CIPFA

# STRATEGIC BUSINESS MANAGEMENT

## Final Test of Professional Competence

**10 June 2008**

# ASSESSMENT GUIDE

AT THE HEART OF YOUR CAREER

The examiner recognises that SBM is not an exact science and that there are many valid theoretical and practical approaches to the subject. The assessment guide outlines the types of area each candidate would normally be expected to consider, given the pre-seen material, and open learning material.

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 demonstrate a knowledge of strategic management as a subject, the public service environment, and a current working knowledge of relevant key issues.

## Question 1

*Broadbent describes existing performance management systems (PMS) in Higher Education as following the input/process/output model. Assess whether this is the prevalent PMS model in use across the public services, and discuss why successive governments have seen this as a key element in the implementation of New Public Management (NPM).*

Input/process/output model assumes:

- Outputs can be measured and counted
- Indicators can be used as proxies for outcomes
- Indicators can be compared across organisations
- Measuring outcomes measure organisational performance.

Examples:

- NHS Trust league tables;
- LA CPA mechanism;
- Emergency Services performance measures;
- School league tables;
- Housing Association star system;
- PSA targets.

Why key element of NPM:

- Increases standardisation;
- Reduces autonomy of professionals;
- Generates accountability for actions;
- Increases governmental control;
- Drives behaviour;
- Sets priorities to match government policy;
- Allows for comparison of performance;
- Informs users;
- Increases public input into service decisions;
- Links public services;
- Allows for formalised control systems;
- Generates imposed strategic direction implicitly;
- Inspectorate forces key environmental factor as political;
- Drives change through fear of failure.

**Marking Guide**

| | |
|---|---|
| 25-30 | Clear and structured throughout.<br>Detailed explanations of PMS in use across a range of public service organisations.<br>Clear explanation of why PMS is utilised by successive governments.<br>Examples drawn from a range of sources. |
| 20-25 | Explanation of the PMS with details of usage in two or more public service organisation types.<br>Explanation of benefits of PMS to government.<br>Examples drawn from public services. |
| 15-20 | Description of PMS drawn from pre-seen material and textbooks.<br>Some explanation of benefits to government. |
| 10-15 | Lift of description of PMS from pre-seen material.<br>Little exploration of usage of model across public services.<br>Simplistic description of benefits to government. |
| 0-10 | Lift of description of PMS from pre-seen material with little and localised application to public services.<br>Little reference to benefits to government.<br>Unstructured and disorganised. |

## Question 2

*Broadbent concludes with a note of caution against trying to tie everything down, and suggests a possible rational approach. Discuss arguments against target driven performance management, and explore improvements and alternatives to it. Use examples from across public services to support your submission.*

Arguments against:
- Qualitative outputs can't be measured;
- Proxies distort behaviour;
- Drives opportunistic and dysfunctional behaviour;
- Public services have multiple complex objectives not easily measured;
- Different stakeholders have different desired outcomes which conflict;
- Many public services need professional control;
- Inputs to public services are not consistent;
- League tables drive dysfunctional public choice;
- Public service organisations are not comparable;
- Context of services are forgotten;
- Narrows strategic choice;
- Removes local adaptation of strategy;
- Creates failure framework unrelated.

Alternatives could include:
- Broad self set objectives linked to consultation;
- Self control systems – leaving professionals to manage;
- Paired down outcome assessment.

Examples could include:
- LibDems suggest covenant rather than national targets PF 21.9.07;
- European targets on landfill sites PF 21.9.07;
- The impact of Northern Rock on public spending targets PF 21.9.07;
- 14 years olds miss target in maths and English PF 17.8.07;
- Whitehall plans joint targets PF 17.8.07;
- Scaling down targets heralds less centralist PMS PF 12.8.07;
- Climate laws and climate change targets PF 3.8.07;
- Andy Burnham promises to slash governmental targets PF 3.8.07;
- Scottish Water outperforms operating targets 15.6.07.

**Marking Guide**

| | |
|---|---|
| 25-30 | Clear and structured throughout.<br>Exploration of arguments against targets.<br>Clear alternatives discussed.<br>Clear conclusions.<br>Good use of a range of examples from across public services. |
| 20-25 | Explanation of arguments against targets drawn from pre-seen material, textbooks, and other sources.<br>Some alternatives discussed.<br>Good use of a range of examples. |
| 15-20 | Description of arguments against targets drawn from pre-seen material and textbooks.<br>Some alternatives identified.<br>Examples of a range of issues included. |
| 10-15 | Lift of arguments against targets from pre-seen material and textbooks with little reference to alternatives.<br>Few narrow or unexplained examples. |
| 0-10 | Lift of arguments against targets from pre-seen material and textbooks.<br>Little mention of alternatives or examples.<br>Unstructured and disorganised essay. |

## Question 3 - Study Session 6 & 9

### Part A

Some of the benefits of direct provision are detailed in the preamble to the question: providing effective leverage in local economies; shaping places; managing costs and transactions; sustaining democratic networks and accountability; and realising the potential of the local workforce. Other elements may include maintaining and developing competitive advantage, reduced costs, control and improving strategic capability.

Outsourcing occurs where organisations decide to buy in services or products that were previously produced in-house. For example, payroll, component manufacture, IT services, training, are all commonly occurring examples of outsourced activities. Two important principles established when searching for candidates for outsourcing: first, that an outside supplier can provide better value for money than in-house provision, but second, that core competences should not normally be outsourced since these activities critically underpin competitive advantage.

Many managers take on board these principles of outsourcing but do not pay enough attention to the organisational implications of outsourcing. For example, outsourcing requires managers to be much more competent at maintaining performance through their management of supplier (or distributor) relationships rather than through management control systems within their own organisation. This may take some considerable attention. For example, suppliers or distributors will need to be educated about the organisation’s strategies, priorities and standards and how their work influences the final performance of the product or service. They need to be motivated to perform consistently to these required standards. It should be clear that there are different processes by which this might be achieved. At one extreme, suppliers might be ‘tied in’ through enterprise resource planning systems. This might be possible and desirable where the requirements of the supplier are clear and unlikely to change quickly. At the other extreme, the relationship may be maintained through social processes and norms – for example, working with suppliers who know the company well and are tuned into the cultural norms. This would be important where suppliers are adding creative input to the product or service (such as designers) where the two-way interaction needs to be much more fluid. Between these extremes, market mechanisms and/or performance targets could be used if a contractual approach to the relationship is felt to be appropriate – for example, for one-off projects or where there is a range of potential suppliers.

(Extract from Johnson and Scholes, Exploring Corporate Strategy 2002)

**Part B**

Strategic capability is the ability to perform at the level that is required for success – that is providing products or services that are valued or might be valued in the future.

The issues for discussion should include:

- Loss of resources
  - Threshold
  - Unique
- Loss of competences
  - Threshold (core)
  - Unique
- Having redundant resources and competences
- Loss of knowledge
- Loss of key staff
- Loss of critical success factors
- Loss of control
- Fragmented strategic development
- Loss of, or weakening of the value system.

Other issues that may be discussed is the increased capability to negotiate, manage and evaluate contracts. Including the development of a performance framework. But these would only happen if the organisation invests in the appropriate training.

**Marking Guide**

| | |
|---|---|
| 15-20 | Clear and structured throughout.<br>Explanation of the key issues drawn from textbooks, and other sources.<br>Good use of examples.<br>Balanced answer, most points in suggested solution covered.<br>Overall demonstrated good understanding of the issues. |
| 10-15 | Explanation of the key issues drawn from textbooks, and other sources.<br>Use of examples.<br>Balanced answer.<br>Good understanding of issues. |
| 5-10 | Limited explanation of the key issues.<br>Limited use of examples.<br>Balanced answer but limited points raised.<br>Limited understanding of issues. |
| 0-5 | List of issues – no explanation.<br>Weak/poor/incorrect examples.<br>Unbalanced answer; weak/poor/incorrect points raised.<br>Little or no understanding of issues. |

## Question 4 (Study Session 5)

### Part A

Answers to this element will vary depending on the type of organisation chosen. Nevertheless a key requirement is for the candidate to determine the stakeholders and which category the stakeholder or stakeholder group fits into.

For example, a candidate may suggest members of the public as a stakeholder group. Whilst this is correct it may be too wide and therefore candidates who break members of the public into sub-groups, which may be based on age, location, ability to travel, employed/retired etc, and are able to justify the category they are placed in , should receive credit. The key test for the marker is whether the answer is superficial or too broad, as opposed to focused.

### Part B

### Stakeholders

Stakeholders are those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends.
Few individuals have sufficient power to determine unilaterally the strategy of an organisation. Influence is likely to occur only because individuals share expectations with others by being a part of a stakeholder group. Individuals tend to identify themselves with the aims and ideals of stakeholder groups, which may occur within departments, geographical locations, different levels in the hierarchy, etc. Also important are external stakeholders of the organisation, typically financial institutions, customers, suppliers, shareholders and unions. They may seek to influence company strategy through their links with internal stakeholders. For example, customers may pressurise sales managers to represent their interests within the company. Even if external stakeholders are passive, they may represent real constraints on the development of new strategies.
Individuals may belong to more than one stakeholder group and stakeholder groups will 'line up' differently depending on the issue or strategy in hand. For example, marketing and production departments might be united in the face of proposals to drop certain product lines, whilst being in fierce opposition regarding plans to buy in new items to the product range. Often it is specific strategies that trigger off the formation of stakeholder groups. For these reasons, the stakeholder concept is valuable when trying to understand the political context within which specific strategic developments (such as the introduction of a new product or extension into a new geographical area) would take place.

### Conflicts of expectations

Differing forms of corporate governance are intended to provide a framework within which the interests of different stakeholder groups are given formal power of decision within organisations. Although this may prove useful in smoothing the strategic decision-making process, it will not remove conflict of interests. Since the expectations of stakeholder groups will differ, it is quite normal for conflict to exist regarding the importance or desirability of many aspects of strategy. In most situations, a compromise will need to be reached between expectations that cannot all be achieved simultaneously.
Conflicts may include the conflict between growth and profitability; growth and control/independence; cost efficiency and jobs; volume/mass provision and quality/specialisation; and the problems of sub-optimisation, where the development of one part of an organisation may be at the expense of another.

'Short-termism' is often driven by the career aspirations of managers at the expense of the long-term health of the organisation. As mentioned earlier, there may be an over-emphasis on short-term financial performance measures linked to remuneration packages. Arguably, the likelihood of conflict is greatest where expectations from different organisational fields collide.

(Extract from Johnson and Scholes, Exploring Corporate Strategy 2002)

**Marking Guide**

| | |
|---|---|
| 15-20 | Clear and structured throughout.<br>Explanation of the key issues drawn from textbooks, and other sources.<br>Answers based on the article.<br>Balanced answer, all points in suggested solution covered.<br>Overall demonstrated good understanding of the issues. |
| 10-15 | Explanation of the key issues drawn from textbooks, and other sources.<br>Answers based on the article.<br>Balanced answer, most points in suggested solution covered.<br>Good understanding of issues. |
| 5-10 | Limited explanation of the key issues.<br>Limited use of article.<br>Balanced answer but limited points raised.<br>Limited understanding of issues. |
| 0-5 | List of issues – no explanation.<br>No reference to article.<br>Unbalanced answer; weak/poor/incorrect points raised.<br>Little or no understanding of issues. |

## Question 5 (OLM study session 9)

### Part A

### Functional Structure

A functional structure is based on the primary activities that have to be undertaken by an organisation such as production, finance and accounting, marketing, human resources and information management.

This structure is typically found in smaller companies, or those with narrow, rather than diverse, product ranges. Also, within a multidivisional structure (see below), the divisions themselves may be split up into functional departments.

There are advantages in that it allows greater operational control at a senior level; and linked to this is the clear definition of roles and tasks.

However, there are disadvantages, particularly as organisations become larger or more diverse. In such circumstances, senior managers might be burdened with everyday operational issues, or rely on their specialist skills rather than taking a strategic perspective on problems.

Perhaps the major concern in a fast-moving world is that managers remain functionally focused and can neither see the need for an overall strategic view nor find it very easy to deliver a co-ordinated response quickly. The focus of individuals is the separate business processes and no one (other than the most senior managers) has any real ownership of the whole product or client group. It proves difficult to integrate the knowledge of the functional specialists.

Similarly, because a functional structure is built around business processes it can be very problematic in coping with diversity. For example, there may be attempts to impose an unhelpful uniformity of approach between an organisation's SBUs. So lead times in production, debt control in finance, advertising expenditure in marketing, bonus systems in human resources, may be too rigid to reflect the diversity which the organisation faces. Of course, processes and relationships can be used to minimise these problems with the functional structure, for example by improving co-ordination between functions either through systems or relationship building. Some functions might address the problem in their substructure; for example, within sales and marketing, there might be roles such as product managers or key account sales staff.

### A multidivisional structure

A multidivisional structure is built up of separate divisions on the basis of products, services or geographical areas. Divisionalisation often comes about as an attempt to overcome the problems that functional structures have in dealing with the diversity mentioned above. So divisionalisation allows a tailoring of the product/market strategy to the requirements of each separate division and can improve the ownership of the strategy by divisional staff. A similar situation exists in many public services, where the organisation is structured around service departments such as recreation, social services and education. Within these departments further divisionalisation might occur, although on different bases.

In practice, the creation of divisions which closely match strategic business units can prove difficult – for example, for reasons of size and efficiency (there would simply be too many divisions). So the divisional structure, in reality, is usually much broader than any one SBU.

However, whilst the diversity within a division is less than in the organisation as a whole, nevertheless diversity still exists and can be difficult to manage.

One way of coping with this in larger divisions is for divisionalisation to be rolled down to a next tier of subdivisions – sometimes by geography, sometimes by client group. A police force usually has territorial divisions. An education department often has subdivisions for primary, secondary and tertiary education.

A common problem in creating divisions is in deciding the basis of divisionalisation – should it be based on products or markets or technologies? The result can, of course, be a complex organisation: for example, a company may decide that it needs a number of levels of divisions in order to break up business activities sensibly. A first level of divisions based on broad product groups might be created. Within each of these divisions, there may be separate businesses, which in turn have their own divisional structure. At this level in the organisation, a division will then have a functionally based structure of departments dealing with the specialist tasks of that division.

This raises the problems of which businesses should be in each division, which functions are to be included at each level of divisionalisation, and which functions are properly placed within the corporate head office rather than within any one of the divisions. For example, where should a function such as financial planning be placed? Presumably, this is required both at a corporate level and at some level within an operating division.

The potential advantages of divisional structures mainly centre on the benefits of specialisation within a division, allowing competences to develop with a clearer focus on a particular product group, technology or customer group. It can also make it easier to monitor the activities of a division as a separate business.

However, there can be disadvantages and difficulties of three main types. First, divisions become so specialised and self-sufficient that they are de facto independent businesses – but carrying the costs of the corporate centre of the company. So it may make more sense to split the company into independent businesses, and de-mergers of this type have been very common. Paradoxically, the second type of problem may occur for the opposite reason. Divisions have created their own ‘corporate centres’ without having all the parenting skills needed to add value to their business units. For example, the division may be weak in functional expertise in finance, marketing, human resources or IT. The result is that the business units carry the costs of this divisional centre but are not as well supported as they would be by the ‘real’ corporate centre of the company where these skills do exist.

So the solution might be to revert to a direct reporting of business units to the corporate centre. Finally, the day-to-day operation and control of multidivisional organisations is often far from straightforward – particularly for large global organisations.

**A matrix structure**

A matrix structure is a combination of structures which could take the form of product and geographical divisions or functional and divisional structures operating in tandem. Matrix structures may be adopted because there is more than one factor around which knowledge needs to be built whilst ensuring that these separate areas of knowledge can be integrated. For example, a global company may prefer geographically defined divisions as the operating units for local marketing (because of their specialist local knowledge of customers). But at the same time they may still want global product divisions responsible for the worldwide co-ordination of product development, manufacturing and distribution to these geographical divisions (because of their specialist knowledge of these issues).

However, matrix structures do not occur only in large, complex, organisations. For example, they are common in professional service organisations (both public and private sector). Because a matrix structure replaces formal lines of authority with (cross-matrix) relationships, this often brings problems. In particular, it will typically take longer to reach decisions since they may result from bargaining or consensus rather than imposition. There may be a good deal of conflict because of the lack of clarity of role definition and responsibility.

As with any structure, but particularly with the matrix structure, the critical issue in practice is the way in which it is operated (i.e. the processes and relationships). For example, one ‘arm’ of the matrix may need to lead in the sense that it dictates some key parameters (such as economic production volumes) within which the other ‘arm’ of the matrix must work (for example, when offering local variation).

Another practicality concerns ownership of strategy by staff. This may require the ‘designation’ of specialist staff to some products or client groups and not others. For example, the IT department may designate individuals to support particular front-line divisions. They may be physically located in that division and have a two-way reporting arrangement (to the head of IT and to the divisional manager).

Perhaps the key ingredient in a successful matrix structure is that senior managers are good at sustaining collaborative relationships (across the matrix) and coping with the messiness and ambiguity which that can bring.

(Extract from Johnson and Scholes, Exploring Corporate Strategy 2002)

**Part B**

**Planning and control**

Planning and control is the archetypal administrative control, where the successful implementation of strategies is achieved through systems that plan and control the allocation of resources and monitor their utilisation. A plan would cover all parts of the organisation and show clearly, in financial terms, the level of resources allocated to each area (whether that be functions, divisions or business units). It would also show the detailed ways in which this resource was to be used. This would usually take the form of a budget. For example, the marketing function may be allocated £5m, but will need to show how this will be spent, e.g. the proportions spent on staff, advertising, exhibitions and so on. These cost items would then be monitored regularly to measure actual spend against plan. Revenue generation will also form part of the plan and actual sales will be monitored against plan.

Of course, there will need to be some degree of flexibility in these plans and budgets to meet the unexpected or to adapt to what is actually being achieved. For example, if revenues are running behind plan it may be necessary to reduce spending budgets in some areas and/or increase them in others – such as advertising.

The strengths are this ability to monitor and control the implementation of strategy. Many of the major strides forward in manufacturing efficiency and reliability in the early parts of the twentieth century were achieved through this ‘scientific management’, which is still an important approach in many such organisations. Such a dominance of detailed planning and co-ordination is particularly useful where the degree of change is low. However, the detailed way in which planning would support strategy can vary:

Planning can be ‘top-down’ and accompanied by standardisation of work processes or outputs (such as product or service features). Sometimes these work processes are subject to a rigorous framework of assessment and review – for example, to meet externally audited quality standards (such as ISO 9000). In many service organisations such ‘routinisation’ has been achieved through IT systems leading to de-skilling of service delivery and significant reductions in cost. This can give competitive advantage where organisations are positioning on low price with commodity-like products or services. For example, the cost of transactions in Internet banking are a fraction of transactions made through branches.

Many larger organisations have now exploited IT systems extensively through the introduction of enterprise resource planning (ERP) systems supplied by software specialists such as SAP, Oracle, Epicor or Baan. These systems aim to integrate the entire business operations, including personnel, finance, manufacturing operations, warehousing etc. For example, this started with the use of EPOS (electronic point of sale) systems in retail outlets, which linked back into stock control. Further advantage may be gained if these systems can stretch more widely in the value-system beyond the boundaries of the organisation into the supply and distribution chains – for example, in automatic ordering of supplies to avoid ‘stockout’. E-commerce operations are taking the integrative capability further.

Centralised planning approaches often use a formula for controlling resource allocation within an organisation. For example, in the public services, budgets might be allocated on a per capita basis (e.g. doctors’ patients). There may then be some room for bargaining and fine-tuning around this formula – for example, in redefining the formula – by weightings or introducing additional factors. The danger is that the need for change is underestimated and the formula inhibits the ability to redeploy resources within an organisation.

Many organisations face situations where these top-down planning and control processes may not be appropriate, for example in a rapidly changing environment and/or if there is significant diversity in circumstances between the various business units. If this approach is to work there need to be processes of reconciliation to ensure that the sum total of business unit plans can be resourced. This may be resolved through processes of bargaining and hopefully a revisiting of some of the central policies and guidelines, which should be regarded as movable (to a greater or lesser extent) through these planning processes. The danger of bottom-up planning is that key aspects of strategy are not addressed in the plans of business units; for example, the need to invest in new technologies, infrastructure or intellectual capital.

(Extract from Johnson and Scholes, Exploring Corporate Strategy 2002)

**Marking Guide**

| | |
|---|---|
| 15-20 | Clear and structured throughout.<br>Explanation of the key issues drawn from textbooks, and other sources.<br>Application of relevant theory.<br>Balanced answer, all points in suggested solution covered.<br>Overall demonstrated good understanding of the issues. |
| 10-15 | Explanation of the key issues drawn from textbooks, and other sources.<br>Application of relevant theory.<br>Balanced answer, most points in suggested solution covered.<br>Good understanding of issues. |
| 5-10 | Limited explanation of the key issues.<br>Limited application of relevant theory.<br>Balanced answer but limited points raised.<br>Limited understanding of issues. |
| 0-5 | List of issues – no explanation.<br>Weak/poor/incorrect application of relevant theory.<br>Unbalanced answer; weak/poor/incorrect points discussed.<br>Little or no understanding of issues. |