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Shrugging off confines of 18th century paradigm

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As businesses and our economy shift from a manufacturing model to a service- and knowledge-based one, business owners, leaders and executives will need to similarly shift their perspectives from a manufacturing paradigm that treats capital and capacity as permanent, stable and reliable to a service and knowledge paradigm where capital and capacity are inherently transient, unstable and comparatively unreliable.

Buzzwords and jargon tend to have a life cycle of their own. Like any fad, they seemingly come out of nowhere and become a ubiquitous feature of our culture, only to fade into oblivion. "Thinking outside the box", "moving to the next level", "being proactive," "leveraging our core capability" - all have had their moment in the sun. And it can easily be argued that their moments of glory have yet to fade. "By being proactive and thinking outside the box, we can leverage our core capability and move this company to the next level": They probably have at least a few more months to go.

Similar things can be said of the assertion "people are our most important asset". Asserting that "people are our most important asset" is comparable to suggesting one needs to "think outside the box". Suggesting one needs to think outside the box is inherently insulting, for when trying to solve a problem, how many of us do so without trying to think outside the box, without trying to be creative? Bottom-line, it's self-evident that one needs to "think outside the box."

Similarly, as our economy continues to evolve to a service and knowledge economy, it is obvious that people are our most important asset. To put it in perspective, what if during the Industrial Revolution, leaders of industry announced that plant and equipment were important assets: From the perspective of the 21st century, such a self-evident assertion seems laughable. And yet, has enough time elapsed since the onset of the knowledge revolution to allow us a similarly clear perspective on the conditions of today's business environment? Or are we still viewing the world through the eyes of the Industrial Revolution, through the manufacturing paradigm?

Consider the differences. In the manufacturing paradigm, to increase production capacity, the manufacturer adds plant and equipment. People are added as well, but the major focus of investment is plant and equipment. In contrast, in service and knowledge industries, the fundamental way to increase capacity is developing existing talent, knowledge and expertise. Increasing such capability is incredibly complex and can be incredibly difficult. Compared to manufacturing operations, it is much more complex, much more complicated and much more time-consuming than building additional factories or production lines.

Differences also occur in the increased capacity itself. In the manufacturing paradigm, once capacity has been increased, it is relatively permanent, stable and reliable: the building or production line that is added tomorrow can reasonably be expected to be here a year from now, 5 years from now, and quite possibly 15, 20 years from now. Moreover, the resulting increased capacity will similarly be here 5, 15, 20 years from now.

In contrast, increases in the productivity of human assets can be transient, unstable and comparatively unreliable. The simple reality is that people are much more mobile than buildings and equipment: Talent is incredibly portable. Furthermore, the firms that ultimately succeed in developing their people simultaneously provide these same people with the knowledge, expertise and confidence that enable them to leave that very firm. The heightened knowledge and capability they've developed over time provide the firm's best talent the very ability to leave their employer for alternative companies, occupations and careers. It would be as if a manufacturer, after years of perfecting the quality and productivity of its production line, watched parts of that line suddenly relocate overnight to a competitor, adding instantaneous efficiencies, lower costs and higher profits to the competition. It would be considered an outrage. Moreover, such loss of capacity, such a "hole" in the production line would be readily apparent: In the service and knowledge model, loss of capacity, though noticeable in the form of an empty office or cubicle, is not as blatant. But it is equally devastating.

Businesses, especially service and knowledge businesses, need to get beyond the buzzwords and the doublespeak. And they must shrug off the confines of an 18th century paradigm that constrains one's understanding of how capacity is developed, sustained and retained, and furthermore of how value is created. For those of us who have been raised on the business principles of impersonal objectivity and analysis, linear process and "if-then" causality, this will be difficult, for the personal and idiosyncratic qualities of human assets make them much more complex and much more difficult to understand and manage than most plants, buildings and production lines.

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