# BUSINESS STRATEGY IN FURTHER AND HIGHER EDUCATION

**Professional 2 examination**
**8 December 1999**

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. **Question 1** from Section **A**, **two** questions from Section **B** and **both** questions from Section **C**. The marks available for each question are shown in italics in the right-hand margin.*

*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.*

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

(Copyright)

## SECTION A (Compulsory)

**1**

Mendip University is a new city centre university which has traditionally seen itself as a teaching institution. It has a high rating amongst new universities in the Times Higher Education league tables though it is currently experiencing a large reduction in full time student applications for undergraduate and diploma courses.

The University Senate has become concerned about the rapidly changing external environment in which the university operates. These changes include the Research Assessment Exercise, increased competition for students, changing demand for "lifelong learning", and a reduction in funding in real terms, as well as technological changes with implications for the ways in which learning material is developed and delivered. It now wishes to consider the various measures it might take to maintain its strategic position and the quality of its teaching and research while remaining financially viable. It has therefore set up a Steering Committee to highlight aspects of strategic analysis and strategy formulation which might be undertaken as part of the strategic planning process.

At its first meeting, the Steering Committee invites you, as Planning Officer, to present a paper outlining the various analytical processes which could be undertaken to assist in the formulation of strategy. In your initial paper you decide to outline the techniques of PEST and scenario analysis.

- **Requirement for question 1**

(a)     Present a PEST analysis grid identifying some of the additional external factors which are likely to affect the University.                                              *3*

(b)     Using appropriate examples, show the three main steps involved in ensuring the PEST analysis has strategic value to the University.                                    *3*

(c)     Define scenario analysis and indicate how this might enable the University to develop its strategic planning process.                                                *3*

(d)     Using the environmental changes outlined in the question and identified in your PEST analysis, suggest three alternative future scenarios (or visions) for Mendip University. Briefly outline the environmental merits and problems in each scenario.        *9*

*(18)*

**SECTION B (Answer two questions)**

**2**

(a)   One approach to planning sees planning occurring at three levels within an organisation. You are required to identify these levels and the type and content of the planning considered to be appropriate at each level.                    *6*

(b)   Identify five aspects of good practice in planning and critically discuss how far the planning process in an organisation with which you are familiar conforms to those criteria.                    *12*

*(18)*

**3**

(a)   Explain what is meant by the 'Balanced Scorecard' and how it can assist the strategic planning process.                    *6*

(b)   Outline four perspectives of the balanced scorecard as they would apply in the public sector and illustrate each with a practical example from an organisation in the Further and Higher Education sector.                    *12*

*(18)*

**4** Despite recent government reforms market forces still play a significant role in the provision of many public services. Consequently market analysis can play an important part in the design and delivery of services.

- **Requirement for question 4**

(a)   Describe the stages through which markets typically develop.                    *3*

(b)   Illustrate the Boston Consultancy Group matrix, defining the product types it includes and giving examples of each from the Further and Higher Education sector. Discuss briefly the applicability of the matrix to the provision of services in the Further and Higher Education sector.                    *10*

(c)   State what is meant by the term 'market segmentation', explaining the role it can play in public service design and showing the way in which it might be applied in the Further and Higher Education sector.                    *5*

*(18)*

## SECTION C (Answer both questions)

**5** You are the Contracts Accountant at Redshire University. The University has three faculties: Science and Engineering; Medicine; and Business and Social Studies.

The University has a strategic plan and within it the following long-term objectives are incorporated:

1. To provide a high quality of service throughout each of the three faculties;
2. To ensure the University increases its income from local business, industry and public sector organisations; and
3. To maintain a balanced financial position.

With the reductions in real terms of government funding of Higher Education and doubts over the future level of student recruitment with the introduction of student loans and tuition fees, the University has been particularly concerned to increase its income from other sources, including research, consultancy and analysis services, and the provision of training courses.

However, there has in the past been some concerns over the University's services from local business and industry, with a major research contract having been lost recently to a neighbouring university, and several other firms expressing reservations about the quality of service that is being provided.

It has been decided to carry out an analysis of 1998/99 in order to identify any problems that need to be addressed early on during 1999/2000. The following table is an extract of contract activity taken from the budgeted Income and Expenditure Account for the University for the year 1998/99.

**Extract Planned Income and Expenditure Account for the year 1998/99**

| Income | Plan £000 |
|---|---|
| Category A | 41,857 |
| Category B | |
| Fees for routine analysis services | 2,578 |
| Fees for consultancy | 859 |
| Category C | 1,596 |
| **Total income** | **46,890** |
| | |
| **Expenditure** | |
| Pay | 21,587 |

| | |
|---|---:|
| Non-pay | 15,482 |
| Depreciation | 3,100 |
| **Total expenditure** | **40,169** |
| **Operating surplus** | **6,721** |
| Interest payable | 6,017 |
| **Retained surplus** | **704** |

Notes:

1.  Category A income is block contract income for research and consultancy services for external purchasers. A 2% tolerance was allowed within the contract activity levels.
2.  Category B income is cost per item of analysis income and income from individual consultancy episodes provided for external purchasers.
3.  Category C income is in respect of income received for the provision of external training courses provided for external purchasers.
4.  Category B income was estimated based mainly on the previous year. There is no guarantee that these services will be demanded at these levels.
5.  The non-pay expenditure plan assumes that a cost improvement target of £600,000 will be met.

The following extract actual Income and Expenditure Account and activity statement has been prepared for 1998/99.

**Extract Income and Expenditure Account to 30 March 1999 (Actual)**

| Income | Actual |
|---|---:|
| | **£000** |
| | |
| Category A | 41,857 |
| Category B | |
|   Fees for routine analysis services | 1,962 |
|   Fees for consultancy | 420.2 |
| Category C | 1,596 |
| **Total income** | **45,835.2** |
| **Expenditure** | |
| Pay | 21,601 |
| Non-pay | 15,732 |
| Depreciation | 3,100 |
| **Total expenditure** | **40,433** |
| **Operating surplus** | **5,402.2** |
| Interest payable | 6,017 |
| **Retained surplus / (Deficit)** | **(614.8)** |

In terms of activity this represented:

|  | £000 |
|---|---|
| Science and Engineering Block Contracts | 12,557 |
| Medicine Block Contracts | 25,300 |
| Business and Social Studies Block Contracts | 4,000 |
| Science and Engineering fee per analysis | 1,100 |
| Medicine fee per analysis | 862 |
| Business and Social Studies fee per consultancy | 420.2 |
| Science and Engineering fees for training courses | 496 |
| Medicine fees for training courses | 500 |
| Business and Social Studies fees for training courses | 600 |
| **Total** | **45,835.2** |

There is soon to be a University Senate meeting where the Director of Finance and Contracting will be required to comment on the financial performance of the University in the light of the strategic plan.  In addition, after the last Senate meeting the chairman had raised the issue of the quality of the services that the University provides.

- **Requirement for question 5**

You are required to write a report, suitable for presentation at the next University Senate meeting, that:

(a)     Addresses the issues raised in the strategic plan of the University.  In addition to drawing the Senate's attention to significant issues raised from the 1998/99 results, you are required to make recommendations as to how the University should address any areas of concern.                                                                                                          *15*

(b)     Makes recommendations as to how the University could monitor quality in the services it provides to local business, industry and other organisations.                   *4*

(c)     Identifies the characteristics of budgeting required for it to be an effective tool in monitoring strategic plans.                                                                                      *4*

*(23)*

**6** The Assessment and Registration Service for Recognised Vocational Courses (ARSRVC) has been a joint agency of the Department of Employment and the Scottish Office since 1993. It is not an Executive Agency, and its status is described under the heading of "other publicly funded bodies". All ARSRVC expenditure is met from monies shared proportionately between what is now the Department for Education and Employment (DfEE) and the Scottish Office. All staff are direct employees of ARSRVC although normal civil service terms and conditions apply.

The main function of ARSRVC is to assess, validate and register courses of vocational education and training for Further and Higher Education institutions and other providers, for the purpose of establishing appropriate levels of funding to be passed on to providers by the appropriate Funding Councils and other authorised bodies, such as the TECs and LECs.

When the ARSRVC was first established in 1989 it was considered appropriate, given the obvious links, that it should operate from premises in further and higher education institutions. In total 18 regional offices were established, four in Scotland and the rest in England and Wales. However, in 1993, Ministers collectively took the decision, against a background of growing complaints about the quality and integrity of the assessment and validation processes, that the operation of the ARSRVC should no longer be provided from institutional premises and should become a joint agency. At this point five regional offices were established, one in Scotland and four in England and Wales. Part of the rationale for the change was the development of more efficient and effective administrative processes, which up until 1993 were extremely labour intensive and which operated on the basis of considerable local variances.

In 1993 a bespoke IT system was developed by ITI Co, a small software company, and introduced into each of the five regional offices. The system introduced in Scotland differed only marginally to the one in England to reflect the apparently minor differences in legislation and structures between the two countries. Three months after the introduction of the new system it became evident that the differences in legislation and structures required more substantial operational variations. ITI Co argued that any modifications to the system would be in addition to the original contract price as they had delivered what had been specified. The debate between ITI Co, DoE and the Scottish Office went on for a further three months. Just as it seemed a resolution would be reached, ITI Co went into receivership. The assets of ITI Co were eventually bought by ITRUS Co who undertook to support the ARSRVC system on a care and maintenance basis only.

As a result of this, the Scottish regional office developed changes to accommodate the legislative and structural differences, by employing consultants. By the end of 1997, each of the five regional offices had made substantial changes to the operational system to the extent that only a small core of the original functionality remained the same across all the offices.

By the end of 1998 all attempts to aggregate or compare the results across the regional offices were abandoned, despite the need to be able to do this being considered by Ministers as one the key drivers for change in 1993.

As in earlier years, there is again mounting criticism about the quality of service being provided by the ARSRVC.  However, in addition, the National Audit Office (NAO) has announced that it is to investigate the ARSRVC following a detailed anonymous letter claiming that some £5 million pounds of public funds have been wasted in the introduction and ongoing development of its IT system since 1993.  The involvement of the NAO has focused the attention of the Scottish Office and the DfEE on the need to address the problems of the ARSRVC and in particular consider carefully future options for IT development.

You are a member of a joint working group set up to consider options for dealing with ARSRVC's current IT problems and have been asked to produce a report for its next meeting which:

1.      Sets out how appropriate options might be generated, evaluated and shortlisted; and

2.      Identifies and evaluates the options available to resolve the current problems.


● **Requirement for question 6**

Prepare a report for the next meeting of the working group as outlined above.  Your report should:

(a)     Set out approaches to generating, evaluating, and shortlisting appropriate strategic options relevant to the scenario.                                                                        *15*

(b)     Identify appropriate options for dealing with ARSRVC's current IT problems, and how the options might be evaluated.                                                            *8*

*(23)*