The Praecedo Group

A SYSTEMS APPROACH TO LEADERSHIP
Forgetting the Parts & Leading the Whole

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"If you try to take a cat apart to see how it works, the first thing you have in your hands is a non-working cat." **Douglas Adams**

In the most basic sense, an organization is a continually developing system of people, processes, equipment, and sub-systems working together to achieve a common purpose (the key word for this discussion being '*system*'). Like any organic system, organizations are complex and need to be managed as a whole in order to achieve the purpose. Efforts to break a company apart and focus on individual elements can negatively affect the balance and interfere with success by creating competition and fragmentation between components.

Although most people in business would agree that the performance of the company is more important than that of individuals or teams, the way many organizations are managed achieves just the opposite. For a variety of reasons, leaders inadvertently fragment organizations, and set individual or team goals and objectives that often interfere with long-term success

Consider the following:

Situation #1

In an attempt to reduce material costs, an incentive program for the supply chain team is implemented with rewards tied to containment and reduction of costs. The program succeeds in reducing material costs but leads to increased production costs, customer returns, shipping delays, and warranty expenses due to the purchase of substandard materials and longer supplier deliveries.

Situation #2

Sales managers are rewarded based on revenues generated from the regions they manage. The sales manager in Scandinavia has a significant opportunity with a new customer but, to secure the business, needs a good deal of technical assistance from the sales manager in France - who is very knowledgeable in this customer's particular application. Although the French sales manager wants to help, he feels he can't afford to spend time on an activity that will not generate sales in his territory.

Both sales managers end up barely meeting their targets, but the company misses the opportunity to secure business from a new customer. Also, teamwork between the sales managers has been damaged.

Situation #3

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Plant managers in a global manufacturing company are measured and rewarded on meeting EBIT targets for activity in their plants. Plant A has more demand than capacity, while Plant B has more capacity than demand. The manager of Plant A decides to buy products from the outside to meet demand. In order to meet the EBIT target, however, he orders product from a competitor instead of Plant B because of a lower price (the manager of Plant B priced the product high enough to assure the order wouldn't negatively affect his plant's EBIT).

As a result, the manager of Plant A met his targets and received a bonus while the manager of Plant B did not. Because Plant B did not meet its targets, the company as a whole failed to meet its targets. Teamwork between each of the plants, which was already strained, has deteriorated further.

There are numerous examples like the above where goals or measures encourage behavior that fragments the organization. Although it seems perfectly logical to evaluate performance of a team member on a measure like EBIT or sales revenues, it can easily cause someone to act in a way that is detrimental to the performance of the organization, as a whole.

Organizations are far too complex to objectively, accurately, and easily evaluate an individual's performance. Extreme care must be taken when setting objectives and basing rewards on achieving individual targets.

The more one adopts systems thinking and understands how it is important to continually focus on improving the overall system - especially the hand-offs between people and teams - the easier it is to abandon traditional measurement and reward systems and move to a more holistic approach to leadership.

Why We Fragment

I could cite many more examples than listed above where goals were set for individuals or teams resulted in fragmenting the company and compromising results. Although fragmenting is destructive to organizations, it continues to be used for a variety of reasons.

- **Simplicity:** It's much easier to manage an organization by breaking it into components than to comprehend and manage the whole. For example, holding a supply chain manager accountable for reducing material costs is easier than setting a total cost objective (which includes accounting for factors like incoming inspection, customer returns, inventory carrying costs related to increased leadtimes, late deliveries, etc.). From a systems perspective, however, *total cost* much more accurately measures the supply chain's contribution to the company than does material costs.

- **Lack of Trust:** Micromanagement - which is unfortunately very common in organizations today - results from a lack of trust in people, and cannot coexist with systems thinking. Leading from a holistic perspective requires relying on a vision, clear expectations, delegation of responsibilities, and encouraging people to support other areas, rather than setting measurable goals and dictating how work is to be done. People must be given the authority (and the responsibility) to improve the process - including the hand-offs between processes - without detailed input from supervisors.

Another factor that causes fragmentation is a lack of trust and patience that the organization will achieve targets without knowing that the components are meeting targets. Even if a relationship between the targets set for individuals or departments and the targets for the organization cannot be proven, people feel like they're being proactive when they can measure something.

- **Functionally-Focused Leaders:** Leaders who lack experience outside of their own function have trouble clearly understanding how their areas support others in the organization. As an example, a CFO who implements a system that improved productivity within the finance team but causes additional work for other parts of the company does not understand the role of finance within the organization.

- **Layoffs:** Nothing can make people worry less about the company and more about their own jobs than a round of layoffs. When layoffs occur, people turn their focus to pleasing the boss instead of pleasing internal and/or external customers. Unfortunately, layoffs have become commonplace in U.S. organizations and the practice continues to fragment companies.

Many people know of no other way to manage a company than to break it into *manageable* pieces, but experience continues to show that the practice leads to suboptimal results. Continual efforts throughout the organization to understand (see figure 1) and continually improve the system will yield much higher returns than worrying about measuring people and individual teams.

- What the company is trying to accomplish (its purpose)
- Who the customer is
- What the customer wants
- How the system works to give the customer what he/she wants

Exhibit 1
Understanding the System

Defragging the Company

Moving focus from individual components to the overall system requires a significant amount of commitment and patience by the company's leaders. The steps to begin the process of defragging a company include the following:

- **Promote the Generalists:** Move leaders from specialists to generalists to increase understanding and leadership of, people, information, material, products, and services - how they flow and work together to serve customers;

- **Coach & Mentor:** Coach and mentor people to increase the level of understanding throughout the company regarding how each job supports other areas in the achieving the fundamental purpose. Those who work in support areas need to clearly understand that they exist solely to support the company's main processes that serve customers (which, by the way, doesn't make them any less significant to the company).

  Value stream mapping (VSM) is an excellent tool to help clarify the company's high level system, including the interactions of people and teams;

- **Enable Relevant Feedback:** Implement a feedback system (e.g., a 360° system) that includes input from a person's internal customers, and is focused on improving performance - rather than documenting and blaming for poor performance;

- **Clarify Expectations:** Set objectives based on supporting achievement of high-level (companywide) objectives and tie incentives to company or division performance - or, if done extremely carefully, based on success in supporting improvement efforts. Clarify expectations regarding participation in change initiatives and improvement activities and focus efforts on the company's overall success - create an obsession for satisfying customers.

  As an example, a reward system for the plant managers in Situation #3 above based on companywide results rather than individual plant results can lead to improved teamwork and cooperation between plants, and improved results for the company.

It's the Big Picture that Matters

Since there are few, if any, who would argue that company performance matters more than individual or department performance, it becomes a question of whether individual performance can be accurately measured as a contributor to company performance. Although it's perfectly natural to want to evaluate how much value an individual or team is contributing, most organizations are far too complex to do it with simple, one-dimensional measures. Most people are intelligent enough to do what it takes to meet a goal or make a measure look good - even if it detracts from overall company performance. There are unfortunately numerous examples over the last several years of unethical or illegal behavior driven by internal or external company measures. Putting these examples aside, however, I truly believe that most people care about the success of the organization but have learned what to do to survive in today's business world.

Fragmented thinking is one of the biggest barriers to long-term success for a company. Moving to systems thinking requires a fundamental shift that many will be unable to do. Communicating the vision, clarifying expectations, and continual coaching must replace dictating and obsessive measuring and evaluation of people as a management style. If you've hired the right people and are consistent in your approach, your move toward systems thinking - as measured by continually improving financial results - will occur.