

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF BUSINESS MANAGEMENT**

**STRATEGIC MANAGEMENT II – CBU 4207**

**FINAL EXAMINATION – APRIL 2014**

**TIME ALLOWED: 3 HOURS 30 MINUTES**

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**INSTRUCTIONS TO CANDIDATES**

Answer question **one** and any other **three** questions from section B.

**INFORMATION TO CANDIDATES**

- (i) Question **one** carries **40** marks.
- (ii) All questions in **Section B** carry **20** marks each
- (iii) Questions may be answered in any order.
- (iv) As much as possible, use relevant examples.
- (v) This paper contains **seven** questions.

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**SECTION A (Question 1)**

***CASE STUDY: HEWLETT-PACKARD; ACQUISITION AND RE-ORGANIZATION***

On May 13, 2008, Hewlett-Packard (HP) announced its \$13.9 billion acquisition of Electronic Data Systems (EDS), a technology services company. Together, HP and EDS formed a formidable tech services provider with \$38 billion in revenues. It enabled HP to better compete with IBM, which controlled more than 7% market share of the \$748 billion market for services. Tech services included managing the data centers of large companies and governments, or handling entire functions such as personnel or claims processing. At the time of the acquisition, IBM was the leading firm in the area, with EDS in second place with much lower profit margins, and HP following in fifth place.

Founded by Ross Perot in 1962, EDS pioneered the business of outsourced data management. Perot sold EDS to General Motors (GM) in 1984, but GM was unable to obtain any synergy with the purchase and spun off the company in 1996. EDS profits turned to losses during the technology downturn in 2000. The company eventually became profitable once again, but with smaller margins. EDS had been slow to respond to the threat of Indian rivals offering services at sharply lower prices. The company did increase its overseas operations and bought control of Mphasis, an Indian services company.

However, Venkat Venktraman, chair of the Information Systems Department at Boston University's School of Management said, "The services sector is going

through a shift, and this merger doesn't address the global service delivery challenges that HP faces."

Founded in 1940 by Dave Packard and Bill Hewlett in a garage in Palo Alto, California, Hewlett-Packard soon developed a reputation for making high-quality testing and measurement devices. Emphasizing their engineering roots, the two founders worked hard to develop the company's strong corporate culture. Their philosophy of managing became known as the "HP Way," composed of five basic values:

- We have trust and respect for individuals.
- We focus on a high level of achievement and contribution.
- We focus on a high level of business with uncompromising integrity.
- We achieve our common objectives through teamwork.
- We encourage flexibility and innovation.

These values continued to be emphasized by the CEOs following in the founder's footsteps. Until Carleton (Carly) Fiorina was hired as CEO in 1999, HP had been primarily known for its engineering excellence, but not for its marketing. For example, it developed the first handheld calculator, a quality product long cherished by engineers, but never developed or priced for the mass market. Fiorina lamented that Dell offered information technology products that were "low-tech and low cost; and IBM offered "high-tech and high cost," but HP was stuck somewhere in between them. She wanted to offer customers "high-tech and low cost" by improving the marketing of the company's outstanding products. During her tenure, HP acquired Compaq, the personal computer company. She also tried to buy the computer services unit of PriceWaterhouseCoopers in 2000, but lost out to IBM. Problems with integrating Compaq's middle-market orientation with HP's top-end orientation led to her firing by the board in 2005.

Fiorina was replaced by Mark Hurd, known to be a disciplined operations manager, who vowed to focus on implementation. Hurd had come to the company from Dayton, Ohio's NCR, where he had been President and CEO. Hurd dumped the matrix management structure initiated by Fiorina and gave responsibility back to the unit managers. According to Hurd, "the more accountable I can make you, the easier it is for you to show you're a great performer. The more I use a matrix, the easier I make it to blame someone else." He also broke up the centralized sales force and assigned sales people to each business unit. The SBUs now controlled over 70% of their own budget expenses, up from just 30% under Fiorina. Among other changes, Hurd hired executives from outside the company and cut costs by laying off 14,500 workers from a workforce of 150,000. Working with Prith Banerjee, the HP's new director of R&D, Hurd made HP's famed research lab more efficient by cutting the number of projects from 150 to 20 or 30. Researchers would now be competing for money and manpower by proposing projects, complete with business plans to a central review board. Hurd knew that he had to make further changes to improve HP's competitive position. HP's corporate computing business seemed incapable of

competing against IBM and Dell. Margins were slipping in the printer business, the source of 85% of HP's profits.

Further, Hurd also re-organized Hewlett-Packard into three main groups: Imaging & Printing (27% of revenues), Personal Systems (35%), and Technology Solutions, which was composed of the Enterprise Storage & Servers segment(18%), HP Services segment (16%), and HP Software segment (2%). An additional business segment was Financial Services & Other (2% of revenues). Even though Hurd was working hard to change the company by tightening up HP's operations, many of HP's middle managers still subscribed to the gentle, collegiate "HP Way." This culture fit the relaxed and casual style common to California's Silicon Valley and was part of the company's soul. People ate *ahi tuna* in the cafeteria. In contrast, EDS was founded in Plano, Texas, by the hard-charging entrepreneur, Ross Perot, who ran for U.S. president as an independent in 1992 and 1996. Reflecting Perot's no-nonsense style, the EDS corporate culture was military, buttoned-down, and staid. People wore ties and ate steak and fries in the EDS cafeteria. This is the kind of culture which Hurd sought to entrench at HP, creating uncertainty in terms of values, behaviours and consequently the overall performance of firm.

One advantage of EDS was that it was the largest services firm that was independent of any hardware or software vendor. According to CEO Hurd, even though EDS would continue to advise clients to buy systems from all vendors, those clients would now be more likely to pay more attention when the boxes came from HP. Nevertheless, one disadvantage of the acquisition was the likely culture clash that would result from integrating EDS into HP's operations. Even though one analyst commented that Hurd's military and operations style culture made him "an EDS guy sitting on top of the HP Way," others wondered if the EDS acquisition would be as problematic as was the Compaq merger.

Source: Adapted from Hunger D,J and Wheelen T,L (2008), *Strategic Management and Business Policy*, 12th edition, Pearson, Boston

**REQUIRED:**

(a) Discuss the effectiveness of the changes implemented by new HP Chief Executive Officer, Mark Hurd in relation to improving organizational performance.

**[16 Marks]**

(b) Assess the likely implications of the cultural change Mark Hurd sought to make at HP.

**[9 Marks]**

(c) How can new Chief Executive officer, Mark Hurd build a capable organization with capabilities, competencies and resource strengths to implement its strategies successfully? **[15 Marks]**

## **SECTION B**

### **QUESTION 2**

'Business analysts recommend a broad range of metrics to evaluate the success or failure of a strategy. 'Evaluate the **three** main methods being used by organizations to measure corporate performance. **[20 Marks]**

### **QUESTION 3**

'For blue ocean strategy, which represents a significant departure from the status quo, the execution bar is raised for managers'. Discuss how managers can successfully execute blue ocean strategy given the obstacles they face. **[20 Marks]**

### **QUESTION 4**

Given that various factors have coalesced to intensify competition in global markets thus making it strategically compelling for businesses to restructure, explain the drivers of restructuring in organizations. **[20 Marks]**

### **QUESTION 5**

Given the inevitability of conflict in strategic management of organizations, discuss any **four** conflict resolution strategies that could be employed to deal with conflict in organizations. **[20 Marks]**

### **QUESTION 6**

'Designing the right combination of structure and control system to support business level strategy is a continuation of designing an organization`s functions'. Discuss how organizations match structure and control systems with their business level strategy to drive their market competitiveness.

**[20 Marks]**

**QUESTION 7**

'The more complex the organization, the higher the bureaucratic costs of managing it.' Assess the problems associated with a high level of complexity in organizations.

**[20 Marks]**

**END OF EXAMINATION PAPER**