

UNIVERSITY OF SWAZILAND
FACULTY OF COMMERCE
DEPARTMENT OF BUSINESS ADMINISTRATION
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TITLE OF PAPER: STRATEGIC MANAGEMENT I
COURSE CODE: BA440/BA504
YEAR OF STUDY: YEAR 4 (FULL TIME)/LEVEL 7 (IDE)
TIME ALLOWED: 3 HOURS

INSTRUCTIONS:

- 1. This paper consists of Sections A & B.**
- 2. The Case Study (Section A) is compulsory.**
- 3. Answer any three questions from section B.**

Note:

**THIS EXAMINATION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS
BEEN GRANTED BY THE INVIGILATOR**

SECTION A

This section is compulsory

Oracle's related constrained diversification strategy.

Oracle has been diversifying its software business in a related way through a significant acquisition programme. In 2008 alone, it made 10 acquisitions of smaller software producers and companies that develop software production tools. Oracle, although hurt by the current economic downturn, retained over €10 billion in cash by the end of 2008 allowing it to pursue its acquisition strategy.

Historically, Oracle has been the largest player by market share in the "database" management software industry. Nonetheless, in 2003, it started buying large software makers including PeopleSoft (this was a hostile takeover bid which did not close until January 2005). It also bought Siebel Systems, Hyperion Solutions, and early 2008 acquired BEA Systems for approximately €7 billion. Collectively, the company has spent near €20 billion on acquisitions between the year 2004 and 2008. Oracle's positioning has changed and it now derives more from Enterprise Resource Planning (ERP) software (its largest acquisition –for example, PeopleSoft, Siebel Systems and BEA Systems), and less from database management as it seeks to combine the whole company and its different segments to position itself as a strong competitor against SAP –the largest player in ERP. Additionally, Oracle's maintenance contracts have helped offset some of its lower sales in basic software in the down cycle. However, over time, the customers might protect the margins associated with these maintenance contracts and seek to cut back on them during recession.

The pursuit of acquisition has created a challenge due to the extra complexity of the various systems and different cultures associated with the acquired firms. In order to manage its strategy and to compete in a more focused way, Oracle has targeted specific industries to allow it to compete more effectively such competitors as SAP. These industries include financial services, insurance, retail and communications. It set a goal to be the number one or number two software supplier in each of these industry segments.

The difficulty, however, is to organize and coordinate these acquisitions into a cohesive set of business by which Oracle can create economies of scope through more efficient management techniques. This is somewhat hindered by the differences in cultures and structures of its acquisitions as mentioned previously. The benefit has been that the assets have been purchased at a lower price because the private equity investors' (i.e., venture capitalistic) funding has decreased 80 per cent and thus Oracle's funding has been the means for these firms to obtain funding. Thus, corporate venture capital has been a mainstay for firms in the Silicon Valley in the US in which Oracle has done much acquisitions activity. In summary, the organizational integration aspects have prevented much of the possible sharing of activities that this strategy requires to be successful. Oracle's continued success will be determined by how far its share price falls relative to its costs of acquisition of these new businesses and its ability to integrate these acquisitions into a cohesive structure that will allow the sharing of activities to take place more efficiently. It is important that central headquarters implement controls to foster the sharing of activities between related divisions for success to occur.

Questions Accompanying the Case

1. Discuss the primary reasons that account for the failure of integration in the diversified corporation? (20)
2. In this case how would you suggest Oracle manages the acquisition and why? (20)

Section B

Answer any three questions from this section.

Question 1

Discuss the concept of moral relativism and explain how it affects ethical behaviour.

(20)

Question 2

From a standpoint of making profit, how would you rate the threat of entry to be, in an industry such as the retail sector, for an organisation such as Shoprite. (20)

Question 3

Michael Porter argues that if an organisation tries to pursue both differentiation and cost leadership, they will be stuck in the middle and will lack a proper strategy orientation. Discuss this statement in relation to the Best Cost Provider strategy.

(20)

Question 4

Critically assess the usefulness of the BCG growth matrix as a portfolio analysis tool.

(20)

Question 5

It is believed that “a company such as BMW has core competencies in design and engine technology, which are then basis of its reputation for high-quality and high-performance cars”. Explain fully, under five headings, what is meant by this statement and why it is important in sustaining its differentiation strategy? (20)