

BUSINESS STRATEGY AND MANAGEMENT

**Professional 2 examination
8 June 2004**

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 from **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 examinations 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.

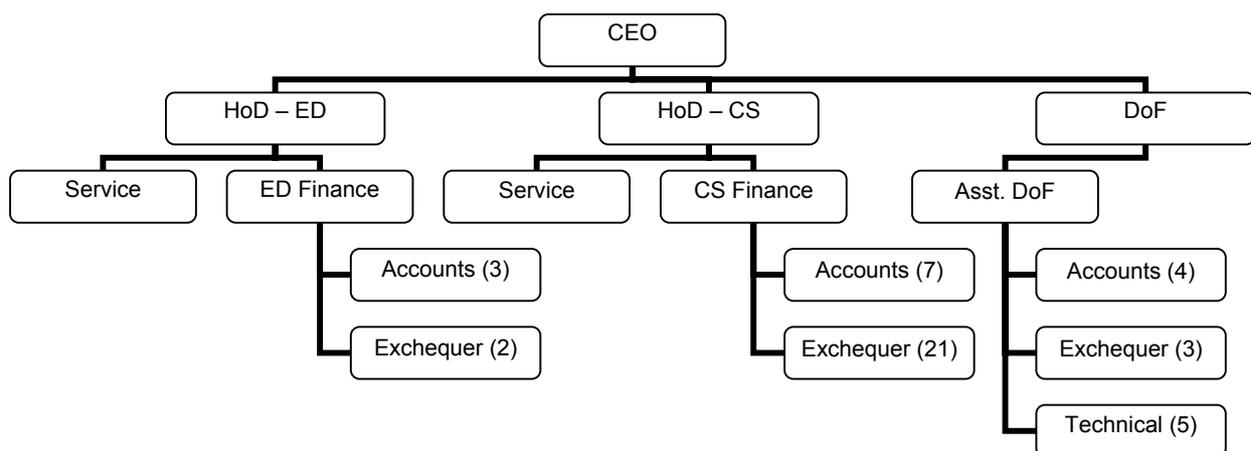
Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.



SECTION A (Answer all three questions)

Georgetown City Council appointed a new Chief Executive (CEO) in September 2003, who has been reviewing all services at the request of the lead councillors, with the objective of 'radically improving the services to the community'. In order to re-focus resources onto the front line services, the CEO proposes to reduce support service costs by 30% across the board, a proposal which has been readily approved by the Council.

The Finance Function of Georgetown has been devolved for a number of years, with the two principal council departments (Economic Development (ED) and Community Services (CS)) each having their own Financial Services function, employed by and accountable to the Head of each Department. In addition, the Director of Finance (DoF) has had a core team to co-ordinate finance across the authority. There is a theoretical professional reporting line between devolved staff and the DoF, but in reality this has little real value. An organisation structure highlighting the finance function is shown below:



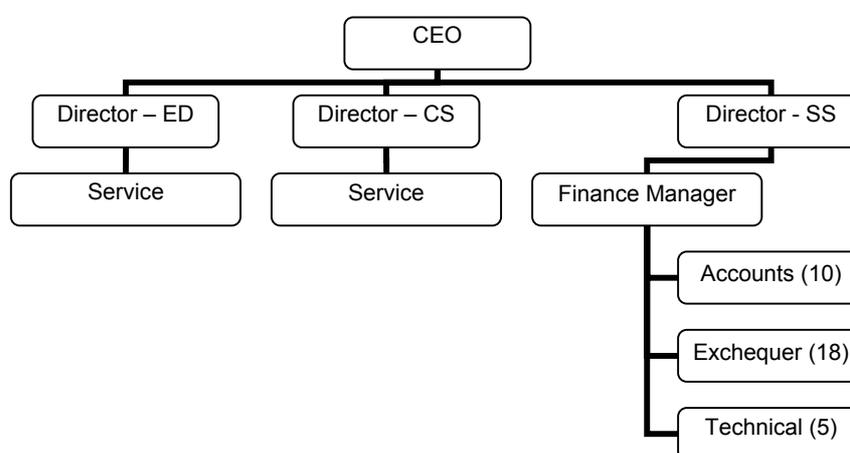
(Numbers in brackets denote staff numbers.)

The Central Finance Function under the DoF remains relatively unchanged in all but numbers to the centralised function of the 1980's – before Georgetown went through a process of devolution. Many of the 14 staff members held their same posts prior to devolution, including the DoF and his assistant. Central Finance still refer to the time before devolution as the 'good old days' and consider many of the devolved staff as having 'gone native'. Promotion in Central Finance tends to be qualification based, with a total of 7 qualified accountants and the remainder being technicians or trainees. Professional standards are held in the highest esteem, and the Technical Section has the responsibility of setting and monitoring standing orders and financial regulations. Central Finance has always run on flexi-time, and promotion (on the rare occasions it occurs) tends to be internal.

The devolved finance areas have bred their own distinct way of working. ED Finance has staff from a range of backgrounds, qualified and experienced, and has an entrepreneurial feel, with no working hours control and a flexible approach. All staff members are encouraged to do everything, whilst continually looking for new

areas of work and opportunities for the Council to gain additional funding, income or performance improvements. CS Finance developed a service focused ethos, with the majority of staff being unqualified and not in training. CS Finance look to get the job done with minimal resource, consider the wearing of suits as an anachronism, and work fixed hours. CS Finance has a history of political battles with Central Finance, whilst ED Finance has been generally ignored and has been happy to plough their own furrow.

The Director of Finance has decided to take the opportunity for early retirement offered from the changes, and the CEO has decided not to replace him directly. Under the proposed new structure, all financial functions will be centralised in a new 'Support Services' Department, headed by the Director of Support Services (DSS) - currently the Head of Legal Services. Overall responsibility for finance will reside with the current Asst DoF Doug Fish, who will take up the new post of Finance Manager and report to the DSS. The proposed structure is summarised below:



The amalgamation of the three old finance areas (ED, CS, and Central) and the resulting reduction in staff is key to the CEO achieving the required savings, but it is of clear concern to all staff involved. Redundancies have been identified and notified, and the resultant staff numbers match the new structure. However, many concerns are being raised regarding specialism and service knowledge.

Pressure has also come to bear on the issue of a new structure from the Director – ED and the Director – CS, who both voice concerns about a return to 'ivory towers' and a loss of control. Together they have put a paper to the CEO suggesting a structure where finance remains devolved into the departments, but where finance staff have a dual duty to the central finance function, giving a 2-dimensional reporting structure. Doug Fish is vigorously against this idea, but as the Director – ED pointed out, he is neither a director nor is he independent.

It has become clear that the changes are not as yet going to achieve the savings required, and the CEO has requested that the remaining shortfall must be made up through increasing income from external sources. The Director – SS has scanned the services provided by Finance and identified that an opportunity may exist in the Technical Section. The Section currently includes 2 staff who spend their time primarily on completing internal audits, investigations, and advising other departments on internal control.

Under further appraisal it appears that there is some spare capacity in existence within this group, although the details are sketchy. The Director – SS has given the Technical Section an external income target of £40,000 for this financial year, and has hinted that this should double year on year if the staff involved throw themselves into the idea. The Director’s briefing on the subject to Doug Fish pointed out that everyone wants audit, investigations, and controls – from the small sole trader, to huge multi-nationals, not to mention other public services, so there is clearly a market out there. She explained that the market was there, so the opportunity exists for these staff to go out, build business, and potentially grow their section. She went on to explain that the staff would naturally be motivated, as this task showed the trust that she had in their abilities.

After the briefing, Doug Fish stormed into the CEO’s office, and demanded that this ‘ridiculous idea be scrapped’ and ‘...that this showed the problem of putting a solicitor in charge of finance’.

With embattled staff and management, the CEO has decided to call on assistance in making sense of the situation. He has employed a group of public service consultants to address a range of issues, and wishes for advice on how to proceed.

You are employed by the consultancy group, and have been assigned the task of producing three briefing notes addressing the CEO’s concerns.

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- 1**
- **Requirement for question 1**
- Outline the original, proposed and Directors’ alternative organisational structures discussed for the Finance Function, identify the advantages and disadvantages of each, and recommend the most appropriate for Georgeton given its current commitments.
- (20)**

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- 2**
- **Requirement for question 2**
- (a) Analyse the culture of the three old finance areas using an appropriate model and identify the principal differences. 15
- (b) Outline practical tactics on how Doug Fish could integrate the three areas into a single unit. 5
- (20)**

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- 3**
- **Requirement for question 3**
- The CEO is alarmed by the reaction of Doug Fish to the suggestion relating to marketing the audit service, and wishes to know whether it is reasonable. He is familiar with the marketing mix, and requires a paper that uses this framework to identify any issues with the idea, and appraise the appropriateness of market entry.
- (20)**

SECTION B (Answer two questions only)**4**

It is often said that 'one is promoted to the level of one's own incompetence' and similarly it is said that many 'senior managers hide from strategy in the day to day operations of an organisation'. Given this, it is important to appreciate the concept of strategic management, the levels at which it operates, and what can lead strategy making.

- **Requirement for question 4**

- (a) Outline the difference between 'strategic management' and 'operational management'. 4
- (b) Explain the meaning of the term 'Strategic Business Unit' (SBU), outline why a strategy is often required at both corporate and SBU levels, and how these should relate together. Use an example from an organisation you are familiar with to illustrate your answer. 10
- (c) Outline the difference between 'Environment-led Fit' and 'Resource-led Stretch' strategies, giving an example of each from an organisation of your choice. 6

(20)

5

Mission statements are held in high esteem by many experts, and equally ridiculed as management fashion by others. In the context of a large public service organisation with the following mission statement '*To provide the highest quality service at the lowest cost*' – complete the following:

- **Requirement for question 5**

- (a) Outline what a mission statement is, and explain the issues that a mission statement attempts to address for an organisation. 10
 - (b) For what purposes can a mission statement be used within an organisation, and how can a mission statement be created? 6
 - (c) Critically appraise the mission statement above, and discuss its relative value to the organisation. 4
- (20)**
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6

The competences of an organisation usually relate to the resources which it has and the way in which they are utilised. A common practice is to create an environment of customers and suppliers, either through creating a purchaser provider split, or, alternatively, outsourcing some or all non-core activities.

- **Requirement for question 6**

- (a) What is a 'resource audit' and what are the resources involved? 3
 - (b) Outline what information you would require for a full 'human resource audit' and discuss possible sources of the required data. 9
 - (c) For an organisation of your choice, outline the internal and external suppliers that exist. Discuss the importance of supplier performance to an organisation and identify how this can be controlled. 8
- (20)**
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