How SMEs Can Use Systems Thinking to Thrive in the Next Normal

Published on 20/05/2021

For Asia's small and medium-sized enterprises (SMEs), the "new normal" has been nothing short of devastating.

Both Covid-19 and measures to contain it have had adverse effects on SMEs' collective bottom line. In Singapore, a negative GDP growth through 2020 has forced many SMEs to scale back expansion plans, dampening optimism. A Singapore Business Federation (SBF)/Experian study from September found business sentiment levels among SMEs hitting a record low.

But even in the face of a global slowdown, Southeast Asia's Internet economy has remained resilient at US$100 billion. It remains on track to grow to US$300 billion by 2025.

Given this momentum, countries in the ASEAN region are perfectly positioned to use the digital economy to drive their recovery efforts. Micro-enterprises and SMEs, in particular, can help propel the region's recovery. According to the ASEAN Comprehensive Recovery Framework, such enterprises "can leverage their small size to innovate and adjust more quickly than larger firms... helping to develop innovative and rapid solutions out of the crisis."

To leverage this digital opportunity, SMEs need a new approach to decision-making that can help them see the bigger picture and better anticipate undesirable outcomes: a mindset called *systems thinking*.

What is Systems Thinking?

Before we can define"systems thinking", let's get a handle on what a 'system' is: *a set of things working together as parts of a mechanism or an interconnecting network.*

Knit together by technologies like the Internet and mobile devices, the modern economy fits the description of a system to a T: in it, we are all interdependent parts of a hyper-complex system that spans the whole world.

That helps us better understand **systems thinking**: it's "a way of seeing and talking about reality that helps us better understand and work with systems to influence the quality of our lives," as Daniel Kim, author of *Introduction to Systems Thinking,* puts it.

This mindset stands in direct opposition to linear thinking, the approach historically followed by business decision makers. By focusing on cause and effect, linear thinking focuses on line-of-sight concerns, ignoring other factors that may cause unintended effects in the long run.

While linear thinking may have sufficed in the days of ticker tape and telegraphs, you need systems thinking to completely make sense of—and thrive in—today's volatile, unpredictable, and hyper-connected world.

Helping SMEs Thrive in the Next Normal

When business leaders adopt systems thinking, they start being sensitive to "the circular nature of the world we live in." This includes realising that systemic laws affect our circumstances and that our actions may lead to consequences that we are unaware of.

So how can SMEs use systems thinking to thrive in the 'next normal'?

1. **Anticipating Innovations and Market Opportunities**

Systems thinking depends on the understanding and management of causal relationships between parts of the system. SMEs can use systems thinking concepts to map and analyse driving forces between patterns, helping them better understand the cause-and-effect interplay that drives sales, profits, and other key performance indicators.

Systems thinking is a particularly valuable mindset for SMEs that need to identify the right problem in any business situation. This increases the likelihood of generating the correct solution, and positions the SME to best take advantage of innovations and market opportunities.

Tesla's experience breaking into the electric vehicle (EV) market is a good case in point. Instead of the obvious, linear solution—building low-cost vehicles to appeal to mass-market consumers—Tesla bet on a higher-cost, higher-margin effort instead, and focused on performance EVs with their own high-speed charging networks. The proof speaks for itself: Tesla remains the global leader in EV sales.

2. **Keeping Production Sustainable**

Linear thinking would have you believe that once your company produces a widget, you're no longer responsible for its consequences after it's sold. That mindset is no longer viable in today's environment-conscious world, where scarcity and sustainability have become mainstream concerns for all stakeholders.

With new thinking about production's role in a circular economy that eliminates pollution and helps regenerate natural systems, systems thinking has become more essential than ever, by encouraging businesses to think about what happens to their products even *after* the purchase.

Systems thinking tools can help companies implement incremental changes that support sustainability of production, or build green practices into their production line. Companies like Evrnu, for instance, promote technology that transforms cotton waste into stronger, high-performance fibres—diverting waste from the landfill back into the circular economy.

3. **Preparing for Disruption**

Understanding that one's business is part of a larger system can prepare SMEs to be proactive, not reactive, when disruption rears its head.

Systems thinking places SMEs in the centre of a system that connects to suppliers, regulators, manufacturers, and other interlocking components. With the right tools, SMEs can understand how all these moving parts play into ongoing trends across the chain, and better anticipate disruptions in the future.

In a world that's been described as VUCAH (volatile, uncertain, complex, ambiguous and hyperconnected), this ability to proactively act on events has become increasingly crucial to SMEs looking for a competitive advantage.

The Singapore Tourism Board (STB), for example, has proactively adapted with initiatives that thread the line between zero travel and an increase in online content consumption. Instead of waiting for travelers to come back, STB has spent the last year bringing business conference events online, sponsoring travel content creation on multiple channels, and creating immersive virtual experiences.

As STB's Assistant Chief Executive (Marketing Group) Lynette Pang puts it, "We see this as a chance to reset and revive our tourism sector

in ways that we never imagined were possible even a year ago."

4. **Leveraging the Ecosystem**

SMEs can do more than just compete for business as part of a wider, interconnected system; they can also tap the system for assistance to help them get back on their feet.

Given the effects of the pandemic on business operations, more Singapore-based private-sector and government bodies have stepped up to advise SMEs on digitalisation, create more collaboration opportunities, and help SMEs subsidise the transition costs.

For example, the Productivity Solutions Grant (PSG) subsidises up to 80 per cent of digital solutions implemented by member SMEs. And NTUC, UOB and Ngee Ann Polytechnic have announced their participation in "a collective effort to help 500 SMEs transform their businesses through digitalisation by the end of next year."

Transcending the Linear Mindset

At its core, systems thinking demands a different way of looking at the world, one that transcends the linear mindset.

In today's world, SMEs can use systems thinking to transcend prevailing negative business sentiment, and find ways to compete and thrive through disruption. It is a disciplined approach that reaps significant dividends: the ability to expand one's choices when solving a problem; the bandwidth to anticipate the impacts and tradeoffs of one's business decisions; and the ability to mine the system for resources as necessary.

The SIM Centre for Systems Leadership (CSL) helps SMEs understand and leverage systems thinking in their operations. Professionals and enterprises have used our professional learning and development services to develop their systems leadership capabilities, leading to greater individual and organisational success.

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