Mapping Strategic Change within the Deutsche Lufthansa AG on the Adaptive Cycle of Resilience

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Abstract. This paper maps the transformational process that took place within the Deutsche Lufthansa AG between 1991 and 1998 to the model of the Adaptive Cycle of Resilience. Thus, it provides guidance to managers in crisis situations on how the Adaptive Cycle of Resilience can be applied to support strategic change processes and ultimately to support a company’s turnaround.

Keywords. Adaptive Cycle of Resilience, Strategic Change, Enterprise Crisis, Lufthansa

Introduction

The Deutsche Lufthansa AG is one of today’s biggest aviation corporations and goes back to a history of almost a hundred years. As stable as their rise may appear upon first sight, they encountered turbulent times in the 1990s when they went from being one of Europe’s biggest airlines to being almost bankrupt, only to reinvent themselves completely and rise back to profits higher than ever before. [2] This process of reinvention can be described using the Adaptive Cycle of Resilience, and by doing so provide the reader with an idea of how dynamic an environment companies have to operate within, and how easily changes can disrupt the business model of a company. The case study can also serve to help establish a strategy turnaround by showing a successful implementation of the model.

I. The Adaptive Cycle of Resilience

The Adaptive Cycle of Resilience is a model that aims to describe the cyclic development path that organizations follow within their means and objectives in order to deal with the changes of the organization’s surrounding environment. This path is displayed in Fig. 1:

![Figure 1. The Adaptive Cycle of Resilience. [1]](image-url)
The cycle consists of four different phases: At the beginning of each iteration, the organization is in a state of equilibrium. Here, both the objectives and the means to reach those are known to the organization. The organization transitions to the crisis state when its current business model does not work anymore because his surroundings changed. At this point, neither the available means, nor the desirable goals are known. The organization progresses to the new combinations quadrant when innovation and a new repertoire of action are applied to arrive at a realistic set of options. This does not necessarily pertain a change in the actual situation of the organization: It rather models the view taken on the crisis situation. The range of options is now known. When finally there is a definitive choice made about how to proceed, this instills confidence about the future and the organization’s state is changed to business. In the business quadrant, the organization strives for the desired improvement with energy and focus. A new business-as-usual is adjusted. This phase is dominated by fast growth and improvements. Finally, when all the choices are operationalized and improved, the organization has achieved a new equilibrium and the next iteration of the Adaptive Cycle of Resilience has begun.

It is worth mentioning that one organization may not be in one single phase of this model at a certain point in time. Different departments or branches of the organization may very well be in different stages of the Adaptive Cycle of Resilience.

2. Lufthansa and their Strategic Change

Before the 1980s, Lufthansa was a major player in the aviation industry. However, Lufthansa had “a strong focus on technology combined with bureaucratic values from its rule as an agent of the state” [3] since 80% of its stock were held by the West German government. Yet, in this decade the company achieved “impressive results” [4] and was even selected airline of the year by the editors of Air Transport World in 1982. However, these comfortable times did not last as the 1990s brought a series of changes. One major contributor to these was the sharp decline in air traffic resulting from the Gulf War and its consequent recession. Lufthansa which had been expanding throughout the previous decade was especially hit by the overcapacity that rattled all of the industry. [5] The steadily growing competition forced ticket prices down and lead to a cut in Lufthansa’s market share. In 1991, these changes resulted in the first year of loss after almost two decades of prosperity. [4]

The same year, Lufthansa developed an extensive plan to avoid the doomed bankruptcy of the company. This management project dubbed “93” consisted of more than 131 different projects that addressed a large variety of different topics to take effect in three phases: From 1992 to 1994, Lufthansa focused on the urgent short-term adjustment to the company’s operations. The number of employees and the size of the fleet were reduced considerably to meet the current demand for air traffic. Through these cuts, $1 billion in annual cost savings were realized which allowed Lufthansa to be profitable again by 1994. Apart from these emergency measures, the company also implemented more long-sighted changes. In the mid-term range, Lufthansa subjected itself to systemic structural change and removed its functional organization in favor of autonomous subsidiaries. The company furthermore took steps to become more and more privatized until 1997. In 1998, the company made a bigger profit than ever before. The third phase of the change program consisted of strategic developments. Lufthansa worked towards cost leadership in the aviation industry. Furthermore, Lufthansa co-founded the StarAlliance in 1997, an alliance of then five airlines to jointly achieve efficiencies of scale. [2]
3. Mapping on the Adaptive Cycle of Resilience

The timeline as described in the previous section can be plotted against the Adaptive Cycle of Resilience. Figure 2 displays the transition process that moved the Lufthansa AG from equilibrium to the crisis it experienced in the 1990s, and finally towards building new combinations. Figure 3 describes the opposite transition from the stage of new combinations to the next equilibrium. In both figures, the key activities are added to the main movements in the Adaptive Cycle of Resilience.

In addition to this iteration, the case of Lufthansa also serves to demonstrate that the Adaptive Cycle of Resilience is an iterative process where each equilibrium is inadvertently followed by another crisis at some point. After Lufthansa’s great success in the late 1990s, they again met difficulties in the following years when the latest competition arose with EasyJet, RyanAir and similar cost-leading airlines. This was met with yet another program called “Score”, also aimed at further restructuring and reorganizing Lufthansa. [6]

4. Conclusion

In this article, the different phases of the Adaptive Cycle of Resilience were mapped against the strategic change the company Lufthansa underwent in the Nineties of the last millennium. From this mapping can be concluded that the Adaptive Cycle of Resilience is a suitable tool to illustrate this process specifically. The severe consequences Lufthansa would have faced if it were not for its resilience in this situation of crisis emphasizes the importance of organizational adaptation.

References