

# Managing people and organization – coloplast



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Managing People and Organisations COLOPLAST A/S – ORGANISATIONAL CHALLENGES IN OFFSHORING 14 July 2010 Word Count – 4072 Contents

1. Executive Summary4
- 2 . Introduction5
2. 2 Coloplast Products and Revenue Contribution in Percentage. 5
2. 3 Distribution of Global Sales6
3. External Environment of Coloplast6
3. 1 Reimbursement Policy Change6
3. 2 Ruling and Opposition Parties7
3. 3 Medical Science Advancements7
3. 4 Labour Laws7
3. 5 Harmonization of health care systems7
3. 6 Market & Currency Fluctuations7
3. 7 Forum for addressing best practice8
4. Four Dimension of Complexity8
4. 1 Multiplicity8
4. 2 Interdependence8
4. 3 Ambiguity8
4. 4 Flux8
5. Internal Environment of Coloplast A/S9
5. 1 Coloplast – Denmark9
5. 2 Goffee & Jones model10
5. 3 Sociability10
5. 3 Solidarity10
5. 3 Hofstede’s Cultural Dimensions. 11
5. 3. 1 Power Distance Index (PDI)12
5. 3. 2 Key Implication12
5. 3. 2 Individualism (IDV)12
5. 3. 2 Key Implication13
5. 3. 3 Masculinity (MAS)13
5. 3. 3 Key Implication13
5. 3. 4 Uncertainty Avoidance Index (UAI)13
5. 3. 4 Key Implication13
5. 3. 5 Long-Term Orientation (LTO)14
5. 3. 5 Key Implication14
6. Employees Motivation and Commitment14
6. 1 Key Implications on future management14
6. 2 Motivation15
6. 3 Motivation Theories15
6. 3. 1 Content Theory15
6. 3. 1 Herzeberg’s Hygiene Factors and Motivators15
6. 3. 2 Process theory16
6. 3. 2 Goal Setting Theory16
7. Recommendation to Rasmussen16
7. 1 Kotter’s Implementation Plan17
8. Bibliography19
9. Appendix20

1. Executive Summary Coloplast A/s Values – Our values define the way we think and act, both as individuals and as a company. As an appointed Management Consultant of Coloplast to assist Allan Rasmussen, Director of Coloplast A/S on critical imminent decision about the off shoring ventures to Hungary and China.

My report covers the below scope. \* Key factors that contributes to the External Environment of the Global medical devices Industry in the current condition. \* Analysis of Internal Environment of Coloplast A/S \* Motivation and Future Management of Coloplast A/S \* Off shoring Recommendation to Rasmussen Coloplast has been in the global market in terms of distributing their products in Europe and America. However in terms of production, Denmark has been the base of the production unit.

To achieve 10% organic sales growth, it is important for the organisation to generally reduce costs, among other things by continuing to relocate production to low-wage economies and on being strongly focused on maintaining cost-conscious behavior. “ Change is the only constant” – Heraclitus, Greek philosopher What was true more than two thousand years ago is just as true today. We live in a world where “ business as usual” IS change. New initiatives, project-based working, technology improvements, staying ahead of the competition – these things come together to drive ongoing changes to the way we work.

As an organisation, relocation of the volume production to Hungary was the first attempt by the Coloplast to shake the apple cart. Analysing the lessons learnt during the relocation Hungary has already given vital clues to the organisation to think about other ventures. The next off shoring destination China is challenging in terms of moving the production line, however the external environment foresight conveys that the Government approvals take much longer period that, it is ideal to kick off planning the shift right now.

At the same time, many projects fail because Victory is declared too early. It is important to not lose focus on the new location Hungary which has created the mood of Change within the organisation. I strongly recommend the relocation of the volume production for the mature product lines to Hungary and China. 2 . Introduction Mission – Making life easier for people with intimate healthcare needs Coloplast develops and markets products and services that make life easier for people with medical conditions that are deeply private and personal.

Coloplast works closely with users to develop solutions that meet their special needs, called as intimate healthcare. Coloplast operates in these business areas: \* Ostomy care products for people whose intestinal outlet has been rerouted through the abdominal wall \* Urology and continence care products for people suffering from diseases of the kidneys, the urinary system or the male reproductive system \* Dressings for the treatment of chronic wounds, skin care and Breast care products. 2. 2 Coloplast Products and Revenue Contribution in Percentage.

Coloplast market and sell their products and services globally, and in most markets local healthcare authorities provide reimbursement for the products. Coloplast also supply the products to hospitals, institutions as well as wholesalers and retailers. 2. 3 Distribution of Global Sales Subsidiaries and manufacturing units at \* DENMARK \* GERMANY \* HUNGARY \* UNITED STATES \* COSTA RICA \* CHINA 3. External Environment of Coloplast Key factors and implications for the Management of People and Organisation based on the PEST analysis, (Appendix A) 3. 1 Reimbursement Policy Change

The Reimbursement policy changes can affect a serious cut in the profit of Coloplast; Since Coloplast sales are also based on the deals with the medical institutions and insurance policies, the changes which are unfavourable to these deals may affect the large chunk of the sales volume. German Reimbursement policy changes in 2005 had a substantial impact on Coloplast, as a result the price reduction on Ostomy care and continence care products were 10% and 10 to 15% respectively. Similar changes were expected also in Italy, Spain and France; such changes impede the growth of the Coloplast.

3. Ruling and Opposition Parties Coloplast has to be completely cognizant of the Ruling and Opposition parties in the countries of interest. The agenda and vision of the country's political parties can be favourable in terms of working out a business deal for a company like Coloplast which creates mass employment opportunities, brings investments in to the medical sector of the country. Governments like China provide Tax holidays to the companies for a certain period as a result of setting up business in their soil, which might work in the favour of Coloplast.

3. 3 Medical Science Advancements

The advancement in the medical study is one factor which keeps changing the future of Coloplast. Certain products that are produced by Coloplast have enjoyed long product -life cycles which have not deviated for 30 years. This proves, the products are used by people in their homes where stability and conformity were important parameters; which may not likely to be the case in terms of the new customers. The advancements in the medical science can prescribe alternative methods of treatments or changes to improved surgical procedures to the new and existing customers.

. 4 Labour Laws The

labour laws are currently applicable for Coloplast across all the units, which might stifle certain business decisions. Off shoring can be challenging as these laws restricts movement of critical resources between countries when needed. During employment, relocation or off shoring, Coloplast has to stick to the immigration regulation policy, Health and Safety policy of the country.

3. 5 Harmonization of health care systems The selling price of the Coloplast health care products can be increased are ecreased based on the selling price of the similar products by their competitors. Since the successful product always attracts attention there can be increase in parallel importing, which may result in fall in the revenue. 3. 6 Market & Currency Fluctuations In general, when the world economy is in the positive direction, medical sector performs well in the international indices, the market capitalisation of such company increases. For a Global organisation like Coloplast, the Market sentiments play a vital role in determining the cash flow.

Every decision regarding growth of the organisation has to go through the decision of the shareholders. Since Coloplast reports the profits in DKK, all the sales and revenue figures which involves various currencies has to go through a conversions based on the International currency rate. The slightest of dip in the rate can create an impact on the revenue. 3. 7 Forum for addressing best practice Coloplast Danish manufacturing unit has six locations, and each location specialises in a specific product.

The resources do not interact in terms of sharing of best practises over a forum, there can a process line available in one of the units which might have answers to issues in another unit which is failed to tap with the current process. Most of the process in the Danish unit is made simplistic by the

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employees, however there is very less documentation of these simplistic solutions which might be handy during off shoring. 4. Four Dimension of Complexity While the dominant western management theories favour prediction and control, a more appropriate focus might be on channelling the complexity presented.

Adopting a more Eastern, holistic approach to thinking will aid this focus. (Lane, et al. , 2004) Refer Appendix B. The dimensions are 4. 1 Multiplicity Coloplast as a global organisation has to align the view points of Governments of the countries like, Hungary, Denmark, China, Germany, Costa Rica, US and China while setting up a unit. The employees of the different countries vary in their expectations which might have telling tale on the production line. It is absolutely important for the Coloplast to constantly review the Suppliers and other players whenever a new country is set up. . 2 Interdependence In case of Denmark unit, the 6 Coloplast destinations had less interdependence in terms of sharing of best practices. The production level and communication of the information was structured and efficient however there wasn't any knowledge sharing between these units. The fact that the organisation which is overlooking relocation; should encourage platforms of more interactions in all possible methods. 4. 3 Ambiguity Coloplast has handled communication with Denmark about major business decisions equivocally, which is a positive energy around this business unit.

The standing testimony of this clarity in term of no production losses or stoppages occurred on hearing the news about the relocation. Every employee was aware of what is going on in the higher level and what is the expectation from each one called as the Cause-effect relationship. 4. 4 Flux

Even though certain Coloplast products have not changed in terms of dimension for 30 years, there are many changes happening in terms of achieving the 10% Organic growth every year. Flux is the degree and speed of change, which is represented as Dynamic Complexity.

Dynamic Complexity = Multiplicity x Interdependence x Ambiguity. 5.

Internal Environment of Coloplast A/S 5. 1 Coloplast – Denmark Coloplast facilities were characterized by a decentralized organisational structure with a high degree of autonomy in its production planning systems and documentation. Coloplast had six different plants in Denmark, each of which specialized in one of coloplast's three main business areas Ostomy Continence products and adhesives. The decentralized production facilities and the lack of fixed procedures and structured interfaces worked very well in a purely Danish context, because communication was still relatively easy with most facilities located within half an hour's drive from each other. 5. 2 Goffee & Jones model High Coloplast Denmark Sociability Networked| Communal| Fragmented| Coloplast Hungary Mercenary| Low Low High Solidarity Goffee and Jones (1996) strongly advocated that it is culture that holds a company together and that without it, the organisation lacks values, direction and purpose.

Sociability is “ the measure of emotional, no instrumental relations.. ”

Coloplast shared ideas relatively easily with most facilities located within half an hour drive from each other. When Sociability is high, there is high there is an enjoyable atmosphere in the workplace while fostering teamwork and sharing of ideas, Solidarity is “ a measure of a community's ability to pursue shared objectives quickly and effectively regardless of personal ties”.

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Coloplast had decentralized groups less united with solidarity because of the task itself or the outcomes of achievement.

Coloplast A/S Denmark units were characterised by a family-type atmosphere and my not lack a hierarchy, but work on ways to get around them. The friendliness exhibited can also be detrimental when trying to achieve goal requiring a structured approach. Each Factory used different programmable logic controllers and computer to control and manage automatic production machines. Each unit felt that its way of organizing production was unique and could not be altered. Coloplast A/S Hungary is the opposite of Networked and characterised in professionalism and systematic structured approach.

Even though the facilitation of knowledge transfer to local employees was considered as a challenging task by Coloplast, the Hungarians brought fresh set of skill sets with very high technical level, production planning and quality controls. Need of the hour for Coloplast is the forum to share the best practices across all offices where the volume production is carried out. The reason of this forum is the not going to benefit not only the Hungarians for understanding the process but also the Danish employees about the approaches to issues. 5. 3 Hofstede's Cultural Dimensions.

Figure (a) – Comparison of Hungary & Denmark Cultural Dimensions. Figure (b) – Comparison of Cultural dimensions of Denmark, Hungary, China, Germany, USA and Costa Rica 5. 3. 1 Power Distance Index (PDI) that is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. This

represents inequality (more versus less), but defined from below, not from above. It suggests that a society's level of inequality is endorsed by the followers as much as by the leaders.. Key Implication

Coloplast Denmark is a family type atmosphere which is not only evident in the Goffee and Jones, but also in the Hofstede model. On comparing the PDI value for Denmark, Hungary and China; the managers might play powerful and significant role in Hungary and China than in Denmark. Hence it is important for Coloplast to count on Managers more in terms of crucial day to day business decision in Hungary and China. (Refer fig b). 5. 3. 2

Individualism (IDV) on the one side versus its opposite, collectivism, that is the degree to which individuals are inte-grated into groups.

On the individualist side we find societies in which the ties between individuals are loose On the collectivist side, we find societies in which people from birth onwards are integrated into strong, cohesive in-groups, often extended families which continue protecting them in exchange for unquestioning loyalty. Key Implication Coloplast Hungary resources posses strong individual skills and can handle issues with panache, this is one of the reasons the pilot phase and off shoring phase of the relocation was a bit stable even though there was lack of proper documentation and knowledge transfer was ineffective by the Danish.

The team at the incipient stage was brilliant in terms of their approach in learning the process and adding values to it. This might not be the case during the off shoring to China, as the Chinese employees believe in collectivism. The Asian culture grows and succeeds as a group whereas the

European culture is individualistic. The important take away from this analysis is that there has to be many teams formed in China which would have been otherwise carried out by few resources in Hungary and Denmark.

As part of the employee package, family oriented benefits such as Family Health benefits, Family Insurance Benefits may not be a wise decision to attract resources in Europe, while these benefits might be a game changer in China. (Refer fig b) 5. 3. 3 Masculinity (MAS) versus its opposite, femininity refers to the distribution of roles between the genders which is another fundamental issue for any society to which a range of solutions are found. Masculinity refers to Assertiveness and Competitive values and Femininity refers to values such as Modest and Caring. Key Implication

Coloplast Denmark has been more caring and everyone felt within a family which was the highlight of the Goffee and Jones model, which is substantiated here in the Masculinity figure as well. This one of the reasons for the Danish unit was successful and each of their six units behaved distinctly in their day to day work process, even to the extent of using different PLC's and Computers. Hungary and China units will be more competitive and assertive in their approach. The reward programs might be more beneficial in the long run, in creating more challenging and positive environment. (Refer fig b) 5. 3. Uncertainty Avoidance Index (UAI) deals with a society's tolerance for uncertainty and ambiguity; it ultimately refers to man's search for Truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, and different from usual. Uncertainty avoiding cultures try to minimize the

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possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute Truth; 'there can only be one Truth and we have it'.

Key Implication Coloplast Hungary cannot tolerate uncertainty and ambiguity, whereas Denmark and China are more phlegmatic and contemplative. There is a need for more plans and policy to satisfy people in Hungary; that the uncertainty will be minimized. The safety standards and security measure in Hungary needs to be much higher than Denmark and China. It might be a good idea for Coloplast to avoid uncertainty in all the units, but Hungary care for it more. (Refer fig b) 5. 3. Long-Term Orientation (LTO) versus short-term orientation: this fifth dimension was found in a study among students in 23 countries around the world, using a questionnaire designed by Chinese scholars it is explained as a value that deals with thrift and perseverance. A low score for LTO is associated with a respect for tradition, fulfilling social obligations and protecting one's face. Key Implication China is unchallenged in terms of planning Long term and gives an edge to Coloplast to conceive long term ideas and decisions. Hungary and Demark can support Coloplast in all their short term business commitments. Refer fig b) 6. Employees Motivation and Commitment 6. 1 Key Implications on future management In periods of Organisation change such as Coloplast' off shoring and relocation, employees may feel that their attachment to the organisation has waned. This is particularly true if the organisation change brings job insecurity because of layoffs. Even if only the potential for exists it is still possible that the level of emotional attachment may reduce because of a perceived break of psychological contracts between employees and

management, though normative and continuance commitments may be unchanged.

Motivation is absolutely important during the relocation process. Motivation helps Coloplast Denmark to restore stability in their day to day business activity. The last thing Coloplast would be interested is to lose out to their competitors during the testing time like relocation. Such a situation most often leads to a dent in the revenue with various questions and doubts about the off shoring raised by the stakeholders. Knowledge transfer is another vital factor that can suffer due to varied level of motivation.

The management was able to ascertain that Danish employees might be less forthcoming if they are convinced that their job is at loss. The fear of job loss can create a big hiatus between the organisation and employees. Coloplast Denmark management has handled the fear factor during the pilot project in a better way by providing alternate assignment for the resources, who had their job off shored. The Danish employees fear factor was totally alleviated and were able demonstrate normal attitude at work without setting panic.

6. 2 Motivation those psychological processes that cause an arousal, direction and persistency of voluntary actions that are goal directed. " For a Managerial useful concept, Mitchell (1982, p. 81) This definition may remind the manager that motivation is not only about what initiates an action or behaviour by staff, but that there is the alignment with organisational goals, and just as important the continuation of the cause and desirable effect of motivation. Extrinsic Motivation is related to tangible rewards such as salary, company car and nice office.



Salary Achievement Job Security Recognition Working Conditions Promotion  
Company Status Responsibility Technical Assistance Personal Development  
Administrative Efficiency Autonomy

6. 3. 2 Process theory Goal Setting  
Theory emphasis on the role of an individual's perceptions of the work, or  
other situation, in which they are required to exert effort.

It is also clearly important that they have the ability to perform the task, and that other resources- equipment and other hygiene factors are felt to be adequate. It is not the final answer to the problem of how to motivate people, but does show my practical promise. It is also useful for managers in that it highlights the role of incentives and provides clear indications of how it can be implemented. It is also widely accepted in the human resource management practices by organisation. It also provides holistic link between features of jobs, the individual's experience and the outcome in terms of motivation, satisfaction and performance. . Recommendation to Rasmussen  
\* Coloplast decision to relocate to Hungary is one of the best decisions made by the management. Off shoring to China is another major realistic challenge for the management, but the lesson learnt in the Hungarian migration has provided valuable insight to the organisation. \* The resources have embraced the vision of change and mood is set. Coloplast is now in the position to create a template and roll on a systematic migration to China and various other locations in the future. The Training and Knowledge transfer team in Hungary comprised of Danish staff, however the training team to China should comprise of both Hungary and Denmark resources. There are many theories about how to “ do” change. Many originate with leadership and change management guru, John Kotter. A professor at Harvard Business

School and world-renowned change expert, Kotter introduced his eight-step change process in his 1995 book, “ Leading Change. ” We look at his eight steps for leading change below. 7. 1 Kotter’s Implementation Plan Step One: Create Urgency

For change to happen, it helps if the whole company really wants it.

Coloplast should develop a sense of urgency around the need for change.

Open an honest and convincing dialogue about what’s happening in the marketplace and with the competition. \* Identify potential threats, and develop scenarios showing what could happen in the future. \* Start honest discussions, and give dynamic and convincing reasons to get people talking and thinking. \* Request support from customers, outside stakeholders and industry people to strengthen your argument.

Step Two: Form a Powerful Coalition Managing change isn’t enough, Organization have to lead it. To lead change, bring together a coalition of influential people whose power comes from a variety of sources, including job title, status, expertise, and political importance. Once formed the “ change coalition” needs to work as a team, continuing to build urgency and momentum around the need for change. \* Identify the true leaders in all six Danish units. \* Ask for an emotional commitment from key Danish employees. \* Work on team building within your change coalition. Check your team for weak areas, and ensure that you have a good mix of people from different departments and different levels within your company. Step Three: Create a Vision for Change A clear vision can help Danish employees understand why you’re asking them to do something. When people see for themselves what you’re trying to achieve, then the directives they’re given

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tend to make more sense. \* Determine the values that are central to the change. \* Develop a short summary that captures what to “ see” as the future of Coloplast. \* Create a strategy to execute that vision. Ensure that Coloplast change coalition can describe the vision in five minutes or less.

Step Four: Communicate the Vision What Coloplast does with the vision after creating it will determine the success. The Managers shouldn’t just call special meetings to communicate the vision, instead, talk about it every chance they get. It’s also important to “ walk the talk. ” \* Talk often about the change vision. \* Openly and honestly address peoples’ concerns and anxieties. \* Apply the vision to all aspects of operations – from training to performance reviews, Tie everything back to the vision. Lead by example.

Step Five: Remove Obstacles But is anyone resisting the change? And are there processes or structures that are getting in its way? By putting in place the structure for change, and continually check for barriers and removing obstacles can empower the people and it can help the change move forward. \* Identify, or hire, change leaders whose main roles are to deliver the change. \* Look at your organizational structure, job descriptions, and performance and compensation systems to ensure they’re in line with Coloplast vision. \* Recognize and reward people for making change happen. Identify people who are resisting the change, and help them see what’s needed. \* Take action to quickly remove barriers (human or otherwise).

Step Six: Create Short-term Wins Nothing motivates more than success. Give your company a taste of victory early in the change process. Within a short time frame (this could be a month or a year, depending on the type of change), the result that every staff can see. Create short-term targets – not just one long-term goal. Each “ win” that you produce can further motivate the entire

staff. \* Look for sure-fire projects that you can implement without help from any strong critics of the change. Don't choose early targets that are expensive. \* Thoroughly analyze the potential pros and cons of your targets. \* Reward the people who help you meet the targets. Step Seven: Build on the Change Kotter argues that many change projects fail because victory is declared too early. Real change runs deep. Quick wins are only the beginning of what needs to be done to achieve long-term change. \* After every win, analyze what went right and what needs improving. \* Set goals to continue building on the momentum achieved. Step Eight: Anchor the Changes in Corporate Culture

Finally, to make any change stick, it should become part of the core of Coloplast. Make continuous efforts to ensure that the change is seen in every aspect, this will help give that change a solid place in your organization's culture. \* Talk about progress every chance you get. Tell success stories about the change process, and repeat other stories that are heard. \* Publicly recognize key members of the original change coalition, and make sure the rest of the staff – new and old – remembers their contributions. \* Create plans to replace key leaders of change as they move on.

The carry lessons learnt during the change hence will be absolutely critical to the future off shoring projects. 8. Bibliography Kingston University Business School, Managing People and Organisation Chapters 1 – 13 Lane, H et al (2004) The Blackwell Handbook of Global Management and Guide to Management Complexity P. 3 – 22, 199 – 226 Paine, L (June 2010) Harvard Business Review – The China Rules P. 103 – 108 Goffee, R and Jones, G(1996) What holds the modern Company together? Harvard business Review.

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– accessed 11th July 2010. Mudambi R (2007) Journal of International Business Studies – Offshoring: Economic Geography and the Multinational Firm P. 210 9. Appendix A – PEST Analysis B – Four Degrees of Complexity Global Complexity Multiplicity Interdependence Ambiguity Flux People Processes Collaborating Discovering Architecting Systems thinking