



# YOUR ENTERPRISE AS LIVING SYSTEM

Success Starts with Knowing the Kind of Business You're Really In  
William E. Schneider

# Your approach to leadership and your organizational culture are determined by your customer promise.

Every kind of for-profit and/or not-for-profit enterprise falls into one of four categories determined by (and named after) their customer promise: the **predictable and dependable** enterprise delivering consistent, reliable, and dependable products or services ; the **best-in-class** enterprise delivering one-of-a-kind and distinctive products or services; the **customized** enterprise delivering a unique solution to each customer; or the **enrichment** enterprise promising fulfillment and the realization of higher-level purposes. Simply put, a nuclear power plant, a day care center, a PR firm and a high-tech business have fundamentally different promises and must be led differently. Choose leadership and cultural practices that fit your customer promise and company type and your organization can thrive. Apply the wrong practices and the contradictions will cause conflicts that pull your company apart. You must learn which of the four enterprise types fits your organization and a step-by-step process for connecting the three drivers of leadership and the 15 drivers of culture that apply to your organization.





# Your Enterprise is a Living People System

Microsoft dominated its market in 1998. The hugely successful technology enterprise's software operating systems ran on 86.3 percent of all the personal computers in the U.S. Then something happened to bring the giant to its knees: the technology group stopped reporting directly to Bill Gates and began focusing on reporting profits and losses. Instead of developing new and more effective technology for consumers, the company insisted that the technology group only propose ideas that could turn a quick profit. In three short years Microsoft lost more than half its value.

Ron Johnson, successful Senior VP of retail operations at Apple, left to take over the helm at J.C. Penney in 2011. He immediately changed J.C. Penney's practice of leadership, power and compensation. He did what he had done so successfully at Apple—but two years later, J.C. Penney's sales had plunged 25% and he was asked to leave.

Neither Bill Gates nor Ron Johnson understood why they ran into trouble.

Microsoft ran into trouble because Gates implemented the leadership, power and compensation practices of a predictable & dependable enterprise in a best-in-class enterprise. Johnson did the opposite. He adopted the leadership, power and compensation practices of a best-in-class enterprise in a predictable & dependable enterprise. The conflicting approaches pulled each company apart. Performance plummeted.

All enterprises fall into one of these four basic types: predictable and dependable, best-in-class, customized, or enrichment. Each has corresponding types of customer promise, culture, and leadership. To succeed, enterprises need to use the right kinds of practice for their type and connect them the right way. When one type of enterprise uses the practices of a different type—as Microsoft and J.C. Penney did—the disconnections pull the enterprise apart.

# The Science of Living Systems

Surprisingly, this can be explained scientifically. For the last 50 years, scientists have been studying the nature and behavior of all living systems. They have concluded that all living systems are networks of dynamic and properly ordered connections—each network is the reality of that particular living system. “Network” means an arrangement, a pattern. “Dynamic” means alive, evolving, creating, growing, ever-developing. “Connections” means interdependencies or links. Even more surprisingly, each kind of system—from sub-atomic particles to biological cells to supernovas—has its own kind of network and can be divided into distinct types.

The science of living systems encompasses an amazing set of scientific disciplines: sub-atomic physics, physics, biochemistry, molecular biology, chemistry, biology, anatomy, physiology, information theory, cognitive theory, psychology, anthropology, sociology, ecology, cosmology, and astrophysics (among others). What has emerged from the research is that all living systems share distinctive characteristics. Each system is a whole and it is not reducible to its components. Its distinctive nature derives from the dynamic relationships of its parts. It is the connectivity of the parts that establishes the reality of every living system. Secondly, each living system is self-organizing, self-stabilizing and maintains a homeostasis (it stays in balance). Continuous feedback allows these processes to occur. Thirdly, each evolves and grows, which also requires continuous feedback. Finally, each is both a whole in its own right and is simultaneously an integral part of a larger system.

Every living system is based on interdependence. Its living elements are interwoven. The viability (success) of every living system depends on the preservation of this interdependence. The living system's connections underpin its ability to live and its capacity to operate and sustain itself. Different kinds of living systems have their own distinct network or pattern of connections. Every living organism continually renews itself while maintaining



its overall identity, or pattern of organization. At a biological level, our pancreas replaces most of its cells every twenty-four hours, the cells of our stomach lining are reproduced every three days, our white blood cells are renewed in ten days and 98 percent of the protein in our brain is turned over in less than one month. Every living system also is continually adapting, learning, and developing.

Profit and non-profit enterprises are living people systems. Embracing this belief (and its implications) will significantly change your leadership for the better. Customers, employees, and leaders are not commodities and they are not separate from one another. They are different, but they are not separate. If you take away any one of the three—customers, employees, or leaders—you don't have an enterprise! Enterprises are started by people, led by people, operated by people, improved by people, perpetuated by people, dissolved by people. People create and provide value for people. People are the life of your enterprise. Customers, employees, and leaders are all that is alive in an enterprise and they are inextricably and vitally woven together. The promise that you make to your customer, your culture of employees, and your leadership approach are immutably intertwined.

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# Customer Promise, Culture, and Leadership

When we promise a product or service to customers, we form an immediate interdependence with them. They are now depending upon us to deliver on our promise. Our promise connects them with our living people system. They are not “outside” our enterprise. Every enterprise exists to deliver on its promise to its customers. The four fundamental types of enterprises are each named by their customer promise—predictable and dependable, enrichment, best-in-class, and customized. Everything starts with your customer promise. Customer promise determines your culture and your leadership approach. There is no one right culture or leadership approach—one size does not fit all.

Culture means how we hire, structure, deploy, compensate, and develop our employees to deliver on our customer promise. It establishes and underpins a company’s: structure, membership criteria, conditions for judging effective performance, communication patterns, expectations and priorities, the nature of reward and compensation, the nature and use of power, decision-making practices, and teaming practices (among others). It is about our community of employees. It is about how we do things in order to succeed. It is all about implementation. Over time, if we are more and more successful, culture becomes equivalent to our identity (e.g., the GE way, the Disney way, the Apple way). The more successful our enterprise is, the stronger our culture becomes. Culture is not a compilation of individual people’s values. Culture is essentially formed by what it takes for your people to fully deliver on your enterprise’s customer promise. It is driven by the nature of your business and what it takes for you to succeed in your marketplace.

Leadership is about setting a direction for our enterprise based on customer promise, mobilizing commitment, and building enterprise capability. It is where greater power exists in order to influence events within the enterprise. Leadership includes people who lack observable rank or title. The more versatile the leader, the more effective he or she is. Versatile leaders understand their core approach to leadership and adapt that approach to the strategic and cultural requirements inherent in their type of enterprise. They create conditions for their whole enterprise to fully deliver on its customer promise. At the end of the day, leadership is about creating unity and empowering people to live up to the enterprise's customer promise.

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# People Problems

I have been working with leaders in all walks of life, profit and non-profit, for 35+ years now and have come to appreciate how hard leadership can be. It is complex and high-pressured work. And, in my experience with 4,000+ leaders, the most difficult aspect of it is leading people. So it's not surprising that most leadership books focus on people-related issues. Below is a just a beginning list of people issues.

Persistent internal conflicts	People "passing the buck" to someone else
Distrust	Employees afraid to give leaders bad news
Employee Disengagement	People punished for giving leaders bad news
Low level of cooperation, coordination	Customers getting mixed messages
Functional silos	Reluctance to raise issues or concerns
Low morale	Agreements reaches, but lack follow through
Implementation problems	Excessive committees, unnecessary meetings
Over-prevalence of self-preservation	Presence of factions, in-groups, out-groups
Workflow bottlenecks	Difficulty getting people to team together
Confusion about responsibility	Low sense of urgency
Customers taken for granted	Frequent hiring mistakes
Ineffective performance management	People avoiding conflict
Leaders hoarding power	High level of frustration
People getting into power battles	Frequent leadership changes
Turf battles	People are reluctant to take on new or additional responsibilities
High level of employee and/or leader turnover	Complaints about promotion decisions
Duplication of work	People afraid to take risks
Leaders sending contradictory messages	Lack of commitment
Communication breakdowns	People fatigued/overworked
Too much politicking	High level of fear
Low level of accountability	

If you step back and look at all of these problems over the years, two interesting patterns show up. One, they keep reappearing, year in and year out. Two, they are typically addressed one or two at a time.

If you drill down, however, an even more interesting pattern shows up. All these problems have to do with people separating from one another: in silos, by disengaging, by thinking they understand when they don't. When leaders believe everybody is clear about the direction of their enterprise, but employees perform in a way that doesn't fit that direction, leaders and employees are separated. When people blame one another for mistakes, they create separation. These separations, or disconnections, involve customers, employees, and leaders, and separations between any one set (e.g., leaders and employees) impact all three.

These disconnections keep reappearing because they are symptoms of a deeper problem—hidden system disconnections. These are the root cause of these people issues. The four kinds of enterprises I've described are four fundamentally different living people systems. Each of the four has its own particular set of properly ordered connections, as living systems research would put it. Each approaches its customers differently, each practices fifteen culture drivers differently and each practices three leadership drivers differently.

At the end of the day, leadership is about creating unity and empowering people to live up to the enterprise's customer promise.

Customers, employees, and leaders are an interdependent network. When you do something to interfere with this interdependence, you cause disconnections, and symptoms of that start showing up. If you try to implement consensus decision-making in a best-in-class enterprise or try to practice steward leadership in a predictable and dependable enterprise, you create contradictions and cross-currents. You take your enterprise off course and cause your employees to lose respect for you. Because these separations are hidden, the symptoms persist or subside and then reappear. But these are not really “people problem,” but living system disconnects.

The more your customers, employees, and leaders are properly connected for your kind of enterprise, the more successful you will be. The less they are properly connected, the more “people issues” you will have, and the less successful you will be.

You have to change how you think about leadership and how you practice it by first determining what type of business you're really in, and work toward building connections that sustain that kind of enterprise. This will give you a way to unite your people and get them working together. It will help you get to the root causes of your “people problems” and what to do about them. If your enterprise is stuck, it will give you a way to change that and free up you and your people. It will bring to light hidden forces that have been holding your enterprise back. It will infuse positive energy into your enterprise. It will give you a step-by-step way to significantly increase the success of your enterprise.

**This will help you not only understand how to solve the “people problems” you currently have, but will prevent future problems and keep your enterprise on the path to success. 📖**



# Info



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### About the author

William E. Schneider, Ph.D. is a consulting psychologist and co-owner of Corporate Development Group (CDG), a leadership and organizational development firm in Englewood, Colorado. Over the course of his 35-year career, he has consulted with over 4,000 leaders in non-profit and for-profit sectors. He is the author of *The Reengineering Alternative*, and can be reached at [www.cdg-corp.com](http://www.cdg-corp.com). The framework used in *Lead Right for Your Company's Type* was named one of the top systems of thought that have made the greatest contributions to consulting psychology over the past century by the American Psychological Association!



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