

BUSINESS STRATEGY AND MANAGEMENT

Professional 2
December 2001

MARKING SCHEME



“The examiner recognises that BSM is not an exact science and that there are many valid theoretical and practical approaches to the subject. The marking scheme set out below is based purely on the CIPFA P2 Open Learning Material and recommended text, Johnson and Scholes (J & S) and will be considered to be guidance only. Alternative views and approaches may be offered and provided they are logical, rational, valid, relevant to the context of the question and serve to meet the requirements of the question, appropriate credit will be given.

Throughout this paper students are expected to base their responses on the context and detail of the scenario presented”.

Question 1 (OLM Study Session 3 – no text reference)

- (a) Motivation – “any influence that triggers, directs or maintains behaviour” (OLM 3.1)

Motivation has an important bearing on the success of any organisation.

There are many theorists and even more theories associated with motivation; they can be grouped into two main areas.

- Content theories which examine **specific things that motivate people** and
- Process theories which are concerned with **how motivational behaviour is produced.**

In order to manage motivation in the work place it is necessary not just to understand the factors which may motivate any individual (content) but also the cognitive processes an individual may go through before deciding whether or not to be motivated (process). In other words a manager must understand the complexities of motivation and appreciate individual differences.

1 mark per well explained point up to a maximum of 3

Content theory

The following content theories are covered in the OLM

- Maslow’s Hierarchy of Needs
- Herzberg’s motivation-hygiene theory
- McClelland’s learned needs theory

Students should explain one of the above or another appropriate theory. Marks should be awarded on the basis of 1 mark per valid point up to a maximum of 2. Full marks should only be awarded where the student has demonstrated understanding of the theory

Process theory

The following process theories are covered in the OLM

- Equity theory
- Goal theory

Students should explain one of the above or another appropriate theory. Marks should be awarded on the basis of 1 mark per valid point up to a maximum of 2. Full marks should only be awarded where the student has demonstrated understanding of the theory

Presentation 1

(8)

(b) Examples of conclusions which may be drawn from the staff survey.

- There has been a significant drop in the perceived level of job security (will impact upon lower order needs as per Maslow's hierarchy).
- The view held in 1998 that the department is not good at planning has worsened (may cause dissatisfaction as per Hertzberg's hygiene factors).
- The view of the majority in 1998 was that the departmental change was improving things but this has turned around by 2001 (it may be that the need for affiliation is being affected by the change as per McClelland's theory, it could also be argued that staff are unclear about goals and motivation may suffer).
- Fewer than half the staff have confidence in the senior management team (may cause dissatisfaction as per Hertzberg's hygiene factors).
- There has been a significant drop in the number of people who feel valued by the department but a rise in those who feel valued by their line manager (impact on affiliation Maslow/ McClelland).
- A very poor perception of Departmental communication has worsened during 1998 to 2001 (impacts on most theories but particularly Maslow and Hertzberg).
- But people like their work, consider it important to them and feel they are making good use of their skills (this suggests that the job as a motivator is good - Hertzberg's motivator factors are present).

The overall conclusion could be that job design is not a problem; it is the environmental and management issues which are affecting staff motivation.

*1 mark per conclusion drawn up to a maximum of 4
1 additional mark per appropriate link to theory shown, up to a maximum of 4*

Potential impact of change on staff motivation (OLM 3.7)

Strategic decisions affect staff at all levels of the organisation therefore employee motivation is directly affected by the strategic management process.

If strategic intent is to be possible, employees must be motivated toward that intent.

Front line staff and their immediate managers tend to be more aware of the issues, which affect customers and clients, and they should therefore be involved in any strategic review. This change initiative seems to be top-down which may have negative motivational impact.

Lack of involvement in the strategic choice will mean there will be no sense of ownership of the change.

This is compounded by the long time lag where staff have, in the absence of real information, invented their own reasons for the change.

There appears to be a willingness, at least at section head level, to involve staff in the strategic choice-this will help staff to sign up to the change. However, to be effective this needs to be cascaded throughout the organisation.

The imposition of a strategic decision coupled with lack of support and no sense of ownership will make strategic implementation very difficult.

The situation in the scenario appears to be the worst of all worlds – autocratic management without control from the centre (so no benefit from quick and cheap decision making associated with top-down approaches) and no real participatory management.

Many valid points may be made here. 1 mark should be awarded for each logical, well argued point which is relevant to the case scenario.

*Up to a maximum of 4
Presentation 1*

Up to a maximum of 12

(20)

Question 2 (OLM Study Session 16 and 18– J & S Chapters 9 and 5)

(a) Functional structure:

“... is based upon the primary activities that have to be carried out, such as production, finance and accounting, marketing and personnel” (J&S 9.2.2)

1

Advantages:

- Chief Executive in touch with all operations
- Reduces/simplifies control mechanisms
- Clear definition of responsibilities
- Specialists at senior and middle management levels

Disadvantages:

- Senior managers overburdened with routine matters
- Senior managers neglect routine issues
- Difficult to cope with diversity
- Co-ordination between functions difficult
- Failure to adapt

*1/2 mark for each point plus further 1/2 mark where well related to case up to maximum of 4
(5)*

(b) A multidivisional structure:

“... is subdivided into units (divisions) on the basis of products, services, geographical areas or the processes of the enterprise” (J&S 9.2.3)

- Often used in response to the difficulties that functional structures have in dealing with diversity.
- Main advantage is that each division is able to concentrate on the problems and opportunities of its particular business environment.
- Divisions can be created which closely relate to SBUs allowing a tailoring of the product/market strategy, and improving ownership of the strategy by divisional staff.
- Creation of divisions which closely match SBUs can be difficult for reasons of size and efficiency.
- Diversity can be difficult to manage; may be solved by creating sub-divisions.
- Problem of deciding basis of divisionalisation.
- Which functions should be placed within the corporate head office rather than in one of the divisions?
- The main advantage is that competences and the processes of innovation can be focused on a particular product group, technology, customer or market need.

Advantages

- Low central overheads
- Offsetting of individual losses
- Spreading of risk
- Ease of divestment
- Facilitates devolution

Disadvantages

- Risk to division of divestment
- Unavailability of skills at corporate level to assist individual units
- Lack of synergy
- Difficulties of control

1 mark for each point made and related to case scenario up to maximum of 6

(c) (Study session 8 J&S Chapter 5)

“It is helpful to analyse and understand the expectations of different stakeholders in much more detail, and in particular to understand the extent to which they are likely to show an active interest in the strategic development of the organisation or seek to exercise an influence over its purpose and strategies.”

“Stakeholders are those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends. (J&S 5.3)

The Head of HRM has recognised the loss of identification with the department’s client base. Identifying stakeholders would therefore be a necessary prerequisite of designing an appropriate structure.

Stakeholder mapping identifies stakeholder interests and power and helps in establishing political priorities.

It consists of making judgements on two issues.

- How interested each stakeholder group is to impress its expectations on the organisation’s choice of strategies.
- Whether they have the means to do so.

Stakeholder mapping can assist in determining the political priorities involved in pursuing a new strategy.

Stakeholders may be classified in relation to the power they hold and the extent to which they are likely to show interest in the organisation’s strategies by the use of the power/interest matrix.

The matrix indicates the likely relationship which the organisation needs to establish with each stakeholder group.

It is a useful analytical tool both in assessing the political ease or difficulty of particular strategies and also in planning the political dimension of strategic changes.

Clearly the acceptability of strategies of the *key players* should be a major consideration during the formulation and evaluation of new strategies.

The most difficult relationship to plan is with those in segment C. These stakeholders may generally be passive but if their level of interest is underrated and they reposition to segment D they may frustrate the adoption of a new strategy.

Stakeholder mapping will indicate which groups of stakeholders are likely to be critical in the success or otherwise of the restructure.

Stakeholder mapping – Power/Interest Matrix

	Low	High
Low	A Minimal Effort	B Keep informed
High	C Keep Satisfied	D Key players

Diagram 1 mark

Explanation of mapping process 3 marks

Potential use in the restructuring 2 marks

Explanation of its potential use 2 marks

Presentation 1

(20)

Question 3

Part (a) Styles of managing change. (OLM Study Session 19 – J & S Chapter 11)

STYLE	MEANS/ CONTEXT	BENEFITS	PROBLEMS	CIRCUMSTANCES OF EFFECTIVENESS
Education and communication	Group briefings assume internalisation of strategic logic and trust of top management	Overcoming lack of (or mis) information	Time consuming. Direction or progress may be unclear	Incremental change or long-time horizontal transformational change
Collaboration / participation	Involvement in setting the strategy agenda and/or resolving strategic issues by taskforces or groups	Increasing ownership of a decision or process. May improve quality of decisions	Time consuming solutions/ outcome within existing paradigm	
Intervention	Change agent retains co-ordination / control: delegates elements of change	Process is guided / controlled but involvement takes place	Risk of perceived manipulation	Incremental or non-crisis transformational change
Direction	Use of authority to set direction and means of change	Clarity and speed	Risk of lack of acceptance and ill-conceived strategy	Transformational change
Coercion / edict	Explicit use of power through edict	May be successful in crises or state of confusion	Least successful unless crisis	Crisis. Rapid transformational change or change in established autocratic cultures.

½ mark for each style and context plus 1 mark for benefits/problems of each style up to 8

Looking at the circumstances of effectiveness as given in the OLM, it is likely that students will recommend “Intervention” or “Direction”. However given lack of direction so far, it may be appropriate to recommend an element of “Education and Communication”.

Up to 2 marks for well argued and appropriate recommendations.

(b) **Other tactics which may be used**

- Changes in organisational routines.
Routines are the organisationally specific “ways we do things around here” which tend to persist over time and guide people’s behaviour. There is a risk that such routines block change. Changing routines may have the effect of questioning and challenging deep rooted beliefs and assumptions in the organisation. It is vital for managers who are trying to effect strategic change to take personal responsibility not only for identifying such changes in routines, but also for monitoring that they actually occur.
- Symbolic processes in managing change.
Symbols are objects, events, acts or people, which express more than their intrinsic content. It is argued that the creation or manipulation of symbols has impact to the extent that changing symbols can reshape beliefs and expectations. Many of the rituals of organisations are implicitly concerned with effecting or consolidating change. Reward systems carry symbolic significance as do many other organisational systems. Physical aspects of the work environment are powerful symbols of change. The behaviour of change agents is very powerfully symbolic.
- Power and political process in managing change.
There will be a need to recognise the power structures in the organisation. In order to effect a reconfiguration of power the change will need powerful advocacy within the organisation. Any manager faced with managing change needs to consider how it might be effected from a political perspective. Areas of activity may be
 - Building the power base
 - Overcoming resistance
 - Achieving compliance

Other tactics may include;

- Timing
- Job losses and de-layering
- Visible short-term wins

1 mark for each valid point well related to the case up to a maximum of 6

(c) **The Importance of communication**

The reasons for a change in strategic direction may be complex and the strategy itself may embrace complex ideas. However to be effective it is important that it is communicated in such a way that complexity has a meaning and vitality, which can be assimilated across the organisation.

It may be important to clarify and simplify the priorities of the change.

It is important to choose the correct media by which to communicate the strategy. Different media are more or less effective in different circumstances.

The involvement of members of the organisation in the strategic development or planning of strategic change helps communication and involvement.

Two way communication ie receiving feedback in addition to giving information helps to get the changes right.

Members of the organisation need to make sense of what is happening for themselves. There will (as is highlighted in the case) therefore be rumours and gossip. The change must therefore be communicated in a sufficiently powerful way to overcome this countercommunication.

1 mark per valid point up to 3

Presentation 1

(20)

Question 4 (Study Session 5,6 and 10 J & S Chapters 3,4 and 6)

- (a) The first requirement is to provide a **definition of competitive advantage**. The elements of this are contained in the quotation, hence there is only one mark to be gained. Competitive advantage is the advantage which an organisation may gain over its competitors in the perception of its customers through the strategies it pursues, the competences it demonstrates and the resources it makes use of.

For definition which possesses key elements of the above
For some of the above

1 mark
½ mark

The second requirement is for students to relate this concept to the work of Michael Porter. They will need to bring together three elements that are dealt with in separate parts of the syllabus.

- Generic strategies
- Value chain analysis
- Five forces model

Generic strategies (Study Session 10 Johnson & Scholes pp 271 – 284)

Porter initiated this approach which has then been developed further by Bowman and others. Porter's view was that there are only three possible strategies

- Low cost – competing on the basis of low/ high margins/ low price/ “no frills”
- Differentiation – competing on basis of quality and/or differentiation of product
- Niche/ focused differentiation – specialising in a particular segment of the market

Porter believed that failure to define and pursue a single strategy could lead to competitive disadvantage. Students may introduce elements of Bowman's strategy clock as this is given greater prominence in the materials. As long as this is consistent with Porter they should not be penalised.

Value chain analysis (Study Session 6, Johnson and Scholes pp 156 – 160)

This “describes the activities within and around an organisation, and relates them to an analysis of the competitive strength of the organisation” (Johnson and Scholes,156)

The key features of value chain analysis are:

- Organisations may use resources in unique ways and develop competences which can give them competitive advantage.
- Separate activities are identified and classified as primary or support activities in order to establish links and the value added by each activity.
- Value chain goes beyond the organisation, backwards to suppliers and forwards to customers.
- Competitive advantage may be gained through customers' perceptions of value added through the value chain.

Five forces model (Study Session 5 Johnson & Scholes 115 – 127)

This is “a means of identifying the forces which affect the level of competition in an industry” (Johnson and Scholes, 115).

Students should identify the five forces as being:

- Threat of entry
- Power of buyers
- Power of suppliers
- Threat of substitutes
- Competitive rivalry

It is quite likely that students may represent the model diagrammatically.

Up to 5 marks for explaining one of the concepts, then 2 for the second and 2 for the third.
(10)

(b) In what ways is competitive advantage relevant in a public sector context?

Students are here required to consider the relevance of competition and the market place to the public sector. They should consider the nature of public sector markets. There are different ways in which this could be approached. A good framework would be to identify different types of market

- External markets – where services are in direct competition with other providers eg leisure services.
- Internal or managed markets – where the size of the market and the range and nature of the customers is controlled and where, often, the purchaser of the service is acting on behalf of the real customer eg health and social services.
- No direct or indirect market – where the activity of the organisation is determined by political will and is funded largely through taxation. In this case the need to employ market disciplines has been recognised through CCT, market testing and the introduction of Best Value (4Cs to include compare and compete).

Marks to be awarded for

A good understanding of all issues – for analysis backed with illustration 4

A good understanding – but based only on either analysis or illustration 3

A limited understanding – but with some analysis and illustration 2

A limited understanding – but only analysis or illustration 1

Total of 4 marks to be awarded

- (c) **Provide two current examples of public sector organisations operating within an explicitly competitive environment and suggest how one of Porter's key concepts could be applied**

Students will need to choose two relevant examples. This could cover a wide range of organisations but marks should only be awarded where it is made explicit how the organisation is operating in a competitive environment.

½ mark per example (1)

The remainder of this section requires that students take one of Porter's key concepts and demonstrate how it can be applied. Much will depend upon the concept chosen and the organisation to which it is related. A good answer will demonstrate a clear understanding of the whole concept and Porter's framework and the way it can be applied in a practical organisational context. Some answers may appear to be better because the organisational context offers more scope. Students should not be penalised because of their choice of context as this may be outside their control. As a general guide

<i>A good understanding of the whole of the concept relating as far as possible to a relevant organisational context</i>	<i>4 -5</i>
<i>A good understanding of the concept but limited application</i>	<i>3-4</i>
<i>A fair understanding of the concept or part of the concept but well illustrated</i>	<i>2-3</i>
<i>A limited understanding of the concept reinforced by extent of practical application</i>	<i>1-2</i>
<i>A poor understanding with limited practical application</i>	<i>0-1</i>
<i>Use of incorrect concept</i>	<i>0</i>

(5)

(6)

(20)

Question 5 (Study Session 14 – no text reference)

- (a) Marketing is a management process that is involved in identifying, anticipating and satisfying customers' wants and needs through the efficient and effective use of the organisation's resources. 1

The first element of the marketing mix is 'Product' which can be a product, service, idea or process and is anything that satisfies a need or want. A product should give value to the customer and often does this through having a unique selling proposition (USP). 1

'Price' is the second element of the marketing mix, and is the consideration expected by the supplier in exchange for a product. Price is often key to encouraging sales, but in the public sector is often set based upon objectives, costs, demand, acceptability, and equity. 1

'Place' is the third element and covers channel of distribution and physical distribution of the product. Channel of distribution is the way in which the product is made available to purchase. Physical distribution is how the product is actually delivered. 1

'Promotion' is the final element and is how prospective customers are informed of the products available. This can be done through a range of techniques including advertising, sales promotion, publicity, and personal selling. 1

Maximum marks available for part (a) 5

- (b) *Students may make a variety of points here. Answers should be logical, rational, valid and relevant to the context of the question. In general each valid point made should attract one mark for the point made and a further mark for a well argued link to the marketing mix model up to the maximum marks available of 8. The question asks for evidence of the application of the marketing mix and therefore arguments that it does not apply are unlikely to attract credit. However marks should be awarded for well presented arguments which conclude that elements of the mix do not seem to be relevant (see example below on price).*

Examples of issues which may be identified:

Product (Study Session 14.2)

The BBC has identified the need or want for BBC evening news. It aims for a unique selling proposition (USP) by "branding" the BBC news thus attempting to convince viewers that they are "getting a benefit they cannot get from any other source".

They attempt to attach primary added value through "innovation, design, quality, branding and features" and by such means the BBC aims to make its "product" more attractive to consumers.

There is no real argument to support the view that the BBC offers supplementary added value as identified in the OLM although due credit should be given where a student argues that BBC News 24 and Online news equates to supplementary added value.

The BBC's traditional publications eg *Radio Times* could also be discussed in the same terms of USP and added value.

The newer publications are different in that they do not overtly display the same USP. These are publications similar to many others in a highly competitive market. The BBC is aiming here to add value via branding.

Price (Study Session 14.2)

Price would not apply as it is unlikely that an individual consumer would equate watching the evening news with an exchange process.

Place (Study Session 14.3)

The OLM refers to the two specific aspects of marketing which are covered under this heading.

- Channel of distribution and
- Physical distribution

It is unlikely that direct reference will be made to channel of distribution but physical distribution could well be an issue of relevance.

Physical distribution is making sure the "goods" are available when and where the customer demands. Clearly the BBC has chosen to "place" its evening news at 10 pm in direct competition with ITV.

Promotion (Study Session 14.3)

This is the most obvious and contentious issue in the scenario. The BBC is promoting its commercial publications via TV and radio advertising.

Up to 2 marks for each point identified, explained and linked to the theory to a maximum of 8 for section (b)

- (c) *As with (b) this section requires the exercise of judgement by the student and a variety of responses may be valid.*

It is likely that students will be challenged by this aspect of the question as it is not overtly considered within this section of the OLM however they have been required through the learning activity to consider the application of the marketing mix to the public sector. Implicit in any such consideration would be a review of the difficulties of marketing a "service" and specifically a public service. Related issues are considered in other areas of the OLM.

Examples of issues which may be identified:

- The need for a cultural shift to a basic set of values and beliefs about the central importance of the customer that guides the organisation ie the move from a service to a customer orientation.
- The difficulty of adopting/adapting marketing theory where there is no direct exchange.
- The conflict between immediate consumer wants and long term consumer welfare.
- The physical and mental intangibility of services rather than products.
- The conflict between the need to ration public service provision and marketing.
- Marketing within an environment of “monopoly” provision.
- The lack of a profit motive.
- The need to recognise internal as well as external customers.
- Artificial markets.
- Market research difficulties.
- Possible accusations of misuse of public money.

1 mark per valid point up to 7

(20)

Question 6 (Study Session 1, 2 and 13 J & S Chapter 1 and 2)

(a) A critical review of formal strategic planning: its benefits and dangers

Students should list the main benefits and dangers of formal strategic planning. They may draw upon their own experience or on wider reading around the syllabus e.g. the work of Mintzberg or alternatively they may draw upon the points listed by Johnson and Scholes (1999, 51)

Benefits

- Structured means of analysis and thinking around strategic problems.
- Means of creating ownership of strategy.
- Aid in communicating strategy.
- Basis for control of strategy through review of performance.
- Means of co-ordination e.g. of SBU strategies or of resource usage.
- Encouragement of a longer term view.

½ mark for each point made up to a maximum of 2

Dangers

- Planning processes do not take into account cultural and political dimensions of an organisation.
- Strategy may be seen as being owned by senior management.
- Strategy may become the responsibility of experts who do not have the power to implement, resulting in the planning process becoming an intellectual exercise.
- Planning process may become cumbersome and those contributing may not be able to see the big picture.
- Strategy may be seen as the plan and vice versa, which leaves no place for intended and realised strategy.
- Planning may become overly detailed, resulting in information overload and a lack of clarity.
- Planners may become obsessed with the search for the single right strategy which will result in the plan lacking flexibility.

Some of these points relate to the essential problem with planning which is that it deals with the future which, by its very nature, is unknowable and uncertain. The plan may become too important, a goal in itself and may be a cause of restricting and stifling strategic thinking and development.

1 mark for each point made and fully explained up to a maximum of 5

Suggest ways in which strategy and strategic thinking could be developed with the department in order to avoid the dangers identified

Students should show that they understand the process of strategy making or strategic thinking i.e. analysis, choice, implementation

1

The remaining marks should be awarded for identification of alternative processes and/or approaches. Answers may relate to

- Fit and stretch
- Emergent strategy
- The planning process itself
- Models of strategy making e.g. command, logical/incremental etc. or Mintzberg's strategy models
- Enforced choice and the environment as a constraint
- Importance of strategic direction and vision
- Challenges posed by the cultural web, the risk of strategic drift and the concept of the learning organisation

There are a whole range of issues and ideas contained largely within chapters 1 and 2 of Johnson and Scholes.

1 mark should be awarded for each relevant point up to a maximum of 5, subject to the points making up a relevant and consistent argument.

(13)

(b) Potential benefits of business planning

- Co-ordination of strategy implementation through setting detailed plans for the short to medium term
- Communication with clients and other stakeholders that the department has a clear management vision
- Provision of information to stakeholders
- Focus minds of staff and management on departmental priorities
- Clarification of how the department will continue to be successful
- Planning for continuous improvement
- Identification of performance targets and basis for performance management

This list is a slightly amended version of one which appears in the study materials.

1 mark for each point made up to a maximum of 4

Possible approach to be adopted

Students will need to consider how business planning can be made more meaningful and how strategy can be incorporated into the process. A range of issues could be raised in answering this section and discretion should be used accordingly. Points can include

- Integration of planning processes
- Use of strategic objectives to inform business planning
- Consideration of top down/ bottom up approaches
- Strategic cascade – how to move from mission/ vision to performance targets
- Incorporation of techniques such as PEST and SWOT (and others)
- Involvement of staff and disaggregation of plan and areas of responsibility

*1 mark for each relevant point (to include those referred to above and any others)
up to a maximum of 3*

(7)

(20)