

The Blue Sky Software Consulting Firm

Case for Management and Leadership Program Assessment

The Blue Sky is a fifteen-year old software-consulting firm. It was founded by Max Blue, who was until last year its CEO and Chairman of the Board. Blue has stepped down from the CEO role, but remains Board Chairman. The new CEO is Jim Willis, who joined the company as VP for the HR software division five years ago. Before coming to Blue Sky Willis was an executive with a major accounting/consulting firm.

Blue Sky is divided into three divisions:

Machine Tool Software—This division develops machine tool software used in the auto industry. Some of the software is utilized by the major manufacturing companies, but mostly they serve suppliers of parts and components.

HR Software- This division has developed Human Resource Management software to be used in the retail industry. Their major client has been the Best Dollar Retail Chain, which sells upscale style, but affordable clothes for teenagers. They have retail locations in most parts of the country, except for the mid Atlantic and New England states. Most of their stores are in medium to small cities.

Health Payment Software- This division has developed software for state governments to help manage their Medicaid provider payment systems. They provide this software for 15 states scattered across the country.

Each division is headed by a Vice President:

Machine Tool—Michael James- was one of the founders of the company, and has been with Blue Sky since the beginning as VP for Machine Tool Software. This was the first business line for Blue Sky.

HR Software- Mary Garrison- she has just started with Blue Sky, and replaced Willis when he became CEO. She had previously been an Associate VP for HR Technology at Best Dollar, and was the major point of contact with them. Thus, she was very familiar with the HR software produced for Best Dollar. She was a computer science major at State University.

Health Payment- Jeff Roberts has been with Blue Sky for seven years and VP of the health payment division for the last two years. Before joining Blue Sky he was a hospital administrator responsible for the hospital IT system.

The CFO is Karl Counts, who has worked in the finance department since the beginning of the company. He has been CFO for the last ten year.

The newest member of the Executive team is Susy Hubres, who last year assumed the position of Director of Planning and Marketing. She graduated from Harvard's MBA program the previous year. She was hired by Max Blue shortly before he retired as CEO. Susy is the daughter of a long-time friend of Blue.

✓ Blue Sky also has five regional offices: North, South, Central, West and East.

Forty percent of the Blue Sky employees work in the regional offices. The rest work at ✓ the corporate headquarters in Cleveland Ohio.

✓ All those who work in the Machine Tool division are located in Cleveland. Three of the largest Medicaid accounts are run from the Cleveland HQ. The other health payment clients are served from the regional offices.

The regional offices were set up originally to serve the Best Dollar chain client. About 80% of the HR software work is performed in the various regions. Only a few centralized design functions are at the Cleveland headquarters.

Each regional office has a director, who is responsible for technical output and client service in that region. Service is an important part of the business, and the regional directors have all come from the service side of the business rather than the technical side.

7 As you read the case issues below you will be asked to assume the role of a consultant who has been hired by Willis to write a critical analysis of the issues facing Blue Sky. Willis has told you he wants an honest critique and recommendations and has not indicated any personal preferences to you. But, Willis does want you to draw on the Management literature in your report.

Problems and Issues

In the last few months CEO Willis has become concerned about several issues with a potential impact on Blue Sky. [Susy Hubres is pressing him to institute a strategic planning process.] Max Blue never liked to have meetings, and thought planning was a waste of time. Thus, Blue Sky never had a formal strategic plan.

Susy has written a memo to Willis proposing a three-day retreat for Blue Sky executives. The main agenda for the meeting would be the development of a ten-year strategic plan. In her memo Susy relates how she took three courses in planning at Harvard, and believes she is the best person to conduct the planning retreat and process. In the memo she asks for authority to hire two new people in her office. Both would be planning analysts, who would develop planning models using corporate and industry data.

In her memo Susy cites several issues of concern. First, the decline of the American auto industry because of the current economic environment. Blue Sky has been the major source of machine tool software in the industry. Secondly, some client companies have recently cut back on contracts with Blue Sky in favor of outsourcing work to India at 20% of what they would need to pay Blue Sky for the same work

Jeff Roberts, VP of the Health Payment Division, has recently informed Willis that there is an ongoing federal grand jury investigation with a focus on the Southern Regional office. The U.S. Attorney is investigating allegations of illegal contributions made to the Governor as a quid pro quo for state contracts. Also, the Western regional office made a serious coding error that nearly cost Blue Sky the whole HR software line of business with Best Dollar. Mary Garrison is making the argument that more control centralization at HQ is essential for the continued viability of this division. She is proposing the closure of two of the five regional offices with a transfer of about half the professional employees in the HR software division to the Cleveland office. Garrison argues this will allow her to more personally supervise this activity. Since she has come from Best Dollar, Garrison believes she has a clear sense of their needs.

✓ Susy has concluded the HR line of business is too narrow in its focus on one client, and has suggested aggressive pursuit of new clients in the retail field. Garrison has resisted this approach with the argument that the whole HR software system is tailored for Best Dollar, and they would resist essentially sharing their HR software with competitors.

If the HR software business were centralized in Cleveland, the rationale for the system of regional offices would be weakened. They were developed ten years ago specifically to serve Best Dollar whose stores are in most parts of the country.

Jeff Roberts has a small R/D office in his division, and they have begun to lay the groundwork for moving to develop an information system module that might be sold to hospitals as part of the move toward electronic medical records. The CFO claims the pursuit of this strategy would take a significant technical and financial investment to develop and sell such a product. He does not think the company has the financial resources to do this, and fears the taking on of substantial debt to pursue this project is very risky.

Historically not only has the level of autonomy of the regions been an issue, but there is also the question of how they should be involved in decision-making.

Decision-making

Max Blue was a very talented software engineer, who personally led the effort to develop the three main software programs, which are the main competitive advantage of Blue Sky. Even his greatest admirers would admit that Max was an autocrat. Mostly a benevolent autocrat, but as he often said, "This is my company, and I know best how to run it." Health problems have slowed down his level of physical activity so Willis thinks

Max will live up to the promise to stay out of operations that he made when he offered the CEO position to Willis.

But, Max's autocratic nature has led to a somewhat passive culture in which most key participants tend to wait for the "boss" to give orders. Suzy has been somewhat outspoken in her critique of this culture. But, everyone gets along well, and there are few of the personal battles that poison the atmosphere in some companies.

The regional directors are all younger and have been with Blue Sky a relatively short time. They started with Blue Sky in the sales and customer service part of the business, and have less technical knowledge. They would like to be more aggressive by expanding the business by seeking new clients and new product lines. The directors have typically only been involved in the Executive team meetings when there is a specific issue related to the regional offices. Willis has wondered if the dynamics of the decision process for the Executive Team would be enhanced if the regional directors were more systematically involved.

Willis is by nature more collaborative than autocratic. He has experimented with a more collaborative decision-making process in his weekly meetings with the VPs. As a group they do not seem to have a facility to come to a consensus decision. After a period of discussion, they seem to look to Willis to make a decision.

- Since the company has been successful most of the executives and employees who have been with Blue Sky *for a while* are financially well off. Many of these older employees seem to be coasting toward retirement, and are not very interested in company expansion, especially if this carries some risk. Much of their retirement fund is tied to Blue Sky. Thus, the older generation tends to be satisfied with Blue Sky as it has been. They are mostly risk averse on new initiatives.

A Major Decision

* An example of the recent decision-making process at Blue Sky is found in their dealing with product pricing in the Machine Tool Division. CFO Counts initiated this discussion in the Executive Team by presenting a report showing steady downward trend in the net revenue for this division. Gross revenue has over the last five years increased about 1% per year on average, but expenses have increased an average of 5% per year. If this trend continues for three more years, the division will no longer be profitable.

Willis scheduled a special meeting for this to be discussed by the Executive Team. At the meeting James stated the problem was a decision a few years ago to head off further decline in the volume of business by holding the line on charges for the product. The threat is the aggressive behavior of Indian software companies in seeking the business. This decision was made by Blue and James with little consultation of the others.

James reminded the team that the level pricing approach was intended to last only a year or so. He thinks that it is now time to raise charges again. Counts responded by pointing

out that the rise in expenditures is caused by the hiring of several new high salary people in the Machine Tool Division. Hubres replied by pointing out American automakers and their suppliers are the main clients, and now those companies are in serious decline. She believes the problems are structural in the industry, and that not the India software companies are the real long-term problem.

Garrison and Roberts take the attitude "this is not my division or my problem". The Japanese and other automakers in the US tend to use their own internal software products, and thus James has never pursued contracts with them. Counts has urged Willis to lay off some of the employees in the division since business has not been growing. He believes too many new people were hired in the last couple of years. Hubres wrote a "planning memo" arguing the division should be more aggressive in developing both new clients for the current software product, and new products for other clients.

James has argued that Counts has too much of an accounting perspective and doesn't understand the difficulty of maintaining complex software—"this is not just an Excel financial model", and that Harvard didn't teach Hubres about the importance of personal relationships as a key to business development.

Willis held two all morning meetings on the topic, and hoped the group would develop a consensus. But, mostly there was a restating of everyone's position. Even after Willis talked individually with Garrison and Roberts, they were reluctant to personally intervene in the dispute. Willis concluded they feared other VPs might try to micromanage their divisions in the future if they set a precedent.

Willis tended to agree with the perspective expressed by Hubres, but thought the only way he could get the division to move aggressively with new software or new customers was to fire James and replace him with someone new. Blue would almost certainly not be happy about such an action because James was personally an old friend and co-founder of the company.

It was clear the others looked to Willis to solve the problem, and most of the participants thought he would side with them.

Willis ultimately talked to James, and convinced him to work with Counts on a special retirement package for a few senior employees in the division without any immediate replacement for the retirees. This would save some money for the division.'

He had a meeting with James and Hubres and convinced them to work together to hire a management consultant who would suggest possible approaches to finding new clients for the current software.

Willis felt he had averted a large-scale conflict within the organization, but continued to worry this was a small temporary adjustment in response to a larger problem.

Case Questions and Instructions (to students)

Assume you are a consultant reporting to Willis, who charged you to examine the management issues facing Blue Sky Software. Based on your total classwork in the Management and Leadership program write a critical analysis. Focus on what you find to be the critical elements facing the company. Be sure to identify and analyze the management issues facing the Blue Sky Company, and in your essay include relevant conceptual ideas.

Some questions to consider are: (but the essay need not be limited to these questions)

1. Blue Sky has undergone a leadership change. Be sure to address the differences in leadership style and approach today and in the recent past at Blue Sky.
2. For every organization motivation is a critical element. Be sure to discuss and evaluate the approaches to motivation at Blue Sky now and in the past.
3. Has strategic planning and decision-making changed at Blue Sky? If so, is this a positive change?
4. The structure of an organization and its control systems are design elements. Identify potential design and/or control problems at Blue Sky and discuss applicable principles and theories of management that address these problems

Collectible Cases from Abstract

In your essay be sure to explicitly rely on management principles, concepts and theories from all the management courses to organize your response. The goal is to demonstrate understanding, application, and integration by the case essay. There is no single solution, and the essay should not just be a set of personal opinions.