

KNOW-ALL

INFORMATION IS A KEY RESOURCE FOR
SUCCESSFUL BUSINESSES.

ALAN LEWIN REPORTS

A long time ago when most organisations were either farms or companies manufacturing specific products, three resources were required to run a business, namely land, labour and capital.

Land was needed to build the relevant warehouses, manufacturing units and offices; labour was needed to make the goods; capital was required to make the initial investment in the company including land and machinery purchase. In general terms, entrepreneurs with some money established some form of organisation, employed some workers and made products that people needed.

The need for information was recognised, as in the requirement to set appropriate wage rates or ensure that a plot of land was not over-priced. However, information was rarely used to provide the organisation with competitive advantage.

Students of economic history may recall the problems of British needle makers being unable to sell their product in South America simply because the needles were packed in black paper. Meeting the customer requirement of changing the paper colour to blue or red would have increased sales dramatically, but the change was not made. Sales were lost to other manufacturers, who by accident or design, used the 'correct' colour packing paper.

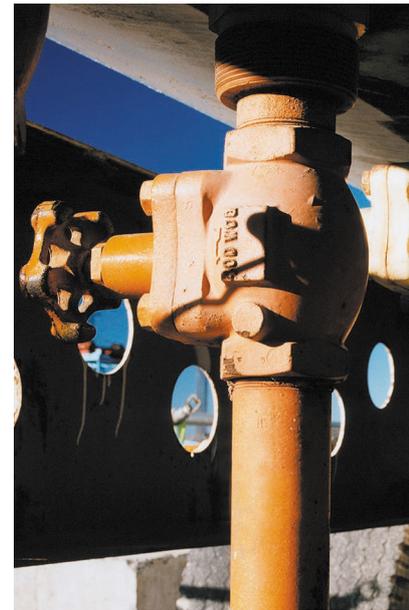
However, over time, obtaining and using the appropriate information has become critically important for most organisations. So much so that information is now recognised as being the fourth resource needed to run a successful business.

Time horizons and information content

Organisations broadly fall into four categories: farming, manufacturing, services and information providers. All these organisations need information, although the actual time horizon and the information content of each product will vary.

The time horizon relates to how soon information is needed for that organisation. In other words, the horizon becomes shorter as the time required to obtain information falls. The information content relates to the information actually contained within the product. The information content of a product increases as the product provides more information to the consumer. As you will see, the time horizon becomes shorter, and the information content of the product increases, as each type of organisation is explained.

Farmers need information. They need to know roughly what demand for their products there will be six to twelve months in advance so they can plant the appropriate crops. It is also useful to know what the weather will be for up to the next few months so that the best time for harvesting can be determined. Farmers are working with very long information time horizons. However, crops have a very low information content. A potato is a potato, the only information you may get from looking at



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it is the variety. The potato won't, for example, tell you how many calories it contains or its optimum cooking time.

Manufacturers require information. They need to know the prices of raw materials, the costs associated with production and the price that can be charged for their products in the market. While some prices like raw materials and labour costs may not change significantly in the short term, market pricing can be critical to the organisation. Charging too high a price may result in goods not being sold. This means that prices may be reviewed on a weekly or even daily basis, to ensure those prices are competitive. The time horizon to obtain is therefore quite short. The information content of goods produced may still be quite low. There is little information contained in cement, for example. However, other products like cars contain more information, like the amount of fuel remaining or the water temperature, which they can give to the user. In general terms, the information content of manufactured goods is higher than that of crops.

Service industries need information on a timely basis. For example, most towns have a range of tourist agencies, all selling similar products, namely holidays to different destinations. The customer can visit each agency, find comparable prices and then book with the agent with the most competitive price in a matter of an hour or so. Using the Internet, the timescale can be even less. Pricing on a daily or even hourly basis becomes critical to selling holidays to customers. The time horizon is now very short. The information content of the holiday being sold may appear to be difficult to determine, after all, only paper changes hands when the holiday is booked. However, the information content is quite high because on that paper is printed all the details of the holiday. For this service industry, the time horizon for information is again shorter, while the information content has again increased.

Finally, information-based organisations need information. Some organisations make it their business to provide information. The information provided varies from stock-market prices to weather reports. Some information, like stock-market prices, can change every minute. The information provider needs to make this information available in real time. If this is not done, then clients may make incorrect decisions because the correct share prices are not known. There is virtually no time horizon for information; it is required immediately. Similarly, the information content is virtually absolute. All that is being provided is information in the form of pixels on a computer screen.

So we have moved from products with a long time horizon and negligible information content to products with a zero time horizon and extremely high information content. This progression tends to show that the information providers will be a much more challenging and interesting topic to set an examination question on. There is a necessity to install

complicated management information systems to meet the short time horizon, and for these systems to contain good strategic summaries with appropriate detail to support decision making. While this may be correct, placing all exam questions in this context would not be appropriate. Not only would the exam paper get boring and predictable but, as the final section of this article shows, the exam paper would not cover a sufficient range of organisations.

Impact on the FLIS examination

What impact does this article have on the type of organisation to study for the FLIS exam? Well, it would be wrong to assume that just because a particular organisation produces a product with a low information content that examination questions will not be asked on that particular organisation.

Similarly, just because a short time horizon seems to make one particular organisation interesting from the point of view of an exam question does not mean that all questions will be focused in this area. All of the organisations mentioned above will have information systems helping them gain some competitive advantage and to support the production of their products. So any organisation could form the basis for an exam question. For example:

- A farmer will need to look at the difficulty of forecasting long-term demand for products, and at sources of information to do this.
- Cement manufacturers can vary the product to meet specific requirements (perhaps for different coloured cements – see the FLIS pilot paper) and will need an information system to decide pricing and assist in product development.
- Travel agents need a detailed information system to provide operational information for selling holidays, and tactical information to show overall profitability and margins of different types of holidays.
- Information providers need information to sell, so they will have detailed information collection systems as well strategic level EISs to support the overall direction of the organisation and sell that information onto clients.

Conclusion

What this article is saying is that information is a key resource in all the organisations that have been mentioned. Be prepared to think 'out of the box' and expect real world examples from any type of organisation in the new FLIS exam. ■

Alan Lewin is the Examiner for the final-level paper of CIMA's revised syllabus, which is effective from May 2001. He has also written a further article on FLIS and its relationships with other papers in the revised syllabus, which will be published in the September edition of the student magazine

