

PAVLOV'S DOGS LEARN BALLET DANCING

AGILITY, THE SOLUTION FOR SURVIVAL

MANAGEMENT SUMMARY:

Extensive demand failure at the end of 2008 and early 2009 triggered a Pavlovian reaction in many organizations, leading to short-termism, ruthless cost cutting and violent political internal focus. This reaction has its mind set on short term profitability, but degrades future value creation. To survive the



current turmoil, leaders in organizations need to balance interventions needed for the immediate survival, and those aimed at the enduring prosperity of the organization. Continuously adapting 'agile' companies are better suited to coping with changing market circumstances. Leaders should embrace this concept of agility by developing a long term strategy in order to be better prepared for radical shifts in market demands.

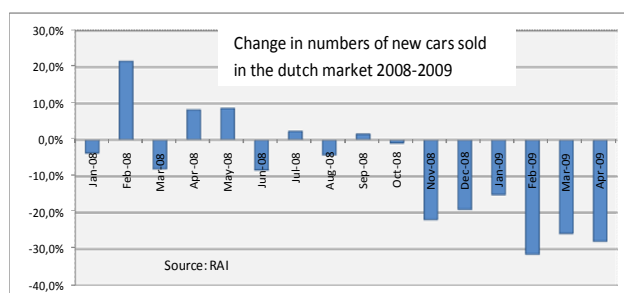
FAILING DEMAND AND SHORTSIGHTEDNESS

At the end of 2008 and the beginning of 2009, a devastating demand failure in almost all sectors of the global economy

The number of cars sold in The Netherlands dramatically fell over the last 5 months. This has resulted in the bankruptcy of a number of (large) dealership organizations and importers. Many other dealerships are required to focus on short term cost cutting to ensure their immediate survival. Banks financing these organizations are affected as well, creating a domino effect.

occurred. An unprecedented number of companies displayed a Pavlovian reaction, and cut external expenditure as fast as possible. Letters telling suppliers to "drop 20% or face consequences", massive termination of projects and other measures were taken frequently to generate savings. We fully understand the need for cost reduction, but we dare to debate the long term value of actions like these. Measures taken to reduce cost in the short term do not change the fundamental issues of many organizations. Senior management looks outward for who's to blame and for solace, disregarding the notion that each person (and each organization) is always responsible for their own actions. The ability to deal with changing

circumstances, however radical, plays a central role, as well. For example, when radical changes occur in the demand supply balance, it should trigger rethinking in terms of demand supply management processes and functions. If organizations want to survive, they need to have an understanding and a clear insight of the market, and obtain a firm hold on their processes, maximum agility and a focus on operational excellence.

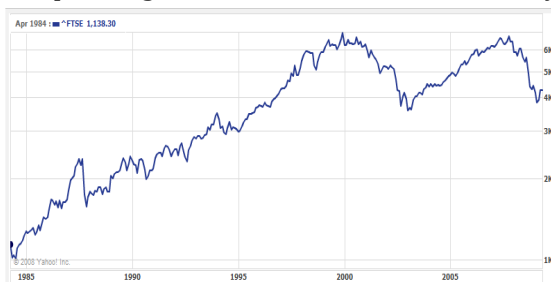


source: RAI

THE PAVLOVIAN RESPONSE

During the last 45 years, organizations have experienced almost continuous growth and prosperity. The most recent crises (most notably 1982 and 2001) were largely confined to specific sectors in the market and left the overall structure of the economy in place. During those times, managers responded with cost cutting and short term window dressing. This behaviour was rewarded by shareholders and resulted in continuous support for senior management and overall stability of the economy.

Although it was popular in the past to deal with a down-turn in this Pavlovian manner, the game has recently changed in a fundamental way. There are no models that can explain the current gigantic swing in the economy, thus the models to assist in recuperating don't exist either. Many

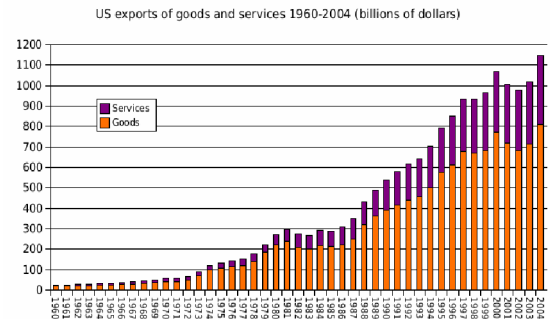


source: CBS

organizations don't even have a working fall-back strategy based on scenario planning. They are simply not prepared to cope with a major down-swing. Instead of analyzing the current market and exploring new solutions, managers use the same interventions as before, and many apply them with additional force and ferocity.

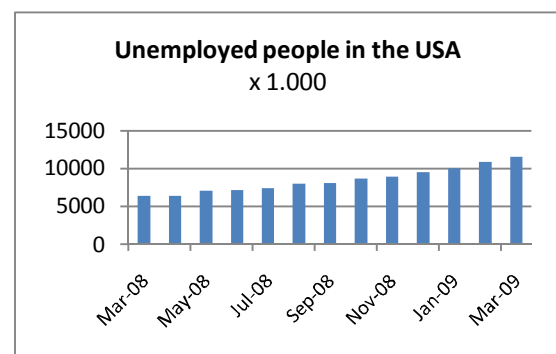
The first response is to almost maniacally reduce (the cost of) external staff. These people are sent off before management has looked at how they add value, or how they perform. The fixed molded base is left intact.

The next steps in the response include extreme cash out management strategies and



source: www.census.gov

exaggerated risk management. However, the game will not end after that. The real difference with the crises in the past, is the specific nature of the current crisis. We are dealing with a credit crunch. It started in the financial market, e.g. the excessive mortgages lent by the banks, with the resulting major effect on our global economy. When it becomes apparent that this response is in fact anything but sufficient, companies panic and resort to laying off employees as a tactic for survival. This was also happening in the 80's depression, when a large number of people lost their jobs. It takes two to three quarters before measures taken to reduce internal workforces take effect. Only by then, companies realize that they have lost a whole



source: CBS

Definition: *agility - the ability to move and change direction and position of the body quickly and effectively while under control.*
In business, agility means the capability of rapidly adapting to changes, in a cost efficient manner.

year without focusing on the long-term innovation and survival of their organization. Then they might start trying to address process innovation, and start making the changes to their company that are so desperately needed. We question whether

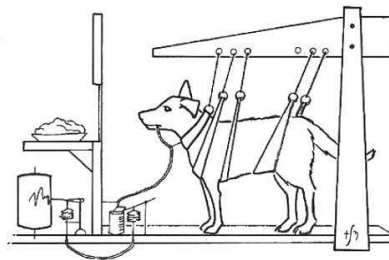
companies will be able to escape the downward spiral at this stage, or be drawn into further short term cost cutting, presumably ending in ruthless outsourcing, or bankruptcy.

UNDERSTANDING THE CONSEQUENCES OF THE PAVLOVIAN REACTION

Focusing exclusively on cost cutting leads to many undesirable effects which impede the ability to survive and prosper in the long term.

Short-termism is the reaction to solely focus on the immediate future, without taking into account the much needed capability of future value creation, which is paramount for long term survival. Firing employees, both internal and external, leads to loss of critical knowledge, and to the inability to get down to business. Projects are terminated, so innovation is stopped or delayed, which can cause a set-back of many years. Furthermore, the cost of restarting can be significant, whereas continuation is beneficial for focus and growth.

Employee motivation is seriously affected because the measures that are taken are not founded on strategic choices, or on a survival plan for the crises. Employees are very much aware of this lack of direction, and immediately translate this to their own job security. This mechanism is strengthened by the haphazard firing of external - and internal-



employees. The discontinuation or postponement of projects causes a lack in motivation amongst employees, who work vigorously not only for their company, but also for personal growth. In restless times *internal politics* takes unexpected turns. Alliances change, self-protection overrules company interest, and distrust increases. Employees focus on protecting their own interest, thereby creating or strengthening islands within the organization, and disregarding 'enterprise first' thinking.

In the current network economy, *long term partnerships and mutual trust* are paramount to lasting success. Cutting off (long term) supplier relationships as an immediate action to cut cost, is in direct conflict with long term interest. In addition, it also hampers the organizations short term stability, and ability, to build on an extensive network of partners. A thorough assessment of the value each partnership adds is a worthwhile activity in periods of turmoil, but make sure the valuable relationships needed to survive and prosper are nurtured!

WHAT'S BALLET GOT TO DO WITH IT?

Companies lack the innovative power, innate flexibility and the reserve to deal with fundamental and radical downturns. On a daily basis, large and often very bureaucratic organizations are confronted with management decisions that need to be taken swiftly and with confidence. Empowerment becomes even more vital,

but is undermined by the fear instigated by top management, resulting in decision making being very difficult. Instead, the reaction of these companies was only to cut costs. But what to do after that, when managers realize that terminating externals and reducing inventory is not enough? That hammering your suppliers is not bringing

you maximum value? Where to find innovation? How to break the bureaucratic spiral of measures, controls and risk-factors, without turning the company into chaos? Organizations need to become ballet dancers.

Ballet dancers have a natural agility, allowing them to adapt, be flexible and perform. Organizations need agility to be able to realize the ability to adapt. Without agility a company will underperform and lose competitive advantages. It is our firm belief that in order to become agile, companies need to focus on changes in their customers and competitors, both in regulation and in finance. They need to nurture a culture of continuous

LEARNING TO DANCE BALLET

When agility is in the fabric of your organization, the effect will be quick and appropriate adaptation to the constant changes in the environment, as well as the sustaining of long term value creation, even in the face of a radical shift. The agility of the organization is based on 4 principles:

Customer focus – *fully understanding the needs of the customer, creating customer demand and translating customer requirements to service concepts which the organization brings to the market.* Customer focus requires

segmenting customers in meaningful and actionable groups. Based on a thorough

understanding of each customer segment, service concepts are developed. In the face of competition and changes in customer demand, an agile organization is able to balance its response by pro-actively introducing new and improved products, and thus generating a change in the marketplace itself. By ensuring consistency across all customer contact channels, each experience a customer has reinforces his or her perception of the organization.

Agility is:

- *Know your customers*
- *Be able to transform*
- *Build your organization using modules*
- *Create momentum with your management system*

adaptation and improvement, hire highly professional and empowered employees, and be able to manage and rearrange process flows. Last, but certainly not least, is the need for developing strong leadership that is not afraid to take risks.



Ballet dancers perform many movements that are unnatural for the body. But when these movements are well executed, they look natural. Ballet dancers seem to ignore the law of gravity as they float through the air in long, slow leaps. They keep perfect balance while they spin like tops without becoming dizzy. During certain steps, their feet move so rapidly that the eye can hardly follow their movements.

Transformation power – *the culture embedded in the people of the organization telling them to excel whilst in constant change and continuous transition.* Employees are empowered to quickly take action and change operating procedures within certain and clear guidelines. Leadership, combined with trust, provides employees with the ability to contribute to the prosperity of the organization. Inspiration to innovate and create comes from the individual employees, but also from customer interaction, and the

unexpected: when faced with radical changes, the accompanied stress and new opportunities

unleash creativity and perseverance in the people within the organization, thus allowing it to adapt also under extreme circumstances.

Modular organization – *A range of building blocks that, when combined, deliver a Customized Business Service.* Each building block is governed using exact guidelines, KPI's and in- and output definitions, which ensures that a combination of blocks is used. Furthermore it is flexible in scale, volume and production location, and also variable in cost. The infrastructure required to support the

business services is as adaptable, as are the business services themselves. The modular organization is considered and managed as an integrated structure, even when components or activities are outsourced, or outside the direct control of the organization.

Management momentum - *Strong leadership is always on the lookout for opportunities to improve.* It has the ability to listen to what is happening on the shop floor, and is therefore able to foresee necessary changes prior to what indicators will tell. Companies will always remain dependant on the marketplace. Leadership must therefore always look outside - toward both competition and customers.

AND IN THE MEANTIME.....

As with a ballet dancer learning to dance, creating agility within your organization does not happen instantly, and is therefore no solution for surviving the current crisis. A healthy company is flexible in its approach to change within the organization, and will build in their corporate DNA the instance of dealing with radical changes in the market economy. In fact, survival will probably depend on it. Equally important is monitoring the early stages of formation, by fine-tuning factors such as the cost-income ratio in relation to planning, forecasting, resource and capacity management. Focus on “process leadership” and “knowledge-/thought leadership” can bring significant short- and medium term advantages. Businesses have experienced that changes in demand volume can be very high. In these scenarios fixed costs are deadly and the need for rapid upscaling or downscaling, without large set-up costs, is high.

The immediate future requires maintaining a number of clear priorities to ensure the short term survival. These priorities must be aligned with the requirements for creating an agile

Is it too late to escape the downward spiral and be seduced into further short term cost cutting ending in bankruptcy?

Leadership also has the duty to stimulate improvement in its workforces. Employees must be encouraged to help the company evolve.

When these 4 pillars are used to (re)build the organization, agility is innate. The organization will therefore be able to adapt to the continuously changing environment; ensuring future (radical) crises won't have the same impact as the current.

To survive the current turmoil, leaders in the companies need to balance the interventions needed for the immediate survival and those aimed at the enduring prosperity of the organization

company capable of lasting success. The priorities are:

- Focus on your customers. Make customer demands the focal point of what you do, and relate investments to capabilities in order to create value for your customers. Balance long-term contracts with short-term deals (and higher profit margins). Evaluate your products and services in the light of changing demand, and make bold decisions regarding your product portfolio.
- Accelerated restructuring is achieved by using Operational Excellence principles. Increasing efficiency and cutting unnecessary process steps will send a clear message that the right issues are being addressed, and that steps are being taken which will benefit both near and long term future.
- Knowledge and the ability to optimize the performance of your organization increasingly become the differentiators for success. A thorough understanding of the content, contacts and the processes are prerequisites for results.
- It is vital for companies to stay visible in the marketplace. Cutting down on expenses for advertising will diminish your chances of survival.

- Optimizing one's present flexibility: each organization has flexibility in temporary and external personnel, hired facilities, and costs thereof.
- Use resource management and capacity planning to ensure resources are used efficiently. A reduction of costs in the immediate future can be achieved by careful calculation and appropriate planning of the resources needed for processing, production and services.
- Manage the value chain and your partnerships. Choose partnerships carefully, and don't be afraid to reduce the number of long term partners. Use the customer perspective to align the processes across the value chain, and take the necessary steps to ensure that partners are contributing fully to your success.
- Focused cost cutting will free up the resources for investment in the long term.
- Provide leadership to the organization and its stakeholders, to create stability and trust. Also explicitly manage the image and perception of the organization in the marketplace and press. Differentiate leadership from management, as management will allow the realization of the visions and strategy advocated by the leadership, and is therefore complementary to leadership. Management is increasingly linked to results.

...TAKE CONTROL

To prevent organizations from responding like Pavlov's dogs, and in order to create stability for both the short-term and long-term, **leadership** plays a vital role. (1) Senior management needs to be aware of the consequences of short-term cost-cutting and the potential effects of such on their organization, (2) have a clear vision and strategy for continuous survival, (3) disseminate this vision to the entire body of

the organization, (4) identify the immediate, necessary short term and long term tactics, and (5) ensure the funds are available to carry out these steps.

Short-termism leads to ruthless cost cutting, violent political internal focus, de-motivation of employees and loss of long-term partnerships

CONCLUSION

Heraclites stated 500 years BC "Nothing endures but change". So, the concept of Agility is as old as the hills, but the current economic crisis has shown that there is a lacking capability in individual enterprises to deal effectively with large scale economic events in

the global scenario. An agile company, with its modularity, transformational capability, market focus and strong leadership, can adapt to these changing circumstances and outperform its competitors.

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