

Example of critical thinking on strategies for minimizing systemic failure in com...

[Business](#), [Company](#)



Systemic failure implies the failure of an entire system and occurs due to fragility associated with complex systems. Technological progress creates rapid increases in the number of systems, products as well as policies which pose challenges regarding management, analysis safety and control. (Venkat, 2010). It differs from other risks in terms of effects rather than causes. Systemic risks keep on developing so cannot be predicted. Assessment of systemic risk involves probability of failure, predicting consequences of failure and collapse of pathways. Complex organizations face management, design, system overload and proliferating random failures. Complex systems are intrinsically dangerous systems with high consequences of failure. The building block of developing strategies to deal with systemic risks can be based on systems thinking. System thinking argues for broader solutions rather than an easy ineffective solution. Addressing systemic risk requires a multifaceted, dynamic and flexible approach addressing linkages and all interconnections. This response to systematic risk should build on solid industry practices in risk management and governance. Responses should be of an international nature that strengthens governance and oversight. According to Senge, systems thinking help to describe a wide array of interrelationships and patterns of change. This provides a deeper understanding of patterns lying behind events and everyone in complex organizations share responsibility for emerging problems. Policy makers should make minimizing systemic risk their preference by employing a combination of proposals such as enhanced regulation, strong supervision, sound business practices and utilizing effective markets.

Complex systems should have better aspects of design addressing technology in use, management structure and the communication system. The organization should lay emphasis on qualitative rather than quantitative approach towards system safety recognizing the importance of tradeoff and conflicts. Prioritizing risks require organizations to identify and assess probable hazards to identify improvements. System thinking requires sharing of vision to provide focus and energy encouraging members to develop their own vision. Team learning also develops the capacity for organizational team to produce expected results. These proposals should be used collectively in a close international coordination in order to ensure the success of a system. According to system thinking these proposals should involve personal mastery, leverage, symptomatic intervention, shared vision, team learning among others.

Enhanced regulation based on the principal risks helps to constrain these risks. Senior leaders should develop a strong structure, systems and cultural processes that promote awareness and ways of responding to emerging risks. Sound information and decision making should address information flow and complex organizations will pursue multiple objectives simultaneously along different paths. These regulations should be integrated to involve the whole system in order to reflect all complexities of the systemic risk. Risks occur as a result of interaction of complexity components and people (Venkat, 2010). This can take the form of strengthening capital requirement and liquidity requirement in small and large firms.

All firms should be considered systemically beneficial such that any firm can

exit the market without causing systemic damages. Regulation should be done through supervisory processes with well stipulated permitted and non permitted activities. In effecting, enhanced control characteristic intervention reinforces production of desired results. This involves fixing a problem quickly but not permanently. Management should use inside, and external pressure on employees to relieve an existing problem. Leverage according to systems thinking address minor changes that can lead to significant improvements such as system safety. Organizing complexity amplifies causes of problems and identifies ways of remedies.

According to the institute of international finance(2010), Financial systemic financial stability and resilience require proper industry practices. Risk management should be integrated into the business process and considered in planning rather than individually. Complex system failure can happen anytime, and it is difficult to exclude potential for this failure. Therefore, human personnel should be in proximity of this possibility. This involves firms increasing quality and levels of capital and demonstrating risk management improvement. Good progress in liquidity risk management helps to reduce the levels of systemic risks in financial institutions (IIF, 2010). Complex organizations need to improve their risks valuation procedures through assets carried at fair view that give a wider range of source of valuation. Sound organization also implies that firms should improve governance and reform practices used in incorporating risk factors into compensation practices and policies. Organizations dealing with securities need to reform securitization, due diligence and underwriting policies in order to ensure transparency and disclosure that transforms into

minimized overall risks.

System thinking requires few assumptions that can deal with complexity of systems. Sound policy strategy should develop effective tools capable of dealing with complexities found in these organizations. These risk management tools should recognize the complexity and be applicable in addressing the same. Risk management helps in understanding the causes and sources of risks which helps in developing effective risk responses. This allows for complete and sustainable decisions with desired influence.

Strategies involving strengthened regulation and oversight also help to minimize risks associated with a complex system failure. Systemic risk requires strong supervision for supervised and supervising firms. Supervisors should be possessing confidence, dialogue and decision making skills necessary to execute judgement when faced with challenges. Firms should be open, non-defensive and receptively engaging. According to Senge, participative and reflective openness motivates people through self interest and organizations develop strong political styles which lead to competency minimizing possibility of failure. Oversight can be carried out in evidence of development with a goal of identifying, monitoring and managing systemic risks.

Management utilizes oversight and supervision strategy to adapt the system so as to maximize productivity and reduce risks and accidents. Adaptation involves restructuring the system, concentrating critical resources in high demand areas and provision of means of early detection and pathways for retreat. Human expertise in complex organizations should also be substantial. As technology changes, the expertise should change so the

organization should train its employees. Workers should be trained for the job in terms of performance skills and safety procedures.

Systemic risks take an international approach and to minimize these risks interconnectedness should be addressed (IIF, 2010). Effective market depends on the possibility of failing so effective cross border resolution should be enacted. Risk will be minimal in the presence of successful international coordination and cooperation so international standards and supervision should be utilized. Although no amount of strategy can eliminate systemic risks, it is possible to minimize system failure by addressing issues regarding organizational structure, specialized processes and redundancy.

References

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