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Continuous Innovation or Continuous Improvement?

Finding the path to true competitive advantage

In our last department, we continued our discussion of continuous improvement in relation to a business's long-term sustainability and viability. Our conclusion was that, because change is inevitable, it is important that operational strategies and execution processes also be flexible and shift a bit in order to maintain or regain competitive advantage.

As those studying the Strategic Management of Resources module for Certified in Production and Inventory

rapidly evolving business models are just a few of the many influences that can make a given operational strategy obsolete in a very short period of time.

We've all heard that change is constant; what we're discovering now is that it also is accelerating. The evolution of the need to change seems to be following a "dog years" model; meaning, market conditions that used to take several years to evolve now take months. Globalization started decades ago with the "made in Japan" labels that were at that time laughable, but quickly evolved into stamps of quality and competitiveness that have altered the worldwide manufacturing environment.

China and India are fast-forwarding through similar evolutions. Many Western manufacturers increased their outsourcing efforts and reduced or eliminated domestic operations. Now, as the American dollar weakens, Chinese products suddenly are not so cheap; similarly, as fuel costs skyrocket, Western firm leaders who took the outsourcing approach are feeling the brunt of increased shipping rates.

Some U.S. foundry managers are discovering that they can make casted parts cheaper in the United States than they can by outsourcing to China. Other foundries have been closed and cannibalized beyond recovery. This represents a case of operational execution based on trendy strategic thinking that backfires as the global marketplace shifts.

Likewise, some companies are evolving and diversifying so much that it is hard to know anymore to which industry they belong. Is Apple a computer manufacturer, the world's largest music store, a telephone

company, or an entertainment business? Is Google a technology firm with a search engine, or is it a media agency? Perhaps a more difficult question: Is Mercedes an automotive manufacturer or an advertising and marketing automotive brand-development business? This type of evolution can have a dramatic impact on corporate strategy as company executives struggle for survival.

The pace of change in the business environment also makes it very difficult for leaders to match the correct operational strategies with the ever-altering corporate strategies. This leads to huge challenges for the execution of continuous improvement, especially where the culture of the organization supports slow, methodical, incremental transformation.

Defining real innovation

Perhaps the strategic management leaders are correct when they advocate that long-term competitive advantage depends primarily on differentiation. However, in this chaotic business environment, a differentiation strategy must be supported with real innovation.

What is innovation in the context of executing operational strategy? The *APICS Dictionary* describes innovation risk as "the risk of losing customers because another firm creates more innovative products." It defines innovative products as "products that tend to have a high profit margin, be unique, be less competition, and have dynamic demand."

There is no specific definition in the *APICS Dictionary* for innovation as an execution process; however, *The Future of Management* by Gary Hamel provides insight into innovation from operational, product, strategic, and management perspectives. Of the four,

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Management (CPIM) know, corporate focus is key to survival because it relates to meeting the objectives of all stakeholders. CPIM students also discover that the operations function is responsible for execution and results. However, strategic management thinkers caution that operational excellence is not strategy and, therefore, may not enable company leaders to sustain their organization's competitive position. Hence, the question to ask now is whether or not it is advisable to rely on continuous improvement of operational strategies in order to succeed.

Change is changing

The pace of change causes operations management professionals to carefully examine the sustainability of operational strategies. For example, globalization, varying customer preferences, shifting industry definitions, and

Hamel places operational innovation at the bottom of the innovation hierarchy, noting that it seldom provides a long-term competitive advantage. At the top is management innovation, which he says can develop long-lasting, sustainable advantages.


The recent strategic changes at Dell provide an interesting example of operational innovation at play. Faced with increasing competition from Asian manufacturers including Lenovo and Acer, Dell leaders recently decided to close some manufacturing operations in the United States and relocate operations offshore. Their goal was to make more innovative products at much cheaper prices, which people in fast-growing Asian markets would be able to afford.

The results were surprising. Even with Dell's vaunted direct-to-the customer business model, which is supported by excellent operational

strategies, executives were forced to recognize that some of their operational capabilities may be obsolete. Now, they must rely on innovation, offshoring, and partnering in order to remain competitive.

Operations management professionals must develop breakthrough strategies via great management innovation. Two factors influence change: the magnitude of the gap between expectations and performance and the rate of change in the expectations. If the gap is small or the rate of expected change is relatively low, then continuous improvement works. However, management innovation is needed in instances of larger strategic gaps where a greater rate of change is expected. APICS calls this "business process reengineering," and the *APICS Dictionary* defines it as "a procedure that involves the fundamental rethinking and radical redesign of

business processes to achieve dramatic organizational improvements."

Globalization, changing customer preferences, and rapidly evolving business models are just a few of the factors challenging operations management professionals to innovate. Operational excellence is necessary, but insufficient, to sustain competitive advantage. Management innovation calls for major transformation—even revolutionary change. Be prepared. 

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