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Crisis performance predictability in supply chains

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It is widely acknowledged that supply chain ‘glitches’ may have detrimental effects on company performance and shareholder wealth. However, much less is known about the decision makers themselves, the way they manage crises, and whether their actions are predictable.

Matching inventory to customer demands well requires excellent supply chain management, which in turn relies on a smoothly running logistics operation. To investigate this area further, we decided to conduct a study based on behavioural and crisis-decision theory, and applying the hypothesis that reflexivity and regulatory focus can predict and influence team decision-making and performance. These two human attributes require further explanation.

The first, team reflexivity, is a team’s ability to consciously and reflexively react to changing and fluid situations, and adapt accordingly. Reflecting on expected changes in the market and acting proactively is vital for the profitability and survival of companies.

The other attribute, regulatory focus – the propensity to take instead of avoid risks – could also play a critical role. Promotion focus, one type of regulatory focus, is where the ultimate goal sought is accomplishment and attaining positive outcomes, and where individuals are more inclined to explore all possible means to reach the goals they desire. In contrast, individuals with prevention focus, the other type of regulatory focus, seek the ultimate goal – safety, thus avoiding negative outcomes. Individuals with prevention focus tend to focus primarily on avoiding mistakes: actions or decisions that will produce negative outcomes.

All in the game

The engine behind our study was “Fresh Connection”, a team-oriented, logistics management simulation (involving a fictitious fruit juice supplier), developed by Involution, a consultancy, which also runs it. Fresh Connection is used effectively in many companies to simulate real-life situations and challenges in the contemporary supply chain, and help train supply-chain management professionals to handle risks and insecurity, and achieve service levels while minimising costs.

Participants are divided into teams of four (our study used 81 teams) and the game runs for seven weeks, where each week represents six months in real time. Each team is involved in taking both strategic and tactical decisions. At the end of every week, the simulation software calculates the operational consequences of these decisions, the results of which constitute the team’s starting point in the subsequent week. Performance is assessed by the team score of return on investment (ROI) of the company after each decision period.

We divided the game period into roughly three phases. In the Learning Phase, the teams are expected to learn as much as possible about the game and concentrate on getting the company on track for a good ROI. In week two, the Crisis Phase, teams are confronted with a challenge: the company replaces its normal carton containers with PET (plastic) bottles.

Week three through seven is called the Steady Phase, during which no unforeseen crises take place, although some new products are introduced.

As predicted

Reviewing the results, we saw that performance for most teams improved rapidly in the Learning Phase. In the Crisis Phase, teams responded differently to the glitch. The main problem was that empty PET bottles took up much storage space, as opposed to empty carton containers...
Teams with a combination of high reflexivity and high promotion focus made better decisions..."