

# Strategic Thinking: The Winning Formula

## The Systems Thinking Approach®

By Stephen Haines, Founder and CEO of the Haines Centre for Strategic Management®

Too many executives and managers are using the term strategic thinking without knowing or understanding what it really means. Strategic thinking is tied into Systems Thinking, a method of thinking based on more than 50 years of scientific research on the characteristics of the natural way the world works.

Systems thinking is the theory; strategic thinking is its application.

Thinking strategically involves applying The Systems Thinking Approach® to the world's problems, issues and challenges. It's taking a Helicopter View of life—hovering over and examining the big picture, then using that information to improve the entire system.

Therefore, to exercise strategic thinking, you need to understand the basics of Systems Thinking. **This article is meant to be read after its companion article “Systems Thinking: The Foundational Research,” available at [www.hainescentreaustralia.com.au/resources-books/](http://www.hainescentreaustralia.com.au/resources-books/).** The purpose of this article is to build upon the foundational system thinking concepts by explaining their strategic thinking applications.

### FOUNDATIONAL RESEARCH

The following four fundamental research concepts make up the heart of Systems Thinking:

1. Eight Levels of Living Systems
2. 12 Natural Laws of Living Systems
3. ABCs of Systems Thinking
4. The Iceberg Theory of Change

These concepts are explained in the companion article “Systems Thinking: The Foundational Research.” Further details can also be found in Stephen Haines’ book, *Systems Thinking: The New Frontier*. Both are available at [systemsthinkingpress.com](http://systemsthinkingpress.com).

Let's look at the applications of each in detail.

### #1. EIGHT LEVELS OF LIVING SYSTEMS: APPLICATIONS

The levels of living systems were identified in James Grier Miller's book *Living Systems*. From the largest to the smallest, they are:

- #8. Earth
- #7. Society
- #6. Community
- #5. Organization
- #4. Group, team or department
- #3. Individual
- #2. Organ
- #1. Cell

Usual  
Organizational  
Focus

These interrelated systems show that hierarchies are natural and normal—we just need to focus on how to have minimum hierarchy (not bureaucracy) working with us to achieve our goals. Further, it

Education is the ability to perceive the hidden connections between phenomena.

—Václav Havel

is the collision of systems within these levels (especially Levels 3–7) that creates the complexity and chaos we feel today.

To implement change of any type, we must look at these systems levels and their collisions. We must also be aware that the further we move towards the higher-level systems, the more complex the system will be—and the greater our need for the skills, willingness and readiness to deal with that complexity.

### Six Rings of Organizational Reality

The Eight Levels of Living Systems and their collisions are key to holistic and long-lasting learning and change that covers all the levels of an organization. These organizational levels can be pictured as concentric circles, similar to the rings on a tree (see model below). We call these the Six Rings of Organizational Reality, and there are general purposes for working at each ring:

1. **Self (#3 Individuals): Self-Mastery**
  - Improve personal competency and effectiveness.
  - Work on trustworthiness issues within oneself.
2. **One-to-One Relationships: Interpersonal Skills**
  - Improve interpersonal relationships, individual effectiveness.
  - Work on trust issues between individuals.
3. **Work Teams (#4 Groups): Team Effectiveness**
  - Improve effectiveness of the work team and its members.
  - Work on empowerment and role/relationship issues.
4. **Between Departments: Horizontal Cooperation**



Source: James Grier Miller, *Living Systems* (1995)

©2019 DO NOT DUPLICATE



- Improve business processes between departments.
- Work on horizontal collaboration and integration issues.

#### 5. Total Organization (#5 Organization): Fit

- Improve organization's structures and processes to better achieve business results; develop its adaptive response system capacity in a changing environment.
- Work on alignment and attunement issues.

#### 6. Organization-to-Environment: Strategic Plans

- Improve the organization's sense of direction, response to its customers, and proactive management of its environment.
- Work on adaptation to environmental issues.

This concentric model is key to The Learning Organization, which must get feedback from, learn about and improve all six of these rings. It is also key in installing a Leadership Development System to help leaders learn the skills to lead effectively at all six rings.

## #2. 12 NATURAL LAWS OF LIVING SYSTEMS: APPLICATIONS

These laws are the touchstone for worldwide applications of the entire field of Systems Thinking. They are based on the 1973 research of the Society for General Systems Research (now ISSS), led by Ludwig von Bertalanffy, the "Father of Systems Thinking." The 12 laws include six laws concerning the Whole System (the basis for ABCs of Systems Thinking) and six concerning its Inner Workings:

### WHOLE SYSTEM

1. Holism **A D E**
2. Open Systems **E**
3. Boundaries **D**
4. Inputs/ Outputs **C** → **A**
5. Feedback **B**
6. Multiple Outcomes **A**

### INNER WORKINGS

7. Equifinality
8. Entropy
9. Hierarchies
10. Relationships
11. Dynamic Equilibrium
12. Internal Elaboration

A few key points to remember about the Whole System:

- The parts do not describe the characteristics of the entire system in its environment.
- Some systems are more open to their environment than others.
- It follows an input-output-feedback transformation framework.
- It is multiple goal-seeking and outcomes-oriented.

A few key points to remember about the Inner Workings:

- There are many ways to the same end.
- Living systems run down and die, and closed ones die faster than open ones. This is why systems need continual reinforcement.
- Parts are not separate entities; everything affects everything else, despite turf and silo mentalities.
- All subsystems have natural and normal hierarchies. Continual internal elaboration can lead to either rigidity, bureaucracy, and death, or to spectacular growth.
- Systems have a natural steady-state rhythm and try to maintain that despite all external changes and forces.

We see a wide variety of dynamics result from organizations being unaware of why and how these laws occur. Learning and understanding these dynamics is critical for maximum effectiveness. Our book *The Complete Guide to Strategic and Systems Thinking* (available on [systemsthinkingpress.com](http://systemsthinkingpress.com)) has many tools for use in diagnosing, learning and improving system dynamics. It includes:

- Fundamentals
- Cause and effect
- Key systems questions
- Systems matrix uses
- Outcome orientations
- Structure and teams
- Environment
- Individual change
- Feedback loop and learning
- HR Management
- Problem-solving; decision-making
- ABC change strategies

### The Law of Unintended Consequences

When you throw a stone in the water, there is a ripple effect. Often, when people come up with "the perfect solution" to a problem, they fail to consider The Law of Unintended Consequences. This law is based on the fact that a whole system is a unique totality, and that its inner workings are interrelated.

This law can be visualized as solving a Rubik's cube—getting all the colors to match on just one side will cause unseen problems on the other five sides of the cube. This Rubik's Cube Effect is why "simple" solutions end up being worse than the problem—because today's thinking is often the source of tomorrow's problems.

A classic example of this is the Tragedy of the Commons, when many people take advantage of a common resource for themselves, eventually causing it to be depleted or ruined. Examples include overfishing and over-extraction of groundwater. What seems like a great solution—fishing or watering a golf course—can lead to catastrophic results like resource depletion and a water crisis if left unchecked. This is the Rubik's Cube effect. Ignore it to your peril.

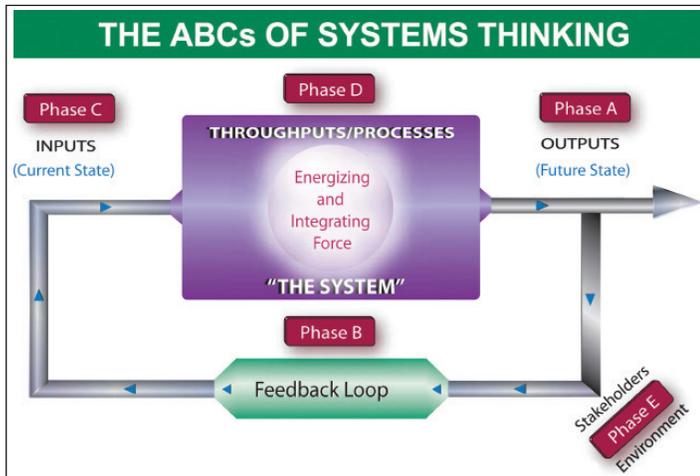
## #3. ABCs OF SYSTEMS THINKING: APPLICATIONS

The ABCs of Systems Thinking is our **Universal Thinking Framework and Guide™**. Based on six of the 12 Natural Laws, this circular model (see next page) involves five phases.

### FIVE PHASES OF STRATEGIC THINKING

- A** Creating Your Ideal Future (Outputs)
- B** Measuring Success (Feedback)
- C** Converting Strategies to Operations (Inputs)
- D** Implementing Successfully (Actions)
- E** Considering External Environment (Context)

Strategic thinking takes place in Phases E, A and B, first and foremost. It begins with Phases E and A, because this approach to life requires backwards thinking—thinking from the future back to the present to realize the actions necessary to achieve your desired outputs. (Phase B is the outcomes measurements of Phase A.)



Phase E looks at all key stakeholders in your internal and external environment, as well as the dynamic global environment. Strategic thinking also involves seeing the connection and integration of the components of the system (Phase D) to achieve desired outcomes. This circular (vs. linear) way of viewing individuals, teams and organizations as systems is a great way to “never lose your place” within the context of understanding and improving them. These five phases broaden your strategic thinking, clarify your outcomes, improve your assessments, sharpen your designs, focus on your need for feedback and keep you open to environmental dynamics—both on the job and as an overall orientation to life.

There are many uses of the **ABCs of Systems Thinking**, including:

1. Coordinating a Comprehensive Strategic Plan: A comprehensive strategic planning process tailored to the organization.
2. Developing a Business or Functional Strategic Plan: A shortened Three-year Business Planning Process for a strategic business unit or major support function.
3. Developing Goals for Strategic Change: Creation of an overall change plan for a major project (i.e., TQM, re-engineering, service, partnerships and teamwork, technology, etc.).
4. Creating a Strategic Life Plan: Development of a personal life plan.
5. Creating Customer Value: Establishment of a plan to improve the value provided to customers.
6. Implementing Strategic Human Resource Management: Gain of attunement with people to create The People Edge.
7. Improving a Leadership Development System: Enhancement of leadership roles and competencies as a competitive edge.
8. Employing an Organizational Systems Model: Systematic assessment, redesign and implementation of change efforts to dramatically increase success (a strategic business design).
9. Creating The Learning Organization: Implementation of The Systems Thinking Approach® and its learning and feedback concepts (especially Phases A, B and E).
10. Managing Projects: Scope any project using the ABCs to guide better results.

Systems Thinking is foundational scientific research and strategic thinking is its best application. That is why the ABCs is the best Universal Thinking Framework and Guide that exists today. Learn and internalize it, and it will transform your life.

## #4. ICEBERG THEORY OF CHANGE: APPLICATIONS

This theory encapsulates the predictable nature of change and the three components that always occur in every situation in our lives: **content, processes and structures**. Your organization’s required capacity for change to make your strategies win out over your culture is based on these components. So don’t fall prey to content myopia—pay attention to structures and processes so successfully implement change.

### Structures Influence Behavior

The important thing to remember about these three terms is that the content and processes always work within structures and infrastructures. So without the right structures, processes will fail to deliver the proper content and desired outcomes. This is because **structure(s) always influence processes and behaviors**.

If you think changing structures have no impact, look at the vessels in which we drink water now—the plastic bottles that house Dasani, Aquafina and other bottled waters. These plastic structures have damaged the environment and changed our behaviors—just think of the environmental and monetary cost of this “convenience.” One company I worked with discovered that it spent \$750,000 a year on bottled water—a structure that influenced its behavior.

Frank Brletich, my classmate at the U.S. Naval Academy, wisely said, “Change doesn’t have structure. It needs to be provided. People don’t change until they change their thinking.” When implementing a change, focus first on the infrastructures, contexts or vessels in which any desired changes occur—and only then on the behaviors and processes to get you there.

The biggest way to impact positive change in any system is to **first focus on the change structures** or infrastructures that may be missing. The main operational day-to-day structure (organization chart) is one of the biggest obstacles to change, as it is designed to be highly efficient and resist variation and change. So watch—structures influence behaviors. They will work either for or against you!

### Five Capabilities for Success

Enterprise-wide change then requires a balance in how organizations spend their time and energy on both (1) the day-to-day operations and (2) the change efforts, not just on the change content. It involves what’s below the surface, with five capabilities or requirements for success:

1. **Change Processes**
2. **Change Infrastructures**
3. **Culture of Commitment**
4. **Change Competencies**
5. **Change Resources**

In most organizations, these five requirements for change are usually under-staffed, under-resourced and under-appreciated, resulting in a 75 percent failure rate in implementing enterprise-wide and cultural change. Success requires disciplined persistence.

### The Rollercoaster of Change™

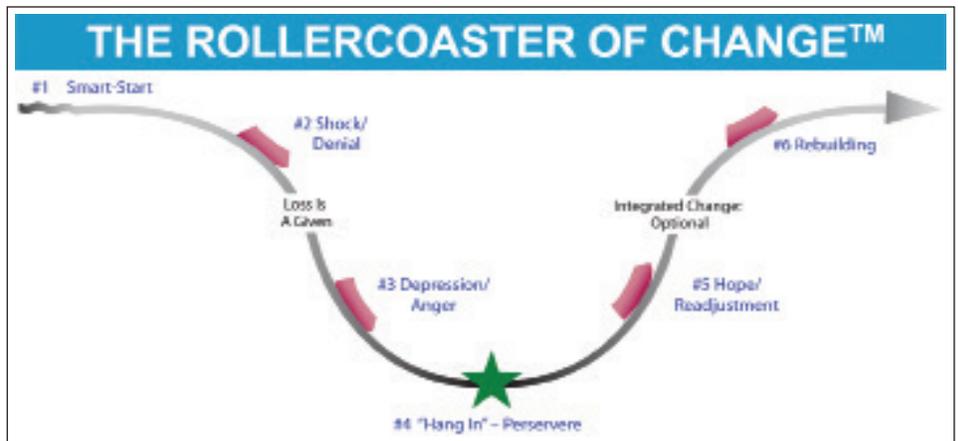
The Rollercoaster of Change™ is natural, normal and highly predictable. It is the only framework you need to know for the change process, since it is the underlying framework for more than 20 theories on change the Haines Centre identified.

Our natural world does not operate in a linear, sequential fashion, despite all our training and traditional, analytic-thinking models. Life expresses itself in cycles of change, such as the turn of generations and the seasonal year.

As human, living systems, we keep on changing. This natural rhythm of life is **The Rollercoaster of Change™**, a name we coined that takes into account the complexities of change in our dynamic world. When implementing strategic change in an organization, you can expect the following legitimate stages:

1. **Smart Start:** This is the start of the change implementation process; doing it right is key to successful implementation.
2. **Shock and Denial:** Despite your best efforts, people will react with shock and denial. This is the stage in which the reality of the change begins to set in.
3. **Anger and Depression:** Loss and depression are a given, but you can acknowledge these two reactions through listening, empathizing and explaining why.
4. **“Hang-in Point”/ Persevere:** This is the stage where you persevere or quit. Perseverance is the key to change. This is where most change falters and fails.
5. **Hope and Readjustment:** If you are able to persevere, this is the stage in which people begin to accept the change and you begin to see the light at the end of the tunnel. It’s accomplished through involvement and participation, and showing the employees WIIFM—“What’s in it for me?” (a legitimate question every employee asks).
6. **Rebuilding:** Unfortunately, this is the optional stage when you start to move toward rebuilding to reach your new Ideal Future Vision—your multiple desired outcomes.

The Rollercoaster of Change shows that things generally get worse before they get better, which often causes organizations to stop the change



too soon, thus preventing success. Once started, change is like a roller coaster—you cannot go backwards. **The key is to accept this roller coaster and face it head on.** As Jeffrey Cufaude said: “Long-term change only occurs when we address the mental models and belief systems that get in the way of desired results.”

**The Iceberg Theory of Change and its applications help as a frame of reference to guide any kind of change,** especially:

- Coaching and counseling others.
- Learning new knowledge, ideas and skills.
- Facilitating team-building.
- Guiding redesign and restructuring.
- Managing technological changes.
- Defining and implementing new corporation strategies.
- Learning how to dialogue to truly discover new solutions.
- Leading organization-wide and cultural changes.
- Developing a foundation to create The Learning Organization.

For more, download “The Rollercoaster of Change” article

### FURTHER READING

#### Strategic and Systems Thinking Resources

- Haines, S. G. (2000). *The Complete Guide to Systems Thinking and Learning*. Amherst, MA: HRD Press.
- Haines, S.G. (2007). *Strategic and Systems Thinking: The Winning Formula*. San Diego: Systems Thinking Press.
- Haines, S. G. (2008). *Strategic Thinking Handbook #1: The Top 10 Everyday Tools for Daily Problem-Solving*. San Diego: Systems Thinking Press.
- Haines, S.G. (2009). *Strategic Thinking Handbook #2: The Simplicity of Systems Thinking*. San Diego: Systems Thinking Press.
- Haines, S.G. (2011) “Systems Thinking: The Foundational Research.” San Diego: Systems Thinking Press.
- Haines, S.G. (2011) *Systems Thinking: The New Frontier*. San Diego: Systems Thinking Press.
- Oshry, B. (1999). *Leading Systems: Lessons from the Power Lab*. San Francisco: Berrett-Koehler Publishers.
- Senge, P. M. (1990). *The Fifth Discipline: The Art and Practice of the Learning Organization*. New York: Doubleday/Currency.

Another in the Enterprise-Wide Change™ Series.

**DO NOT DUPLICATE  
WITHOUT EXPRESSED WRITTEN CONSENT.**

For additional copies or a one-year unlimited internal reproduction only (IRO) license, contact us at [sales@hainescentre.com](mailto:sales@hainescentre.com).

For books and comprehensive materials, visit [hainescentreaustralia.com.au/resources-books/](http://hainescentreaustralia.com.au/resources-books/)