



Shaping flexible organizations – how to deal with COVID-19-induced uncertainties

An organizational perspective

The COVID-19 crisis continues to pose the most significant challenge to the aviation industry in history. As the ground keeps shifting below them, aviation organizations must adapt for increased decision and execution speed – with potentially fundamental organizational changes on the horizon.

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Crisis mode

With the onslaught of the COVID-19 crisis, demand dropped drastically, and most aviation players executed crisis plans to manage quickly worsening liquidity situations, shutting down most operations. Although aircraft are back to the skies, traffic (as measured in RPKs) is still down >85% worldwide. Complicating matters, SARS-CoV-2 infection rates are rising (overall; and again, in some places), so travel restrictions, both inbound and outbound, have begun to ‘ebb and flow’ (though less predictably than the term would suggest). IATA now estimate a return to 2019 traffic figures not before 2024.

Frustratingly, the shape of the recovery in those 4 years remains unknown and unforeseeable. Further volatility is highly likely, especially over the next few months and until medical solutions (including vaccines) are found and deployed. As a result, aviation organizations need to be more flexible than ever and adapt quickly to repeatedly changing conditions and restrictions. Any and all possible business needs to be ramped up to generate revenue, while any and all routes and functions where this becomes commercially necessary must be shut down or furloughed to save costs and preserve cash. Thinking ahead to the end of the tunnel, airlines in particular must maintain market share and stay competitive to prevent being on the receiving end of industry consolidation. Consequently, an initial turnaround gives way to the need for continuous improvement, ultimately requiring a transformation to the ‘organization of the future’.

Lufthansa Consulting is looking ahead to both the medium- and long-term in trying to chart a course to enable the right organizational change at the right moment. Decision and execution speed as well as organizational flexibility are key to navigate the challenges of the next months – and will likely remain so in the future.

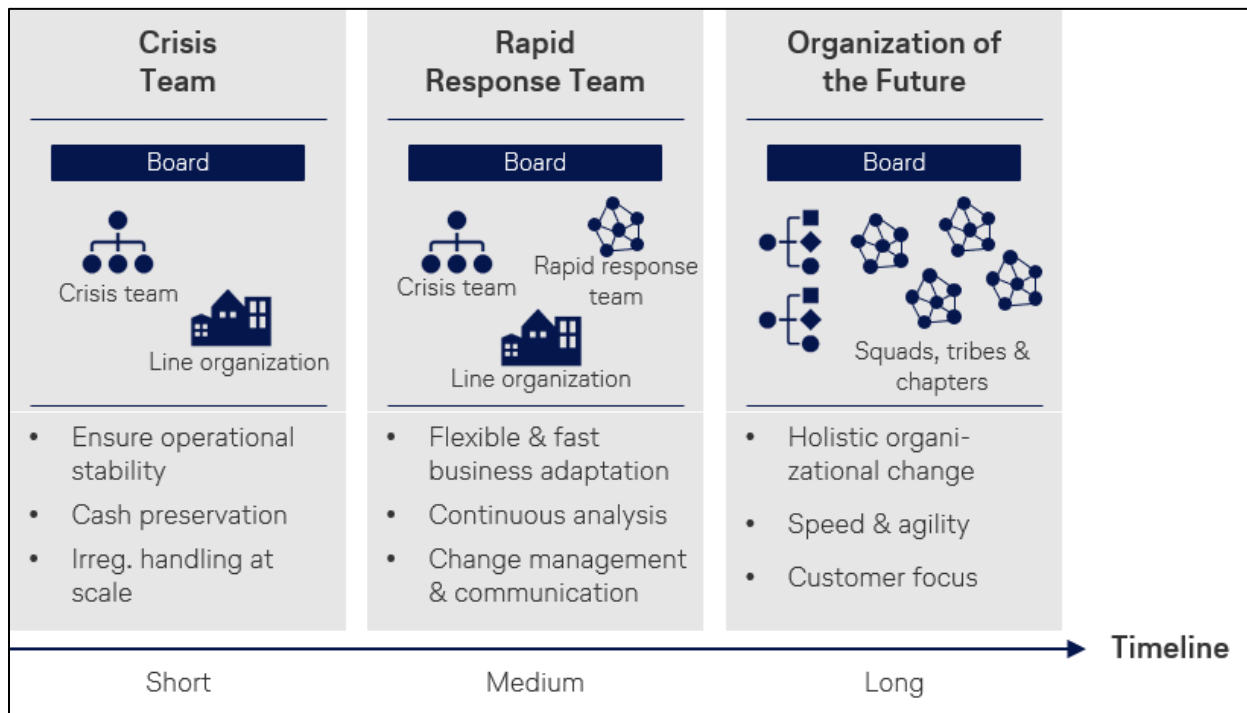
Medium-term – ‘Two pizzas’

Currently, a crisis team most likely exists in most aviation organizations. It is fighting the fires of the day to ensure operational stability, manage the cash preservation efforts, and crucially, engage the customer. This team will need to remain in place for now, while stability considerations require a daily cadence.

With crisis teams now performing for months and many line organization staff furloughed (or otherwise on leave), one strange lesson has emerged: It seems possible to run (even a large) airline on only 70 people.

As much as this may be a pointed exaggeration, many organizations have discovered that they are able to decide fast and execute well, even in the face of incomplete information, thus becoming ‘agile out of necessity’.

In order to manage the repeatedly necessary business adaptations resulting from the changing conditions and restrictions in the months to come, Lufthansa Consulting suggests to set up a cross-functional ‘Rapid Response Team’ in addition to the existing crisis team. The purpose of the team is to continuously analyze any required changes to the direction of the business and make swift decisions on execution, performing as the ‘right hand’ of the Executive Board (which would, in turn, regain some much-needed time to focus on strategy, customer interaction, and communication).



“Organizational evolution from crisis mode to sustainability” (Source: Lufthansa Consulting)

No larger than can be fed on two large pizzas (in keeping with Jeff Bezos of Amazon’s methodology), the team should consist of members from all relevant functions, incl. Network & Fleet, Operations, Commercial (incl. customer and marketing), Aviation Services (incl. MRO and catering) and support functions (incl. HR, IT, and procurement). For the selection of members, rank is secondary, strong performance is mandatory.

A clear mandate ensures both a solid understanding of ‘commander’s intent’ on the part of the team as well as a minimum of roadblocks in interacting with the existing line organization. Maximum possible power to make non-business-critical decisions should be delegated to the team, to ensure decisions are made as rapidly as well as close to the edge of the organization as possible. Accordingly, plans as well as budget and resource allocations need to be challenged continuously to enable optimal reactions to the shifting circumstances.

Regular reporting to (or rather, exchange with) the Board ensures decision transparency and provides the opportunity for strategic alignment and to make business-critical decisions.

A continuous exchange with the crisis team working in parallel eliminates overlaps and enables the exchange of knowledge and experiences gained during crisis management so far (think efficient parking/storage and reactivation of aircraft, or managing furloughs or short-time work).

The Rapid Response Team's ways of working must incorporate two key tasks: Analytics as well as change management and communication. The former ensures that decisions and their execution are having the desired effects to the desired levels – or otherwise enable early course correction. The latter keeps customers, capital markets, and line teams abreast of the latest developments, decisions, and according reasoning – a crucial activity, given rapidly changing circumstances and resultant frequent course corrections.

The team's tactical focus strongly requires that the team works with what they have. If the shiny analytics dashboard does not yet exist, surely someone to pull and analyze the required data does. Work-arounds will be frequent. The opportunity lies in turning what the team does not have into a separate project (if there's an immediate business case, or otherwise to defer it to the corporate backlog). As new cross-functional teams for new priorities are set up, enabled and get to executing, a network of enabled teams emerges. Individual teams can then be formed and dissolved as necessary.

Finally, the Rapid Response Team will never be finished (because it is continuously iterating) and will need to remain in place until it does not – i.e., there is a clear and consistent upswing in business and COVID-19-related uncertainty is largely gone. In doing so, it may serve as a precursor to a more agile organization down the road.

Long-term – 'Never waste a good crisis'

The eventual lessons from both the crisis and Rapid Response Teams invite thoughts on the organization of the future. If the current organizational blueprint was optimal, why are those 'speedboats' performing so much better (crisis-related adrenaline aside)? Business environments will continue to change, further volatility is likely (for reasons known and unknown at this stage), so greater resilience becomes key to the continued success of organizations.

To hardwire the successes from the medium-term approach, structural organizational changes become necessary for both speed and stability at the same time. A robust process architecture is traditionally what provides for stability in organizations. Restructuring the organizations' org-chart into agile teams (where possible) provides for devolved decision making and rapid execution.

It is now an ideal time for organizational designers to conduct exercises in 'zero-based design', reimagining the process landscape of the organization how they would given a blank sheet of paper. Done at the right level of complexity, this can provide for efficiencies through standardization and, crucially, enable teams across the organization to speak a 'common language' when it comes to business problems.

It is also time that someone in aviation follow Dutch bank ING in exploring a near-fully agile model of organization, replacing traditional command-and-control structures and the complexities of the matrix organization. While there will be limitations in aviation (think legally required postholder structure or wholly transactional roles), they should not be the reason to prioritize process over product.



In short, the agile approach suggests that value-creation happens through self-managed ‘squads’ (of teams) that unify together into ‘tribes’. Cutting across tribes (traditional understanding would suggest ‘functionally’) are chapters that develop expertise and knowledge and serve as the ‘organizational home’ for staff. Effectively, a single employee will consistently remain in their chapter but be assigned to the right teams, at the right time, tackling the right business problems, according to skill and need. A (potentially software-based) ‘talent market’ serves as match-maker. This is not entirely dissimilar to the way professional services firms, like Lufthansa Consulting, operate. One key consequence will be for leadership: Self-management of teams requires substantially flatter hierarchies and demands of executives to serve primarily as enabler and coach.

When evaluating the existing organizational structure, high-level make or buy decisions are also in order. Both extremes exist: On the one end of the spectrum, insourcing might be a solution, as people are already in place (and could potentially be retrained quickly); on the other, outsourcing might be the more efficient choice compared to own production. In a way, this extends to M&A options. A portfolio review should ask, do all entities, brands, AOCs, etc. constitute the optimal set up to cater to the future organization?

Finally, the elephant in the room: If full recovery is only in 2024 (to possibly differently configured markets), what about the excess staff in the meanwhile? Even in economies with generous labor support schemes (e.g., short-term work in Germany), those are time-bound long before. Plus, any ups and downs in the flight plan immediately translate to differing staffing requirements in the direct (ops and technical) functions. The truth is bound to lie somewhere between the extremes of hiring and firing at will and scaling back (on average) everyone’s working time. Key factors determining a potential solution space are talent management (think retention of expert/trained skills and knowledge vs. jobs more transactional in nature), local labor law considerations, and corporate culture. Ultimately, creative approaches will be required, incl. part time scenarios at scale (cabin crews already do this well), project pools, reskilling, externships at partners needing expertise, and ultimately outplacement programs that enable successful career transition.

Do both now

Lufthansa Consulting has ventured a look into the medium- to long-term future, pointing to organizational approaches as to how aviation organizations can navigate COVID-19-induced uncertainties and emerge stronger from the crisis. Exploring work in ‘near-agile’ units now should provide ample opportunity to learn with a view to successful organizational transformation in the long-term. Boards should pursue both now, to optimize for speed, agility, resilience, and ultimately, customer focus.

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Further insights from Lufthansa Consulting’s aviation experts are available at <https://www.lhconsulting.com/insights/news/>

To learn more and discuss how your organization could benefit from Lufthansa Consulting’s expertise on Airline Strategy and Crisis Recovery, please get in touch at ALcrisis-solutions@LHConsulting.com.