



Confidential Memo

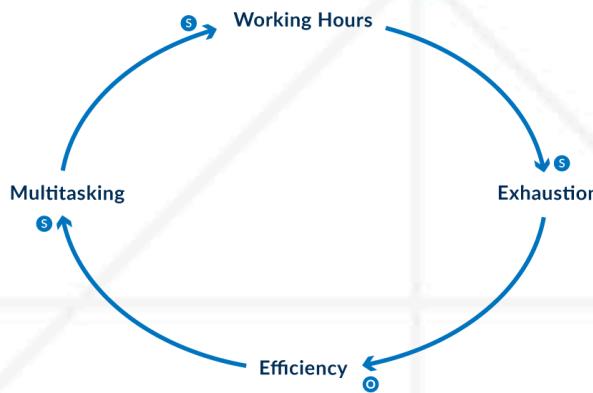
TO: EU Design
FROM: Justine Baron
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SUBJECT: Advice and Counsel on EU Design
DATE: October 15, 2024

Introduction

EU Design, a leader in fashion trimmings for brands like Marc Jacobs and Ralph Lauren, saw a fivefold revenue increase by 2009, defying industry expectations. This success stemmed from high-quality products and strong supplier relationships, crucial in an industry where trust and timely delivery are key, and fashion houses rarely change suppliers once a partnership is established.

Now poised to formalize its operations as a medium-sized company, EU Design faces growing pains. CEO Roberto Berardi, who values independence and informality, must adapt his management style, especially as the 2009 financial crisis pressures him to expand clients, cut costs, and improve efficiency. Many employees are unhappy and overworked due to Berardi's current cross-cultural management approach. Recommendations will be provided to help Berardi navigate this transition and sustain EU Design's success.

Blue Loop



Loop Analysis:

1. Reduced Working Hours → Less Exhaustion:

- Reducing or cutting back work hours increases energy and leads to less exhaustion. Employees are rested and work to full capacity.

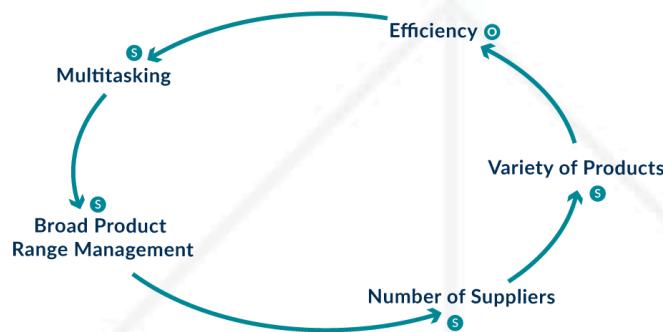
- 2. Less Exhaustion → Increased Efficiency:**
 - As exhaustion decreases, efficiency increases. People are more productive and contribute fully- leading to less mistakes and good work performance.
- 3. Increased Efficiency → Less multitasking:**
 - Working more efficiently can be beneficial for reducing the need to multitask which can lead to a lot of mistakes. Fixing mistakes takes more time and energy and is unproductive.
- 4. Less Multitasking → Reduced Working Hours:**
 - Doing the work correctly the first time can lead to a reduced working day and less overall hours. This increased rest will be beneficial for the workers output and productivity in the future.

Balancing or Reinforcing Loop: Balancing Loop.

Implication for EU Design: For a company like EU Design, this loop could be representative of the pressures faced by employees in a growing organization and what the outcome could look like if hours are reduced. During the growth process, employees might find themselves working longer hours to keep up with the increasing demands, which leads to exhaustion and decreased efficiency. The attempt to multitask could make things worse, resulting in even longer hours as employees struggle to manage their workload. This feedback loop could contribute to employee burnout and declining productivity. If hours are reduced, the loop has a more desirable outcome for efficiency.

Leverage Point: A potential leverage point here could be introducing policies or interventions to **limit working hours**. By focusing on productivity, the company could reduce exhaustion and improve efficiency.

Green Loop



Loop Analysis:

- 1. Efficiency → Variety of Products:**
 - Increased efficiency allows a company to handle a wider variety of products. As processes become more streamlined, the company can introduce more product lines without overburdening its operational capacity.
- 2. Variety of Products → Number of Suppliers:**

- As the variety of products increases, so does the number of suppliers required to provide the necessary materials and resources. More products require more suppliers to meet different demands for materials, inventory, or manufacturing.

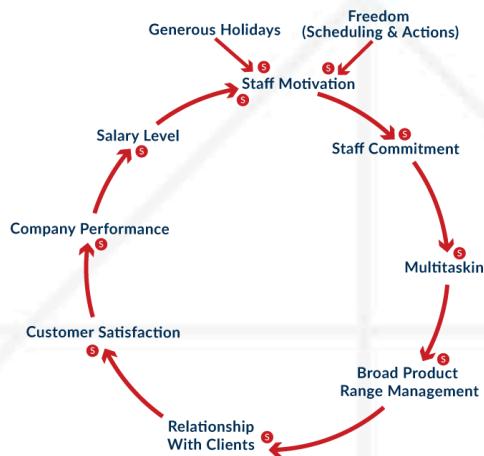
3. **Number of Suppliers → Broad Product Range Management:**
 - The greater the number of suppliers, the more complex it becomes to manage a broad product range. Coordinating between various suppliers requires careful management to ensure product quality, inventory levels, and timely delivery.
4. **Broad Product Range Management → Multitasking:**
 - Managing a broad product range increases the need for multitasking. Employees may need to juggle different responsibilities, such as coordinating with multiple suppliers, managing inventory, and addressing product-specific concerns, which leads to an increase in multitasking demands.
5. **Multitasking → Efficiency:**
 - Increased multitasking often leads to reduced efficiency, as employees spread their attention across too many tasks and struggle to maintain focus. This reduction in efficiency starts the cycle again, potentially creating a reinforcing loop of inefficiency and complexity.

Balancing or Reinforcing Loop: Balancing Loop.

Implication for EU Design: For EU Design, this loop highlights the challenges associated with managing a broad range of products and suppliers. As the company expands its product offerings, it requires more suppliers, which increases the complexity of operations. Employees may end up multitasking to keep up, but this ultimately reduces efficiency, creating a cycle where growth leads to greater inefficiency and operational strain.

Leverage Point: Optimize supplier management systems. Streamlining supplier coordination through better technology or delegating tasks more effectively could help reduce the negative impact of multitasking and maintain efficiency as the product range expands.

Red Loop



Loop Analysis:

1. **Freedom (Scheduling & Actions) → Staff Motivation:**

- Freedom in scheduling and decision-making leads to increased staff motivation. Employees with autonomy and flexibility are generally more motivated and engaged in their work.

2. **Staff Motivation → Staff Commitment:**
 - Motivated employees are more likely to show higher levels of staff commitment. They are more dedicated to their work, willing to go above and beyond, and less likely to leave the company.
3. **Staff Commitment → Multitasking:**
 - However, high staff commitment can lead to multitasking. As committed employees try to handle more tasks and responsibilities, they may end up juggling multiple tasks, which can reduce focus and effectiveness.
4. **Multitasking → Broad Product Range Management:**
 - Multitasking contributes to the challenge of managing a broad product range. As employees spread their attention across multiple products and tasks, managing a large variety of products becomes more complex and time-consuming.
5. **Broad Product Range Management → Relationship With Clients:**
 - Effective management of a broad product range directly influences the relationship with clients. If the product range is well-managed, clients are more likely to receive the products they need in a timely and satisfactory manner, strengthening the client relationship.
6. **Relationship With Clients → Customer Satisfaction:**
 - A strong client relationship naturally leads to higher customer satisfaction. Satisfied clients are likely to remain loyal, recommend the company, and contribute to positive business outcomes.
7. **Customer Satisfaction → Company Performance:**
 - Higher customer satisfaction leads to improved company performance. When clients are happy, they tend to buy more, provide referrals, and contribute to a stronger brand reputation.
8. **Company Performance → Salary Level:**
 - Improved company performance allows the company to offer more competitive salary levels, further attracting and retaining talent.
9. **Salary Level → Generous Holidays:**
 - Higher salary levels can also lead to more generous benefits, such as generous **holidays** and additional perks, improving employees' work-life balance.
10. **Generous Holidays → Freedom (Scheduling & Actions):**
 - Generous holiday packages and flexible scheduling policies further reinforce freedom in the workplace, completing the loop by enhancing staff motivation.

Balancing or Reinforcing Loop: Reinforcing Loop.

Implication for EU Design: For EU Design, this loop highlights how important it is to balance employee motivation and workload. While motivated employees are more committed, if multitasking becomes excessive due to poor management of product range or increased client demands, it could hurt customer relationships and, ultimately, company performance. Thus, while generous benefits and a flexible working environment can create a reinforcing positive cycle, managing multitasking and workload remains crucial to sustaining it.

Leverage Point: **manage product range complexity** more effectively by reducing the burden on employees through better organization or automation, the company could sustain high motivation and commitment without compromising efficiency, customer satisfaction, or long-term performance.

Yellow Loop



Loop Analysis:

- Broad Product Range Management → Number of Suppliers:**
 - Managing a broad product range often requires working with a larger number of suppliers. As the product range increases, the company needs more suppliers to provide the various materials, components, or services necessary for different product lines.
- Number of Suppliers → Quality of Suppliers:**
 - As the number of suppliers increases, it becomes harder to maintain quality control over each supplier. A broad supplier base can lead to inconsistent or lower quality, as managing relationships and standards across multiple suppliers becomes more complex.
- Quality of Suppliers → Product Quality:**
 - The quality of the suppliers directly impacts product quality. If supplier quality decreases or becomes inconsistent, the final product's quality may also decline, which can affect customer satisfaction and the company's reputation.
- Product Quality → Multitasking:**
 - When product quality decreases, employees may need to multitask more to address issues such as fixing defects, managing customer complaints, or coordinating with suppliers to resolve problems. This increases the overall workload.
- Multitasking → Broad Product Range Management:**
 - Increased multitasking reduces employees' capacity to manage the broad product range effectively. With attention divided across various tasks, product range management becomes less efficient, leading to further issues in supplier coordination and product quality.

Balancing or Reinforcing Loop: Balancing.

Implication for EU Design: For EU Design, this loop highlights the potential danger of over-expanding the product range without proper supplier quality controls. As the company grows its offerings, maintaining consistent product quality becomes more challenging, and employees may be overburdened with multitasking to resolve product and supplier issues. This not only affects efficiency but also customer satisfaction.

Leverage Point: Focus on **improving supplier quality control**. By tightening standards for supplier performance or reducing the number of suppliers to focus on high-quality partnerships, EU Design could improve product quality and reduce the need for multitasking. This would help employees better manage the broad product range, breaking the cycle of inefficiency.

UE Design Systems Model



Key Loops and Interactions:

- 1. Blue Loop: Working Hours, Exhaustion, Efficiency**
 - Working Hours → Exhaustion → Efficiency → Variety of Products → Multitasking:**
 - This loop shows how working hours lead to exhaustion, which decreases efficiency. As efficiency decreases, managing a variety of products becomes harder, leading to multitasking. This loop is reinforcing as more work leads to exhaustion and inefficiency, which then requires more working hours to compensate.
- 2. Green Loop: Efficiency and Product Variety**
 - Efficiency → Variety of Products → Number of Suppliers → Broad Product Range Management → Multitasking:**
 - As efficiency improves, the company can handle a wider variety of products, which requires working with more suppliers. Managing this broad product range demands more multitasking, reducing the ability to maintain efficiency, forming another reinforcing loop where complexity grows as product lines expand.
- 3. Yellow Loop: Supplier Quality and Product Quality**
 - Multitasking → Broad Product Range Management → Number of Suppliers → Quality of Suppliers → Product Quality:**
 - Increased multitasking reduces the company's ability to effectively manage its suppliers, leading to a decline in supplier quality, which directly affects product quality. Poor product quality can lead to more multitasking as employees work to fix defects or resolve customer complaints.
- 4. Red Loop: Staff Motivation and Performance**
 - Freedom (Scheduling & Actions) → Staff Motivation → Staff Commitment → Multitasking → Broad Product Range Management:**

- Staff motivation is influenced by freedom in scheduling, which boosts staff commitment. However, the demands of managing a broad product range increase multitasking, which can strain employees and reduce their ability to stay motivated and committed.
- **Salary Level → Generous Holidays → Freedom:**
 - The company's performance affects salary levels, and higher salaries can lead to more generous holidays and greater freedom in scheduling, which feeds back into staff motivation, continuing a reinforcing loop.
- 5. **Red Loop: Company Performance**
 - **Company Performance → Customer Satisfaction → Relationship With Clients → Product Quality:**
 - Company performance depends on customer satisfaction, which is influenced by the relationship with clients and the quality of products. As product quality declines (due to supplier issues or multitasking), customer satisfaction drops, affecting company performance and limiting the company's ability to offer competitive salaries and benefits.

Balancing and Reinforcing Loops:

- **Balancing Loops:** A majority of the loops shown here tend to be **balancing**, meaning that problems like multitasking and broad product range management tend to create more of the same issues unless intervened with the right leverage points. "If growth falters or never quite starts, or if unproductive behavior never gets dropped, then a strong balancing dynamic is likely present" (Anderson & Johnson, 1997, p. 56). Improving upon the leverage points would affect the overall outcome of the loops and move it towards a positive direction other than perpetuating a negative cycle. The loops can alternate back and forth depending on the growth of the business, the market, the processes in place, and continuous innovation.
- The interaction between staff motivation and company performance can either lead to a positive cycle—where motivated staff and satisfied clients drive performance and growth—or a negative one—where multitasking and poor product quality decrease motivation and customer satisfaction, stalling company growth.

Overall System Dynamics: This highlights the interconnectedness of employee well-being, product management, supplier relationships, and company performance. Inefficiencies in one area can trigger challenges throughout the system. Conversely, addressing key leverage points, like improving supplier quality or reducing multitasking, can create positive ripple effects across the organization.

Leverage Points:

1. **Reducing Multitasking:** By managing tasks more effectively and reducing multitasking, employees would be able to focus better on product quality, supplier management, and overall productivity, breaking the cycle of inefficiency and exhaustion.
2. **Improving Supplier Quality:** Streamlining supplier management to focus on high-quality suppliers would improve product quality and reduce multitasking related to fixing product issues, leading to better relationships with clients and increased customer satisfaction.
3. **Enhancing Staff Motivation:** Offering more freedom and competitive benefits could improve staff motivation and commitment, reducing the strain caused by multitasking and inefficiencies.

By focusing on these key leverage points, EU Design could potentially shift the system from a cycle of reinforcing challenges to one of reinforcing growth and efficiency.

Recommendations

Based on our thorough analysis of the systems dynamics models at EU Design, we have tailored a list of recommendations that we believe will help EU Design achieve its goal of long-term profitability and continue to be a leader in the fashion trimmings industry. Our recommendations are as follows:

1. Implement reduced working hours, especially at the Hong Kong office to promote better work-life balance and reduce exhaustion, which can boost productivity and morale.
2. Encourage cross-cultural communication and feedback among team members to identify areas for improvement and start to build a relationship between the New York and Hong Kong offices. Utilize zoom for quarterly meetings to connect, maximize team-building, and establish trust.
3. Continue to invest in ongoing training and development for employees to enhance their sales skills. Berardi is already offering employees additional classes and courses but by focusing on sales specific classes, they can learn a new skill set that they will need to ramp up business.
4. Reformat current bonus system into a formal sales goals structure based on individual or team performance leading to improved performance, better work-life balance, and increased efficiency. This will incentivize employees to perform and focus on gaining new clients.
5. Promote an office manager in the Hong Kong office to delegate tasks, provide feedback, monitor costs, and improve processes. This person would also be responsible for streamlining cross-cultural communication between the Hong Kong and New York offices. Hiring from within an existing team could be more cost-effective and could incentivize other employees by providing a pathway to potential promotions and other growth opportunities.
6. Optimize digital solutions, such as a cloud-based project management system or supplier management systems, to streamline operations and reduce administrative tasks, improving overall efficiency and reducing overhead costs.
7. Improve supplier quality control by tightening standards for supplier performance or reducing the number of suppliers to focus on high-quality partnerships. Leveraging new technology and data analytics to monitor and track supplier performance can also increase employee efficiency.

Prioritizing people first will relieve pressure, boost efficiency, and align individual goals with company objectives. Once this foundation is set, implementing digital solutions and technology will sustain efficiency as the business grows. By continuously innovating and responding to employee feedback, EU Design can ensure ongoing growth and success.

Conclusion

EU Design is at a critical point, balancing growth while managing cross-cultural challenges between its New York and Hong Kong offices. The analysis shows that key areas—working hours, multitasking, supplier management, and employee motivation—are either supporting success or fueling problems. By addressing leverage points like reducing multitasking, improving supplier quality, and boosting employee motivation, EU Design can shift from challenges to sustained growth. These adjustments will streamline processes, enhance employee well-being, and maintain its leadership in the fashion trimmings industry, positioning the company to thrive despite its current growth challenges.

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