

A SYSTEMS VIEW OF THE ORGANIZATION

By Stephen Lin

Introduction

If you are currently in a senior leadership position then you are painfully aware of the challenges that face your organization in these difficult and uncertain times. The global economy seems so tightly inter-connected that a hiccup in one nation, or industry, creates a cough in another. Seemingly unrelated political, environmental or social events can impact global markets, availability of raw material, or hey, even the legality of trading with a particular country. It just seems to be so vast a relationship that it is almost incomprehensible.

But your concern is closer to home isn't it?

Today's Challenge for Leaders

Guiding organizations through choppy waters is what leaders do. Some are more successful than others. You are charged with maintaining and growing the viability of the business regardless of events you seemingly have no control over. The question is how you go about that.

There has been a lot of talk about strategic thinking and planning. However, when faced with slumping sales and rising costs, management tends to look within and focus on examining existing operations, to try to find ways to reverse the trend. It typically starts with a meeting with sales and marketing, to get a more accurate feel for the market and to adjust sales projections. Armed with this new revenue number, an in depth auditing of each department will follow looking for new efficiencies, new ways of doing business, or anything that can help the company hit the new numbers, the new fixation of the business. When money is tight you cut back right? It seems only logical.

But if you stop and think about it for a moment, is that really the best way to analyze the situation? For example, when an auto manufacturer experiences a downturn in sales the automatic response is to slow or stop production. This is not adapting to the market it's reacting to the market.

Couldn't the real problem possibly be that the auto company didn't fully understand what kind of car the market wanted, how many and at what price point? Undoubtedly they spent a great deal of time and resources gathering intelligence on the competition, which is a good thing to do, and they should do it. But remember, the competition doesn't buy cars. Shouldn't the company also understand the environment that their customers live in? Shouldn't they also know and appreciate what constraints that environment might place on their customers' buying decisions? The real problem isn't that the company didn't sell enough cars; that is just the end result. The real problem is that they made more cars than the customers wanted to buy or could afford buy, or simply made cars that the customers didn't need or didn't want.

It's the understanding that the company must have of the external driving forces, their inter-relationships, and the impact these have on the company, that should determine what it must deliver to be competitive or simply remain relevant. And it is this understanding of what it must deliver that then determines how the company's internal systems (and their inter-relationships) need to be designed and operated.

The Systems View

This idea of looking outward, of looking beyond the walls of the company office building is not new. What is relatively new to many executives, is the idea of looking at the world as a collection of systems that create a whole and examining the relationships between those systems

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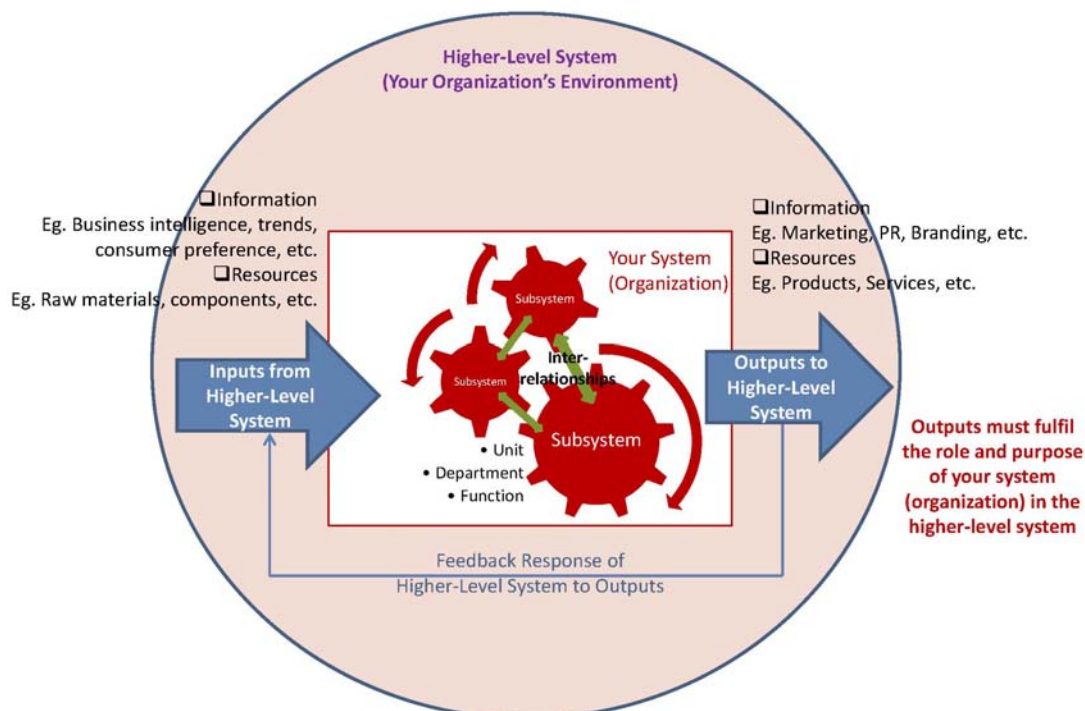
to determine how they affect the whole. Systems Theory, as applied to organizational management, puts forth the premise that all organizations are systems, and all systems are part of larger systems. How a subsystem fits the needs of the larger system ultimately determines if that subsystem prospers or is left to wither on the vine.

It's this concept that the adept leader can use to get a more "holistic" view of his organization. Understanding how the company relates to the larger system in which it exists and operates, and then how the company's internal systems contribute or detract from that larger relationship can provide a more relevant analysis.

It really isn't as esoteric as it may sound. Once you grasp the concept it will be easy to see how it applies to your organization. Let's spend a moment on a definition and then we can address application.

In Systems Theory, a system is defined in two ways:

- Externally, by its purpose. Each system has a role that it plays in the higher-level system in which it exists. Using the auto company example we can say that the auto company is a system whose role is to provide cars to the next higher-level system, the auto market. The auto market in turn has its multiple roles that it plays in the next higher-level systems of transportation and national economy and so on.
- Internally, by its subsystems and internal functions. Each system is made up of components and sub-systems that interrelate and contribute to the overall purpose of the parent system. In the auto company those components might consist of engineering, production, marketing, finance, human resources and sales all of which should be supporting the system's purpose of providing cars to the higher system, the auto market.



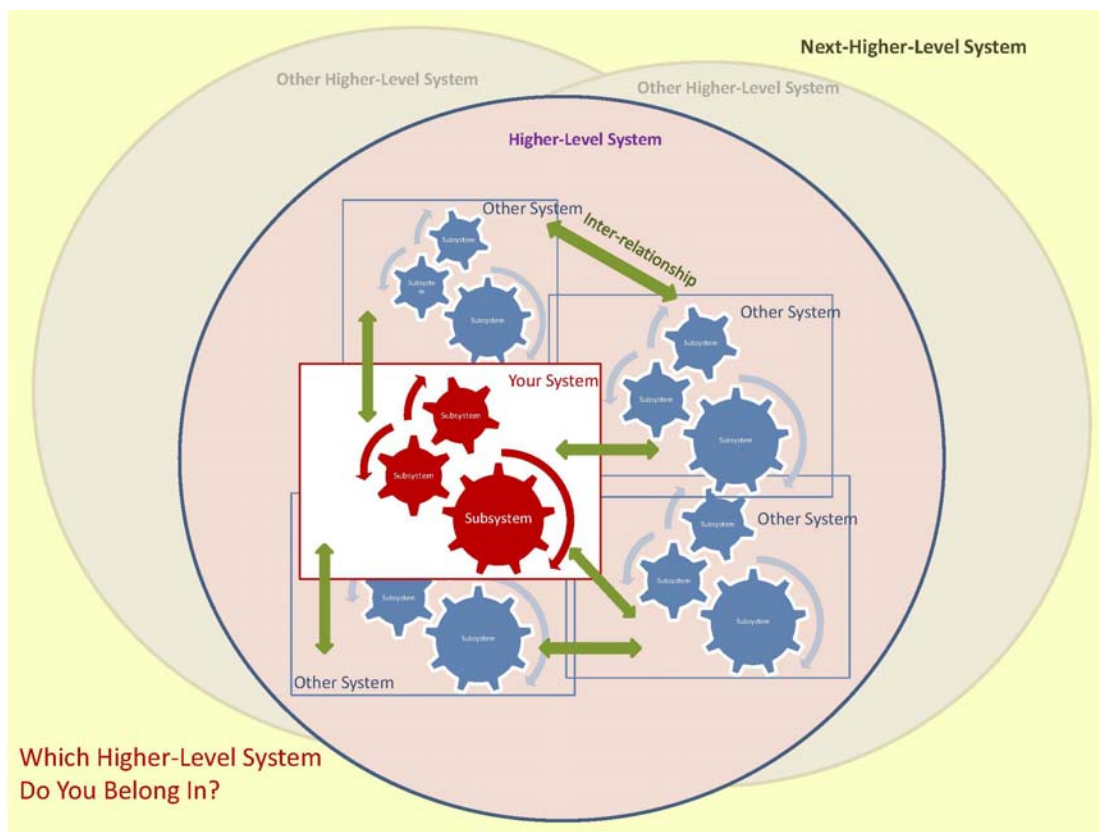
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Systems Theory in Managing Organizations

Defining the Higher-Level System and the Organization's Role in It

So for a leader, the first step in developing a holistic view of the organization is to define the higher-level system in which it exists/operates, and its role/purpose in that higher-level system. Where does it fit? What kind of role does it play and what value does it bring to the purpose of the higher-level system? If a company does not have a role to play in the higher-level system, then it does not belong in that system; and if it cannot find a role in any higher-level system, it is in effect redundant and will ultimately die. Additionally, and sadly more common, if a company cannot accurately define what its role is in the higher-level system, even if it has something relevant to offer, it will be treated as if it had no role at all.



If a higher-level system cannot perceive value by including a particular sub-system, it will ignore that sub-system. This typically means the end of that sub-level system's participation in the higher-level system. That's the reason nobody makes buggy whips or vinyl music records anymore.

Designing the Internal Functions and Subsystems of the Organization

Once you have defined the higher-level system in which your company operates, and established your company's purpose within it, then it's time to look at the components or subsystems of your organization. These subsystems and components, knowingly or

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unknowingly, all interact and play a part in achieving or detracting from the company's purpose. Ideally of course, these subsystems and their interrelationships should be designed and organized in a way that collectively promotes the organization's purpose, and achieve zero or sustainable negative entropy for the organization. While there is much to discuss about entropy and organizations, a simple macro explanation is that entropy occurs when a system's resources are depleted over time and its subsystems descend into chaos. Zero entropy is thus a state where resources do not deplete over time, and negative entropy where resources increase over time; in both cases with the subsystems maintaining current relevance and focus on the system purpose.

In the auto company example, it needs to define its market, the range of products and services for that market, and how to produce and deliver those products and services in an exchange with the auto market, in a way that its resources do not get depleted. When it achieves that, the auto company will have reached a state of business sustainability. Of course all companies would like to grow, and not just maintain the business; however we all know that growth needs to be kept sustainable or the result could be detrimental. For example, if the auto company increases its market share so rapidly, that it is unable to match that pace with getting the people and systems it needs in place to ensure good quality control, then it could get into problems. In Systems Theory, when we talk about negative entropy in successful systems, it is always about sustainable negative entropy.

It can be argued that assuming the organization knows its true purpose, then how that organization's subsystems are organized will determine the success or failure of the organization. Subsystems, functions, and their inter-relationships are thus optimized to achieve the organization's purpose; this is distinct from optimization of subsystems for their own purposes. Consequently, if a subsystem does not have a role in the organization's purpose, then it does not belong in the organization system.

It kind of sounds like we are back to the traditional response of auditing departments doesn't it? But did you note the difference? This time we defined a purpose first. We identified what our role is in the higher-level system. We know what we must do to succeed in that higher-level system. It's only after we have that firmly established that we use it to determine the organization and effectiveness of our subsystems.

Outside-Inside

Let's ratchet this up a level and get you thinking in even broader terms. We talked about finding our purpose in the next higher-level system but it really doesn't stop there. The effective leader has to look beyond the immediate higher-level system, and get an appreciation for how the next-higher-level system and even-higher-level systems and so on, can impact the purpose of the organization.

Say for example, the green environmental movement successfully lobbied to legislate that all cars will be required to double their kilometers per liter rating in 5 years, while at the same time reducing emissions by 50%. This is a political/regulatory factor driven by the inter-related forces of ecological imperatives and the collective awareness of consumers, etc., that now directly impacts the auto company. This factor, which the auto company has no control over, effectively changes what the company must deliver

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to fulfill its purpose in the higher-level systems in which it operates. The successful auto company, with enlightened management adopting the systems perspective, would have seen this decision coming by identifying the inter-related driving forces leading to this decision, well ahead of their competitors; it would have already begun redefining its outputs and reorganizing its subsystems and their inter-relationships for this new reality.

It's important to view business as a part of larger systems. Business does not exist in a vacuum. The arrogance of some organizations, particularly those too big to fail, is disturbing and it's obvious that they have not learned from past lessons. One only has to look at the auto industry worldwide, the railroad industry in the United States, and the steel industry generally to see examples of once powerful and rich organizations who ultimately didn't understand, or care, about what their purpose was in the higher-level systems. Today many former giants in those industries are shells of what they were, replaced by organizations who understood what the system needed and where they fit in.

Systems Theory and the Leader

Systems Theory is a powerful tool that will take your thinking to an entirely new level. It is an exceptionally honest and effective method for understanding the purpose of an organization and for performing an effective analysis of its subsystems. However, without an advocate, it remains just a theory. That's where your responsibility as a senior level leader begins.

Systems Theory when applied to human organizations is the only management concept rooted in natural science! It makes perfect sense and is really logic and common sense driven. Commit yourself to view everything you do and see in terms of interrelated systems.

Start by defining the higher-level system that your organization serves. What purpose, what value, and what fulfillment of needs does your organization offer that system? What products or services does your organization offer that best fills the purpose? Are you offering products or services that don't serve this system but may serve another?

All successful living systems are open systems, and information and resources flow across them. Closed systems, i.e. systems that insulate themselves from, and do not interact with, the higher-level system or other systems, are destined to fail. One of the reasons, though not the only one, is that if they do not interact with other systems, how will they be able to adjust to the evolving purposes of the higher-level-systems and hence define their useful role?

To keep your system healthy, what information (business or market intelligence, etc.) do you need to gather from your higher-level system? What information (marketing, communications, etc.) do you need to send to the higher-level systems? What resources (raw materials, component parts, etc.) do you need to acquire from the higher-level systems and the other subsystems within it? Are there resources (shared services, collective bargaining, etc.) that can be shared with other subsystems? What useful resources (products, services, etc.) can you provide to the system and its other subsystems that they need and that you do best in?

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Lastly you have to organize your subsystems to promote your purpose. A prime directive in Systems Theory is that every subsystem must contribute to the success of the system's purpose. Teams, managers and individual workers are all subsystems, and components of subsystems. If the guy on the loading dock, or the lady at the front desk, does not understand how he/she is promoting the purpose then he/she cannot be as effective a member of your system as he needs to be.

Once your organization is focused on and designed for purpose, you as the leader have to spend time interacting with other systems in the higher-level systems. Obviously you want to spend time within your immediate higher-level system, because that's where your organization operates. However, you need also to involve yourself with even-higher-level systems like your community and its NPOs, and society. In the inter-connectedness of the world, the health of your community will in the end have a direct impact on your organization's purpose.

Conclusion

Ultimately, we all need to view ourselves and our respective organizations as parts and subsystems of the successively higher-level systems, our roles in the purposes of those successively higher-level systems, and how we all contribute or detract from the success of the highest-level system we live in, namely the eco-system of earth. That will make the discourse over sustainability in its widest definition a whole lot easier, but that is another subject for another time. For a start, let's start thinking in systems, so that we and our organizations can be more effective and successful.

Through applying Systems Theory to management and leadership you will serve not only your company but your entire environment. That's what exceptional leaders do.