers with millions of customers across the country. Its operations involve procurement, warehousing, transportation, last-mile delivery, and reverse logistics.

Effective supply chain management is critical for Flipkart to ensure fast delivery, cost efficiency, and customer satisfaction in a highly competitive digital marketplace.

#### Contextual Trigger / Problem Situation

As Flipkart expanded rapidly, it faced challenges such as high logistics costs, delivery delays in remote areas, inventory imbalances, and frequent returns. Fragmented logistics operations were affecting service quality and profitability.

To address these issues, Flipkart invested in supply chain integration, advanced logistics planning systems, regional warehouses, and technology-enabled last-mile delivery solutions.

#### Stakeholders Involved

- Supply chain and logistics managers
- Sellers and suppliers
- Third-party logistics service providers
- Delivery partners
- Customers and regulatory authorities

#### Behavioural / Managerial Issues

- Coordination among multiple supply chain partners
- Managing service quality under high demand variability
- Technology adoption and workforce training
- Balancing speed, cost, and reliability

### Why This Case Is Important for the Lesson

This case highlights the strategic role of supply chain management and logistics in gaining competitive advantage in modern businesses.

### Linkage to Lesson Concepts

The case links directly to:

- Meaning and scope of supply chain management
- Logistics and distribution systems
- Supply chain coordination and integration
- Role of technology in logistics

### 3.2 Concept and Meaning of Supply Chain

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A supply chain is a network of organizations, people, resources, activities, and information involved in producing and delivering a product or service.

#### Components of a Supply Chain:

- Suppliers
- Manufacturers
- Distributors
- Wholesalers
- Retailers
- Customers
- Logistics providers

The supply chain involves the flow of:

- **Materials** (raw materials → finished goods)
- **Information** (orders, forecasts, data)
- **Finances** (payments, credit, terms)

### 3.3 Evolution and Scope of Supply Chain Management

SCM evolved from traditional purchasing and logistics, merging into an integrated discipline.

**Evolution Stages:**

1. **Traditional Materials Management**
2. **Physical Distribution Management**
3. **Integrated Logistics**
4. **Modern Supply Chain Management**
5. **Digital Supply Chains**

**Scope of SCM:**

- Forecasting
- Procurement
- Production planning
- Inventory control
- Transportation
- Warehousing
- Distribution
- Customer service

SCM extends across the entire product life cycle, including reverse logistics and sustainability.

**3.4 Components of the Supply Chain****1. Procurement (Sourcing)**

Process of selecting and managing suppliers.

**2. Production**

Conversion of raw materials into finished goods.

**3. Distribution**

Movement of goods through wholesalers and retailers.

**4. Logistics**

Transportation, warehousing, and inventory management.

**5. Customer Relationship Management**

Understanding customer needs and building long-term relationships.

**6. Reverse Logistics**

Handling returns, recycling, and waste disposal.

### **3.5 Functions of Supply Chain Management**

#### **1. Planning**

Demand forecasting, aggregate planning, and scheduling.

#### **2. Purchasing**

Supplier selection, negotiation, and contracting.

#### **3. Production & Operations**

Managing manufacturing processes.

#### **4. Inventory Management**

Balancing cost and service levels.

#### **5. Transportation & Logistics**

Optimizing movement of goods.

#### **6. Warehousing**

Storage and handling of materials.

#### **7. Information Flow**

Managing data across the supply chain.

#### **8. Customer Service**

Ensuring timely delivery and satisfaction.

### **3.6 Logistics Management – Meaning and Scope**

Logistics management focuses on the efficient and effective movement of goods, services, and information.

#### **Key Activities:**

- Transportation
- Warehousing
- Material handling
- Order processing
- Packaging

- Demand forecasting
- Inventory control

Logistics ensures that the supply chain moves smoothly.

### **3.7 Transportation in Logistics**

Transportation accounts for 40–60% of logistics costs, making it the most critical activity.

#### **Modes of Transportation:**

- Road
- Rail
- Air
- Water
- Pipeline
- Multimodal transport

#### **Factors Influencing Mode Selection:**

- Cost
- Speed
- Reliability
- Safety
- Accessibility

Transportation efficiency determines delivery performance.

### **3.8 Warehousing and Distribution**

Warehousing supports storage and smooth flow of goods.

#### **Functions of Warehouses:**

- Storage
- Consolidation
- Break-bulk
- Cross-docking
- Sorting and value addition

- Risk bearing

Distribution involves network design, routing, dispatching, and last-mile delivery.

### 3.9 Inventory Management

Inventory accounts for a major investment in supply chains. Effective inventory control ensures customer satisfaction while minimizing cost.

#### Types of Inventory:

- Raw materials
- Work-in-progress
- Finished goods
- Spare parts

#### Inventory Control Techniques:

- EOQ (Economic Order Quantity)
- ABC Analysis
- JIT
- Safety stock
- Reorder point methods
- Vendor-managed inventory (VMI)

### 3.10 Supply Chain Integration and Coordination

Integration ensures all supply chain members act as a single system.

#### Types of Integration:

- **Internal Integration:** Coordination among departments.
- **External Integration:** Collaboration with suppliers and customers.

#### Benefits:

- Reduced bullwhip effect
- Improved forecast accuracy
- Lower cost and lead time
- Better customer satisfaction

Tools such as ERP, EDI, and cloud platforms enable integration.

### 3.11 Bullwhip Effect and Its Control

The bullwhip effect refers to the distorted flow of demand information upstream in the supply chain.

#### Causes:

- Demand forecast errors
- Batch ordering
- Price fluctuations
- Lack of transparency

#### Solutions:

- Sharing real-time data
- Reducing batch sizes
- Stabilizing prices
- Using collaborative planning, forecasting, and replenishment (CPFR)

### 3.12 Global Supply Chains

Global supply chains involve sourcing, producing, and distributing across multiple countries.

#### Challenges:

- Longer lead times
- Currency fluctuations
- Trade regulations
- Political risks
- Cultural differences

#### Advantages:

- Cost savings
- Access to global talent
- Economies of scale

Examples include Apple, Toyota, BMW, and Samsung.

### 3.13 Digital Supply Chain Technologies

Digital transformation has changed supply chain operations dramatically.

#### Key Technologies:

##### 1. Internet of Things (IoT)

Real-time tracking of goods, machine monitoring.

##### 2. RFID (Radio Frequency Identification)

Automated item identification and tracking.

##### 3. Big Data Analytics

Forecasting, demand planning, route optimization.

##### 4. Blockchain

Transparency, traceability, and fraud prevention.

##### 5. Artificial Intelligence (AI) and Machine Learning

Predictive analytics, demand sensing, scheduling.

##### 6. Cloud Computing

Integrates global supply chain data.

##### 7. Autonomous Vehicles & Drones

Future of logistics and last-mile delivery.

Digital supply chains improve speed, visibility, and accuracy.

### 3.14 Supply Chain Risks and Resilience

Modern supply chains face various risks:

#### 1. Supply Risks

Supplier failures, quality issues, shortages.

#### 2. Operational Risks

Machine breakdowns, labour strikes, accidents.

#### 3. Demand Risks

Sudden demand fluctuations.

#### 4. Environmental Risks

Floods, earthquakes, climate change.

### **5. Geopolitical Risks**

War, sanctions, trade disputes.

#### **Strategies for Resilience:**

- Dual sourcing
- Safety stocks
- Flexible manufacturing
- Nearshoring
- Business continuity planning
- Digital visibility tools

Resilient supply chains recover quickly from disruptions.

### **3.15 Best Practices in Modern SCM**

- Lean supply chain principles
- Vendor development and long-term relationships
- Collaborative planning and forecasting
- Real-time information sharing
- Sustainable and green supply chains
- End-to-end visibility
- Logistics automation and robotics
- Demand-driven supply chain strategy

Leading companies implement these practices for competitive advantage.

### **Student Learning Activities**

#### **Activity 1: Supply Chain Mapping**

##### **Task:**

Draw a simple supply chain map for a product of your choice.

##### **Expected Learning Outcome:**

Understanding of supply chain structure and linkages.

**Activity 2: Reflective Task****Task:**

Explain why logistics efficiency is critical in global trade.

**Expected Learning Outcome:**

Awareness of logistics role in international competitiveness.

**Activity 3: Application-Based Writing****Task:**

Write a short note (200–250 words) on challenges in managing reverse logistics.

**Expected Learning Outcome:**

Ability to analyse emerging logistics issues.

**4. SUMMARY**

This lesson provided a comprehensive understanding of <sup>24</sup> supply chain management and logistics. SCM integrates procurement, production, transportation, warehousing, and distribution to deliver goods efficiently. Logistics ensures the physical movement of goods, while supply chain integration reduces cost and improves service performance.

<sup>12</sup> Digital technologies such as AI, IoT, blockchain, and cloud systems are transforming global supply chains. The lesson also discussed global supply chain challenges, the bullwhip effect, risk management, and best practices. Effective SCM is essential for customer satisfaction, operational efficiency, and long-term competitiveness.

**5. KEY WORDS**

Supply Chain  
Logistics  
Inventory  
Transportation  
Warehousing  
RFID  
Bullwhip Effect  
Digital Supply Chain  
Blockchain  
Resilience

**6. SELF-ASSESSMENT QUESTIONS****1. Short-Answer Questions (with Answers)**

**1. What is supply chain management?**

*Answer:* Coordination of activities involved in sourcing, production, and distribution.

**2. Define logistics.**

*Answer:* Planning and control of movement and storage of goods.

**3. What is reverse logistics?**

*Answer:* Movement of goods from customers back to producers.

**4. Mention one objective of SCM.**

*Answer:* Cost reduction with improved service.

**5. What is supply chain integration?**

*Answer:* Coordination among supply chain partners.

**2. Essay-Type Questions (with Hints)****1. Explain the scope and importance of supply chain management.**

*Hints:* Coordination, competitiveness, customer value.

**2. Discuss logistics functions in global supply chains.**

*Hints:* Transportation, warehousing, distribution.

**3. Analyse challenges in international logistics management.**

*Hints:* Regulations, infrastructure, uncertainty.

**3. Analytical MCQs****1. Supply chain management primarily aims to:**

- a) Increase inventory levels
- b) Improve coordination and efficiency
- c) Focus only on production
- d) Reduce customer service

**Correct Answer:** b)

**2. Reverse logistics deals with:**

- a) Supplier deliveries
- b) Export documentation
- c) Product returns and recycling
- d) Demand forecasting

**Correct Answer:** c)

**Case Study for Self-Assessment:**

Global Supply Chain and Logistics at DHL\*\*

**Case Description**

DHL is a global leader in logistics and supply chain services, operating in more than 220 countries. The company manages transportation, warehousing, freight forwarding, and integrated supply chain solutions for multinational clients.

DHL faces challenges such as cross-border regulations, customs clearance, infrastructure differences, and demand uncertainty. To manage these complexities, DHL uses advanced logistics planning, digital tracking systems, and global coordination mechanisms.

The company's success depends on efficient supply chain design, reliable logistics networks, and continuous performance improvement.

### **Analytical Questions**

1. Explain the key components of DHL's global supply chain.
2. Analyse the role of logistics in achieving customer satisfaction.
3. Discuss challenges faced in managing international logistics operations.
4. How does technology improve supply chain visibility and coordination?
5. Suggest strategies for improving supply chain resilience.

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