Systems Theory Of Management

Idea In Short

The systems theory of organization is a theory that organizations are composed of many subsystems that aren't necessarily related to one another and yet work together to form the whole. This theory is helpful for understanding things like organizational behavior, organizational change and organizational development. Systems theory allows for an understanding of the connections between various parts of the organization and how they interact with one another.

Origin

The systems theory of organization has its roots in biology and systems science. However, it''s more commonly applied to businesses and other types of organizations. Ludwig von Bertalanffy first formalized the theory in the early 1950s. His ideas became the foundation for what we now refer to as systems theory. This concept broke away from classical management theory that viewed organizations as machines and moved toward a more holistic view that sees them as networks of people, procedures and activities. Although Bertalanffy is most commonly associated with the development of systems theory, this theory is a product of the collective effort by many individuals who were interested in understanding how an organization can function effectively and efficiently while also satisfying individual needs.

The framework

Systems theory is a theoretical framework for understanding how organizations work. A system can be defined in different ways, but it''s best characterized as an entity that has all the elements necessary to carry out its functions. It started as a way to understand organizations from an outside perspective but has since become a means of gaining insight into daily operations within an organization.

A computer is a perfect example of how systems theory works. Essentially, a computer is a system made up of many smaller systems that have to work in coordination with one another. These individual systems are:

the processor, RAM, motherboard, hard drive and power supply

All these components must come together to make the computer function. If even just one component isn''t functioning properly, the system won''t be able to complete any type of task.

Systems Approach To Management

Systems theory can be found everywhere in our world. We see it in science and medicine, where it has been used to better understand the human body. In the business world, it''s used to improve the performance and results of businesses.

The systems approach to management1 looks at a business in the same way. We can think of an organization as a series of systems and subsystems that interact with one another to create the overall organizational system. In businesses, a system refers to a cohesive collection of resources, activities and information. In the systems approach to management, employees are more focused on achieving a collective goal for an organization rather than operational output. The theory was a radical departure from classical management thinking, which viewed organizations as simple machines that could be easily understood.

The systems theory of management asserts that any organization is a single, unified system of interrelated parts or subsystems. Each part of the overall system is dependent on the others and cannot function optimally without them. Therefore, if factors are present that adversely affect one subsystem within an organization, it's likely these factors may adversely affect other subsystems, too. This can result in impacts on the entire system to a certain extent. This framework presents an organization as a natural ecosystem, where each element is interdependent. The systems approach is another term for this framework.

Various components of a system also interact with each other regularly, which is true in a modern organization like a business, although this can happen in different ways. For example, a human resources department is a subsystem of an organization and probably

interacts with every other subsystem. The same principle applies to the marketing department, although the nature of its interactions can vary.

> For example, the marketing department might interact with the IT department to arrange hardware use, with the accounting department to manage salaries and with the public relations department to devise press releases.

Types Of Organizational Systems

According to systems theory, there are essentially two types of systems, namely open systems and closed systems:

Open system

An open system is one that interacts with its environment. Systems theory asserts that open systems are the most common type. This is because you can describe almost anything as a system. For example, a business is an organizational system, but so too is society. If you're observing a business, you'd consider it as the system and its individual departments as subsystems. Alternatively, you may be observing a country, which is an overall system. Here, organizations like businesses and others might be the various subsystems within it.

Since most organizations, businesses or otherwise, rely upon their external environments to function to some extent, the vast majority are therefore open systems. They may rely on their environments for material inputs, as a source of labour or as a market for selling products. Even most countries are open systems, as they buy and sell products internationally.

Closed system

Contrary to an open system, a closed system is one that has almost no interactions with its external environment. According to the systems approach, these are much rarer than open systems, as it's very difficult for any organization to operate independently of its environment. Its various subsystems would still be interdependent and interact constantly, but the overall system is independent and self-sustaining. It doesn't rely on its external environment to function. This can cause the system to encounter limitations, such as input constraints. A closed system would therefore be autarky, where almost no exchange occurs

between it and external systems.

Components Of An Organizational System

According to the systems approach, an organizational system has several components that help it function. These components and how they interact with each other are:

Environment

The environment of an organizational system is the setting or location in which it operates. This can dictate the resources it has access to, its relationships with other systems and even the nature of the organization's activities. If the organizational system itself is a business, then the environment might be the country, region, county or city in which it operates. Each would also have its own environment. Since you can describe anything as a system, the definition of the environment can change based on what you're describing as a system.

The only exception to this definition of environment is in the rare case of a closed system. By definition, these systems have little or no interaction with others outside of themselves and therefore operate independently of their environment. These systems are not impacted by the functioning of their external environment, as they're entirely self-sufficient. To define the environment of a closed system, you might consider a subsystem and then describe the overarching elements as its environment.

Inputs

Almost any organizational system functions to produce something. This could be something like a product or service, which it may then sell for income. To achieve this, an organization requires some external inputs to enable it to conduct certain processes. In the case of a business or company, these inputs are the major components of production, like labour, raw materials, fuel or electricity.

> For example, a business that builds cars requires the labour of engineers, materials for car parts, plastic for components like headlights, fabric or leather for seats, glass for windows and rubber for tyres. An organization typically sources its inputs from its environment.

Transformation process

Once an organization acquires the necessary inputs, it can begin working to produce a product or service from them. This is the transformation process and often represents the primary activity of the organizational system. It's also typically the aspect of the organization's activities that's least dependent on the external environment. In the case of a business, the transformation process is where it combines the labour of its workforce with other inputs to produce the desired output. This also requires the use of tools, which it may also acquire from the environment.

> In the example of the car manufacturer, it combines labour, raw materials and other assets to turn raw materials into automobiles. These other assets might be machines and robots that assemble and paint vehicle components, handheld tools for personnel and the physical factory itself. You can consider these assets to be a form of input.

Outputs

Once the transformation process is complete, the organization has successfully produced its outputs. These are primarily things like the goods or services that it intends to manufacture and later sell to the market, which is part of the organization's external environment.

> In the case of the car manufacturer, the primary output is the automobiles that it intends to sell. There are other outputs that result from this activity. These include the financial results of the sale of its primary output, information from post-production checks like quality assurance and reviews from customers.

Feedback

The final component of a properly functioning organizational system is feedback. It derives this from certain internal and external elements, like customer reviews, quality assurance audits and financial results. The information that you can derive from feedback enables you to alter your input requirements, such as new machinery, alternative materials, different production processes or more efficient technologies. Although it primarily affects your

inputs, this feedback might also have an indirect effect on your transformation process.

> For instance, in the example of the car manufacturer, customer reviews might reveal that leather seating is generally disliked among buyers in hot climates. The manufacturer could therefore change its orders from suppliers to use alternative materials like faux leather or cloth when selling to these markets, thereby changing its inputs as a result of feedback.

Advantages

Below are some advantages of using the systems approach to management:

- **Simplicity:** With only five components and a few foundational principles, it's easy to understand this approach. The basic concept of interconnectedness is also quite intuitive and can make sense
- **Comprehensive troubleshooting:** If you encounter a problem with one aspect of an organization, systems theory dictates that it might have a cause elsewhere or that its effects might impact other areas of the organization. This makes it much less likely that you'd adopt a narrow view when troubleshooting
- **Transparency:** When you and others in the organization agree that everything is interrelated, there's a greater incentive for cooperation and transparency.

Disadvantages

Below are some of the key disadvantages of this framework:

- **Vague:** This approach is so simple that it's hard to refute. While this makes it more convincing, it does limit its utility in more complex scenarios
- **Not Prescriptive Enough:** In the systems approach, managers aren't focused on reaching a single goal but on working to make sure that all units of an organization function together towards a collective goal. In this theory, they don''t discourage managers from considering other approaches when looking for ways to improve their businesses. That could be a strength, but it could also be a weakness if a manager needs a more rigid, prescriptive system. If such a problem arises, systems theory has provided the basis for other management theories such as the balanced

scorecard and total quality management. Managers can look to these for guidance

- **Inadequate for complex organizations:** In smaller organizations, you can usually identify the components of a system quite easily. Conversely, in large organizations with large departments performing multiple functions, the distinction between these components becomes less clear
- **Limited:** Although it can describe the basics of organizational structure and function, it excludes a lot of elements that you may want to understand or explain, such as organizational hierarchies or inequalities. It, therefore, provides no techniques or solutions, only a framework for describing system elements
- **Can Be Hard To Motivate Individuals:** Some organizations have tried to adopt this approach and found it''s not a good fit for them. In a systems approach to management, they encourage managers to focus on making sure that all aspects of the organization work together in order to achieve the collective goal. But, this can be difficult to explain to employees, and not all of them will find inspiration in such an approach either.2
- **Calls For A Responsive Organization:** The systems approach says that managers should work on not only the outputs of an organization but also on its underlying processes. Managers should focus on solving problems and adjusting their units when they don''t work together correctly. This requires accurate and timely diagnostics and problem-solving, and an adaptable organization that can be nudged in the right direction

Summary

In management, it's often useful to have a theoretical framework that helps you make decisions and analyze your responsibilities. One such theory is systems theory, which focuses on how each component of an organization interrelates. If you're interested in becoming a manager or understanding how organizations function, familiarizing yourself with systems theory can be quite useful. In this article, we explain what the systems theory of management is, how it describes an organization, its different types and the advantages and disadvantages of using this approach. As with any theory of management, in practice, there''ll be some bottlenecks. But there is nothing that can''t be overcome if the organization is geared toward improvement.