



System Thinking – The Concept

There is only one Management System in an organisation that incorporates everything that the organisation does.

A system is made up of hard and soft issues (such as culture, teamwork etc) as an ever changing dynamic and not documents, maps and procedures. This means that a Management System can never be fully documented.

A Management System starts with understanding the wide-ranging, and often conflicting, stakeholder requirements to the delivery of what the organisation actually has to deliver back to them to meet these needs and defines how the Management System will monitor these results and bring about change. The impact of this is that there is no such thing as an Environmental Management System or indeed a Health and Safety Management System as these are only activities that take place in the larger 'real world' whole organisation system. Creating these systems as standalone activities sub-optimises business performance and creates an artificial business environment that Senior Managers find hard to recognise.

In order to be effective, the single Business Management System must be a process-based in design and aligned to what is being called 'System Thinking'. This assertion is based on the principle that key business processes are what actually deliver results. The challenge for specific risk area specialists, including Health and Safety, Environmental, Financial, IT, Quality and Security etc. is to understand why and where their particular specialist area fits into the Business Management System. The advantage to this is that the risk specialism is correctly positioned within the organisation, embedded within its business processes and subjected to the same management attention as an integral part of the overall management balance in effectively managing the organisation.

The organisation's effectiveness in delivering business performance will be up to its stakeholders to decide (i.e. in terms of the outcomes they receive) and not the organisation itself. The organisation therefore needs, as part of its business planning and monitoring activity, to measure and target this performance in the same way the stakeholders do, so there is a clear alignment of purpose. What is required is a sound framework in which to operate and deliver what is needed. And this framework builds on a single Business process-based Management System (see *Figures 1 and 2*).

System Thinking – The Concept

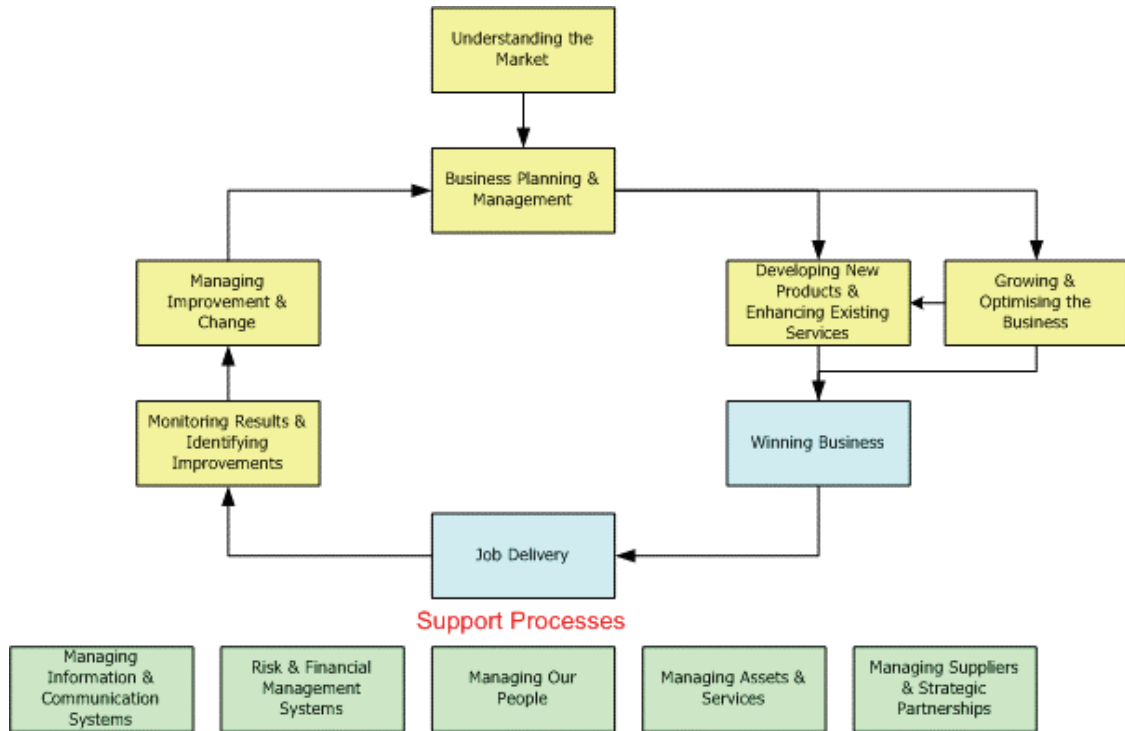


Figure 1 – A typical process-based management system

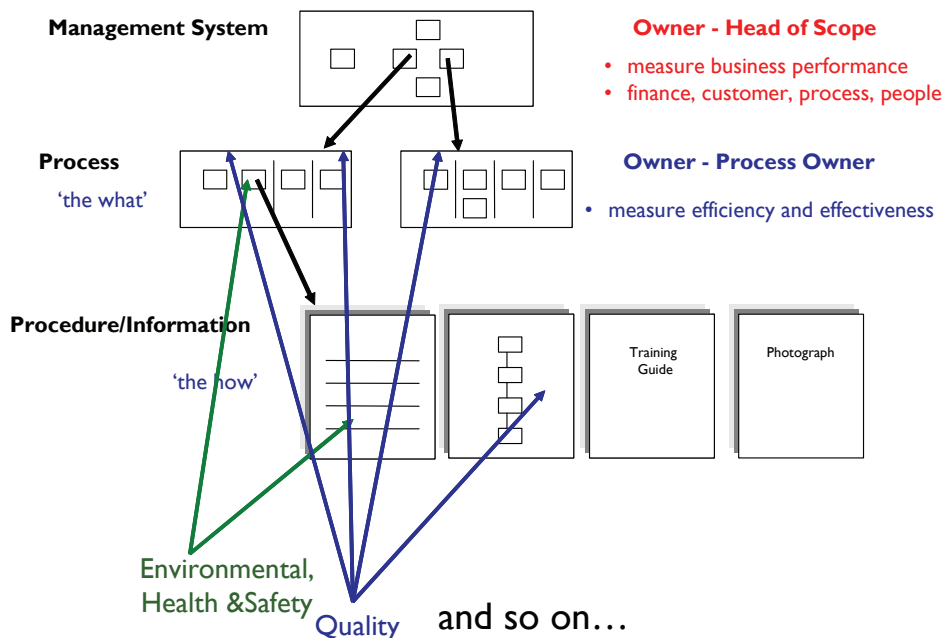


Figure 2 – The structure of a process-based management system



System Thinking – The Concept

However they are structured, the reality is that all organisations deliver their performance through their key business processes, the performance of which is directly affected by the way in which they are managed. Once these have been defined, the processes that form the Management System are then extended to incorporate all business issues relevant to the organisation. This will include extension to include different elements of organisational risk – environmental, health and safety, security, financial requirements, Sarbanes Oxley, etc (with certification to Standards/Frameworks if the organisation desires). This is not the same as 'integrated', i.e. running a number of standards-based management systems alongside each other, which will never achieve the same results.

What really happens during this extension is that people's skill's, knowledge and competences are developed to maintain and improve this maturing Management System and the developing performance. The maturing Management System will ultimately lead to effective management and compliance with wide-ranging Corporate Governance (CG) and Corporate Social Responsibility (CSR) requirements, which cover all applicable elements of organisational risk (otherwise known as Enterprise Risk Management). The Management System then requires more enhanced auditing and assessment methodologies to help the organisation learn about its current level of achievement/effectiveness and then move forward, rather than just telling them where they comply. CSR and Corporate Governance delivery is an ongoing programme of activity (just like the 'real world' any organisation operates in), with system maturity and change being the key issues, not just the achievement of business results. After all, business results such as annual accounts are backward looking, showing what has happened in the past. Managers need to be forward looking, managing the organisational risks for the future. Management, staff and auditing/assessment all need to develop to create this type of organisation.

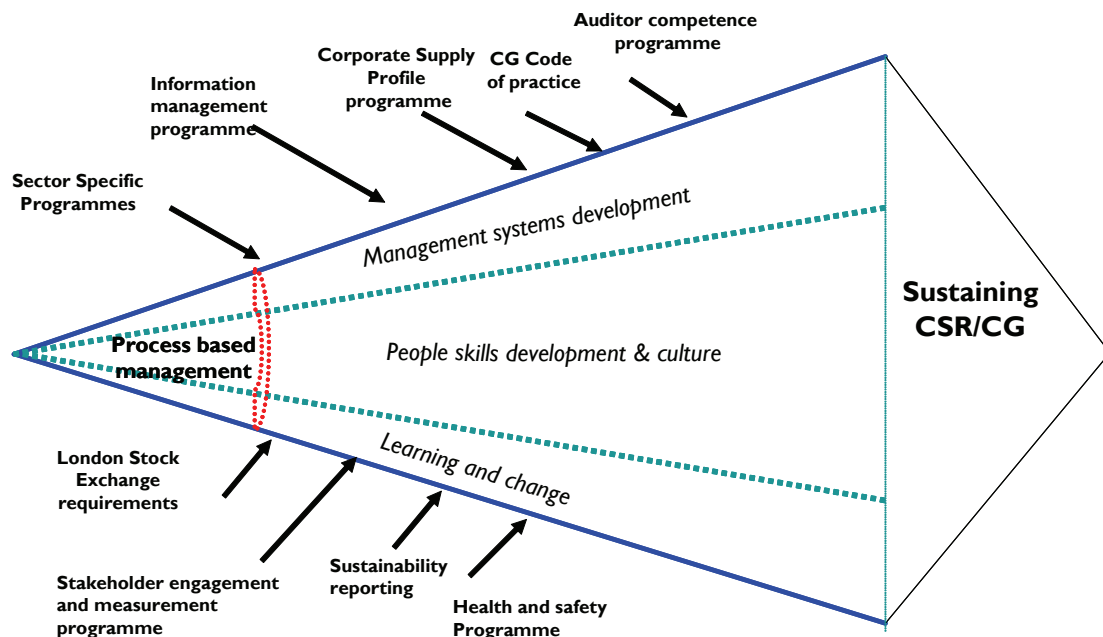
Getting a clear focus on this way of thinking is needed. What matters is the Management System maturity of the organisation at any point in time – its current ability to understand and meet the overall needs of its market (in the broadest possible sense). This means the application of System Thinking and process management is always applied in the context of each individual organisation and must not be used as a prescriptive approach or applied as a blanket 'one size fits all' solution.

CG is often associated with CSR. It is concerned with how the organisation is managed, or in other words, the way in which it is effectively organised, directed and controlled to assure firm governance. It also specifies the distribution of rights and responsibilities within the organisation. This covers groups such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. These describe absolute requirements to which an organisation must adhere.

There is also a growing pressure on boards of directors to not only fulfil their monitoring/directing role but also to be a source of advice and counsel for executive managers. They also need to demonstrate that organisational risks have been identified and are adequately managed, with these requirements more often than not explicitly saying that they need to 'manage the risks to the processes'. If the key business processes have not really been identified, or only the tactical 'low-level' ones thought about, then this is possible to achieve – it is likely that the wrong risks will have been identified and managed.

System Thinking – The Concept

Senior managers in turn are responsible for the management of the organisation, which, as has already been seen, is really a dynamic system made up of processes, delivered by resources and designed to create planned results (see Figure 3). The management is therefore responsible for the system and as CG is delivered as an integral part of that system, it must be part of CSR. They are inextricably linked. One cannot be addressed without the other and critically; both are addressed and delivered via the single Business Management System.



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Figure 3 – The System Maturity Funnel

The key to delivery of CG/CSR is to have a single process-based Business Management System. The application of a standard, such as ISO9001 or ISO14001 based on this approach rather than a traditional one, should place organisations that have adopted it in a strong position to develop it fairly easily to also deliver their CSR requirements. This was the original reason for the requirement to identify key business processes when the ISO9001 standard was revised several years ago. Unfortunately this is not necessarily the case.

Many organisations, even though they may well have ISO 9001 or ISO14001 certification, do not have a well-designed, holistic, process-based Business Management System. They have not fully adopted the principles that are defined in the standard, but have tried to use it as a prescriptive list of things to do. They have missed the point that ISO 9001 and ISO14001, just like any other ISO standard or framework, is a set of principles and business model to be applied in different ways by every organisation to meet its unique situation. These organisations still need to go through the self-analysis that allows them to develop and adopt an effective Business Management System and the culture it needs in order to be successful. All ISO standards created since ISO9001:2000 use the same principles, driving all management systems together.



System Thinking – The Concept

Consultants and registration bodies that are not making the right connection are not helping their Clients make the change the standards are really requiring.

For those organisations that have a process-based Business Management System in place, system maturity is much easier to achieve. It is not always straightforward to embed the various stakeholder requirements (risk elements) in the system, although applying the principles to get started is. Every organisation is different, so the solution that applies these principles needs to be specific to each one.

Without a single process-based Business Management System, it is highly unlikely that an organisation will achieve or sustain CSR/CG, or the management of relevant areas of organisational risk in an effective (in terms of management) or cost effective manner.

However, with a single process-based Business Management System to build on, it is achievable.

If you would like further details on our assessment and single management system System Thinking approach, contact Phil McNee on phil.mcnee@pinnacleassoc.com or telephone + 44 (0) 7506 725079

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