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### The Next Revolution in Productivity

Key ideas from the [Harvard Business Review](#) article By Ric Merrifield, Jack Calhoun, Dennis Stevens

#### The Idea in Brief

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Despite decades of reengineering, large companies still have problems with their business operations. They duplicate processes. They perform hundreds of noncore tasks that should be outsourced. And they spend vast sums on proprietary process-management software that's difficult to update.

To combat these inefficiencies, use service-oriented architecture (SOA)--a new way of designing the technology that supports your business processes. SOA, which allows processes to be accessed on the Internet, makes it easy to share processes with other units, delegate processes to suppliers or customers, and update your IT systems.

But to win these payoffs, you must transform your company from a collection of proprietary operations into a collection of "plug-and-play" activities.

Merrifield, Calhoun, and Stevens recommend a method for effecting this transformation. First, break down each business process into its component activities. Decide which activities should be eliminated (they're redundant), which should remain in-house (they give you a strategic edge), and which could be outsourced (someone else can perform them better). Then use SOA to automate strategically crucial activities through Web-based services anyone (business units, customers, suppliers) can access. Airlines did this by enabling passengers to check in for flights on their home computers, at airport kiosks, or through customer-service representatives.

Pioneer plug-and-play processes in your organization, and you'll help fuel the next great leap in corporate productivity.

#### The Idea in Practice

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The authors suggest this process for determining which aspects of your business operations will best benefit from SOA technology.

##### **1. Describe your operations in terms of desired outcomes.**

Resist any temptation to describe your operations in terms of the work people do ("We send customers invoices requesting on-time payment") or how they do it ("We check orders against our invoices"). This leads to a long list of operations that sound different but that all mean the same thing.

Instead, describe operations in terms of desired outcomes--such as "Collect customer payment."

## **2. Identify the activities supporting your desired outcomes.**

To support the desired outcome "Generate demand," managers at a financial services firm listed three activities: "Manage partner relationships," "Market services," and "Sell services."

## **3. Identify the capabilities supporting each of your activities.**

At the financial services firm, capabilities for "Sell services" were: "Manage orders," "Manage sales," "Manage immediately filled sales," "Configure service pricing," "Manage contracts," "Qualify prospects," and "Conduct business intelligence."

## **4. Identify activities most critical to your company's success.**

Your *most* critical activities are those that differentiate your firm from competitors, strongly influence whether customers buy from you and remain loyal, or drive a key performance measure (such as manufacturing cost, product quality, or time to market). Grade current performance on each critical activity's supporting capabilities.

## **5. Design a more efficient operating model.**

Identify activities that lend themselves to a plug-and-play approach. For example, analyze whether seemingly similar activities in different areas really are the same (in which case they could be automated for use by multiple areas. Place each activity in one or more of the following categories:

**Primary:** Keep in-house and designate as a top priority for improvement.

**Shared:** Share with other divisions.

**Shifted:** Transfer to customers, suppliers, or operational specialists.

**Automated:** Use SOA to automate any of the above through Web-based services.

Insurer Harvard Pilgrim Health Care's critical activities included identifying subscribers at high risk or in the early stages of developing chronic illnesses such as diabetes and heart disease. Spotting these people early would enable the company to enroll them in preventive care or disease-management programs before their conditions grew serious. But that required sophisticated data-mining and -analysis technology that could comb through claims and other information. Recognizing it lacked this technology and expertise, the insurer moved those activities to an outside specialist.

Harvard Pilgrim also outsourced noncore activities (such as pharmacy-benefits management) so it could focus its resources on improving activities that afforded a strategic advantage (including creating new offerings and selling to large groups).

Almost bankrupt in 2000, Harvard Pilgrim is now solidly in the black. It has a host of loyal customers. And it has repeatedly received top awards or rankings for its service quality and customer satisfaction.

- [Purchase the full-length Harvard Business Review article here.](#)
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## Further Reading

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### Collection

#### **Ignore Operations at Your Peril**

*Harvard Business Review*

April 2004

by Michael Hammer and Steven Stanton

The articles in this collection shed additional light on how to boost your company's performance by innovating the way you handle operations. For example, in "Deep Change: How Operational Innovation Can Transform Your Company," Hammer advocates challenging constraining assumptions about how work should be done and concentrating on reinventing work processes that have the most strategic impact. In "How Process Enterprises *Really* Work," Hammer and Stanton explain how to make structural and cultural changes to support your reinvented processes. And in "The Superefficient Company," Hammer explains how to reinvent operations your company shares with other organizations (for instance, by simplifying supply-chain processes and by integrating distribution processes with noncompetitive suppliers to serve the same customers).

### Article

#### **Too Far Ahead of the IT Curve? (HBR Case Study)**

*Harvard Business Review*

July 2007

by John P. Glaser

This fictional case depicts a large healthcare organization that must decide whether to standardize its IT operations through a time-tested monolithic system or through service-oriented architecture (SOA)--the newer, more flexible technology described by Merrifield, Calhoun, and Stevens. The story addresses the risks inherent in SOA. Commentary by four experts illuminates issues such as how to assess SOA's risks, how to adopt SOA incrementally, and how to decide which processes to standardize through SOA.

## About the Authors

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