

# BUSINESS STRATEGY IN HOUSING ASSOCIATIONS

**Professional 2 examination**  
**7 June 2000**

## MARKING SCHEME



**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)

**Reduction in HAG**

Government grant funding cut back; tied to monitoring by Housing Corporation (Scottish Homes); encouraged to seek private finance.

Impact- need to consider public/private partnerships; must be marketable to private lenders; meet monitoring criteria; consider houses for sale/shared ownership etc.

*½ mark for each point well made to maximum of 3*

**Social Exclusion Unit**

Multi-disciplinary task force; tackle specific issues over short periods; areas where measurable results are achievable-e.g. (for social housing) Rough Sleepers and homelessness-reduce exclusions by 30% by year 2002.

Impact- provide hostels or other units for homeless: become involved with other agencies to provide additional support necessary; consider tapping into additional funds available for provision of housing for those leaving care, prison or the armed forces etc.

*½ mark for each point well made to maximum of 3*

**Large Scale Transfers**

Move away from local authority control to private sector finance and corporate management philosophy; transfer entire or large portions of housing stock to housing associations or housing companies; access to private sector monies for repairs and improvement.

Impact-sudden, large increase in housing stock; high costs of maintenance and improvement; rental and management issues; difficulties in achieving social mix of tenants; unpopular areas.

*½ mark for each point well made up to maximum of 3*

**Potential extension of Right to Buy**

Giving housing association tenants the same right to buy their home as local authority tenants enjoy. Discounts of 30-70% linked to length of tenancy.

Impact- best of housing stock most vulnerable to purchase; large scale sales of housing stock would threaten the viability of housing associations; dislocations of funding arrangements; choice of houses to offer potential tenants is diminished and market edge is lost etc.

*½ mark for each point well made up to maximum of 3  
(12)*

(b)

Brief definition of:

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

1 1/2

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 makes 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 parts of the organisation

Other approaches are possible and should receive credit when properly articulated

*1 1/2 marks for each approach fully explained up to a maximum of 4 1/2*

(6)

(18)

**Question 2**

## Study Unit 13

(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 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 to max 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

*Note – Alternative versions of the web exist and credit should be awarded on merit  
1 mark each where well explained up to a maximum of 4*

(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*

*(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*

*½ mark each up to a maximum 4*

Features of effective communication

- relevance
- regularity
- incredible
- honest
- understandable

*½ mark each up to a maximum of 2*

(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*

(c) A good answer will include:

Outline of communication methods employed

internal  
external

2

Evaluation of effectiveness against criteria set out in part (a) *up to a maximum of 4*  
(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*

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*

*(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, 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 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**

<b>Objective</b>	<b>Measure</b>	<b>Example target</b>
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**

<b>Objective</b>	<b>Measure</b>	<b>Example target</b>
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**

<b>Objective</b>	<b>Measure</b>	<b>Example target</b>
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**

<b>Objective</b>	<b>Measure</b>	<b>Example target</b>
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 Southlands of the quarry versus environment protection (tourism)
- Impact on resources and funding of Southlands and housing association
- BUT the need to service/support new industry and new residents

*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

(c) Stakeholders	Likely values
Local community	need for jobs inward investment impact on tourist industry
Association Board –	more tenants/revenue Relationship with District Council
Elected members	votes political values
Government	influence economic
Pressure groups	environmental issues jobs local amenities
Chief Exec/Managers and staff	managing likely conflict of views local versus national pressures legal issues

*½ for naming stakeholders and 1 for values with up to a maximum of 5*

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

S.U.3

**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**

*Throughout part (b), other valid points should attract credit*

*4  
(23)*