

A Systems Thinking Approach to Evaluating and Improving Enterprise Performance

Part I: Organisation as a System

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Introduction

Inspired by management science, systems thinking and a medical sector, we argue there are similarities between a human body and a company (in this case in FMCG, Retail and E-commerce sector as Demkovitz Consulting's specialisation). Building on this analogy, we visualise that if the two indeed behave similarly, we can apply the scientific mindset from medicine to assessing and working with business performance.

Demkovitz Consulting as a generalist consulting firm with the expertise in strategy, leadership, culture building and organisational structure aims to act as a company's GP to analyse their current state and needs for improvement. We advise on the steps to improve the business and implement the projects. When necessary, we refer our clients to domain experts who are our partners in specialised fields, such as finance, digital marketing or software development. We think of them as Specialists in the medical field.

In this Part I of our work, we visualise how the business elements work together and should be treated as a system on the example of the human body. Then, we explain the interconnectivity of the parts to build the holistic view of a model organisation and its functions. Further, in Part II, we will categorise the business elements into five distinctive groups and propose a diagnostic model for assessing the company's performance. Based on that, we work with clients to address some of the issues or leverage strengths to enable further growth.

Lastly, similar to the medical field, we highly value applied academic excellence. That's why we continuously research new ideas for innovative solutions in business, as well as document the results to produce case studies for further knowledge sharing.

A Short Message on Startups

Although we recognise high-growth startups as companies with specific characteristics, the systems thinking still applies to them. Instead of looking at them as the fully developed organisms, we consider them as founders' babies that need support with growth. They require nutrients and oxygen, such as cash, healthy culture and support system through advisors and investors, to grow sustainably. In comparison to child development, everything is new for startups, and they have to adapt their approach to the market requirements. We consider it's essential for them to do experimentation to test ideas and find the product-market fit. It's the same way as children learn social rules and how to fit in the environment.

At Demkovitz Consulting, we use systems thinking to provide the right tools, support, connections and strategies for the most optimal startup growth. These include value creation approach, structured customer feedback, experimentation model and network. While the rest of this work focuses on the improving of health of established entities, we have separately developed frameworks for the quickly growing market mavericks.

Visualising an Organisation as an Interconnected Organism

In this section, we propose a view of an organisation as the human body to visualise how different business aspects are related to each other and can be treated in similar fashion to health diagnostics.

Brain – Strategy

One of the most, if not the most, complex organ in our body responsible for decision-making, taking actions and problem solving is compared to strategy. This business element is a long-term vision with detailed execution plan for the most value-adding initiatives. It is based on the data analysis but also includes creative ideas for problem solving and is adaptable to a changing environment. It allows the entire organisation to take action and move forward. A good strategy is also very specific and considers key aspects for the company that are later implemented through efficient operations.

Eyes – Data

It is a common saying that making a business decision without using data is like a being a blind person going into a foggy forest at night. All organisations collect and store data, however, the great ones capture the right information and converts it into insights that are relevant for their strategy. A good infrastructure allows for collection, processing, analytics and insights creation for a company. It also enables monitoring of the progress of the business plan execution, reporting on the performance, and quantifying soft organisational issues, such as culture. Most importantly, it addresses the manager's needs, so they can make the informed decisions based on the recommendations resulting from the analytics.

Skeleton – Organisational Structure

Likely, the most intuitive comparison. Skeleton holds the structure and the posture of our bodies, enabling the mobility. Similarly, organisational structure defines the distribution of responsibility and determines team effectiveness in

delivering results. Too many direct reports and a leader is not able to delegate and monitor the work, while too little slows down the organisation. If the structure doesn't have clear direct and dotted reporting lines as well as well-defined scopes and roles responsibilities, the groups are not able to collaborate well and achieve goals. An organisation might have the best talent, resources and investment but it will not function without a well-defined structure as much as a human won't run with a broken leg.

Thyroid – Feedback loops

The main function of the thyroid is to regulate hormones and body processes. In business, there is a concept of feedback loops that is comparable to the organ's mechanism. It occurs naturally in an organisation, and it can be either too weak (in which actions may get out of control) or too strong (suppressing decision making and growth). Feedback is essential to improve the work effectiveness not only within the teams (i.e., getting feedback from a leader or a specialist) but also between teams that are meant to control each other and reduce the possibility of bending the rules for individual benefits. Ultimately, working feedback loops ensure profitability and sustainability of any organisation.

Heart – Culture

Heart determines the blood flow and affects the working mechanism of the entire system. It is also being researched that it resonates different magnetic fields depending on fear or love being felt by an organism. Similarly in business, culture is a heart of an enterprise and determines the rules, goals and how people will work together. Most work environments are shaped unconsciously, as a derivative of employees' personalities and if not managed correctly, it may lead to top-down authoritarian culture of control. We are evangelists of recognition-based and positive culture that, when crafted effectively, can motivate, empower and deliver outstanding results.

Lungs and Oxygen – Finance and Cashflow

When businesses admit they are "out of breath", they are lacking the commercial oxygen, i.e., cash. Cashflow is essential for paying employees, suppliers, shareholders, maintain operations and invest in future growth. A company can be profitable, but it will fail without the liquidity. Finance department has a key role in cash management, through monitoring its level, forecasting it, and controlling performance of other departments. It also distributes the resource through

budgeting process and ensures that it is used productively to add value in the company (e.g., hiring more people, improving processes, expanding a product range).

Gut Microbiome – Leadership

Some say that microbiome is the key to healthy living and there is an increasing amount of research on its impact on functioning of human body. Leadership in the organisation determines every single aspect of its performance: people motivation, financial management, strategy and ability to survive macro-economic downturns. Historically, it has been downplayed due to the difficulty to identify tangible impact on business operations, however, the definition and benefits of strong leadership are becoming clear in the modern literature. Similarly to managing a microbiome in a gut, mindset shift can transform organisational culture and all other aspects of business operations.

Digestive System – Operations/Supply Chain

We correlate the digestive system to supply chain and business operations such as administrative processes, logistics, warehousing etc due to the purpose of waste reduction. The success in this strategy element lies in details and small consecutive improvements to optimise mechanisms and work as efficiently as possible. Any bottlenecks can be painful and affect the rest of the organisation and customer experience. It is a system on its own that requires careful investigation and micro iterations to ensure it is working correctly alongside the entire value chain. When done correctly, operations generate cost savings, add value to the internal and external customers and enable growth in the company. This is the same when a human body extracts energy and nutrition from food consumption.

Enzymes – Production

As enzymes are part of the digestive system, production is an important subset of operations. This process is optional for some companies, as they might be stocking up on goods in a retail or distribution model, or do not own any inventory, if they are a marketplace. Production is set up of multiple inputs, machinery and its corresponding components and of its main goals are waste reduction and value maximisation. The outcome of the process is the stock that offers the value to the customers and creates a buffer of the inventory.

Nutrients - Products

Both in biology and business the above processes lead to the end of product whether it is nutrients for the body or physical goods that an enterprise might offer. It is important to plan for the right level of inventory as having too little or too much of its value comes at a cost and disrupts the business operations. This only emphasises the importance of the production and its alignment with the business planning process.

Liver, Fat Tissue and Organs – Warehousing and Storage

Once the nutrients or goods are produced, they need a space for storage. In anatomy, this function is performed by liver and other organs and the excess calories are stocked in the fat as the energy buffer. Similarly in business, the output needs a warehousing space for the goods and enterprises usually plan to maintain a buffer of 4 weeks of demand to reduce the probability of going out of stock.

Muscles - Sales

The products, cash and other resources are used by the company to generate revenue through sales. We compare this process to building muscles as it consumes energy and has a similar compound effect. At the beginning, it is challenging to see results of the efforts until a reflection point where the brand starts being recognised on the market and the previous customers make repeating purchases. Having a clear sales structure and strategy is crucial to achieve growth and subsequently, profitability, which allows an enterprise to re-invest for the further expansion.

Hormones – Growth Strategy

Business growth is based on the structured sales strategy, such as identifying clear customer segments and reaching them with customised offers and channels. Due to the complexity of this challenge, we compare the process to hormones, when balanced, they allow muscle growth and healthy functioning of the body. In the same manner, a clear go-to-market strategy allows to get first customers through advertisement and organic content, increase their loyalty, improve customer experience and build complementary offers to add more value in the market.

Skin - Marketing

Skin is the body's external layer in contact with the outer world. In an organisation, marketing includes the topics of PR, branding and external communication. It displays company's offer to attract interest from the potential customers. It also serves as a mechanism to learn about the market and provides feedback to the business. In the present competitive markets, marketing is the key to differentiating a product through digital means, community engagement, authenticity, and branding. It is a multi-layered system with many parts, each playing a different role and serving a purpose in the sales funnel: awareness, consideration and conversion. Marketing is an integral part of a business plan but also, due its complexity, needs to have a strategy on its own.

Cells - People

Human body consists of cells that determine its function, and so is a company's performance influenced by its people and talent. While there is a growing trend towards automation and lean business models, it is important to remember their primary purpose is to increase employees' productivity, not to replace it. People are and will remain the most important core of any business. However, like cells, some might be poorly allocated in the organisation, or may become toxic and harmful to others. If some employees cannot be coached, they may need to be moved into other function or let go for the benefit of a greater system. When people are motivated, recognised and even inspired and enjoy their work, there is no problem a company cannot solve, and it will be able to achieve the goals. Managing people is the most important aspect of any business performance.

Nervous System - IT

The nervous system ensures the effective communication within the organism, and an IT network enables the same in a business organisation. Although, information transfer may happen through analogue ways but in present times most of the knowledge sharing is done digitally. Effective communication ensures that people are aligned on goals and therefore take the right actions to achieve them. They also feel safe to share problems and successes to solve the former and celebrate the latter. They also know whom to contact to seek advice or help, making processes more efficient. Lastly, an effective IT infrastructure not only

enables messaging and information exchange but also building a knowledge library that employees may rely on.

Immune System – Risk Management

Immune system identifies threats to the human organism and prevents the body from the infection. We relate this element to risk management in an enterprise as it builds a resilience mechanism against future uncertainty. A good framework creates a scenario analysis and considers internal and external risks to the company performance, evaluates their impact and consequences and where possible, prepares a mitigation plan to minimise the downside. Risk management allows leadership to continue working on the strategy and business operations with confidence and a level of re-assurance that some of the key risks are considered in the decision-making. It is important to remember, however, that some events (sometimes called Black Swans) are difficult to predict and require advanced mathematic methods to assess their likelihood.

Blood – Reinforcement Loop

Finally, we would like to compare reinforcement loop to blood cells that activate processes around the whole body, by carrying oxygen and nutrients. The reinforcement loop has a similar function as it accelerates and strengthens business processes. While the loop is necessary to achieve growth and progress of work, it should also be balanced by feedback loops, so that the processes do not become uncontrollable and stop serving organisational goals. This may be exemplified by a careful allocation of resources in value-adding processes, as due to the law of diminishing marginal returns, such approach would have decreasing benefits. Alternatively, we may want to reduce the power of reinforcement loops when they accelerate negative processes, such as a deteriorating workplace culture.

Interconnection Between System Parts

Following the above exercise, in this section we confirm the similarities between the human body and organisations' complexity and argue they may be approached in a systemic and holistic way. We do this by analysing the following three examples to present the case.

1. The importance of leadership: In biology we are aware of the influence of microbiome on almost any process such as skin conditions, digestion (and

therefore the muscle growth), cognition and heart function. In business, leadership also affects the marketing and company's PR, the sales performance and its customer offering. The usage of data and strategy is determined by the leaders making the enterprise decisions. Also, the company's culture is established at the top as employees always look up to the leadership for the model behaviour. This is one of the crucial aspects in the business that resonates across all other parts of a healthy organisation.

2. The process of generating revenue: Similarly to digestion that involves multiple organs and processes to generate energy, a business undertakes a complex and interconnected set of actions to produce income. It starts with establishing the go-to-market strategy based on the customers' needs. This is followed by manufacturing, procuring, promoting, selling and delivering the goods to the consumers. There are also teams involved in providing after sales services with refunds and returns. They are additionally supported by the IT systems, data, and effective organisational structure so that each department has a clear scope of responsibilities.
3. People as a core of any organisation: Cells transcend throughout the human body and determine its function. We all consist of them. When taking an organisational perspective, they are comprised of people, each serving a function in the system. They affect what strategy is developed and how it is executed, the efficiency of the processes, the sales growth and financial management. People across all levels in the organisation interact with each other and create new solutions or have a deteriorating and even toxic impact on the environment. It is the absolute foundation for a thriving business and all other variables depend on the quality of talent that is hired and developed in a company.

Part II: 5 Areas to Assess and Manage a Business

In Part II of this work, we are going to lay out five distinct categories for analysing the company systems to improve business management process: 1) Leadership, People and Culture, 2) Business Model and Design, 3) Customer Obsession, 4) Financial Management, and 5) Operational Excellence. Further we provide a three-step diagnostics process including an automated self-evaluation survey, an in-depth discovery interview, and lastly analysing of quantitative metrics. We offer this assessment for free before offering a paid service providing a detailed analysis and recommendations and project management work.