

By John P. Collins, CFPIM, CSCP, and Eric P. Jack, Ph.D., CFPIM, CSCP

The Cornerstones of Competitive Advantage

Finding the business case for process-improvement programs

Recently, we have focused on capabilities and operational strategies that help differentiate truly successful manufacturers from the rest of the pack. Beginning with this department, we will raise the “world-class hood” and really look at the engine in order to understand the foundation of core competencies in manufacturing. We start with an idea suggested by author Michael Porter in his 1996 *Harvard Business Review* article “What Is Strategy?” Therein, he argued activities and processes are the foundations of competitive advantage.

Considering Porter’s assertion that processes are essential to sustained competitive advantage, let’s now look at the business case for process-improvement programs. Simply stated, a process-improvement program is a systematic effort that is designed to improve performance by addressing the three major elements of any business process—inputs, transformation, and outputs. While there are many variations on how process-improvement programs are implemented, here are the basic approaches:

- **Total quality management** programs offer a holistic approach to making continuous improvements in all processes throughout the organization.
- **ISO certification** is designed to promote supplier quality and continuous improvement.
- **Just-in-Time (JIT)** manufacturing enables users to respond to real customer demand through synchronized, flow-based manufacturing that minimizes inventory levels.
- **Lean** manufacturing is a holistic approach to process improvement that advocates eliminating waste, empowering front-line employees, and using many of the tenets of JIT.

- **Six sigma** is both a way to measure the number of defects and to systematically make the necessary improvements by relying on specially trained employees.

How should managers measure the impact of such programs? Should leaders look elsewhere for real performance improvement? To be fair in this discussion, any thorough analysis of studies on the linkages between process improvement and performance would yield mixed results.

Many studies show companies that adopt process-improvement practices realize significant improvements in both operational and financial performance. On the other hand, numerous analysts argue that these programs can be easily copied and they do not clearly lead to competitive advantage.

Real results

So, why are leaders still interested in these process-improvement programs? Perhaps the answer lies in the three areas that most often produce real results: cost efficiency, asset use, and revenue increases.


When thinking about cost efficiency, you should examine the many process-improvement initiatives that start with small changes and make subprocesses more efficient. In some cases, these cost efficiencies can lead to suboptimizing if they are not used systemwide at bottleneck processes. However, these small efficiency gains can be quite important because of the potential benefit that cost savings can have on a company’s bottom line when compared to revenue increases.

Suppose you are making a product that requires \$50 in materials and components; then, you provide \$45 of value added and sell it for \$100 (making \$5 profit). Next, you cut your

material and sourcing cost by 5 percent and transfer those savings to the bottom line. You can have a 50 percent increase in profitability. Arguably, it may require a 50 percent increase in sales to get the same increase in profit. This is why cost efficiency cannot be ignored.

Other positive and sometimes immeasurable aspects of these small efficiency gains come from smart asset use. Clearly, if real process improvements can be made to respond to fluctuating customer demand by using current assets more effectively, then the performance results can be dramatic from a shareholder perspective.

Finally, the third business reason for these process-improvement programs is to drive revenue increases. This is achieved by delivering customized and high-quality products and services to each segment of customers. While pursuing this goal, there must be a relentless focus on product and service quality because both are early indicators of customer satisfaction, which can lead to sustained performance.

It is vital to take a critical look at your process-improvement programs. The next time you attend a planning meeting, ask questions about these programs and about what impact they have on your company’s cost efficiency, asset use, and revenue growth. 

John P. Collins, CFPIM, CSCP, is chief executive officer for operational and organizational consultancy Sustainable Solutions International LLC. He may be contacted at jcollins@ssi-spm.com.

Eric P. Jack, Ph.D., CFPIM, CSCP, is associate professor in the department of management, marketing, and industrial distribution at the University of Alabama at Birmingham. He may be contacted at ejack@uab.edu.