

# The successful future management of coloplast management essay



Coloplast A/S is a Danish multinational company which operates in the global medical devices industry and specializes in five business areas that involve the development of ostomy and continence care, breast care, skin health and wound care products. It also provides associated, medical services that aim to contribute to people's better quality of life.

In order to improve its capability for meeting the increasing global demand as reaching its growth and profit objectives, Coloplast undertook a major offshoring process which concerned relocation of volume production for mature product lines to Hungary. Moving part of the volume production to Hungary would enable the Company to access low-cost resources (e. g. human labour, favourable corporate tax of 16%), take advantage of the economies of scale and increase productivity. Although the relocation enhanced Coloplast's opportunities to achieve its strategic goals, it generated a number of issues that had to do with the internal environment of the company and also brought serious organizational challenges into focus.

One of the main issues which Coloplast had to deal with was the reconsideration and optimization of its organizational structure. As George & Jones[1](2005, p. 538) suggested, "organizational structure is the formal system of task reporting relationships that controls, coordinates, and motivates employees so that they cooperate and work together to achieve the organization's goals". A correct organizational structure determines how the decision-making is implemented at all levels of the business, allows the effective allocation of responsibilities for all tasks and processes to the employees, facilitates working relationships between different sections of the

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organization, retains order and command while at the same time promotes flexibility and creativity. Thus, it is imperative for an organization to have an efficient organizational structure in order to accomplish its strategic objectives.

Coloplast, like several other global organizations, had a decentralized organizational structure which means that decision-making power was delegated from higher to lower levels, relatively away from the central authority. In this kind of organizational structure, there is a high degree of autonomy and subordinates are expected to demonstrate initiative and managerial efficiency while in a highly centralized authority structure, only a few powerful individuals or groups retain decision-making power and subordinates are likely to operate within relatively narrow latitudes.

The optimal degree of centralization of authority depends upon a complex array of interrelated factors (Wexley and Yukl, 1977)[2]. Generally, maintaining a decentralized structure enables decisions closer to the operational level of work, increases responsiveness to local circumstances (Mullins, 2005)[3], promotes managerial efficiency and improves employee satisfaction (the result of giving people greater opportunities to take responsibility for their own actions) (Delta Publishing, 2006)[4]. However, problems in coordination of individual entities and loss of control may occur.

On the other hand, centralization has the advantages of easier implementation of a common policy, more consistent strategy, improved economies of scale, improved and faster decision making and greater use of specialization (Butler, 2008)[5]. According to Connors et. al[6](2005),

centralized structures are more desirable to the extent that “(1) there were good communications with subunits; (2) higher-level managers have access to staff specialists or other information sources which are not readily available to lower-level managers; (3) higher-level managers have the same knowledge of local conditions as do lower-level managers; and (4) decision speed is only a minor consideration”. However, the fact that it encourages the authoritative leadership style, its use may limit the response of an organization to an external environment is the main disadvantage of a high.

## **Figure 2: Centralized vs. Decentralized Organizational structure**

The reason why Coloplast encountered organizational structure issues was the large distance between the new production facilities in Hungary and the other plants located in Denmark. The fact that Coloplast had a decentralized organizational structure worked very well for its Danish production facilities (the distance between them is short and the communication is relatively easy), but when the Hungarian plant was added, major problems occurred in terms of control and communication between the different production units and the management. Decentralization of the production facilities, combined with the lack of fixed procedures and structured interfaces, complicated the tasks of documentation of planning and standardization of production systems. Furthermore, the lack of documentation of the company’s production techniques and equipment operation (due to the fact that the Danish process operators knew how to handle inconsistencies in operation of equipment but this knowledge was not documented in manuals) had serious

effects on the operational performance of the Hungarian unit and needed to be tackled.

Another internal organizational issue that Coloplast had to deal with was the effective transfer of knowledge from the Danish to the Hungarian employees. Transferring knowledge regarding the Company's production systems and techniques to new employees was a very challenging and complex procedure that required great deal of human interaction and a lot of time devoted to training. Nevertheless, it was particularly important for the Company's management to create avenues for exchanging knowledge, so that it was accessible and useable by everyone in a way that it would positively affect the overall organizational performance.

Although, Coloplast solved the problem of transferring knowledge by sending Danish operators to Tatabánya to train their Hungarian colleagues, it faced a new challenge, which thus threatened the company's future growth. In particular, the problem was that there were inherent geographical differences between the organizational culture of the Danish employees – which had evolved and successfully served the company over time – and the organizational culture of the Hungarian employees. The unsympathetic approach of these differences by the Danish workers combined with the lack of communication (due to the language barrier) created misunderstandings and some underestimation of the Hungarian workers' skills, despite the fact that they were technically proficient. Due to this challenge, the Danish workers also failed to learn new, useful skills from their Hungarian counterparts.

Organizational culture, according to Schein[7](1985-2005), is defined as “ a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”.

Coloplast management sought to prevent conflict from occurring through holding a forum where all employees shared and discussed their views. This was a very effective approach since all employees had a chance to give their opinions and hence understand each other better. The management also had a chance of becoming aware of the issues which faced employees and could therefore formulate solutions to the problems. It is important to hold regular forums with employees especially in organizations with decentralized structures in order to become aware of the issues facing them and to maintain control over the different branches or subsidiaries.

## **Critical analysis of the employees’ motivation and commitment**

When Coloplast took the decision to offshore part of the volume production to Hungary, this posed a serious threat to employee motivation and a major challenge for the company’s management, since many employees were not familiar with the consequences of such change. Being aware of this fact and in order to remove the uncertainty among the employees, the Coloplast management carefully involved them in the process and ensured that all of them had access to a high level of information from the start.

Communicating directly and clearly while being honest and open, the

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management also ensured that it obtained feedback from employees on their opinions and questions for the forthcoming relocation. This was very important in avoiding a negative impact on employee motivation and commitment, which would negatively affect their performance and the overall productivity of the company.

It is widely acknowledged that companies find it hard to adjust to any organizational change due to the fact that many employees become demotivated and therefore resistant to change. This behaviour of scepticism, hesitation and resistance to adapt to new work conditions is typically based on the fear of increased tasks, demotion or even loss of jobs and often causes tension between management and employees. These tensions, if allowed to continue, usually have as a result decreased company productivity and loss of competitive advantage.

Employees' attitudes towards change are decisive to whether an organization's efforts for change are either successful or unsuccessful. "When employees possess a strong, positive attitude towards change, they are likely to behave in focused, persistent, and effortful ways that support and facilitate the change initiative being implemented. However, when employees possess a strong, negative attitude towards change, they are more likely to resist, oppose, scorn, thwart, and attempt to sabotage the change initiative" (Lines, 2005)[8]. Therefore, it becomes clear that in order to ensure a successful organizational change, a company must focus on the human side of change, by influencing the employees' behaviour, keeping their motivation and commitment high, giving them the drive to change, and aligning their goals with those of the company.

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Motivation has no standard definition. It has been defined as: “ the psychological process that gives behaviour purpose and direction” (Kreitner, 1995)[9]; “ those psychological processes that cause an arousal, direction and persistency of voluntary actions that are goal oriented” (Mitchell, 1982) [10]; “ a person’s unique set of needs in relation to particular situations. These needs explain what drives a person, what his or her reaction will be to various stimuli, and the strength of behaviour, its consistency and persistency based on conscious decisions” (Winfield et. al., 2004)[11]. Employees’ motivation is a key concept for any business because it strongly affects the organizational performance and, thus, the survival and success of the business. Understanding what motivates employees and what boosts their morale will not only help their individual goals to be achieved but it will ultimately help the organizational objectives to be accomplished.

Communication plays a vital role in maintaining or even increasing the employees’ motivation. Sharing the decision making and allowing real participation in the problem solving, heightens the employees’ commitment and reinforces their confidence. When it comes to change, effective communication involves gathering important information in relation to the change process and distributing this information to everyone affected. Clear, frequent, honest and timely communication is crucial because it allows the employees to understand how these changes will affect them personally. Furthermore, the development of an efficient feedback system that measures the success of transition not only through the eyes of management, but also through the eyes of employees, is one of the most important components in the motivation cycle.

From the above analysis it is clear that in relation to the impact of offshoring on its employees' motivation, Coloplast dealt with the challenge appropriately. The management used communication very effectively by providing all the necessary information to its employees, developed an efficient feedback system where they could express their opinions and questions, and generally ensured the involvement of all employees in the change process. Furthermore, it lessened their reasonable concerns over layoffs by offering new positions and additional training to those who were about to be affected by the relocation. This approach, improved the employees' morale, strengthened their commitment and maintained their motivation at a high level.

The fact that Coloplast approached this challenge effectively, identifying employee motivation and commitment as key factors to the successful implementation of organizational change, will help the company achieve its future plans for growth. Having the view that employee commitment, and thus performance, comes via consistency in communication, motivation and leadership is a strength that will most likely lead to success.

## **Recommendations**

In order to deal with the problems of communication and control, the Coloplast management needs to turn to a more centralized organizational structure where duty of the management to take measures which will ensure that the overall control and communication of different plants is effective and efficient. The Coloplast management can achieve control through linking all production plants using IT technology as well as organizing frequent

meetings between the managers of the different plants and to management.  
This will enable the management maintain control of Coloplast.