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## A Systemic Approach to Improving Corporate Performance

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### **Abstract**

*The key to increasing productivity and profitability is to again think systemically while redesigning important organization processes. One approach to this challenge is to allow support functions to sell their services to both in-house production units and other non-competitive organizations. A second approach is to institute a three-tiered reward system that encourages cooperation between individuals and units. A third approach is to introduce an organization-wide, "board"-based decision making system that includes input from everyone affected.*

**Key words:** Systemic thinking, Development Ethic, integration, Three-Tiered Reward System, Circular Organization,



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### **REINTRODUCING SYSTEMIC THINKING**

The concept that needs to be introduced, or actually to be reintroduced at this point is "systemic thinking," a concept very much in vogue twenty-five years ago that eventually fell out of favor, overshadowed, unfortunately, by more quantitative approaches. The systemic approach to management is built on two pillars. The first is the belief that "a whole is more than the sum of its parts." This means, basically that the interactions between the parts of an organization are just as important as the parts themselves in terms of the organization meeting its objectives. "Interaction between the parts" includes the interactions between individual employees, between employee teams, between departments, between divisions, and all the way up through the organization as well as between the organization and its containing environment – marketplace, competition, community, etc. "A whole is more than the sum of its parts" in the business world has to do with organization design, with the organization's pieces and with the processes that bind them together.

The second pillar of the systemic approach is the "Development Ethic." It says that employees should be encouraged to develop and utilize their positive potential to the fullest possible extent in order to improve their quality of work life and of life in general and to improve the fortunes of the company. The inputs required to do this are a reasonable salary, access to required and desired learning, a managerial system that treats them fairly and encourages development, and a work environment that does not hamper their efforts.

Organizations that have become "systemic" in nature possess four key characteristics. First, they are truly participative in the sense that every employee affected by a decision is allowed some level of input into that decision. Second, organization activities are integrated on all levels and between all levels. Third, organizational activities facilitate the on-going learning of all employees. Fourth, the organization is capable of dealing with continual change in both the external and internal environments, change that is occurring with increasing rapidity.

So, how do we design an organization that has these characteristics, shaping the involved organization processes in such a way that they support the highest possible level of productivity? Because our main objective is to make organizations more profitable, let's start by insisting that all units -- support and well as production -- contribute directly to the bottom line so that their productivity can be measured.

### **TURNING SUPPORT FUNCTIONS INTO PROFIT CENTERS**

Start-ups and smaller operation usually do not yet need to include support functions such as training, recruiting and R&D. Training occurs mainly on-the-job. Staff members are encouraged to share their expertise with newcomers. Old timers want to make sure that new hires became as productive as possible as rapidly as possible in order to share the workload. Recruiting is relatively informal, current employees frequently recommending a friend. R&D is also unsophisticated. Process improvement ideas generated

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by individual employees and by teams are broadcast immediately so that feedback can be gained quickly from the rest of the staff.

Start-ups and smaller companies by nature possess the characteristics necessary to make these informal processes systemic. Due to the organization's size employees have access to everyone desired. Input into decisions is informal and immediate because all staff members are usually housed in the same room or small office. This arrangement also facilitates integration. Everybody knows what's going on. Everybody knows how he or she fits into the operation. Concerning one's ability to deal effectively with change, decisions can be made and implemented rapidly with everyone on board. And, finally, an environment that is highly participative and integrated encourages continual learning.

But what about larger, mature organizations that do require formal support processes? On-going training, no matter how it might be organized, is critical to the company's success and traditionally requires a staff dedicated to that task. Steady turnover makes on-going recruitment a requirement. R&D efforts must remain continually productive in order for the company to stay competitive and, thus, necessitates both staff and facilities.

The question is, can larger organizations turn these functions into profit centers as well so that they contribute directly to the bottom line and become more systemic in nature? Because they are traditionally "cost centers" with no bottom line there is no pressure for them to do so. Employees in cost centers do what they are told with no incentive to improve their performance and their productivity. But if we can give them a bottom line they are responsible for, that will change.

Professor Jamshid Gharajedaghi, while a member of the Social Systems Sciences Doctoral Program faculty at The Wharton School, University of Pennsylvania, developed a model he called the "Multilevel, Multidimensional, Modular Organization." His model included "output" and "input" units.

Output Units: These units are responsible for manufacturing, marketing, and distributing the goods or services generated by the company.

Input Units: These units deliver supporting services - training, recruiting, financial analysis, R&D - that Output Units are incapable of generating themselves.

But how does the relationship between Output and Input Units in our new model differ from that found in the traditional model? In the traditional management model the corporation pays the employees of Input Units salaries to deliver predefined services to Output Units. Employees of the Input Units are given no say as to what these services should be, as to whether they should be paid for or not. If, at some point, executives think money can be saved, an Input Unit is dissolved and the involved service outsourced. If the outside supplier begins raising its price the company looks for a new supplier. If things get too bad, the company might consider reestablish the Input Unit, which is an expensive undertaking.

But what if Input Units were converted from cost centers to profit centers as has been suggested by Gharajedaghi? What if they were allowed to *sell* their service to Output Units and to set the price? This is a bad idea, right? Without competition they would be free to overcharge. But what if there was, indeed, competition? What if Output Units were free to buy the involved service from an outside supplier if that supplier can deliver an equal quality of service more cheaply? Input Units would then be forced to come up with a quality product that was reasonably priced and to continue improving it in order to keep the business of Output Units. They would become part of the free market system, living or dying by their bottom line; they would be forced to deal with real competition in the marketplace the same way that Output Units do.

Also, under this arrangement, because they were now profit centers, Input Units could begin looking for new customers. They would be allowed to sell their services to other companies so long as no conflict of interest existed. As a result, not only would they have a bottom line of their own, but they would, at the same time, be contributing fresh income to the parent company's bottom line.

Both Output and Input Units would be able to develop new projects. An Output Unit, for example, could begin a project to sell items on-line. An Input Training Unit could develop and sell a training module to potential suppliers that would help them improve or shape the goods or services to be delivered. An Input Unit could also develop a model for treating employees with addiction problems and sell these services to smaller companies unable to provide them internally. New projects, according to

Gharajedaghi, could be financed through loans from other units, these loans being paid back with interest.

This model should please supporters of the systems approach. Participation, learning and adaptability would be enhanced. Employees in the individual input units would now work more closely together to improve performance. They would make these improvements by learning from environmental trends and by adapting. Organization-wide integration, however, might suffer. Individual input units might lack incentive to assist each other, their efforts now focused entirely in improving their own bottom line.

#### **A REWARD SYSTEM THAT ENCOURAGES COOPERATION**

One way to address this issue would be to reshape the reward system so that it encourages all the desired systemic organizational characteristics. The "Three-Tiered Reward System" developed by Professor William Roth while a Senior Fellow with The Wharton School fits well with this model. All Output and Input Unit employees will receive a salary that will constitute the smallest part of their reward during good times and will allow employees and families to survive during bad times. All Output and Input Unit employees will also receive a share of a percentage of their unit's profits. Finally, all employees will receive a company-wide bonus, one normally comprising the largest part of their reward in order to keep employees from focusing on the productivity of their individual units rather than on the productivity of the organization as a whole, in order to encourage organization-wide cooperation and integration.

All salaries will be supported by a tax levied on the Output and Input Units, a second percentage being taken from each unit's profits. Members of upper level management will receive salaries that are higher than those received by the rest of the workforce because while output and input unit level managers will be eligible for a share of their unit level profits, executive level managers will not. These people, however, will be eligible to share in the company-wide bonus which will also be drawn from the Output and Input Unit tax revenues after salaries have been paid.

The Three-Tiered Reward System, because it gets rid of competition on all levels and makes cooperation the key to financial success, encourages systemic participation and integration of efforts. Employees have a lot to gain and nothing to lose by combining their efforts, by helping each other, by sharing information and learning what they need to know in order to adapt rapidly to changes in the marketplace.

#### **THE CIRCULAR ORGANIZATION APPROACH TO MANAGEMENT SYSTEMS**

Obviously, a lot of decisions need to be made when an organization adopts the modified Multilevel, Multidimensional, Modular Organization model and the Three-Tiered Reward System. These decisions include what support services should be offered in-house, what unit projects should the company invest in if no other units want to loan the money, how much executives should be paid, the size of the yearly company-wide bonus which in turn determines the size of unit bonuses. The body making these decisions will be a hierarchy of boards responsible for managerial decisions. These boards lie at the core of the "Circular Organization" concept introduced by Professor Russell Ackoff, architect of the University of Pennsylvania Social Systems Sciences doctoral program.

In an organization of any size a hierarchy of managers is required so that decision-making responsibility can be delegated effectively, so that the decision making process itself can be facilitated and integrated. Policies governing this process can vary greatly. In companies that have decided on the Circular Organization approach each manager, starting at lowest level of the individual Output Unit and Input Unit hierarchy, has a "board of directors" on which he or she sits. Other members of each board include the manager's direct reports, be they low level workers or other managers, and the boss of the manager whose board it is. The direct reports, if they are also managers, of course have their own boards and bring along input from *their* direct reports who also have boards. The boss, as well, has his or her own board on which the boss' boss sits, bringing along input from his or her boss who sits on his or her board. As a result, any manager above the lowest level receives input, direct or indirect, from three levels below and three levels above. Boards can also invite representatives from other units who might make a contribution to take part in meetings. Obviously, this approach encourages both participation and the integration of efforts.

Each board's responsibilities would include:

1. Planning for the unit whose board it is. The plans, of course, must fit with those of the board representing the level above creating an upward cascading effect, all plans eventually fitting with and supporting the plan generated by the highest level board, that of the CEO. Boards are also responsible for constantly modifying their unit's plan, taking into account a changing environment while making sure the involved modifications continue to support planning objectives of the level above, which are also constantly being modified.
2. Policy making for the unit whose board it is. Policies are rules of the game, how things should be done. For example, a higher-level policy might be that the company promotes current employees into vacant executive positions whenever possible as opposed to looking for somebody from outside the organization. A lower-level policy might be that employees can modify their working hours within certain limits.
3. Coordinating the plans and policies of the immediate lower level. This effort is facilitated by the fact that the managers of the involved lower level units all sit on the board doing the coordinating.
4. Integrating the board's plans and policies with those of lower level and higher-level units. This effort is again facilitated by the fact that the managers of the involved units all sit on the board doing the integrating.
5. Improving the quality of work life of those the level board governs, providing a process by which all reports can identify possible improvements in products generated or services offered, in manufacturing processes or in service delivery processes, in management systems, in the work environment. The process will then allow employees on all levels to design these improvements and to implement them. The individual boards can spin off "modified task forces" that work on unit improvement projects. The term "modified task force" is used because the traditional task force is formed to come up with a suggested improvement and a suggested design, but is then disbanded and has nothing to do with implementation. Members of the "modified task force" suggest an improvement and, after the level board or boards involved approve it, also take responsibility for designing and implementing that improvement. Membership in modified task forces will usually include the employee(s) who first brought the problem or idea to the board. A level board can also agree with the level board of another unit or of other units to create a modified task force including employees from both units to work together on a project that crosses unit lines.
6. Evaluate on an on-going basis the performance of the manager whose board it is. Boards cannot fire their leader but can recommend to upper level management that the person be replaced. Also, a new manager selected by upper level management to fill the board's leadership position cannot be hired without the approval of board members.

What these level boards do, of course, is take over the major responsibilities of management. The manager whose board it is becomes mainly a facilitator, making sure that the board's efforts remain focused on the organization's long-term objectives, facilitating and helping integrate the efforts of his or her board with those of other boards.

The Circular Organization approach is obviously systemic. In terms of participation, all managers are directly involved. Workers gain a say through elected representatives on the lowest level boards. In terms of integration, every manager sits on several boards on several levels. Concerning on-going learning, everyone involved has access to the information flowing horizontally and vertically through the board network; everyone is expected to make effective use of that information when helping to formulate decisions. And finally, concerning the ability to deal with environmental change, because input is continual and from all over the organization companies using the circular organization approach are more capable of doing so.

The question of time, of course, comes up. "If I as a manager sit on several boards -- mine, my boss' and those of my direct reports -- when do I have time to get my work done?" The answer is that, in actuality, the boards are meeting most of your managerial challenges. Your main responsibility is no longer to make all the decisions yourself, but, as has been said, to facilitate the efforts of your board's members to contribute.

## SUMMARY

When management again begins thinking systemically, when it begins focusing as much on the interaction between organization parts and processes as on the individual parts and processes themselves, when it begins seeking means of facilitating and rewarding the realization of employee potential and the use of that potential to increase productivity, a number of improvements in organization design become possible. One is that support functions such as training, recruiting and R&D that have traditionally been cost centers can be converted to profit centers, increasing the efficiency of their operation and allowing them to contribute directly to the bottom line by making better use of their employees' talents. A second possible improvement is the development of a three-tiered reward system that provides rewards on the individual, the team and the company level making sure that the involved rewards support each other in terms of furthering the company's overall success. A third improvement made attractive by a systems perspective is the introduction of "boards" at all levels of management to encourage the consideration of input from all those who will be affected by the decisions made.

All three of these models are systemic in nature increasing participation, integration, on-going learning and organization adaptability. All three complement the others though they can be introduced individually. All three will help improve organization productivity and profitability.

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William F. Roth teaches management theory at Kutztown University. He earned his PhD in Social Systems Sciences from the Wharton School, University of Pennsylvania where he is currently a Senior Fellow. William has published more than sixty articles on the Systems Approach to management in national and international journals. He also has nine books in print, the latest being *Out of the Box Thinking for Successful Managers*; *Comprehensive Healthcare for the U.S.: An Idealized Design*; *Ethics in the Workplace: A Systems Perspective*; and *The Roots and Future of Management Theory: A Systems Perspective*. His next book, *Breaking the Mould: Education for the 21<sup>st</sup> Century Education for the U.S.*, is currently with a publisher.