



5 out of 5 Suns



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The Living Company

The Tenth in the Second series of: ***An Executive Summary for Busy Managers.***

Are there more important things in your life than making sure your company maximizes profit dollars? Sure there are! Now think of your company as a self-sustaining entity. Are there more important things in your company's life than making sure that profit dollars are maximized? Read on and find out...

Real estate is flattening out, gas is getting cheaper and the Baby Boomers keep putting off retirement. Trying to apply logic to any of the three scenarios will only hurt your head. Funny thing is Starbucks has gotten so sick and tired of people overreacting to every little bit of news that they have decided to forego posting monthly revenues anymore. Rumor has it that the stock price fluctuations were wearing out the CFO. So, they will now only publish revenues on a quarterly basis. Hmm... have the jittery drinkers of the java world finally driven the Mothership to pull in the welcome mat? This could make for an interesting culture shift in a company that has always been very inclusive with its employees and loyal customers. ☺

I once had a college professor that told me, "The number one goal of business is to make more money now and in the future". As a business person and an adjunct professor, I have tried to pass that little bit of wisdom along to all of my colleagues and students. But, a funny thing happened on the way to the forum... a book titled the Living Company was published which brings serious doubt to the validity of the previous statement.

After spending 38 years at Royal Dutch/Shell, Arie de Geus had learned a few things about the company. More specifically, he learned why the

company has had such a successful history. The interesting part is that the success was not based on the hard-nosed profit philosophies that B-School preaches. The Living Company: Habits for Survival in a Turbulent Business Environment, examines why human capital is much more important to the longevity of a company than cash reserves.

Initially I had a gripe with the concept of the book because as we all know, it takes positive cashflow to afford things like training, employee perks and vacation days. *But, like a lot of these hidden gems, once you move through the first chapter it all begins to make a lot of sense.*

The author starts off with an interesting discussion about the maturation process of corporate theory and the link to economic theory of the three sources of wealth (Land, Capital and Labor). Initially, land was the most important source of wealth. This was demonstrated by historical corporate like entities such as the Roman Empire. Eventually with the age of mechanization, capital became more important because more could be accomplished in a smaller space **if you could afford to purchase machinery.** Today, de Geus pontificates, we are moving towards the third source; labor, as the most important. As more and more companies focus on the idea of knowledge workers, this concept will continue to be validated.

Mr. de Geus introduces us to the concept of a Living Company vs. an Economic Company. The Economic Company theory maps everything that

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we traditionally think about the corporate arena; profit, cashflow and revenues are the most important indicators of corporate health. The Living Company takes a more holistic approach to corporate management.

The Living Company operates under the assumption that “The nurturing of people and the nurturing of capital reinforce each other”. By developing your employees, you are developing the economic engine of the company. After all, until we achieve complete automation, individual humans are going to have input and therefore an impact of the output of the company. By training people to be more efficient, more effective and better communicators, the company can achieve more. By fostering a nurturing atmosphere and in turn having the employees feel a greater sense of appreciation for their efforts, they will in theory work harder and produce more for the company.

A lot of this makes a tremendous amount of sense. However, personnel management is the hardest area to improve. Sure, we can figure out how to acquire land. We can even figure out how to amass a gigantic cash reserve. But, can we really figure out how to get employees to produce more and to communicate more effectively?

The concept of Organizational Learning/Development is one of the newest and least understood concepts in the corporate arena. However, it stands to have potentially the greatest gain to the managers that can figure out how to harness the power of their employee’s vast and diverse knowledge.

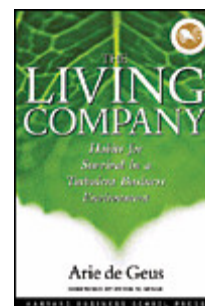
If your company has peaked out in any of the three areas of revenue, profit or cashflow, perhaps spending some quality time with de Geus will allow you to develop a strategy for focusing on the most difficult area to increase productivity.

Let’s just not forget, a company that makes a profit, will have access to the resources required to take advantage of the Living Company concept. People are extremely important and we must not lose sight of the impact their efforts have on the potential of the company. But, does the company exist for the benefit of the people or do the people exist for the benefit of the company?

Summed up...

1. *Managing people hasn’t gotten any easier; it has just gotten more important.*
2. *Perhaps spending a few of the profit dollars on employee enhancing activities can generate a higher ROI than previously expected.*

Just my opinion and we all know what “they” say about opinions...



Thanks
JB

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