

Case Study - Strategic Organizational Failures at a Glove Manufacturing ABC Company in Sri Lanka

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Abstract: *The glove manufacturing ABC company in Sri Lanka suffered strategic failures due to failures in communication, collaboration, coordination and control (4Cs). The company has been experiencing a number of challenges over the past few years. These include issues with the supply of raw materials, labour shortage, poor decision-making and the follow-on issues of these and an ineffective mechanistic functional organizational structure. The challenges, organizational structure and the structural dimensions of the ABC company were examined and analyzed and a SWOT analysis and McKinsey's 7Ss model were applied. The results of which highlighted the gaps which exists in the company and provide a position from which the proposed organizational structure was created. The new organizational structure included a separation of responsibilities among three new executives, and the grouping of like departments. All of which, served to provide a means of effective horizontal communication and a means to mitigate the existing issues of the company. Continuous monitoring and evaluation was recommended in order to sustain the recommended changes.*

Keywords: Strategic failures; mechanistic organizational structure; glove manufacturing ABC company; 4Cs; McKinsey's 7S model; SWOT

1. Introduction

According to professor Alfred D Chandler, a specialist in business and economic history and faculty member of Harvard Business School "strategy is defined as the determination of basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals"(Rees & Smith, 2020). Meanwhile, William F Glueck, who, up until his death in 1980, was a distinguished professor of management at the University of Georgia, posits that "strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of a firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through the proper implementation process"(MBANOTESWORLD, 2016).

Essentially, strategy is the description of the goals and objectives and by what means they will be achieved; for what purpose. In order to implement the developed and selected strategies, organizations need to manage these strategies for them to be successful, effectively creating a road map for the company.

Strategic management is the management of the organization's resources to achieve its goals and objectives(Kenton, 2023). It is the ongoing planning, monitoring analysis and assessment of all necessities an organization needs to meet its goals and objectives (Tucci, 2023).

Communication, Collaboration, Coordination and Control, otherwise referred to as the 4Cs combined, is the pinnacle of teamwork and success; it creates the foundation for a successful and productive team, which is sure to bring incredible results to fruition (Morelock, 2018). The glove manufacturing ABC company in Sri Lanka would have failed to apply the 4Cs effectively, thereby resulting in strategic failures.

The aim of this document is to understand and find solutions related to those strategic failures at the ABC company (Sri Lanka).

Challenges faced by ABC Company

Over the last few years, ABC company faced many challenges. These include, but are not limited to:

Supply of raw materials

The non-availability of raw materials is a major challenge for the glove ABC company in Sri Lanka. This challenge, however, is not unique to the ABC company. Rather, it is an industry challenge. In-fact, this challenge extends beyond the glove industry in Sri Lanka. It is because of climate change and an ongoing disease affecting the world's rubber trees. There is a multi-industry shortage of this raw material(Jenson & Shutterstock, 2023). With the lack of sufficient raw materials, the company was unable to sustain itself, in the face of continuity of operations (it could not produce enough to remain operable) and the maintenance of the products' quality. Such a situation would force any business, including the ABC company, to stretch its raw materials, thereby hampering the product constancy. This affects profits; the ABC company's profits were affected. Further, this may well be the reason for the numerous customer feedback (negative). Since a change in the quality and standard of the product will certainly result in a change in customer preferences, high incidences of rework- leading to accumulation in work -in-process and the other follow-on issues (shipping re-schedules, etc). As stated in the case study instructions, companies like the ABC company in the modern business world, are facing common issues of, among others, competition from regional players, regulatory and compliance risks. Since these are industry issues, the ABC company would have failed strategically, due to its failure to collaborate with its competitors, or at least, its major competitor. By forming a strategic alliance, the ABC company could have reaped the many benefits of this strategy. A strategic alliance can strengthen both companies

Volume 12 Issue 5, May 2023

www.ijsr.net

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against outsiders, even if it weakens one partner in the process (Hamel et al., 1989). Successful companies, in other industries, have been forming strategic alliances and they benefited from the alliances, in the form of technology and other skills sharing (Hamel et al., 1989). For example, General Motors and Toyota assemble automobiles (Hamel et al., 1989). A more recent example is the strategic alliance of Pfizer and Merck, they collaborated to produce new cancer treatment as soon as possible.

Labour Shortage

Another major challenge for the ABC company is the shortage of labour for the production of the products. In early 2022 Sri Lanka started to experience power cuts and shortages of basic survival items like fuel (Perera, 2023). There was little or no fuel for the buses and other public transportation and there was eventually a ban on selling fuel to non-essential vehicles for two weeks- fuel remained severely restricted (Perera, 2023). As a result of this economic crisis, schools were closed and people were asked to work from home to help conserve on supplies (Perera, 2023). These actions, coupled with the earlier COVID-19 pandemic, which resulted in lockdown and other contaminant measures, all outside of the control of the ABC company, severely affected the company's manpower, upon which it is heavily dependent. As long as employees are leaving a business in droves, thereby causing a high turnover, it becomes a problem (Freedman, 2023). It is crucial to maintain a consistent workforce, since changes come with its costs and variations in quality (Freedman, 2023). As stated in the case study instructions, the ABC company was, over the last few years, faced with high employee turnover. Learning what your employee turnover rate is and identifying the causes, in order to implement successful strategies, would improve the control over the situation of retention (Freedman, 2023). Strategies such as identifying clear career paths, recognizing and rewarding employees, creating learning and development programmes; among other strategies are measures to control employee turnover (Walden University, 2023).

Poor Decision Making

A great barrier to success is that of poor decision making. As a result of poor decision making, there can be issues such as wastage of resources, increase in operational costs and adverse effects on the accomplishment of goals and objectives (Gulati, 2021). Further, poor decisions can lead to blunders, miscommunications leading to incidences and fatalities (Gulati, 2021). It was mentioned that a poor decision was made in the ABC company two years ago, which resulted in the company facing lots of internal problems; including operational and performance issues. Based on Dr. Gulati's account of poor decisions, these results are expected. ABC company may have failed strategically by failing to establish and maintain proper communication within the workplace. Lack of or diluted/insufficient information leads to poor decision-making (Kortas, n.d.). With issues such as an organization structure which hinders proper 4Cs among the departments and the high employee turnover, it is quite possible that the management would have been disconnected to the necessary feedback from the staff and operations workers; information from the lower-level workers is crucial. In-fact, many

authors would have researched and published the importance of employee involvement in the decision-making process, even for large businesses. According to Dara Fontein (2021), a popular copywriter and content creator, employee involvement ensures that through collaborative decision-making processes, both the employees and the leadership team are responsible for the organization's success. Fontein went on to say, that employee involvement leads to improved organizational decision making, improved employee morale, revenue and productivity (Fontein, 2021).

The Organizational Structure

The organizational structure is a framework, within which managerial and operational tasks are performed (Khan, 2021). An organizational structure is a network of positions, responsibilities; authority at the different levels within an organization (Khan, 2021). Organizational structures ensure a better flow of communication, organizes all of the operations (better coordination within the company), it allows for correlation and coordination among human, physical and financial resources and it clearly defines the levels of management and the span of control under each level (Khan, 2021).

Functional organizations are best suited for large companies (UpCounsel, 2020). The ABC company currently has a mechanistic organizational structure, which is functional by design. Meaning, it is divided by functions, roles, skills or departments; characteristics of a functional organizational structure. This type of organizational structure is usually an efficient way to run businesses. However, they are not without their drawbacks, which can hurt the companies (UpCounsel, 2020). Among the issues generated as a result of the ABC company's organizational structure are- the lack of 4Cs among the technical departments and matters relating to the adaptation to change. These are expected issues, since with functional organizational structures, there are underlying problems with communication and cooperation between departments and units (these may be poor) and the employees tend to compete between each other; departments concentrate on their own goals; adaptation to change is more difficult (Bhide, 2018). All of which are the challenges being faced by the ABC company. Therefore, indeed, their organizational structure is negatively impacting the performance of the technical department and by extension, the entire company. In order to curb these issues, the ABC company can introduce information systems. These greatly improve the flow of information (vertically as well as horizontally) (Study Smarter, n.d.).

ABC Company's Organizational Structure

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ABC company's organizational structure is a mechanistic organization with functional departmentalization. These types of organizational structures are characterized by a relatively high degree of specialization, rigid departmentalization, many layers of management, narrow spans of control, centralized decision-making and long chains of command (OpenStax, 2023). They are tall structures.

Mechanistic organizational structures allow employees to understand their duties and implement them effectively (Indeed, 2022). They are cost efficient structures which provide stability, unified decision-making, clear communication channels (vertically) and they make management easier (Indeed, 2022). However, they are generally inflexible, encourage autocratic behaviour, stimulate overwork and reduced productivity (Indeed, 2022).

There are, however, ways to mitigate the negative effects of the mechanistic organizational structure. These include, but are not limited to ensuring every team understands its roles, holding regular departmental meetings to apprise the employees about the departments' and the company's progress or issues, maintaining an employee handbook, which includes the responsibilities of each employee; establishing a communication platform, such as an ICT based platform (Indeed, 2022).

The mechanistic organizational structures work well in stable environments (Lumen, n.d.). However, in the case of the ABC company, the environment is highly unstable. There are factors such as commodity price fluctuations, shortage of labour, regulatory and compliance risks to the companies in this industry. As such, the ABC company's current organizational structure is not suitable for the business.

Structural Dimensions of ABC Company

Essentially, there are three types of organizational structures- Vertical (functional [ABC company] and divisional), Vertical and Horizontal (Matrix) and Boundary-less or open boundary (modular, virtual and cellular) (SHRM, 2023).

Structural dimensions represent the internal characteristics of an organization. These characteristics include complexity, specialization, centralization, hierarchy of authority, personnel ratio, formalization, centralization and standardization (Seyedin et al., 2014).

According to the Society of Human Resource Management, there are five elements which create an organizational structure: job design, departmentation, delegation, span of control and chain of command (SHRM, 2023). The ABC company will be analyzed using these five elements.

Job Design

Job design refers to the way that a set of tasks, or an entire job, is organized. It helps to determine what is to be done, how it is to be done, how many tasks a particular employee is to do and in what order the tasks are to be done (Canadian Centre for Occupational Health and Safety, 2018). The ABC company is a highly specialized company. The organization

is departmentalized in a functional manner as a result of the company being in the manufacturing industry. Each employee has his/her job which they know they must do on a day-to-day basis, which they would have become specialized in performing. Further, through job design, the employees of ABC company are safe from work overload and the organization, from under-utilizing the employees. The current system of job design at the ABC company should be maintained.

Departmentation

The employees of the ABC company are grouped into departments, based on their functions and specialization. This is done for efficiency. However, this creates, as in the case with the ABC company, horizontal communication, and coordination issues in the day-to-day operations. Further, since the staff are confined to their specialization, they are oftentimes oblivious to the overall goals of the organization. In the specific case of the ABC company, the unfamiliar merger of the compounding section (which is purely science-based) with the unrelated production department, would have caused some issues with communication, collaboration and coordination among the compound, process and Research and Development departments. To resolve such issues, the compound section should be with the related technical department and there should be a platform for the facilitation of horizontal communication and an appointment which would act as a point of coordination.

Delegation

The ABC company's organizational structure, being mechanistic and functional, sets out its delegation throughout the organization. The employees of the ABC company are delegated authority and functions, based on their specialization. However, responsibility remains with the functional managers. As a result of this, since the ABC company has centralized decision-making, the functional managers are not given responsibility for systems which are as a result of decisions made above them.

Span of Control

The number of subordinates which can be managed effectively and efficiently by supervisors and managers in an organization is called span of control (The Human Capital Hub, n.d.). There is no right or wrong with adopting narrow or broad spans of control; they all have their merits and demerits. The ABC company has a narrow span of control, which should be conducive for better productivity, more control, better decisions and better communication (Nasrudin, 2022). However, notwithstanding the advantages of narrow spans of control, the ABC company still experiences many day-to-day issues on the shop floor. These issues may be linked to the inexperience of staff, because of the high rate of employee churn in the company within the last few years. This can be corrected by effective retention strategies in the form of proper communication platforms, and effective job and organization structure design and implementation.

Chain of Command

When we speak of chain of command, we speak of the different levels of command within the organization; who

employees should report to directly (Strategic CFO, 2018). A good chain of command improves accountability, improves efficiency, provides clarity for employees, raises their morale, and makes it easier for employees to see their career path (Strategic CFO, 2018). The ABC company has a mechanistic functional organizational structure, with a vertical chain of command, therefore, command is top down, and it is strong, since junior employees can see, based on the organizational structure, exactly below who they fall. There is, however, an issue of horizontal communication among departments. Along with the necessary digital communication platform, an additional level of management, which would serve to control the departments/functions which depend upon each other (unify them), would provide an effective means of horizontal communication among those departments, thereby increasing productivity and efficiency.

SWOT Analysis- ABC Company

SWOT analysis is one of the most effective business and decision-making tools. It can help you to identify the internal and external factors which are affecting your business (Business Queensland, 2022). At annex A, is a table with details of ABC company's SWOT. The ABC company has a staff of employees who are experienced in the industry. Among these are qualified staff, who are highly specialized. As a result of the mechanistic organizational structure, there is strong vertical communication, clearly defined span of control and lines of authority and strong departmental bonds. The weaknesses are, however, overwhelming. The ABC company has a high dependency on manpower, and they lack adequate retention strategies, possess poor process management and decision-making processes/skills. As a result of these, they have recently been producing products of poor quality, heavy backlogs and large work-in-process. Since they have an ineffective organizational structure, they are faced with poor horizontal communication and with the recent rotation of their production manager, there is a lack of experience in his new appointment. Since the ABC company produces protective equipment, the COVID-19 pandemic presented the company with an opportunity with increased buyer demand, new geographic markets and the prospect of expansion into new products. Notwithstanding these

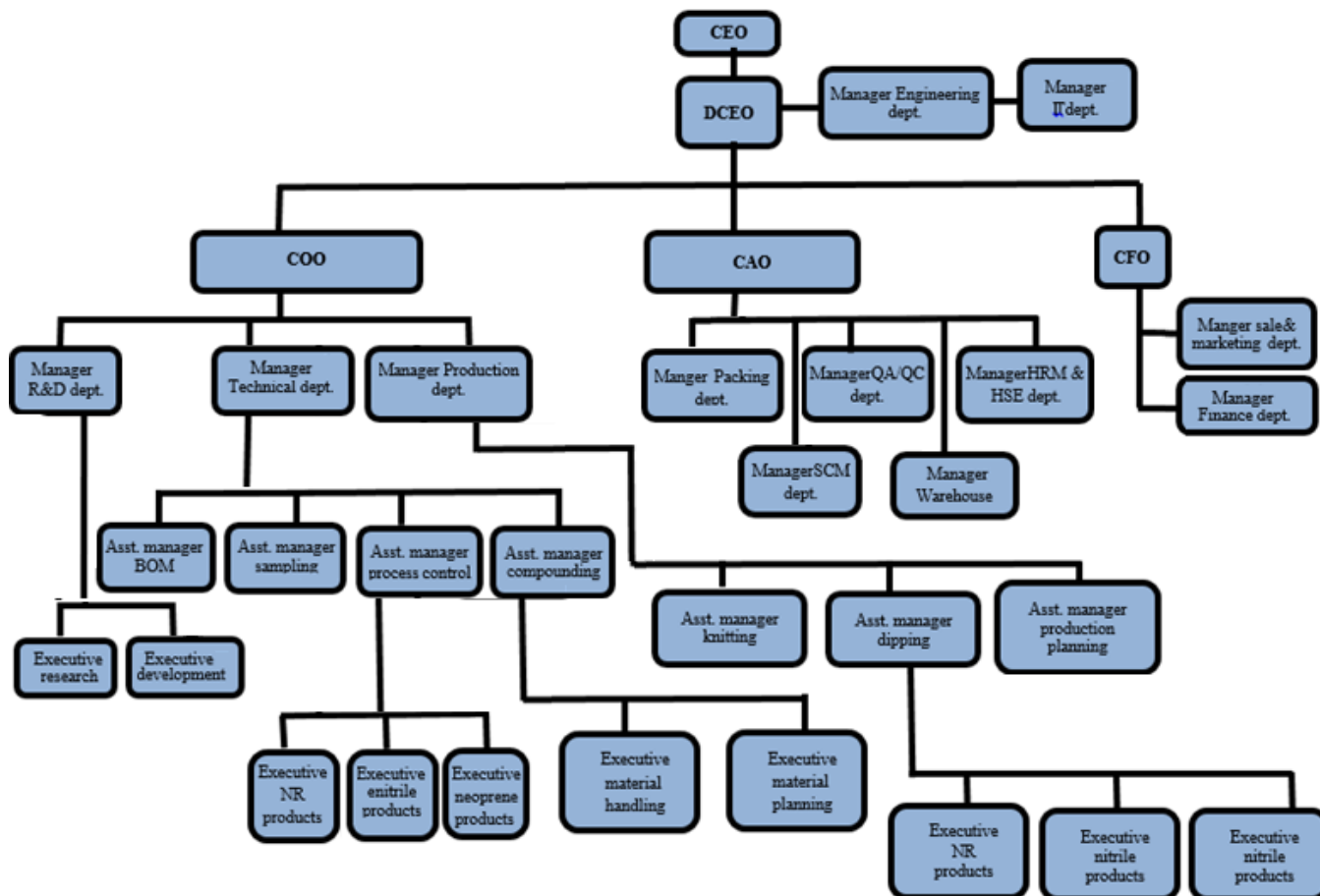
opportunities, the company is faced with the threats of the dying rubber trees (globally), likely entry of new competition, competition from regional and international players, evolution of customer preferences and satisfaction, climate change which is causing price fluctuations, non-availability of raw materials and labour shortage. To begin with, many of the weaknesses can possibly be mitigated to some degree by simple adjustments/redesign of the company's organizational structure.

McKinsey 7S Model- ABC Company

The McKinsey 7S model is a tool that analyses a firm's organizational design, by looking at 7 internal elements- strategy, structure, system, shared value, style, staff and skills, in order to determine if they are effectively aligned and allow the organization to achieve its objectives (Jurevicius, 2023). The McKinsey 7S model was applied to the ABC company, and below is a synopsis of the results. The ABC company needs to redirect their strategy towards effective 4Cs, especially communication across the entire organization, the reduction of WIP and the other daily issues experienced by the company, so as to take advantage of the available opportunities. ABC's ERP needs to be supported by other sub-systems, in order to fully automate the essential functions and there is need for related functions to be grouped and a link for effective communication to be established. The Soft Ss, the company leaders need to adopt a more transformational type leadership style and encourage all employees to have a shared value of customers' importance, while endeavouring to deliver quality products to the stakeholders of the company. The horizontal gaps in communication need to be bridged in order for the company to achieve its objectives. Finally, there should be unifying managers in the structure, while the production manager, needs to be reassigned to his specialized area. The detailed results are at annex B.

2. Recommendation- Structure

With the aim of developing the ABC company, the following organizational structure is recommended:

**Key:**

CEO- Chief Executive Officer

COO- Chief Operations Officer

DCEO- Deputy Chief Executive Officer

CAO- Chief Administrative Officer

CFO- Chief Finance Officer

Essentially, the proposed organizational structure recommends the following changes:

- 1) The General Manager was replaced by Deputy Chief Executive Officer and the Assistant general manager was replaced by three other executives (Chief Operations officer, Chief Finance Officer and Chief Administrative Officer), among whom, the responsibilities for the various functional departments were grouped and divided. However, two departments were placed under the management of the DCEO.
- 2) Research and Development, the Technical Department and the Production Departments were grouped and placed under a unifying executive; point to note, the compounding section was returned to the technical department. This way, effective horizontal communication will be facilitated, so as to mitigate the issues the ABC company is experiencing.

Benefits of the Recommended Structure

The following are the benefits of the recommended structure:

- 1) There are unifying executives above the technical and other highly specialized department managers. They report to the DCEO, as such, the horizontal communication gap will be bridged.
- 2) Contrary to the original structure, where the Assistant General Manager had a wide span of control, the

unifying executives have smaller spans of control and they control like functions; functions with which, they are familiar with their job designs.

- 3) Like functions are grouped, so that they can support each other better and avoid miscommunications, delays and wastages.
- 4) Employees will be more comfortable with their chain of command, as a result of them sharing the same knowledge with their superiors, thereby providing an environment with a sense of belonging; they will be stay in the organization for longer periods.
- 5) The risk of fights among employees will be reduced, if not completely eliminated.
- 6) All other daily issues will be avoided, since like functions are working together, under specialized leaders, who will be communicating with each other at the top level of the organization.

Recommendation to Sustain the Changes

In order to sustain the major changes to achieve the desired outcome, there must be a system of monitoring and evaluation. Since the proposed changes will change the organizational culture and increase the flow of information, the strategic leaders of the ABC company can use these to their advantage to monitor how the lower-level employees are reacting to the changes. The employees' performance can be measured by the productivity of the company. There can be increased productivity demands, as a tool of measuring

the impact of the changes. Further, the employee churn or retention will be an indicator of the impact of the changes.

3. Conclusion

The glove manufacturing ABC company in Sri Lanka, would have failed to apply the 4Cs effectively, thereby resulting in strategic failures. There were numerous challenges and day-to-day issues, which included the supply of raw material, labour shortage and an ineffective organizational structure. Professor Chandler defined strategy as the determination of basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals. According to Morelock, the 4Cs combined is the pinnacle of teamwork and success. He believes it creates a foundation for a successful and productive team, which is the sure to bring incredible results. The structural dimensions of the company were analyzed and a SWOT and McKinsey's 7Ss analysis were done. The concluding results were a redesigned organizational chart, which ensures horizontal communication, reduced responsibilities for top managers and effective grouping of specialists. In order to ensure the changes are sustained, it was recommended that continuous monitoring and evaluation be done and the increased productivity demand was further recommended as a tool for measuring the impact of the changes.

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Annexes

Annex A- SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Experience in the industry • Qualified staff • Highly specialized (efficient) • Strong vertical communication • Clearly defined span of control and lines of authority • Strong departmental bonds 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Heavy dependency on manpower • Retention strategies (or lack of) • Poor decision-making • Poor process management • Poor product quality • Heavy backlog • Large work-in-process (WIP) • Ineffective organizational structure • Poor horizontal communication • Production manager newly rotated to the position
<p>Opportunities</p> <ul style="list-style-type: none"> • Rise in buyer demand (COVID-19 and other diseases); increase productivity • New Geographic Markets • Expansion into new products through the talents of other sections 	<p>Threats</p> <ul style="list-style-type: none"> • Dying rubber trees (globally) • Likely entry of new competition • Competition from regional players • Evolution in customer preferences and satisfaction • Climate change (price fluctuation) • Non-availability of raw materials • Labour shortage

Annex B- McKinsey 7Ss Model

<p>Hard Ss</p>	<p>Strategy-There is no clear strategy which will achieve a competitive advantage. The current strategy allows for shipment delays, heavy WIP, poor 4Cs and other issues which only serve to hurt the company. The current strategy needs to be redirected towards effective 4Cs, especially communication across the entire organization, the reduction of WIP, backlogs reworks and rejects and the improvement in the product quality, so as to take advantage of</p>	<p>System-The ABC company uses ERP. This is good, but it needs to be supported by other support systems, in order to fully automate the essential functions and lead the company into to less manpower-dependent company.</p>	<p>Structure- Functional mechanistic organization with strong chain of command and vertical communication. Lacks, however, effective horizontal communication. There is need for related functions to be grouped and a link for effective horizontal communication be established.</p>
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	the opportunities available to the company.			
Soft Ss	<p align="center">Style-</p> <p>The mechanistic structure of the ABC company has led to a rigid management style, which more resembles a transactional style of leadership. Though this is effective in some setting, it has proven to be ineffective in the ABC company. A more employee-centric management style like transformational might be more effective in retaining the employees.</p>	<p align="center">Shared Values-</p> <p>The current shared values of the company is not clearly defined. The employees have internal issues with each other and there is a high employee turnover. The company needs to promote a shared value of customers' importance. All employees should endeavour to deliver quality products to the stakeholders of the ABC company. Only this way, can the company develop and sustain a competitive advantage.</p>	<p align="center">Staff-</p> <p>The staff of ABC company is highly specialized as a result of the functional nature of the organizational structure. They are focused on their own functions, which has created gaps in communication (horizontal) and the achievement of the company's objectives.</p>	<p align="center">Skills-</p> <p>The employees of ABC company is highly specialized in the industry. With the exception of the production manager, all other employees are functioning within their skill set and this can be effective and efficient. To achieve this, however, the company needs to reassign the production manager to his specialized area and placing unifying managers among the functional sections/departments.</p>