

# Seeing Businesses As Complex, Networked, Adaptive *Groups of People*

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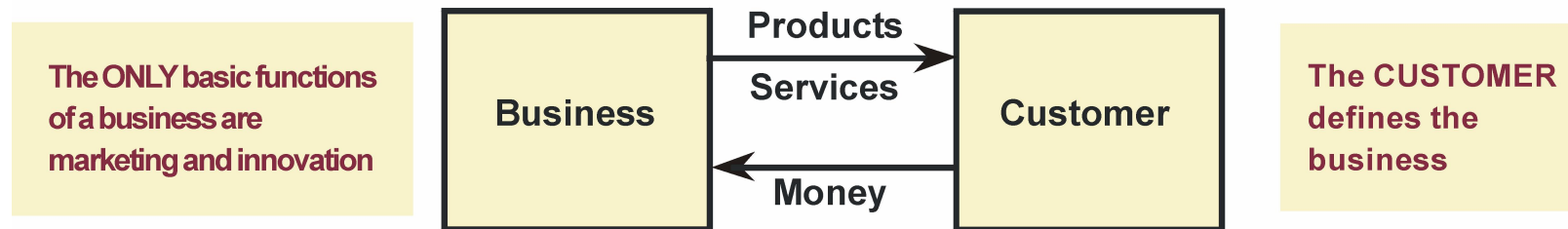
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# Contents

- Business Foundation
  - A system view of business
  - A human view of business
  - A hierarchical view of business
- Intro to Group Dynamics
- Intro to Cognitive Consistency
- Intro to Hierarchies
- Examples
  - Typical Small Business Model
  - Typical Large Business Model
- What Can We Do?
  - Extending Drucker's Model

# A System View of Business

The ONLY purpose of a business is to create a customer



Peter Drucker presented a simple, fundamental definition of a business in his landmark book, *Management*, 1974. The red text above is quoted verbatim from page 61.

- A business is a system.
- It is also a component in a larger system.
- The business cannot be understood without understanding its purpose in the system it serves.
- The customers decide which businesses win and which businesses lose.
- The degree of satisfaction the customer perceives is only partly attributable to the quality and fitness of the products.

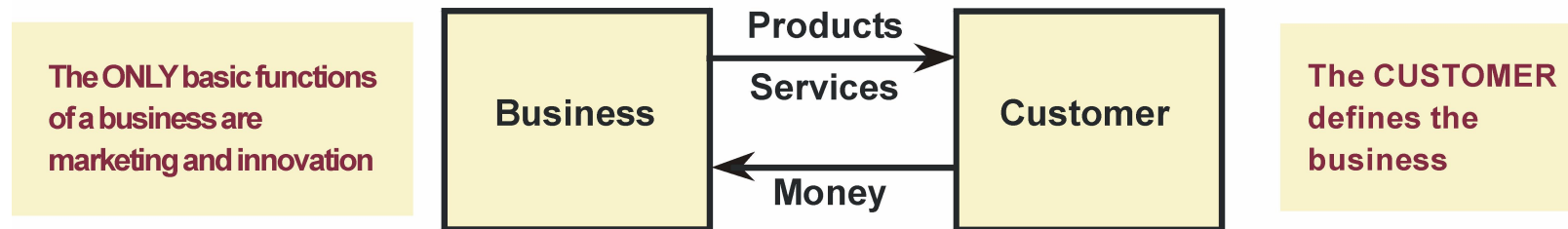
**Marketing** is everyone's job. It is the exchange of products and services for money. It is a basic function of the BUSINESS. It cannot be assigned to a department.

**Innovation** is everyone's job. It is finding new ways to make the business more successful in the systems the business serves. It is not limited to creating new products.

Customers judge the quality and the value of the marketing and innovation functions your business delivers. The business with the most intimate understanding of the customers making those judgments will win customers from its competitors.

# A Human View of Business

**The ONLY purpose of a business is to create a customer**



Peter Drucker, a well respected Professor of Social Science and Management at Claremont Graduate University, often tells us a business is a social group. He cites a single characteristic that differentiates businesses from all other social groups: Businesses must have customers. No other social groups have customers.

Daniel Kahneman won the Nobel Prize for Economics in 2002. Dr. Kahneman is a psychologist at Princeton University. He has concluded that the Rational Economic Model, the dominant model for businesses for the past 250 years, hasn't delivered on its promises. It has not predicted most major events in economic history. It does not describe the observed behaviors of people, businesses, or economic systems.

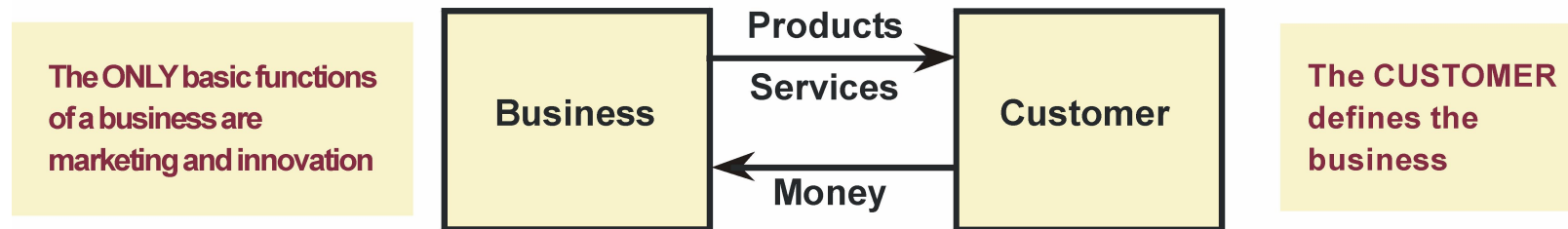
The psychologists have produced a wealth of knowledge on group dynamics and on cognitive consistency. These two bodies of knowledge do accurately describe and predict the behavior of people in businesses. So why doesn't the business community use this knowledge?

The answer lies in understanding group dynamics and cognitive consistency—It's a catch 22! Psychologists and business managers are outgroup members to each other, and the core beliefs of business managers prevent them from learning things that contradict those beliefs.

Tapping into the vast knowledge of human behavior—knowledge that is readily available—can produce a huge competitive advantage for any business.

# A Hierarchical View of Business

The ONLY purpose of a business is to create a customer



The ONLY basic functions of a business are marketing and innovation

Business

Products

Services

Customer

Money

The CUSTOMER defines the business

Charlotte and Harriet Childress studied hierarchies for about 12 years. Their learnings were published in 2005 in their book, *Clueless at the Top*. They used observation, interviews, and literature research to characterize hierarchies at work, at home, and at play.

They summarized it all in less than a half page in the introduction. Hierarchies are games. “The object of the game is to climb up ladders.”

They differentiated two classes of people, “higher” and “lower”. “The ‘higher’ people build the hierarchies...the ‘lower’ people support and hold up the hierarchies”.

But those roles are not made explicit. Instead, rationalizations obscure the game.

In the Business-to-Business world, businesses and customers are hierarchies—officially. That creates two opposing outcomes: an orderly but dysfunctional system. As a simple example, the more important decisions are made by people further from the exchange of products and services for money—that vital transaction asserted by Dr. Drucker in his definition of a business.

But perhaps more important, people in the Business tend to rank themselves as “higher” than people in the Customer. We “know” what the customers want. And people in the Customer rank themselves as “higher” than people in the Business. They are just vendors.

They cannot both be right. It’s a game.

# Intro to Group Dynamics

## Us and Them

Individual behavior is influenced by the actual, imagined, or implied presence of others.

# Ingroups

- No two members are alike, but we have a lot in common
- We know ingroup members by name
- The group's strength is in its diversity
- Ingroup members are interesting people
- Our group is superior to outgroups
- We're superior to outgroup members

# Outgroups

- They seem to be all alike
- We define them stereotypically, not as individuals
- They're all the same, and they're different from us
- We have little in common with them
- Their group is inferior to ours
- Outgroup members are inferior to us

# Heaven and Hell

## In Heaven...

- The police are British
- The cooks are French
- The mechanics are German
- The lovers are Italian
- And it's all organized by the Swiss

## In Hell...

- The chefs are British
- The mechanics are French
- The police are German
- The lovers are Swiss
- And it's all organized by the Italians

Do you see any stereotypes in here?

# Intro to Cognitive Consistency

Balancing  
our feelings, actions and beliefs

# Cognitive Consistency

## **Cognitive Consistency**

We are motivated to keep our cognitions (beliefs, attitudes, and self-perceptions) organized in a consistent and tension-free manner.

## **Cognitive Dissonance**

A feeling of discomfort caused by performing an action that is inconsistent with one's beliefs, attitudes and self-perceptions

# Intro to Hierarchies

Highers and Lowers  
Tops and Bottoms  
Superiors and Inferiors

# Highers

- Accountable to build and maintain hierarchies
- Channel power and resources to themselves
- Provide direction, permission, and approval
- Generally cannot see the hierarchy
- Devalue, ignore, renounce attributes of Lowers
- Characteristics are appropriate for everyone
- What's valuable flows to the top
- Believe Lowers need fixing

# Lowers

- Support and hold up hierarchies
- Concede their power and resources to the Highers
- Look up for direction, permission, and approval
- Are acutely aware of the hierarchy
- Value and emulate the attributes of Highers
- Characteristics only appropriate for Lowers
- What's objectionable flows to the bottom
- Pretend Highers are right

# Key Points

- The conventional functional hierarchy
  - Ignores Group Dynamics
    - Officially defines outgroups within the business
    - Treats the customers abstractly, classified into groups of similar people, as sources of data, as outgroup members
  - Ignores Cognitive Consistency
    - Promotes managers with strong beliefs, able to make decisions quickly and stick with them
    - Raises insurmountable obstacles to learning
  - Ignores Reality
    - People suppress their own beliefs to play the game
    - Hierarchies offer no way to relieve the tension generated by that fundamental cognitive dissonance

# Typical Small Business Model



This model is popular among start up and small companies in the Business-to-Business world. Manufacturers reps are easy to find, they work on commission, and they do not expect to be paid until the Business gets paid.

Also, it's hierarchical. The Sales Reps are lower in stature than the Business. (Imagine what that implies about the stature of the Customers.)

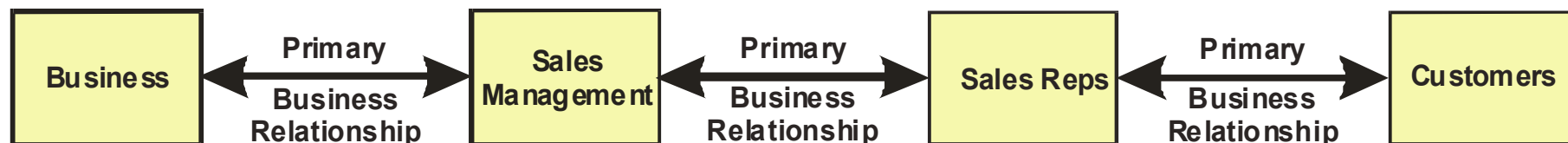
If those were the goals of the business—to add a level of hierarchy between the Business and the Customers, staffed with reps who are easy to find, work on commission, and accept long payment terms, this is the perfect model.

On the other hand, if the objectives are closer to the Drucker model—create customers using superior marketing and innovation, using this model is a big step in the opposite direction.

The Sales Reps are caught in the middle. They cannot satisfy the Business *AND* the Customers. The Customers are cut off from the Business.

This is a conventional model, based on the tenets of the Rational Economic Model. People use this system without thinking. Development efforts go into improving performance within the system, without considering that the system itself is dysfunctional, considering the effects of Group Dynamics and Cognitive Consistency.

# Typical Large Business Model



This model is commonly found in medium to large businesses in the Business-to-Business world. The Sales Reps in this model may be independent businesses or employees of the Business. Sales Management may be employees of the Business, or they may be in a subsidiary company.

It's even more hierarchical than the prior model. The Sales Reps are lower in stature than Sales Management, which is lower in stature than the Business. (Imagine what *THAT* implies about the stature of the Customers.)

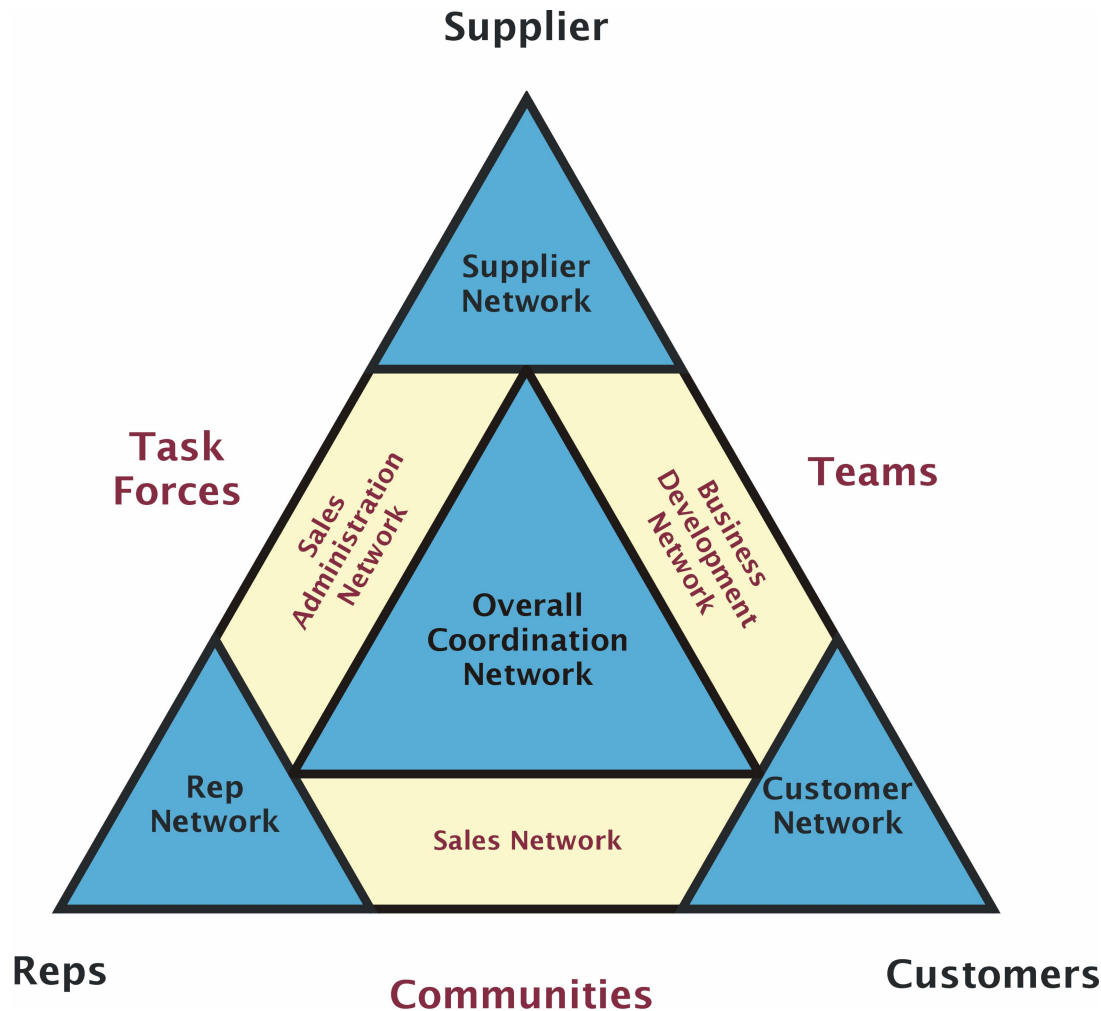
The Sales Reps *AND* Sales Management are caught in the middle. They cannot satisfy the those above and those below. The Customers are even more cut off from the Business.

Like the prior example, this is a conventional model, based on the tenets of the Rational Economic Model. People use this system without thinking. Development efforts go into improving performance within the system, without considering that the system itself is dysfunctional, considering the effects of Group Dynamics and Cognitive Consistency.

# What Can We Do?

Build non-hierarchical, cross-functional workgroups and teams to do what the hierarchy cannot do

# Extending Drucker's Model



## Blue Networks Functional Definitions

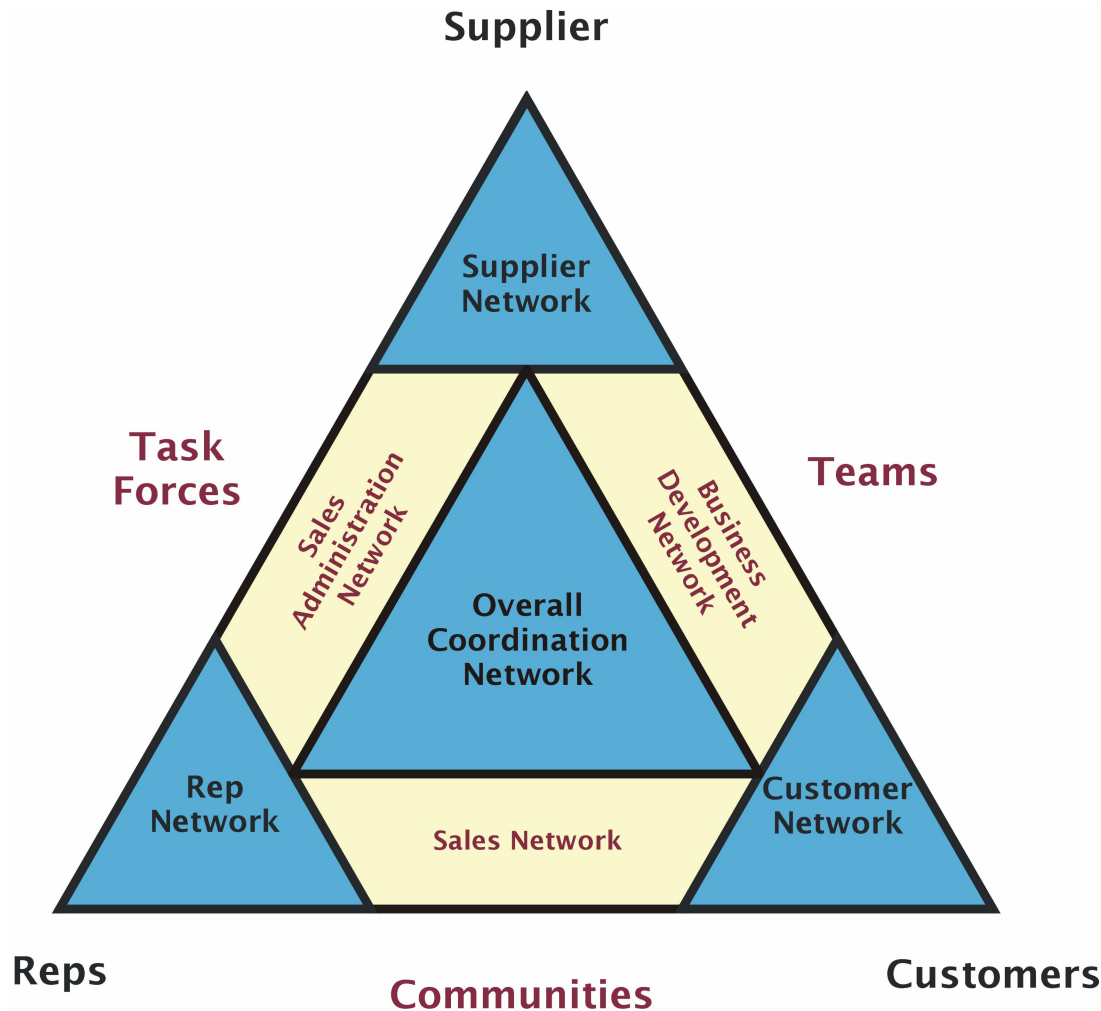
**Supplier Network** is the Business and its suppliers

**Rep Network** is the sales and distribution channels of the Business

**Customer Network** is the universe of prospective customers for the Business

**Overall Coordination Network** develops, oversees, and coordinates all of the other networks

# Extending Drucker's Model



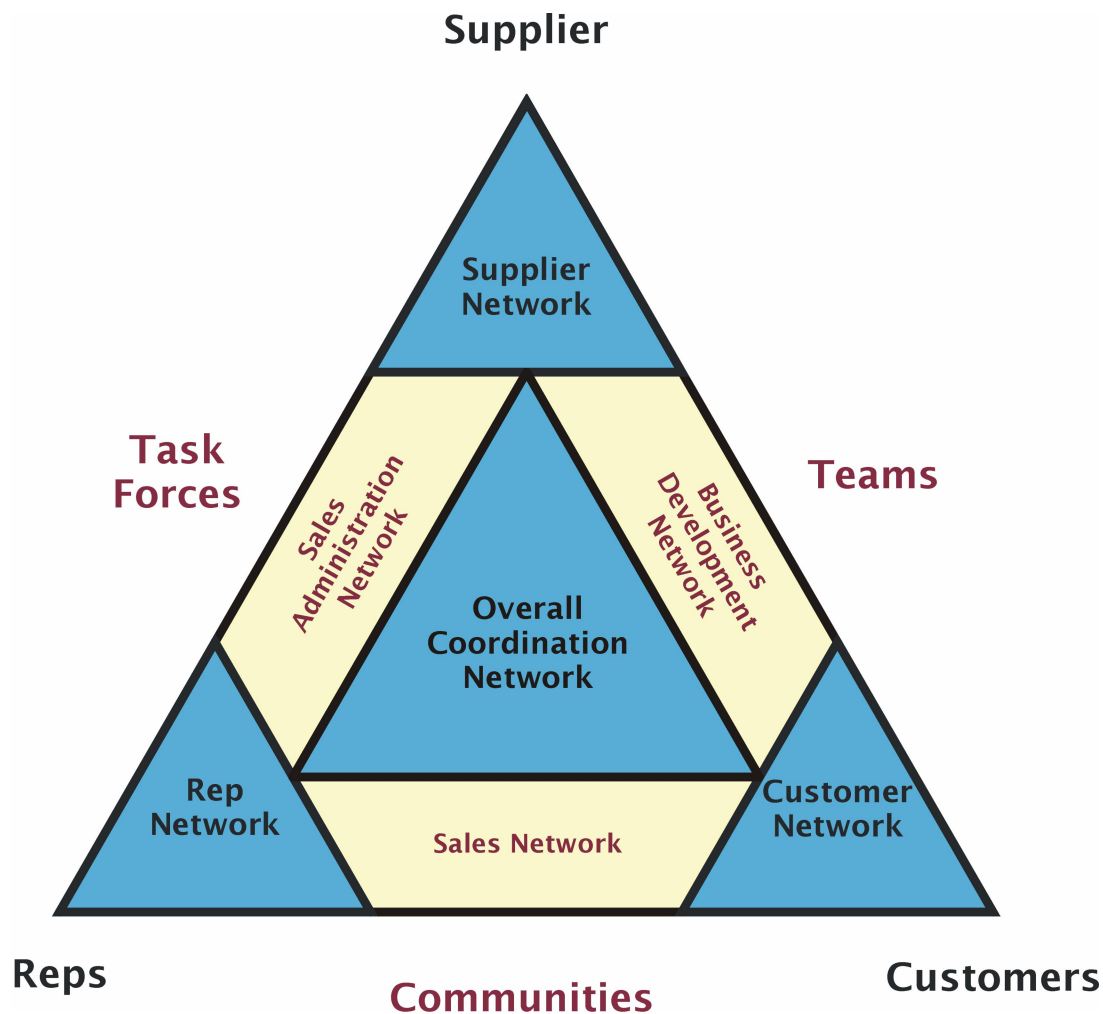
## Yellow Networks Functional Definitions

**Sales Network** is an integrated community of people in the Rep Network and the Customer Network

**Sales Administration Network** is a dynamic assortment of Task Forces connecting people in the Supplier Network and the Rep Network on important projects

**Business Development Network** is a semi-permanent assortment of teams with members from the Supplier Network and the Customer Network

# Extending Drucker's Model



## **DeltaNet Works in any and all of these 7 networks**

We help our clients find the bottlenecks in this system of networks. We help them innovate solutions to relieve the bottlenecks.

Historically, most of our work has been in the Business Development Network. It's the network that closes the loop between the Business and its Customer Network—the missing link in the typical dysfunctional models in slides 12 & 13.

No two projects are exactly the same for us. We have helped some clients create new businesses, and we have helped others develop sales channels. What we do depends on a careful assessment of all 7 networks to help our clients innovate where it will make the biggest difference.