

## THE INVISIBLE HAND



### COMMENTARY

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*The greatest improvement in the productive power of labor has been the effects of the division of labor.*

Adam Smith,  
*The Wealth of Nations (1776)*

In his much celebrated 1776 treatise *An Inquiry into the Nature and Causes of the Wealth of Nations* (generally referred to by the short title *The Wealth of Nations*), 18th century economist and philosopher Adam Smith expounded the merits of a free market economy as an economic system more productive and beneficial to society. In his treatise, Smith introduced the concept of a division of labor — a phenomenon that Smith stated was part of a larger concept, of which he referred to as *the invisible hand*.

Two centuries later, acclaimed Noble-prize winning economist Milton Freedman would expand further on *the invisible hand* model, describing it as “the possibility of cooperation without coercion”.

Smith and Freedman are two of the most influential economists in modern times. What is remarkable is how enduring their insights remain in today’s economic climate — even though both men wrote about the industrial and manufacturing economies of the separate centuries they lived in. Still, their teachings are just as relevant to our service economy of the 21st century.

Consider one of Adam Smith’s most famous passages in *The Wealth of Nations* (where he illustrates how the division of labor in a pin factory increases productivity),

*One man draws out the wire, another straightens it, a fourth points it, a fifth grinds it ...in this manner, dividing [the job] into about 18 distinct operations, which, in some manufactories, are all performed by distinct bands.... I have seen a small manufactory of this kind where only 10 men were employed, and ... those 10 persons make upwards of 48,000 pins in a day. But if they had all wrought separately and independently — and without any of them having been educated to this particular business — they certainly could not each of them have made 20 pins, perhaps not one pin, a day.*

Fast forward to 2009, as surgeon and medical journalist Atul Gawande explores a rational approach to the division of labor in our current service economy. In Gawande’s best seller *Checklist Manifesto: How to Get Things Right*, he uses the medical profession as an example of how the economic model of collaborative labor is a necessity:

*Sometime over the past several decades, science has filled in enough knowledge to make ineptitude as much our struggle as ignorance. In medicine, it is not money or the threat of malpractice lawsuits that are the source of our greatest difficulties and stresses. It is the complexity that science has dropped upon us.*

*Consider heart attacks. Even as recently as the 1950s, we had little idea of how to prevent or treat them. Today, by contrast, if you should have a heart attack, we have a whole panel of effec-*

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*tive therapies that can not only save your life but also limit the damage to your heart. But decisions have to be made quickly — and getting the steps right is proving brutally hard, even for those who know them.*

Gawande states that this is a dilemma not just unique to medicine — it can be found rampant in many other disciplines. In fact, he says, it's a problem found "in almost any endeavor requiring mastery of complexity and of large amounts of knowledge." He gives another example — that being the law profession, where in the last four years lawsuits filed against attorneys for legal mistakes have risen almost 36 percent. The most common reason for lawsuits: easily correctable administrative errors (such as missed court dates).

Gawande says that individual capability is not a primary cause for this problem — in most fields of expertise, he notes, training is longer and more intense; and that, before professional can go out into practice on their own, a high level of base knowledge and experience are required.

The main reason for more frequent failures in today's service economy, according to Gawande, is that "the volume and complexity of what we know has exceeded our individual ability to deliver its benefits correctly, safely, or reliably." What this means, he suggests, is a need for a different strategy for overcoming failure — one that takes advantage of the knowledge people have, but somehow also makes up for inevitable human inadequacies. Gawande recommends a simple solution — a checklist strategy that systematically takes a checks-and-balances approach to assuring successful outcomes.

This checklist approach is but one tool to address human lapses in overlooking the important details, encouraging collaborative communication and delineating roles and responsibilities. Gawande's thinking appeals to a reasoned approach we often take in our work environment, but it does not address the other important competencies of sales professionals — *intuitive skills* and *good judgment* (although, even with these competencies, there is a need for collaboration).

This leads us to another phenomenon — the convergence of technological and economic factors creating a new collaborative model for businesses.

Renowned organizational theorist Thomas W. Malone describes this phenomenon in his *On the Future of Work* (Harvard Business School Press, 2004). In his book, Malone argues that such a convergence of technological and economic factors — particularly the rapidly falling cost of communication — is enabling a change in business organizations that is as profound as the shift to democracy in governments. For the first time in history, he asserts, it will be possible to have the best of both worlds:

- The economic and scale efficiencies of large organizations
- The human benefits of small organizations (i.e., freedom, motivation, and flexibility)

Malone amplifies this best-of-both world's notion,

*Our businesses are growing decentralized, markedly departing from 'command and control' organizational models to newer environments where 'workers seek advice instead of approval' [models]. Empowered by new technologies, workers will exercise ever greater strength in decision making... Dispersed physically but connected by technology, workers are now able to make their own decisions using information gathered from many people and places.*

How does this impact how we operate in the financial services industry?

Judgment and intuition allow our sales representatives to develop innovative and personal solutions to our clients' problems. What is different today are the tools available — such as video conferencing, sales desks, mentoring programs, and intranets — that allow us not to rely solely on our own judgment but to seek the counsel of many to leverage both their experience and their area of expertise.

This brings us back to our metaphor of *the invisible hand* — cooperation without coercion. Cooperation and interdependency — for at least reasons of self-interest — are now a necessity. The challenge for those in sales leadership is to not only recognize this collaborative phenomenon — whether through incremental steps or through more radical changes — but to also encourage it, support it, and foster it within their organizations. 🌐