

BUSINESS STRATEGY AND MANAGEMENT

**Professional 2 examination
3 December 2003**

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

Answer **five** questions in total. **All three questions** in Section **A**, and **two** questions from Section **B**. All questions carry equal marks.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.



SECTION A (Compulsory)

In April 2000 Thinkton County Council Social Services Department created a strategic business unit (SBU) to manage the provision of its residential care homes for the elderly. This SBU is named Thinksafe Homes, and manages a total of eight residential homes across the county – from the rural countryside of north Thinkton, through the urban heartland, to the resort beaches of the south.

At its inception, Thinksafe was given the following objectives:

- Provide residential care for all, regardless of wealth or dependency.
- Ensure quality and equity in service provision.
- Deliver full utilisation of fixed assets.
- Generate sufficient income to breakeven on full cost.

Thinksafe has always kept a devolved management structure, with the manager and staff of each home deciding how to provide the care to their residents. This has proved popular with homes, but has led to a range of standards throughout the portfolio. It has also led to some complaints from relatives of residents, who are unhappy at the inconsistency of care across Thinksafe Homes.

Throughout 2000 and 2001 demand for places was high and the homes held waiting lists of prospective residents. This has changed in recent years with an increase in the number of non-local authority residential homes in the area. Consequently occupancy levels have reduced in most of Thinksafe's homes. Occupancy levels are critical to Thinksafe breaking even, as price is calculated by dividing the total cost (direct and overheads) by the expected number of residents. Given the high overhead proportion (30% for 2002 onwards), the lower the expected resident number the greater the individual price.

All residents in Thinksafe Homes are charged the same price, which for 2003 is £439 per week – regardless of whether they are self funding or placed by the Client side of the Council. In calculating this price, full occupancy was assumed, and recent information from homes shows this is not proving to be the case. With reported occupancy at only 183 out of a possible 227, Thinksafe Homes is running at a loss on full cost of £19,316 per week.

An analysis of the number of individuals seeking residential accommodation shows that overall demand has remained constant since 2001, after a period of continued growth. Forecasts show that the numbers are unlikely to grow further, but should retain the current level until 2010, when a 2% increase per annum is expected. However, feedback from the Thinksafe Director is that a local housing association has recently started providing sheltered accommodation for the elderly looking to retain more independence than traditional residential accommodation. Additionally, a private property developer has recently finished building a retirement village, aimed at elderly persons with low levels of dependency.

Changes in growth rate come at a difficult time for Thinksafe Homes, as it has also seen the voluntary sector in the county advertising its residential accommodation aggressively, often based on 'ethical' practices, or religious or lifestyle grounds. Several large private sector residential homes in the county have responded to the

situation by reducing their prices considerably (to £240-£280 per week in 2003) in an attempt to maintain occupancy levels.

An overview of Thinksafe residential homes, their direct costs, capacity and occupancy are shown in the table below:

Name	Overview	Direct cost (£pweek)	Capacity (no.)	2003 occ. (no.)	2002 occ. (no.)	2001 occ. (no.)
Windy Wood	<i>General, basic</i>	280	32	21	26	31
Blue Bells	<i>No drug policy, high therapy</i>	420	20	18	20	20
Sunny Snow	<i>High quality, family feel</i>	346	20	17	16	20
Friendly Field	<i>Old, minimum standard</i>	275	45	31	36	44
Happy Home	<i>Old, high dependency, high therapy</i>	455	15	15	15	15
Tiny Travels	<i>Newly refurbished, no drug policy</i>	362	20	17	15	20
Autumn Smiles	<i>Purpose built, seaside location</i>	312	40	34	37	40
Shady Hollow	<i>Medium standard, high dependency</i>	385	35	30	31	35

The level of service provided to elderly individuals has also recently come under additional scrutiny thanks to the activities of a new pressure group – ‘Greymark’ – who hold two seats in the Council and are threatening to stand in all constituencies in the forthcoming elections. With policies aimed specifically at the over sixties, a good eye for publicity, and growing support from the local media, Greymark are championing the cause of individuals, or relatives of individuals, with concerns over standards and pricing of care. Greymark has also improved information for the elderly and their relatives by publishing a monthly newsletter on care issues. Each month the newsletter targets a home it considers as sub-standard – last month Windy Wood was featured.

The managers at Blue Bells and Happy Home recently sent a joint report to the Director, explaining that their respective direct costs are likely to be higher due to pressure on the staffing budget. Both homes use specialist therapeutic carers extensively, and the shortage of sufficiently trained therapeutic carers has pushed direct costs up. As the Thinksafe policy on terms of employment restricts high payment to specialist groups on the grounds of ‘fairness to other staff’, there has been an exodus of therapeutic carers to a local agency, which has increased the callout rates by 75% this year. Unfortunately, the lack of trained alternatives, and the specific requirement for these skills at the homes in question, means that there is little option but to pay the increased rates to the agency.

The Thinksafe Director was also alarmed recently by reports in the Thinkton gazette that changes to the registration process for nursing homes will mean that many will re-classify as residential homes, although the likely impact of this is unknown. In the same edition, the newspaper ran a report that planning permission is being sought to

refurbish an old community hospital on the seafront into a residential home for the elderly with a capacity of 150. No further details are as yet available.

None of this is good news to Thinksafe at a time when the national government is running a major campaign, with the support of various charity groups, to change the culture of family care with its 'looking after Granny at home' initiative.

Councillors at Thinkton with a responsibility for social services, and therefore the provision of residential care, have recently debated the future of Thinksafe Homes. Everyone agrees that the current situation can not be maintained, as an estimated deficit for the year of over £1million is unacceptable. Unfortunately, beyond this there is no agreement.

The Greymark councillors are driving the provision of high quality, low price homes, with the aim of setting a high benchmark for other providers to meet. They argue that council taxpayers will be happy to pay the additional council tax to generate the subsidy involved in both the revenue support of this strategy and the capital investment in refurbishing all homes.

Other councillors are split, with options raised including closing Thinksafe, introducing variable pricing, and moving to purely high dependency provision.

Given the importance of finance to the strategy, and knowing the details of your studies, Thinksafe's Director has come to you with three specific requests to support him through this period of uncertainty.

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- 1**
- **Requirement for question 1**
- Prepare a briefing paper for the Director which analyses the market in which Thinksafe Homes is now operating, and identifies the likely impact of any issues arising from the analysis.

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(20)

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- 2**
- **Requirement for question 2**
- The Director has heard of Bowman’s Strategy Clock, but beyond that has little memory of its application. Prepare a briefing paper for the Director which:

(a) Identifies the strategic options available to Thinksafe, giving practical examples of how this could apply to residential care for the elderly. 10

(b) Examines the appropriateness of each option to Thinksafe. 10

(20)

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- 3**
- **Requirement for question 3**
- The Director is afraid that a powerful group of Councillors are championing the closure of Thinksafe, and wishes to be prepared in case this option is selected. He has identified that communication will be key, and has requested from you a paper which outlines how this could be done. Prepare a briefing paper that:

(a) Identifies the stakeholders and classifies them into appropriate groupings for communication purposes. Justification for groupings should be included. 12

(b) Examines and suggests appropriate methods of communication for each stakeholder group. 8

(20)

SECTION B (Answer two questions only)

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You have recently been approached by your Director of Finance who is aware of your studies in strategic management. He explains that the new Chief Executive called a meeting of directors and explained that a 'new strategic management process' would be introduced, with the aim of substantially improving the front line service.

Apparently the new approach will be one of 'logical incrementalism' rather than the traditional 'planning system' method. The Chief Executive explained that she saw this as a positive move from seeing strategy as 'design' to one of strategy as 'experience'. She considers this move as critical, as the organisation has moved away from 'equilibrium' and into 'flux'.

The Director of Administration began arguing that strategy is really 'imposed' and neither the 'design' nor 'experience' strategy development processes were valid. He also proposed that if any approach should be adopted, development through 'ideas' would be the best approach – probably through building a 'learning organisation'. However, he did agree that the organisation was in 'flux' when considering the model of 'punctuated equilibrium'.

The Director of Finance would like you to prepare a briefing paper for his forthcoming management team meeting, which explains the meaning of this strategic management jargon. He has also asked for your views on their validity to a public sector organisation.

• Requirement for question 4

Prepare a paper for the Director of Finance which:

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| (a) | Explains 'punctuated equilibrium', discussing the validity of the model to public services. | 6 |
| (b) | Outlines the meaning of strategy development by: <ul style="list-style-type: none"> (i) design; (ii) experience; and (iii) ideas. explaining where logical incrementalism and learning organisations fit in. | 10 |
| (c) | Defines what 'imposed strategy' is, outlining its relevance to the public sector. | 4 |

(20)

5 The value chain is one of those tools which is often discussed in theory, but rarely applied in practice. However, given its importance in both analysing strategic capabilities, and indeed suggesting possible future strategies and tactics, organisations able to apply this tool could have a competitive advantage.

• **Requirement for question 5**

- (a) Outline the value chain and discuss what benefits an organisation could achieve by applying it. 8
- (b) Apply the value chain to a secondary school, explaining the meaning of each primary activity in that context. 5
- (c) From your analysis of the school, outline the potential management actions that could result from the analysis. 7
- (20)**
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6 A common error in implementing change is to always consult – raising expectations, and increasing barriers to change. The type of management style which should be adopted for any given situation depends upon a number of factors including the ‘type’ of change.

• **Requirement for question 6**

- (a) Outline the four types of change, given the variables of ‘nature’ and ‘scope’. 6
- (b) Identify and outline five different management styles, indicating when they would be most appropriate in implementing change. 14
- (20)**
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