Chapter 2. Organizational Strategy, Competitive Advantage, and Information Systems

2.1 Business Process

- **Competitive advantage** is an advantage over competitors in some measure such as cost, quality, or speed; leads to control of a market and to larger-than-average profits.

- A **business process** is a collection of related activities that produce a product or a service of value to the organization, its business partners, and/or its customers. (ex) See Figure 2.1, Business process for ordering e-ticket from airline Web site (page 36 of the textbook)

- A **process** is comprised of three fundamental elements:
  - Inputs—materials, services, and information that flow through.
  - Resources—people and equipment that perform process activities.
  - Outputs—the product or a service created by the process.

(Note) Many processes cross functional areas in an organization. For example, product development involves research, design, engineering, manufacturing, marketing, and distribution. (See Table 2.1, page 35 of the textbook)

- A **cross-functional business process** is one in which no single functional area is responsible for its execution.

- For a cross-functional process to be successfully completed, each functional area must execute its specific process steps in a coordinated, collaborative way.

(ex) Procurement comprises five steps that are completed in three different functional areas of the firm: warehouse, purchasing, and accounting.

(Step 1) The warehouse documents a purchase requisition and sends it to the purchasing department.

(Step 2) The purchasing department identifies a suitable vendor, creates a purchase order based on the purchase requisition, and sends the order to the vendor.

(Step 3) When the vendor receives the purchase order, it ships the materials, which are received in the warehouse.
(Step 4) The vendor then sends an invoice, which is received by the accounting department.
(Step 5) Accounting sends payment to the vendor, thereby completing the procurement process.

- An organization's business processes can create a competitive advantage if they enable the company to innovate or to execute more effectively and efficiently than its competitors.
- An information system is a critical enabler of an organization's business process (i.e. executing the process, capturing and storing process data, maintaining process performance).

2.2 Business Process Reengineering and Business Process Management

- Excellence in executing business processes is widely recognized as the underlying basis for all significant measures of competitive performance in an organization such as customer satisfaction, cost reduction, cycle and fulfillment time reduction, quality, differentiation, productivity.
- How does an organization ensure business process excellence?

  (1) Business process reengineering (BPR) is a radical redesign of a business process that improves its efficiency and effectiveness (usually by lowering cost and increasing quality), often by beginning with a “clean sheet.”
  ➞ too difficult, too radical, and too comprehensive approach

  (2) Business process management (BPM) is a management technique that includes methods and tools to support the design, analysis, implementation, management, and optimization of business processes.
  ➞ less radical, less disruptive, and more incremental approach

2.3 Business Pressures, Organizational Responses, and Information Technology Support

- The business environment is the combination of social, legal, economic, physical, and political factors that affect business activities.
- Significant changes in any of these factors are likely to create business pressure on the organization.

- Three major types of business pressures: market, technology, and societal

(1) Market Pressure are generated by the global economy, intense competition, the changing nature of the workforce, and powerful customers.

- **Globalization**—markedly increasing competition
- **Changing nature of workforce**—IT is easing the integration of diversified employee (women, single parents, minorities, etc.) into the traditional workforce.
- **Powerful customers**—Modern firms strive to learn about their customer to better anticipate and address their need. (ex) Customer Relationship Management (CRM)

(2) Technical Pressure consists of those pressures related to technology.

- **Technical innovation and obsolescence**—Today's state-of-the-art products may be obsolete tomorrow. (ex) encryption or other security standards, smartphone, ebook
- **Information overload**—To make decisions effectively and efficiently, managers must be able to access, navigate, and utilize these vast stores of data, information, and knowledge. (ex) search engine, data mining

(3) Societal / Political / Legal Pressure

- **Social responsibility** (ex) state of physical environment, company and individual philanthropy, education
- **Government regulation/deregulation** (ex) government regulations regarding health, safety, environmental protection, and equal opportunity
- **Spending to protect against terrorism** (ex) providing security systems to identify patterns of behavior associated with terrorist activities
- **Ethics** (ex) monitoring e-mail, invading private and public databases

- Organizations are responding to the various pressures by implementing IT such as strategic systems, customer focus, make-to-order and mass customization, and e-business.
- **Strategic Systems** provide advantages that enable organizations to *increase market share and/or profits*, to *better negotiate with suppliers*, or *prevent competitors from entering their markets*.

- **Customer Focus** is to *provide superb customer service to attracting and keep customer* and not to lose them to competitors.

- **Make-to-Order** is a strategy of *producing customized products and services*. **Mass Customization** is *producing a large quantity of items, but customizing* them to fit the desire of each customer.

- **E-business** and **E-commerce**: Buying and selling products and services *electronically*. E-business is a broader concept than e-commerce.

- Business Pressures, Organizational Responses, and IT Support
  (See Figure 2.2, page 45 of the textbook)