

BUSINESS STRATEGY IN FURTHER AND HIGHER EDUCATION

**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 over the top of the 'P'.

Question 1

SU 2, SU 6, SU 12, SU 15, Technical Update 1998

(a)

Government Funding - FE institutions rely on government sources for much of their finance. The FE market is managed and size is restricted by this government funding. 1

Impact Colleges have to compete with each other for increasingly scarce funding
 No real ability to expand the size of the market
 May set themselves unachievable growth targets
 May have to seek funding efficiency gains which are unrealistic

4 x 1/2 marks up to a total of 2

Mergers - Driven by changes in the structure of the post-16 education sector and the general changes in the political and economic changes given impetus in the FE sector by the removal of colleges from Local Authority control in 1993. 1

Impact Used as a means of limiting exposure to competition and/or as a means of reducing dependency on the government managed market
 Need to meet the criteria for government/FEFC approval
 Process has costs and other resource implications eg redundancy
 Need for careful and skillful management
 Need to establish clear and specific goals for the merger

4 x 1/2 marks up to a total of 2

Private Finance Initiative - a means of improving value for money through employing private sector innovation and management skills to help deliver performance improvement and efficiency savings. 1

Impact Transfer to private sector of many of the risks of delay and potential cost increase/uncertainty reduced/ overall costs reduced
 Colleges only specify what they want to achieve from a capital investment - the how is left to the private sector - may cause problems
 Need to define areas where PFI might/should be used
 Need for projects to be marketable to the private sector
 Strategy may have financial/employment implications

4 x 1/2 marks up to a total of 2

Other Government Policies - eg some Dearing recommendations, Welfare to Work, proposed increase in student numbers by 500,000 by 2002, increase in sub-degree work, no growth in degree level qualifications in FE 1

Impact Numbers of staff may need to be increased and/or more intensive use made of existing staff

Investment may be required in staff development and training
More intensive use of buildings and equipment
More extensive use of a variety of modes of course delivery eg using IT
Possible use of mergers as a coping strategy

Other valid points should attract credit

4 x ½ marks up to a total of 2

(12)

(b)

Brief definition of deliberate strategy - considered and planned in advance and emergent strategy - emerges as continuous response to changes in the environment. *1½*

Several possible alternative 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 guidelines, within which decision makes will work
- Ideological: deliberate strategy based on shared beliefs and collective vision
- Consensus: lack of central direction, but strategy emerges through consensus and pervades the organisation
- Imposed: strategy originates from outside organisation, either by imposition or use of constraint
- Unconnected: lack of central direction which allows strategy to emerge in separate and loosely connected parts of the organization
- Other approaches are possible and should receive credit when properly articulated.

1½ marks for each approach fully explained up to a maximum of 4 ½

(6)

(18)

Question 2

(a) SU13

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 ½ 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 credit 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 types is dominant

up to 2 marks

(8)

(18)

Question 3 (Block 5 – First SU)

(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

½ mark each up to a maximum of 4

Features of effective communication

- relevance
- regularity
- credible
- honest
- understandable

½ mark each up to a maximum of 2

(b) Role of marketing (Second SU)

- 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 to max 4

(c) A good answer will include:

Outline of communication methods employed

internal

external

up to a maximum of 2

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

*up to a maximum of 4
(18)*

Question 4 (Block 4)

SU16

- (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 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

<i>Advantages</i>	linked to strategic objectives takes all aspects into account takes long term view
<i>Disadvantages</i>	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, maximum of 4
(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 Services, but 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 12

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

½ mark for each objective plus ½ 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 effect
Impact on jobs - quarry and tourism (likely negative)
Externalities - pollution, infrastructure
Impact on district of the quarry vs environment protection (tourism).
Impact on resources and funding of the University via increased income rate but some need to service/support the new venture.

½ 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

- (c) Stakeholders and their likely values

Local community - need for jobs
inward investment
impact on tourist industry

District Council members - votes
political values

Government - influence
economic

Pressure groups- environmental issues
jobs
local amenities

Vice-chancellor/Senior University managers and staff
- managing likely conflict of views
local versus national pressures
legal issues

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

Influence will be in extent to which stakeholder values match the vision and mission of the Authority. 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

SU3

Interest identification
i.e. stakeholders
dominant/passive

Identify the stakeholders
dominant/passive

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

Collect views from stakeholders
bargaining view

Interest actualisation
Mission statement + education,
commitment

Collate the views method?

Try it out
discussion

Implement

4

Throughout part (b) other valid points should attract credit

(23)