

BUSINESS STRATEGY IN CENTRAL GOVERNMENT AND AGENCIES

**Professional 2 examination
June 2000**

MARKING SCHEME

The logo for CIPFA, featuring the letters 'CIPFA' in a serif font. The letter 'I' is stylized with a decorative flourish that loops around the top of the 'P'.

Question 1

Study Unit 2; Study unit 6; Study Unit 12 p 65-/66; Study Unit 15;
Study Unit 19 p 4-7
Technical Update 1998-Business strategy (all sectors) p 94-96.

(a)

Guidelines on Better Quality Services

Replaced Market Testing. Agency needs to review all its services at least once every 5 years against the criteria of internal restructuring and contracting out.

Impact

Consultation with staff and stakeholders is a requirement. The process should be open and transparent. The process needs to be developed to assess value for money and quality of current provision, eg using hybrid benchmarking.

4

Public Service Agreements

Agreements between departments and agencies and the Treasury showing objectives and measurable efficiency and effectiveness targets.

Impact

PSAs will be a central element of strategic planning. Targets can be imposed by government (eg to reduce sickness absence) and therefore this is an added burden on departments and agencies. Not clear what sanctions apply.

Treasury will have, also devolution in Scotland, Wales and Northern Ireland mean different arrangements in each of these countries.

4

Improved IT/Communication

Government has given a commitment to make greater use of IT. Targets set for one quarter of contacts between citizens and government organisations to be by electronic means by 2002.

Impact

Evidence that IT systems are not generally well integrated with other strategic management or policy making. Traditionally, IT introduced to improve efficiency with less emphasis on effectiveness. Major IT developments have significant lead times and implications for staff

(eg training) and financing. When large scale investment is required there will be pressure to enter into PFI/PPP arrangements.

4
(12)

(b)

Brief definition of - deliberate strategy- considered and planned in advance and - emergent strategy - emerges as continuous response to changes in environment.

1½

Several possible approaches:

- Planned: deliberate strategy, based on formal plans and centrally driven, works best in more stable environments.
- Entrepreneurial: essentially deliberate, based on strong leadership, capable of adaptation.
- Umbrella: partly deliberate, partly emergent and deliberately emergent strategy based upon broad constraints or guidelines, within which decision-maker will work.
- Ideological: deliberate strategy based on shared beliefs and collective vision.
- Consensus: strategy emerges through consensus and pervades the organisation.
- Imposed: strategy imposed from outside organisation, either by direction or use of constraints.
- Unconnected: lack of central direction which allows strategy to emerge in separate and loosely connected path of the organisation.
- Other approaches are possible and should receive credit when properly articulated.

1½ marks for each approach fully explained up to a maximum of 4½

(6)
(18)

Question 2

SU13

- (a) Definition – the beliefs, expectations and values which are shared in an organisation
(or some such similar definition)

Importance- strategic fit of options to culture
 increased risk where option does not suit culture
 indicator of openness to change

4 x 1/2 marks to total of 2

- (b) Power Culture controlled centrally by powerful individuals
 lack formal rules / relationships
 Web structure

Role Culture bureaucratic, clear definitions of functions, specialists,
 authority, accountability Temple structure

Task Culture job or product orientation,
 power based on expertise, commitment to teamwork
 Network structure

Person Culture exist to serve individuals needs and objectives
 unresponsive to conventional power systems
 No formal structure

1 mark each where well explained up to a maximum of 4

- (c) Stories and myths about core beliefs
 successful individuals, relationships
 outlines acceptable behaviour, expectations

Rituals & symbols what behaviour is expected and rewarded
 language and attitude
 outward signs of acceptance

Leadership strategies preferred
 leadership style
 where power lies

Structure & systems collaboration or competition
 formal or informal
 creativity or process driven

1 mark each where well explained up to a maximum of 4

Note: Alternative versions of the web exist and marks should be awarded on merit

(d) A good answer should

describe the organisation

up to 1 mark

link to cultural web with examples of each element

up to 4 marks

state which of Handy's types apply

up to 1 mark

justify which of Handy's type is dominant

up to 2 marks

(8)

(18)

Question 3

(a) Importance of good communication:

- promotes good working relationships
- helps create clear understanding
- clarifies the reasons for management action
- equips staff to improve performance
- creates supportive climate
- assists in the change process
- develops an atmosphere of trust
- promotes holism
- improved morale and productivity
- any other appropriate example

1/2 mark each up to a maximum of 4

Features of effective communication

- relevance
- regularity
- credible
- honest
- understandable

*1/2 mark each up to a maximum of 2
(6)*

(b) Role of marketing

- ensure that the right products appear in the
 - right place at the
 - right time at the
 - right price,
 - promoted in the right way to the
 - right people.

2

Marketing mix

- Product
- Place
- Price
- Promotion

*1 mark for each element well explained up to a maximum of 4
(6)*

(c) A good answer will include:

Outline of communication methods employed

internal

external

Evaluation of effectiveness against criteria set out in part (a)

up to a maximum of 2

up to a maximum of 4
(6)

(18)

Question 4

(a)

Payback	Calculates how quickly the investment is repaid
Advantages	simple, identifies non-viable options, to some extent evaluates risk
Disadvantages	ignores time value of money, earnings after payback
ROCE	Calculates percentage return of capital employed
Advantages	easy, considers total earnings
Disadvantages	ignores timings, time value of money, duration.
DCF	Calculates the financial return in the current time value of money examples, IRR, NPV
Advantages	takes account of time value of money, allows common base
Disadvantages	more complex, discounting rate can be arbitrary

Other appropriate purely financial methods, or variations on the above, are acceptable.

2 marks each, (1 for explanation, 1 for advantages and disadvantages) up to a maximum of 6

(b) Discussion of application, advantages and disadvantages of two tools which consider non financial as well as financial consequences.

Cost – Benefit analysis

acknowledges that there are social implications
 assessments are made for non measurable elements
 decisions should be made on social and economic value

Advantages	includes social costs and benefits takes long term view
Disadvantages	difficult to measure social consequences complex principles different assumptions lead to different decisions

Ranking & Scoring/Weighted Benefit Analysis

groups score against weighted selection criteria
 attempt to turn subjective into objective measurement
 accepts that social consequences are vital
 reconciles option to strategic direction

Advantages	linked to strategic objectives takes all aspects into account takes long term view
Disadvantages	tends to be subjective

biased results possible

*maximum of 4 marks for each method where discussion covers key points as above
up to a maximum of 8*

Risks arising could be on variability, uncertainty, or optimistic bias.

Methods for taking risk into account include:

Scenario planning: apply various different environmental assumptions to the option and ascertain whether it remains the correct decision.

Sensitivity analysis: Tests all underlying assumptions considering optimistic, pessimistic and normal views of each to ascertain whether the decision is sensitive to changes in assumptions.

*maximum of 2 marks for each, where clearly explained, up to a maximum of 4
(12)*

(18)

Question 5

- (a) Holistic approach to performance, linking financial and non-financial indicators

Linking strategy and operations, short and long-term, soft and hard, lag and lead indicators.

2

- (b) Issues raised by the case

General

- The DPS is structured into 4 functions, but PIs not identified in this way.
- Performance management almost entirely based on annual financial budgets and PIs are short-term and internally focused
- Current PIs focus on lag and short-term, and not balanced with lead or long-term indicators
- No link between PIs and strategic direction of the organisation (indeed, not clear whether DPS has a clear strategic direction)
- Incremental budgeting – inherent problems will be carried forward
- Quarterly reviews look only at financial performance against budgets – not clear how frequently PIs are reviewed
- Strategic Plan produced 3 years ago and not to be reviewed until year 6
- Mission statement talks about quality, customers, technology and VFM, yet virtually no PIs to measure performance in these areas
- Annual Business Plan produced by the Head of Internal Support Systems, no evidence of consultation with other staff or link to strategic plan

PIs - Concerns

- Focus too much on financial PIs
- Turnover not growing as fast as improving % of new contracts
- Above evidenced by poor delivery time on orders and growing numbers of customer complaints
- Staff turnover trend very worrying
- Other valid points should attract credit

*1 mark for each point explained up to a maximum of 13
report format 1*

(13)

- (c) Students could use some of the examples in the case or come up with new ones, but objectives must be relevant to the case, consistent with the DPS's mission statement and capable of measurement. The following is not a model answer and other relevant objectives will be acceptable.

Financial Perspective

Objective	Measure	Example Target
Achieve acceptable return on capital	Return on capital employed	6%
Achieve acceptable profit margin on all contracts	Contract costing - full cost	20% gross profit on all contracts

Customer Perspective

Objective	Measure	Example Target
Meeting customer needs	Annual customer satisfaction survey	95% of customers scoring the service received at 95% or above
Maintaining customer satisfaction	Customer complaint response times	All customer complaints to be resolved, to the customers satisfaction, within 5 working days

Internal Business Processes Perspective

Objective	Measure	Example Target
Increase market share	Tender success rate	80% of tenders won
Maintaining position as market leader in use of cutting edge technology	Development programme of new products or services	Increase range of products or services by 5%

Learning and Growth Perspective

Objective	Measure	Example Target
Recruitment and retention of skilled staff	Completion of staff training and development programme	95% of staff to complete their annual staff training and development programme
Continuous investment in cutting edge technology	Investment in research and development	5% of turnover

1/2 mark for each objective plus 1/2 mark for combined measure and target
(8)

(23)

Question 6

The answer is based on the article by Susan Key and Samuel J. Popkin 'Integrating Ethics into the Strategic Management Process: doing well by doing good' which is included in the P2 Technical Update 1999, and Study Unit 3 'Why we are here'.

- (a) Discussion of the importance of moral, social and legal obligations to guide management in developing goals and strategies. Evidence that integrating ethics improves strategic development and implementation and organisational survival. Link of ethics to values. Identification of interests and the importance of linking stakeholder values to ethics.

4

- (b) Factors

Economic:

- Wealth of the district
- Direct inward investment
- Multiplier
- Impact on jobs - quarry and tourism (likely negative)
- Externalities - pollution, infrastructure
- Impact on Southlands of the quarry versus environment protection (tourism).
- Impact on resources and funding of Southlands via increased business rate BUT the need to service/support new industry.

1/2 mark for each point up to a maximum of 4

Ethical:*Moral*

- long term impact beyond planning horizon
- impact on nature e.g. birdlife, woodlands, countryside

2

Social

- sport, leisure, health and education facilities
- job creation
- real incomes

2

Legal

- correct permissions
- any conflict of interests

1

(9)

Stakeholders	Likely Values
Local community	need for jobs inward investment impact on tourist industry
Local Government	votes political values
Central Government (the EPA)	influence economic
Pressure groups	environmental issues jobs local amenities
Agency Chief Exec/Managers	managing likely conflict of views local v national pressures legal issues

1/2 for naming stakeholder groups and 1 for values up to a maximum of 5

Influence will be in extent to which stakeholder values match the vision and mission of the Agency. There are likely to be conflicts about mission and purpose, even within stakeholder groups, and these need to be resolved. 1

The process may involve the following steps:

Key & Popkin model

Interest identification

i.e. stakeholders
dominant/passive

Interest analysis

How to serve these interests
e.g. coalition, bargaining etc

Interest actualisation

Mission statement + education, commitment

S.U.3

Identify the stakeholders

dominant/passive

Collect views from stakeholders

bargaining view

Collate the views method?

Try it out

discussion

Implement

Throughout part (b) other valid points should attract attention

4

(10)

(23)