



Confidential Memo

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SUBJECT: Advice and Counsel on EU Design
DATE: December 6, 2019

Introduction

This Confidential Memo is detailing the current growth crisis that EU Design is facing. After this short introduction with a synopsis of the organization's history, culture, and results of recent surveys, we will uncover a few of EU Designs systemic structures through use of several causal loop diagrams that will be accompanied by detailed explanations of the behaviors, links, and leverage points. Once a clear picture has been presented, we will elucidate several recommended strategies that may help Mr. Berardi achieve the desired next level growth and revenues while also detailing the effects these strategies might have on the EU Designs system.

Berardi has successfully shepherded EU Designs from his purchase in 1999 through not only reinvention and rebranding, but through nimbly diversifying to meet fickle market demands and refining product offerings to capture larger market share while streamlining suppliers and increasing profits. Over this period EU became known as not only a supplier with great selection, but as a supplier that can be trusted to provide quality and timely deliverables focused on getting it exactly right for their customers. Berardi's savvy supply-line and manufacturing philosophies and ability to build and maintain intimate relationships within the industry has resulted in rapid order increases and profits in the five years prior.

Moreover, Berardi's loyalty to customers and suppliers, his informal leadership style empowering employees to self-manage and excel, and his knowledge and expertise of the industry have all built trust integral to EU Design's success to this point. While there have been

logistical and growth issues that have surfaced and results of a recent employee survey have revealed areas that could use bolstering, the overall culture that Berardi has established has been energizing and rewarding enough to support substantial growth over the past decade. Most of the employees are loyal and Berardi has historically rewarded this. However, with more staff coming on board and Berardi not able to oversee and have personal knowledge of every employees' performance a few concerns have begun to surface among the workforce.

Let us now take a more in-depth look at a few systems identified through our analysis that integrate with each other to create EU Designs overall system structure. Broken apart and reviewed individually, these sub-systems will help us clearly see where some of the growth hurdles are occurring. Upon reflection of these fleshed-out details we will be able to build solid recommendations for Berardi and EU Designs moving forward.

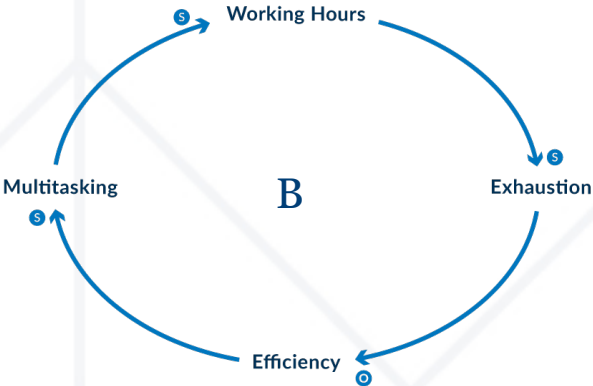
Analysis

We will begin by breaking down the workforce efficiency system. This system contains several elements of concern that were brought to surface through the survey.

Figure 1 details the elements involved in the employee efficiency routine as it is currently. The arrows indicate a closed loop system with four major elements at play.

Each employee is currently multitasking to cover existing role demand while attempting to help in other areas to fulfill expectations. Concerns that have been highlighted are that this multitasking is increasing work hours each day which is supporting staff exhaustion which then decreases overall efficiency leading to more attempts to multi-task. This has created a “balancing” loop or cycle that is working to correct something in the larger structure at play. Employee loyalty may

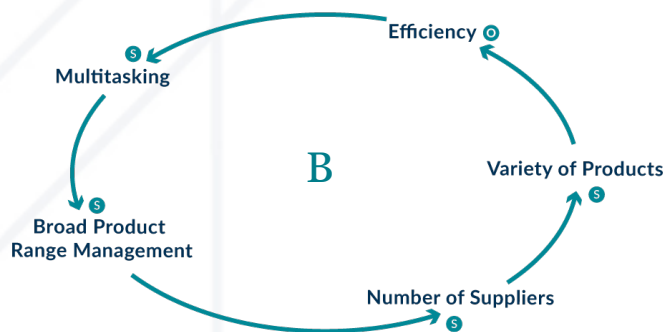
Figure 1: Workforce Efficiency System (Blue Loop)



suffer from this cycle as well, as long hours/exhaustion is a leading cause of attrition in most industries. We'll continue our analysis with production efficiency.

EU Designs' production (or fulfillment) process has historically been directly overseen by Berardi. His intimate knowledge of and personal involvement in product management has played a major role in the organization's success. However, as the company has grown they have experienced challenges attributed to not having enough staff to manage the wide range of product offerings and diverse supply chain. **Figure 2** depicts the current EU system structure for fulfillment.

Figure 2: Production/Fulfillment Efficiency System (Green Loop)



In an effort to provide loyal yet fickle customers with a variety of products EU Design has continued to add suppliers, despite Berardi's skillful streamlining and networking innovations. This increased number of suppliers sustains the wide variety of products. However, this is currently negatively impacting the efficiency which is also feeding the aforementioned multitasking issue. This

in-turn is sustaining the need for broad product range management in order to maintain the current number of suppliers. Here again, we see a loop that is attempting to "balance" a larger issue within the organizational structure. So now we see that at least two of the identified systems have staff multi-tasking and efficiency as elements in attempts to correct a larger issue.

Next we will review EU's employee incentive and compensation system and how that plays into EU Design's overall customer relations and retention. While the previous two causal loops have presented "balancing" attempts in their nature, **Figure 3** shows us how the elements in this loop created a "reinforcing" system. This can either mean that this static loop is either

organization are responsible for fulfilling specific sets of functions). This dually structured organization has been defined as a Matrix Organization. This is an organization that works through integration of both divisional and functional structures. The issues that are starting to surface are due to the imbalance between the functional and divisional components of the overall system. This imbalance has been created by the rapid growth of the organization and stress of maintaining profitability placed on the established structures. Figures 1 and 2 depict “balancing” attempts established in order to correct this imbalance.

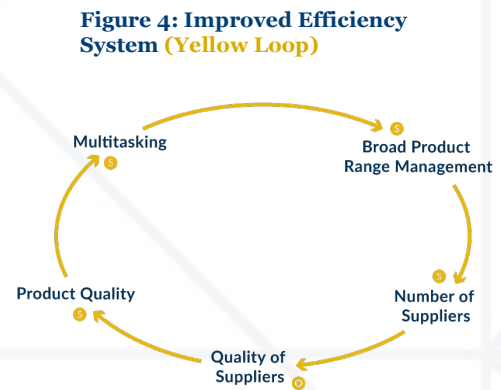
The current Matrix structure of EU Design in addition to Roberto Berardi’s core belief “that the growth of each employee’s experience is measured by the levels of independence and responsibility that are progressively given through time” and that “coaching and basic supervision together with attention and sensibility towards human skills can boost the qualities of an individual and create a good environment for self-discovery and achievement” defines EU as a somewhat employee-centric culture. This culture celebrates self-management and the benefits of personal passions aligning with corporate vision.

EU Designs has naturally and successfully evolved under this creative culture and, in my opinion, would suffer from a complete transition to a more structured and traditional attempt at growth. It also cannot afford a dramatic departure from its existing system. With a few, not so small interim alterations to existing roles and responsibilities, and the addition of strategic tools, this exciting culture could continue on its upward trajectory while embracing more volume, more employees, and more revenues. The following recommendations are meant to establish a bit more stability for growth while clarifying roles and continuing to promote self-management in daily duties throughout the organization.:

1. Berardi steps into more of an oversight role where he focuses on mentorship of senior leadership enforcing his leadership style and philosophies, continuation of building relationships within the industry and with customers, and ultimate decision-making authority in strategic direction and corporate relationships.

2. To fill the functional duties of running the day-to-day Berardi would appoint trusted senior managers to executive roles of oversight in the two different locations. These positions would be of equal weight and responsibility with full oversight of:
 - a. Managing production, supply chain, administration, culture, client relations, and staff
 - b. Establishing and maintaining annual detailed budgets for each division under the supervision of Berardi
 - c. Streamlining communications between the two locations by implementing an agreed-upon universal communication tool throughout the organization that can be utilized internally and externally
 - d. Hiring/training new staff (including new office administrators) appropriate to the deliverables of each division
 - e. Proliferation of the corporate culture by leading by example and continuing to encourage the self-management culture that has been so successful to date
3. Berardi takes his incentives program to the next level by establishing an employee stock option program (ESOP) that will serve to replace all pre-existing “bonuses” and to reward the passions, multi-tasking, loyalty, and self-management that has gotten the company to where it is today. This will also serve as an equalizer with new roles that may be established.

4. Berardi and senior management work to improve existing supplier quality and simplification of the supply chain to reduce customer support and satisfaction factors that are leading to so much multi-tasking and long hours. This would help the reverse the “efficiency” driven causal loop depicted in Figure 2’s green loop, creating in essence a healthier balancing loop that would improve organizational efficiency overall. The simplified version of this improved loop is seen in Figure 4. While this does not replace the pre-existing green loop it encompasses an overall focus shifting from reacting to customer demand to driving demand through further refining the quality products and cost-effective supply chain.



Coming to EU Designs and suggesting that it be turned on its ear to facilitate a more traditional structure, as mentioned before, could have exactly the opposite results as desired. They have initiated being adjustments to correct the current imbalances through Berardi’s previously implemented supply chain solutions. It is just that the volume and the world financial crisis of late has placed new strain on the system. This organization has committed to learning together in its early years and they have established a solid foundation of trust and team work necessary for transitioning to a larger structure. The loyalty and financial success thus far is proof that this empowered structure has worked. Figure 5 shows how with the recommendations and the shift of focus to driving demand instead of reacting to it might look as an integrated causal loop.

