

THE FIVE FRAMES OF SYSTEMS THINKING

Systems thinking can help you appreciate the multiple ways that one can “frame” a problem. In the field of cognitive science, it’s well understood that frames influence how people think about a particular issue or problem. Each frame typically oversimplifies the problem and inhibits systems thinking.

In the world of business there are many frames, depending upon where you’re sitting and the view before you. There’s the organized labor frame. (“The unions will take advantage of this.”) Or the shareholder frame. (“Our profits are more important to our shareholders than protecting the health of the environment.”)

We teach our clients to see their organizations holistically, asking them to look at it from five system perspectives—strategy, governance, performance, process, and people:

- **Strategy:** From this system perspective, you focus on the long-term market trends affecting your business. You think about your competitive position, where growth will occur, and what broad initiatives are required to capitalize on those trends. You respond positively by thinking about the long-term use of your resources and how to focus to achieve your most important priorities. You respond negatively by focusing too much on what your competitors are doing.
- **Governance:** From this perspective, you focus on the system of decision making that controls the direction of your company. You think about the relationship between your board of directors, your chief executive, and your leadership team, and what authority is designated to each. You respond positively by thinking about governance and being very specific about delegations of authority. You make sure people are clear about their respective decision-making roles. You respond negatively by blaming people for making misguided decisions when the system isn’t clear.
- **Performance:** From this perspective, you focus on the systems for measuring performance—first at the overall organizational level, then at the level of the various business units within the organization, and finally at the team and individual level. You respond positively by deciding what metrics and targets to track at each level, and what systems of communication will best align business units and teams of people in understanding where they are succeeding—and where they need to improve. You respond negatively by paying too much attention to individual cases of poor performance.
- **Process:** From this perspective, you focus internally on the processes of producing value. You look at how sales are generated or how orders are fulfilled or how products are received or delivered. You look at measures of effectiveness and efficiency. You respond positively by thinking about how to improve cycle time, quality, and the IT systems that support the process. You respond negatively by singling out specific individuals for not managing a process consistently or efficiently.

- **People:** From this perspective, you focus on your system of hiring and rewarding people. You focus on how to get the right people on board and how to develop them in their roles. You look at the competencies you need and how you can develop people to their best potential. You respond positively by developing feedback systems that enable people to learn continuously, to receive coaching and feedback, and to take responsibility for their performance. You respond positively by rewarding people for excellence and performance. You respond negatively by selecting and promoting people based on arbitrary factors, such as how much you like them personally and how much they support you.

If you're attentive to these five perspectives, you'll gain a much richer appreciation of your organization—an appreciation you can share with others. The art of systems thinking is to make sense of it all by organizing your thinking and realizing that each perspective needs to be weighed against the others. Failure to do so can lead to errors in judgment.

For example, the benefit of the strategic perspective is that it enables you to take the long view and identify changes you have to undergo in order to achieve an important goal. Bob Levine used the strategic perspective to reconceive his business. But the strategic frame may cause you to overestimate the power of markets and overlook the value of internal innovation. American automakers have consistently made this mistake, lagging behind European manufacturers in developing trendsetting features.

In the process perspective, people can become so focused on reducing cycle time or improving efficiency that they forget to focus on what customers actually want. This is the problem faced, for example, by the fast-food industry. McDonald's became very efficient in delivering Big Macs and Quarter Pounders; all the while its relative share of the market continually declined.

In the people perspective, too much focus can be placed on one person at the expense of the organization. In 1995, when Michael Eisner, the CEO of Disney, hired Michael Ovitz as president, he thought he was getting someone who could be a successful number two. Much to Eisner's surprise, none of Eisner's lieutenants wanted to work with Ovitz. Eisner's shortsighted decision cost Disney hundreds of millions of dollars.

In the performance perspective, people overly focus on performance without looking at other circumstances. Capital One, for example, changed the terms on its credit cards without adequately notifying consumers during the financial meltdown of 2008. It then jacked up the interest rates on those same consumers to unconscionably high levels, losing its most creditworthy customers. By putting numbers ahead of relationships, Capital One managed to dig its way deeper into financial crisis.

Each of these is an example of shortsighted thinking, where the snapshot of the situation is overly simplified, and a more nuanced understanding would lead to more judicious decisions. Where effective systems thinking prevails, people learn how to step back and look at a situation from multiple perspectives, choosing the right course based on a deeper understanding of what's going on.