



# Systems Thinking in Management: Definition, Theory & Model

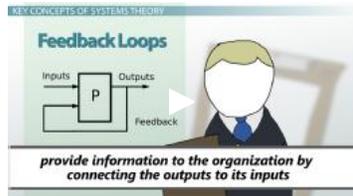
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## Lesson Transcript

System thinking is an essential component of a learning organization. In this lesson, we will be exploring the definition of system thinking, its underlying theory and model.

## Why Is System Thinking Important?

The world of business today is complex and growing more complex every day. Managers must contend with technological innovation along with an ever-growing global economy in which events on one end of the globe will affect your company. Making effective decisions is much more difficult in this brave new world, and **systems thinking** provides a model of decision-making that helps organizations effectively deal with change and adapt. It is a component of a **learning organization**, which is an organization that facilitates learning throughout the organization to transform itself and adapt.

## Systems Thinking Defined

System thinking is a method of critical thinking by which you analyze the relationships between the system's parts in order to understand a situation for better decision-making. In simpler terms, you look at a lot of the trees, other plants and critters living around the trees, the weather, and how all these parts fit together in order to figure out the forest.

## What Is a System?

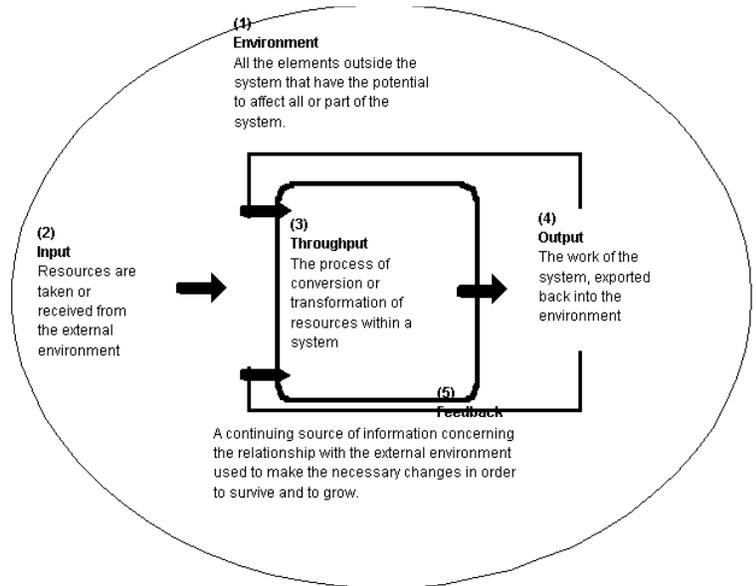
First, we should begin by defining a system. A **system** is a set of parts that interact and affect each other, thereby creating a larger whole of a complex thing.

Let's start with a simple example from nature: the Earth. Our planet is a very complex system consisting of atmosphere, water, mountains, plains, jungles, plants, insects, animals, humans, and our technological wonders, just to name a few. A scientist may look at many interactions of these parts in researching climate change. General patterns may be found in these interactions that may help explain the system and find solutions to the problems by changing the patterns of interaction between the parts.

Now, let's apply the idea of a system to business. We'll start small and work our way up. A business is a system consisting of many parts: employees, management, capital, equipment, and products, among others. Your business and your competitors comprise a system, which we may call an industry. Different industries - along with consumers, governments, and non-governmental organizations - make up our economic system. It can get even more complex, but we'll stop here.

## Theory and Model

System thinking is a major departure from the old way of business decision-making in which you would break the system into parts and analyze the parts separately. Supporters of system thinking believe that the old way is inadequate for our dynamic world, where there are numerous interactions between the parts of a system, creating the reality of a situation. According to system thinking, if we examine the interactions of the parts in a system, we will see larger patterns emerge. By seeing the patterns, we can begin to understand how the system works. If the pattern is good for the organization, we can make decisions that reinforce it; but if the pattern is bad for the organization, we can make decisions that change the pattern.



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