



Confidential Memo

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SUBJECT: Advice and Counsel on EU Design
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Introduction

This Confidential Memo details the current transition crisis faced by EU Design. After a brief synopsis of the organizational history, culture, and recent survey results, this memo will identify strategic systems currently in place at EU Design, along with key variables and their links currently supporting or limiting the company's growth. These systems will be analyzed to identify the behavior of the systems and what leverage points can be used to either create change or reinforce behavior. Drawing conclusions from this analysis, several strategies will be recommended to guide EU Design through this period of transition and identify what effects these changes will have on existing systems in order to achieve both short- and long-term goals set by the company.

Established in 1999 by Roberto Berardi, EU Designs has successfully adapted to changing market demands through reinvention and rebranding under his skillful leadership. Through strategic diversification and product refinement, Mr. Berardi has not only captured a larger market share while increasing revenues and profits, but also established the company's reputation for trusted quality and timely deliverables of unique and high-demand offerings while maintaining a white-glove customer support and service culture – crucial in the eccentric world of fashion trim where reputation and relationships determine success. Mr. Berardi's informal management system places a high value on mutual trust and respect and encourages a highly independent culture where employees are empowered to make decisions and manage clients.

Now, EU Design is on the verge of transition. As the company has matured, so has its need for management and structure. Recent surveys of employees identified that current organizational structures were increasing employee fatigue and stress due to progressively demanding and complex job requirements; Communications have grown increasingly complex and are particularly poor between regional offices; reward systems did not meet expectations; and current management structures are creating an environment of poor cost management and efficiency, with a lack of managerial leadership increasing competition over resources, compromising collaboration. Along with these survey results, additional obstacles currently facing EU Design's growth and future development include a lack of standardized procedures

across the company, a broad range of product offerings, a multi-segmented market and growing number of clients, an increasing number of staff across two regions, increasingly complex communications both internally and externally and a need to increase sales to support company growth. As the company expands from a small, informally managed company in the creative apparel and fashion industry to a more significant player in the business of fashion, the company must adapt and embrace change to overcome these challenges and ensure the company's future development.

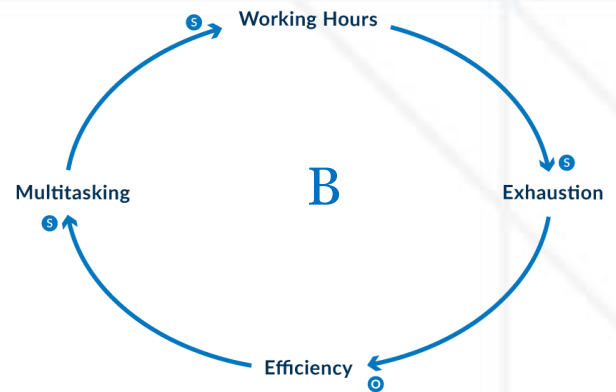
Analysis

The first structure to review is the employee efficiency system (Blue Loop). **Figure 1** illustrates the current closed-loop system that captures 4 major variables of the employee efficiency routine, including elements of concern identified through the employee survey.

While the ability of employees to multitask was an efficient way to accomplish the goals of EU Designs as a smaller company, as the company has grown it has resulted in more complex job demands. Employees must now multitask to not only cover their primary role functions, but also fill in other areas to meet organizational goals and expectations. This increased complexity and additional associated tasks has resulted in employees needing to work longer hours to keep up with output demands. As working hours have increased, employee exhaustion levels (i.e., stress levels, “burn out” rates, fatigue) has also increased: This causes a decrease in efficiency, and exhausted employees then struggle to keep up with workloads and demands, creating demand for employees to multi-task in order to fulfill expectations. This has created a “balancing” loop, or a cause-and-effect loop that counteracts change with a push in the opposite direction. As illustrated and described here, the behaviors in this loop are *limiting growth*.

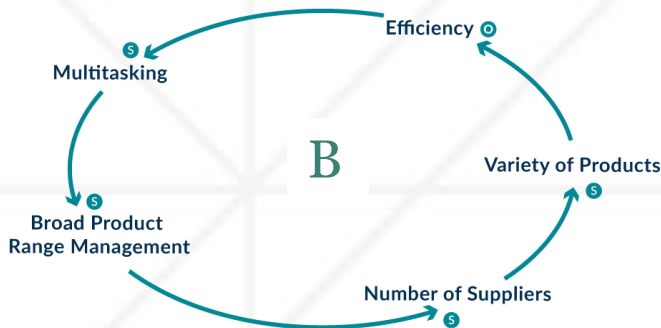
The second structure to analyze is the production efficiency system (Green Loop), illustrated in **Figure 2**. Mr. Berardi has historically been closely involved in this system, providing a direct connection with customers due to his intimate knowledge and relationship building. This level of personal involvement and white-glove engagement has directly contributed to the company’s success with its reputation among customers. However, as the company has grown and added additional customers, so too has grown the demand for a broad range of products. In an effort to meet customer needs and market demand, EU Designs develops relationships with new

Figure 1: Employee Efficiency System (Blue Loop)



suppliers, increasing the number of suppliers that employees must connect and work with to develop and deliver these products. As the number of suppliers is increased, the variety of available products is also increased. This creates inefficiencies, as the addition of new suppliers

Figure 2: Production Efficiency System (Green Loop)

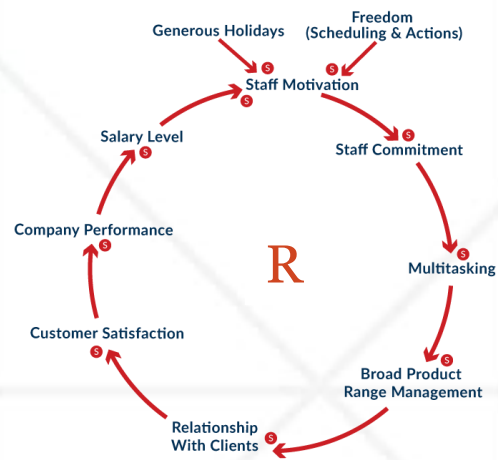


and new products require additional support and engagement from the employees at EU Designs to manage to ensure product quality levels and maintain differentiated markets. The decrease in efficiency causes an increase in the need for employees to multi-task to meet their role expectations. This in turn sustains the need to maintain broad product range management in order to support the current and growing number of suppliers. Similar to the Blue Loop, the Green Loop is attempting to “balance” a larger issue within EU Designs. As illustrated and

described here, the behaviors in this loop are *limiting growth*.

The third structure to analyze is the motivation and compensation system (Red Loop), illustrated in **Figure 3**. Unlike the Blue and Green loops which attempt to create balance, the Red Loop is a “reinforcing” system. A reinforcing loop is one in which an action produces a result which influences more of the same action thus resulting in growth or decline. As a small company, EU Designs required employees to multi-task in order to meet customer needs and provide the level of service and delivery that built the company’s reputation and ultimate success. This ability to multi-task allows employees to support broad product range management, which facilitates deeper relationships and increased loyalty with clients. This white-glove service of being able to supply a vast range of products increases customer satisfaction, which in turn drives company performance. As the company performance experiences positive growth, employees see an increase in salary levels. Increased salaries sustain and create staff motivation,

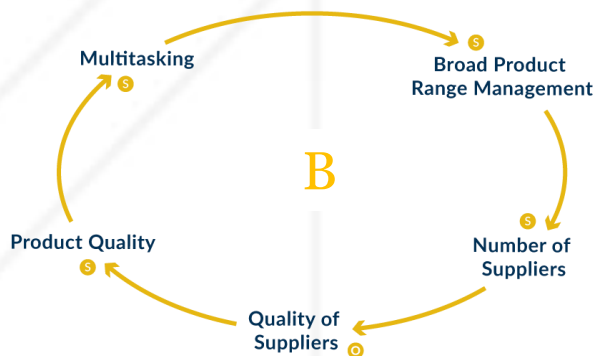
Figure 3: Motivation and Compensation System (Red Loop)



employees see an increase in salary levels. Increased salaries sustain and create staff motivation,

along with the generous holidays and general employee freedom. This motivation builds staff commitment to the company and increases staff willingness to multitask to support the company and meet customer needs. As a reinforcing loop, the behaviors (variables) will continue to increase as the variables all move in the same direction. However, if any of the elements making up this system were to become unbalanced, it could potentially create a decline. While historically the Red Loop has worked to create a positive feedback system, as the company grows and transitions from a small to a medium size company, there is potential to disrupt these elements and their connections, placing the company at risk: Already, the employee survey suggests elements of this system are in jeopardy, including too much demand to multitask, client relations and satisfaction, and staff motivation. As illustrated in **Figure 3** and described here, this system supports the company's growth and describes how EU Designs operates when at its best. In order to successfully develop and grow as a company, leadership must ensure that adjustments made to the organizational structure maintain the positive flow of this system or place the entire company at risk.

Figure 4: Quality System (Yellow Loop)



The fourth and final system, illustrated in **Figure 4**, is the quality system (Yellow Loop) The Yellow Loop demonstrates the quality of product offered by EU Designs. Product quality is important to maintaining the reputation of EU Designs and is a company priority. Offering broad product range and management requires EU Designs to engage with an increasing number of suppliers. The quality of these suppliers is variable and must be tested. This will be reflected in the quality of received product. In order to ensure that appropriate product quality is maintained to meet customer expectations, employees are required to multitask outside of their main job role in order to manage this variation. This requirement to multitask requires management of a broad product range, which flows back into the loop. Similar to the Blue and Green loops, the Yellow loop

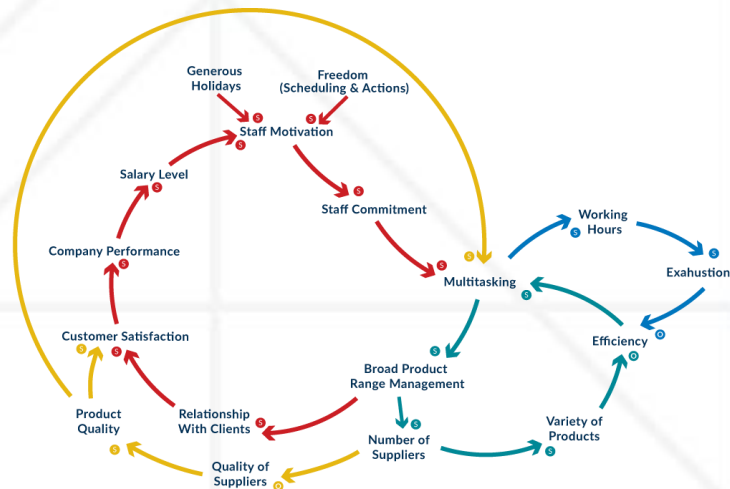
is attempting to “balance” a larger issue within EU Designs and acts as a balancing loop. As illustrated and described based on employee feedback and data, the behaviors in this loop are *limiting growth*.

Recommendations

In real life, the simple closed loop diagrams analyzed above do not operate independent of each other. Instead, they have common areas of intersection, and are interconnected as part of a larger multiloop diagram. Visualizing this more complex multiloop diagram reveals variables

that are common across the simplified closed loop diagrams, as illustrated in **Figure 5**. Complex systems function largely as self-stabilizing balancing loops (with reinforcing loops feeding into that balance), so that despite undesired functions the system can continue to move forward towards desired goals for some time before absolute failure. True to their “complex” moniker, these larger systems can modify their environments in sometimes unexpected ways, and are capable replicating, maintaining, repairing, and even reorganizing themselves as the systems change in response to their environment. This characteristic is an important consideration for EU Designs as it transitions from a smaller company with an informal management style to a larger company with more formal management elements: Organizations that are abruptly altered or experience a significant amount of change in too sort of a period, will often find ways to continue pursuing their essential goals while their systems change and adapt in uncontrolled and unpredictable ways to do so.

Figure 5: UE Design Systems Model



The following recommendations are developed from analyzing the closed loop diagrams (**Figures 1 – 4**) and multi loop diagram (**Figure 5**) in this memo and identifying important leverage points. Leverage points are places within a complex system where small shifts in one thing can produce large changes in everything. Crucial leverage points identified in this complex system are staff motivation and multitasking. These are not the *only* leverage points that exist at EU Designs, but for the purpose of immediate actions with minimal delays to the rate of positive system changes in developing recommendations, these levers are considered the most effective.

The levers used by the below recommendation are noted for each as either SM (Staff Motivation) or MT (multitasking). These recommendations are intended to manage change in such a way that allows the larger complex system to reorganize towards a specific, predictable desired direction without creating unintended distortion to the core identity of EU Designs that has made it so successful.

1. **Clear Vision and Company Value Statement (SM):** As soon as possible, EU Designs must clearly establish and share a cohesive company vision and company values.

This should be done with input from senior leadership along with any other important stakeholders.

Desired Effect: This will provide a guidepost for evaluating systems within the company, guide the development of new initiatives and provide direction to employees at all levels, especially during this transitional time of great change.

2. **Organizational Structure Development (SM, MT):** Clear organizational structure, particularly at senior most levels, can answer employee desires for additional clarity while maintaining the space for creativity and employee freedom.

- a. With a growing company and growing responsibilities, Mr. Berardi must define his own role within his company as it develops to the next level: It is simply too large of a job for him to be filling the role of CEO, Regional Director, Mentor, Coach, Sales Lead and Visionary. Once Mr. Berardi clarifies his role and level of engagement, he must prioritize hiring a senior leadership support staff to continue to support his vision as he steps back from other areas to focus on his position: at a minimum, this should include considering a Chief Operations Officer, Office Managers for both Hong Kong and New York Branches, Senior Sales and a Change Management lead.
- b. Working with stakeholders at all levels, develop a clear organizational structure, along with identifying clear critical responsibilities for each role to clarify how they fit into the company. Develop baseline expectations for each role. This is critical to start identifying where multi-tasking is being used to fill gaps instead of assigning or hiring specific people to provide consistent and expected output.

Desired Effect: This will generate clarity for both customers and internal employees by coordinating boundaries, activities, and capabilities company wide. It will also identify existing operational gaps; reduce redundancy (and the need to multitask) at all levels; and create cross-company alignment.

3. **Formalized Regular Meeting Routines (SM):** At a minimum, the following meetings are recommended:

- a. Weekly meetings between EU Design senior leadership and leadership from both New York and Hong Kong regional offices for goal setting, alignment, question/clarification opportunities and updates.
- b. Quarterly employee meetings to discuss big picture company goals, provide recognition, gauge employee response to changes, and communicate important messages to all levels.

Desired Effect: This recommendation intends to accomplish multiple things: First, it will create better alignment between regional offices. Second, it provides consistent messaging regarding company goals and expectations. Third, it creates accountability at all levels. Finally, it provides a clear line of communication and transparency between leadership and employees, an important value of the company since its inception.

4. **Process and Procedure Review (MT, SM):** It is not recommended that all existing policies and procedures are replaced: Doing so creates too much turmoil and change. Instead:
 - a. Create a committee, or several committees at different levels, and allow current employees to identify what currently implemented processes are useful, not useful, or missing. Evaluate policies for consistency, performance, and efficiency.
 - b. Using recommendations from these committees, update suggested processes, recommend changes, and establish routine timelines for review and updates.

Desired Effect: This initiative will drive improvement from the ground level up as the same is done from the top down, reducing redundancy, minimizing multitasking, and creating consistency for employees and customers. Engaging current employees and allowing them to lead the change here reinforces important company values of independence and self-determination. Because employees at multiple levels will be invested in the change, it will provide motivation to maintain change instead of systems rebalancing in undesired ways.

5. **Maintaining Success (SM, MT):** In order to maintain momentum and change, it is recommended that EU Designs:
 - a. Continue to conduct regular employee satisfaction surveys annually.
 - b. Identify “tattle tale” signifiers that may indicate stress at crucial areas. This would be best developed internally but may include triggers like: notable increases to employee turnover rates, trends identified through employee exit surveys, an increase of employees missing or losing vacation time, or changes in customer satisfaction level reports. If any of these elements are flagged, it may be an early warning sign that changes are not being implemented, are not appropriate for achieving the desired goals, or there is an outside influence that needs to be identified.

Desired Effect: Complex systems naturally tend towards balancing loops, which means they can be resistant to change or improvement attempts. To maintain the “new normal” until the system re-orientes around the new desired balance, it is important to routinely verify changes are not only implemented but functioning as desired and ensuring positive reinforcing behaviors are supporting the desired change.

These recommendations are **not** immediate solutions to persistent and complex systemic problems: rather, they are the first steps in an iterative process to begin key interventions into critical areas to interrupt current systems and realign them to positive outputs and create baselines to build from. To ensure success in implementing these recommended interventions, it is important to engage multiple stakeholders throughout the company in various iterations of the solutioning process, evaluate potential side effects of an intervention for what works and what does not work thru regular data collection and observation, and avoid treating any one

action as the “final and best” way to solve challenges. While some positive results may become apparent quickly, others will take time to fully develop and still others may need to be monitored to prevent reversion to established status quo’s.

Conclusion

EU Designs has established a strong reputation in the world of fashion and apparel as a company that is trustworthy, built on strong relationships, and mutual respect. Change, even positive change due to growing a profitable and expanding company, can be a challenge for any company to manage. Especially for the niche industry that EU Designs works in, it is important to maintain the elements that established its successful reputation: white glove service, employee freedom, and reliable delivery of unique products.

The recommendations within this memo are intended to address the most pressing challenges currently facing EU Designs as it establishes itself as a more significant player in the fashion and apparel field while preserving its elements of success. Developing a **clear vision and company value statement** will preserve the core culture and values that originally made EU Designs a success. It will also provide a guide to successfully manage change and establish priorities as the company continues to grow and develop. Developing a clear **organizational structure** will create a more collaborative environment and reduce competition over resources for the differentiated markets that EU Designs manages, while streamlining customer support mechanisms to enable the company to grow its client list and increase sales. By establishing **routine formal meetings**, more efficient communications between regional offices in New York and Hong Kong will be established, and the company can begin to identify what informal communication streams would benefit from preservation and which would benefit from formalization. This will additionally begin to provide needed structure to the increasingly complex communications between not only the regional office, but with external clients and suppliers as well, reinforcing the relationships critical to continued company success. Creating committees to begin evaluation and **reviewing processes and procedures** will establish standardization across the company and reduce the need for multitasking and workload demands of managing a broad range of product offerings and suppliers. By **maintaining** these actions and regularly evaluating their effectiveness and success, the complex systems of EU Designs will support the company’s growth and provide the much-needed structure to enable the company to effectively manage and support increased sales.