

BUSINESS STRATEGY IN CENTRAL GOVERNMENT AND AGENCIES

**Professional 2 examination
June 1999**

MARKING SCHEME



Question 1

(a)

The student could tackle this from a general strategic management perspective, but to gain full marks the answer should recognise that the objective of the question is to outline a specific strategy for testing/achieving value for money. The question directs the student to use the prior options test as a framework for this strategy.

2

Prior options tests

Abolition

Is there a continuing need for the service? If not then the best VFM is obtained from not providing the service.

1

Privatisation

The key issues here are whether the government needs to remain responsible for the service and whether there is a financial case for a sale.

Support and ancillary services are not core activities, therefore there is no obvious reason why the government needs to retain responsibility, but the scale of the services may be unlikely to be appropriate for privatisation.

1

Contracting out and market testing.

Both options involve external competition, but only market testing involves an in-house bid. Either is likely to provide the best means of establishing best VFM.

1

Benchmarking

An alternative to direct competition. Success depends on obtaining accurate cost information from the private sector.

1

Creating an NDPB or Executive Agency

Not appropriate options for support and ancillary services.

1
(7)

- (b) Contractual arrangements: on going responsibility of the DHC

Privatisation

Trade sale or equivalent

Effectively none

Contracting out

Legal contract

Legal ownership and strategic direction

Market testing

Service level agreement

Legal ownership and all management, although operational matters effectively delegated to in-house team

3

- (c) Market testing process

Key players - roles and responsibilities

Client – period to contract/SLA

Main role - to act as sponsor or buyer.

Main responsibilities:

Identify/select tenderers

Prepare ITT

Set evaluation criteria

Issue ITT

Receive bids

Evaluate bids

Award contract/SLA

3

Client – period post contract/SLA

Main role - to manage the contract/SLA.

Main responsibilities:

Managing the budget for the activity

Monitoring performance and standards

Agree changes to service specification

2
(5)

Contractor – period to contract/SLA

Main role - to prepare the bid.

Main responsibilities:

Respond to ITT (fundamentally the same for an in-house team and external contractor)

1 or 2

Contractor – period post contract/SLA

Main role - to provide service delivery.

Main responsibilities:

Maintain levels of service

Manage service delivery

Quality assurance

Liaising with the client

1 or 2

(up to a maximum of 3)

8

(18)

Question 2

SU2 & TU pg. 76

(a) Strategic Analysis:

Strategic Choice:

Strategic Implementation:

(1)

Linkages - examples include:

analysis generates strategic issues that feed into choice
 choice will be function of capability, which will impact on implementation
 capabilities linked to evaluation linked to implementation
 environment linked to generation linked to monitoring
 review linked to capabilities and environment

(1 mark for each linkage identified and explained, up to a maximum of 3)

(b) Deliberate:

planned strategy
 formal plans
 centrally driven
 workable in stable environment

Emergent:

strategies which are realised differently from or in the absence of intention
 internalise imposition into internal plans
 continuous response to the environment

(2 marks for each definition)

(c) Clearly answers may differ depending on the organisation concerned. Discussion should centre around extent to which strategies are realised as intended and would normally conclude that an emergent strategy is followed to at least some degree.

*(Marks should be awarded for clear argument and conclusion.**Answer will discuss internal dynamics of strategy formulation and/or extent to which sectoral environment likely to impose strategy on an organisation.)**1 mark per relevant point made*

(10)

,

(18)

Question 3

SU11

- (a) A full description of the model should include:
 the picture of the model shown in SU11,
 a short note on the activities

6

(2 marks for the diagram/explanation of model, 2 marks explaining support activities, 2 marks explaining primary activities)

- (b) Uses include assessing:
 resource utilisation
 potential for cost leadership
 effectiveness in establishing capabilities for differentiation
 potential for integration
 linkages

(1 mark for each point) 4

- (c) A good answer will attempt to match their organisations' activities to the value chain. eg

Government Sector: eg Inland Revenue

Inbound Logistics:	customers – in person and other forms of communication, literature, legislative changes
Operations:	processing claims, tax returns, modelling changes to the tax regulations, allowances, etc
Outbound Logistics:	issue of revised tax codes, tax demands
Marketing:	advertising tax code changes
Service:	maintaining tax records, answering customer queries

Discussion of linkages between activities is desirable.

Credit is available for conceptual discussion of applicability or otherwise as well as illustrative matching.

8

(18)

½ mark per activity identified to a maximum of 3, ½ mark per explanation of activity to a maximum of 3, 2 marks for linkages explained)

Question 4

(a) Barriers to change:

- Routines
- Culture
- Power bases
- Systems
- Symbols

(½ mark for identifying each barrier plus ½ mark for explaining why it is a barrier to change - total 5 marks)

Management Styles:

- Education
- Participation
- Intervention
- Negotiation
- Manipulation
- Power

(½ marks for identifying each style to a maximum of 2 marks, plus ½ mark for outlining the style - total 4 marks) (9)

(b) Budget monitoring:

- pros. system in operation
- use of resources against objectives
- cons. inputs not outputs
- lateness of preparation

Contract monitoring:

- pros. monitored by client
- external performance management
- cons. may not cover all of strategy
- external focus

Monitoring quality: (questionnaires etc.)

pros. all embracing
output orientated

cons. cost of collection
Selznick's management theory

(1 mark for description, 1 mark for pros and 1 mark for cons) (9)

(1/2 mark for identification without description)
(18)

Question 5

(a) DCF Calculations

Option A

Year	Cashflow (£000)	DF	DCF (£000)	
0	(4,000)	1	(4,000)	
1-30	975	13.765	13,420.875	
			<hr/> 9,420.875	NPV

Option B

Year	Cashflow (£000)	DF	DCF (£000)	
0	(1,000)	1	(1,000)	
1-15	(800)	9.712	7,769.6	
			<hr/> 6,769.6	NPV

Option C

Year	Cashflow (£000)	DF	DCF (£000)	
0	(3,000)	1	(3,000)	
1-15	1,1500	9.712	11,168.8	
			<hr/> 8,168.8	NPV

Annual Equivalent Calculations

$$\text{Option A} \quad \frac{\pounds 9,420,875}{13.765} = \pounds 684,407.91$$

$$\text{Option B} \quad \frac{\pounds 6,769,600}{9.712} = \pounds 697,034.59$$

$$\text{Option C} \quad \frac{\pounds 8,168,800}{9.712} = \pounds 841,103.78$$

6

*1 mark - identification of cashflows**1 mark - identification of annuity factor**1 mark - discounting*

1 mark - NPV

(max 1 mark deducted for errors in calculations)

2 marks - AE calculations

Weighted Benefit Analysis

Options

Criteria	Weight	A		B		C	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
V	6	5	30	6	36	9	54
W	3	10	30	10	30	5	15
X	2	10	20	5	10	7	14
Y	1	8	8	4	4	8	8
Z	2	5	10	10	20	7	14
			98		100		105

weightings 1 mark, Analysis/weighted score 2 marks, comment/conclusion 1 mark

4

(b) Principal Risks

- outcome is a function of subjective weights and scores
- ability of projects to meet timescale assumed
- ability to raise levels of finance assumed
- robustness of cost assumptions;

Further work:

- redo wba with different weights, based upon discussion with senior managers
- preliminary pre-tender discussions with interested contractors concerning feasibility of timescale assumptions, reinforced by communicating intention to include penalty clauses in specification
- discussions with commercial property agents; investigation of possible incentive arrangements to encourage target meeting
- discuss cost projections with budget managers and commercial lenders

(1 mark per relevant point) 8

(c) Advantages:

- transfer of risk
- greater efficiency of management may impact favourably on running cost performance
- may make timing of land disposals less material

Disadvantages:

- identification of partner is a complex process with a number of uncertainties
- likely to require higher cost of capital
- loss of control
- possible increase in quality

(1 mark per relevant point) 5

(23)

Question 6

(Underlining denotes key points)

- (a) SU2- The Corporate Plan is clearly intended to be a strategic, not a business, plan although it has strayed into the operational area with targets being set for standards of delivery of some services. The glaring omission is that the stakeholders have not been involved or even consulted in the preparation of the plan. Nor has any serious effort been made to sell the ideas to staff. The plan itself is too big at 30 pages and the objectives are not fully SMART, e.g. there is no clear target for answering telephone calls. There is no mention of the existence of departmental business plans and no arrangements for feedback and monitoring. There can therefore be no effective review of strategy.

Other relevant points can also be made by the student.

1 mark for each point up to 8

- (b) As with most plans, the intentions, if not the contents, are probably sound. The plan has been launched so it cannot be "unwritten" and started again, and the student should recognise this: the answer to part (b) should not simply be a reversal of the points made in part (a).

1

The first step would be the relaunching of the Plan, which would serve to address the missing element of communication. This should be done in such a way as to ensure that all stakeholders, especially staff, are aware of its existence and its contents.

2

Finance, in common with other business units, needs to prepare its own departmental business or operational plan to translate the strategic into the deliverable. Points which appear in the scenario indicate that the Finance Department has a problem in communicating with the public and also financial reporting does not seem good. There are perceived problems with staff numbers, attitude ("the enemy") and morale, all of which need to be addressed by the operational plan.

Thus the operational plan might need to include enhanced staffing, though resources for this would need to be sanctioned and training eg in telephone response.

5

(1 mark per point) (8)

- (c) This section seeks an understanding of the planning process. The candidate should set out the basic steps.

SU 4 sets out the basics of business planning:

Involve others, e.g. Employees, customers of the Agency, representative bodies, unions, parent department, Cabinet Office, HM Treasury, independent consultants

"Top - down" or "bottom - up" approach?

Determine the context in which the organisation or unit exists

Its current position

Action to be taken

Other information which is helpful in putting the plan into perspective for users of the plan.

Presentation of the plan

Monitoring & Review

(1 mark per relevant point) 7

(23)