

BUSINESS STRATEGY IN HOUSING ASSOCIATIONS

Professional 2 examination 9 June 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.

SECTION A (Compulsory)

1

One of the conclusions from the recently completed comprehensive review of the Abbeylane Housing Association, is that there should be an immediate review of all support and ancillary services to establish whether the current arrangements offer best value for money. The very clear assumption behind this conclusion is that substantial savings are achievable.

As an initial step, the Board called for a report on all support and ancillary services, to show, in particular, what measures have been taken to support the case that the current service delivery arrangements offer best value for money. This report showed that the current arrangements for eight of the ten services in this category (representing 85% of the total expenditure on support and ancillary services) have been in place for five years or more, and that in each of these cases there is no substantiated evidence to demonstrate value for money is being achieved.

In responding to the report, the Board commented that it is vital that the Association be able to demonstrate the cost effective use of taxpayers' money. The Chief Executive has demanded that the continuing need for and future operation of all the support and ancillary services, are critically examined against robust value for money criteria, in a review which considers all possible options.

Following the Board's comments an internal Steering Group, chaired by the Finance Officer, has been established to take this task forward.

• **Requirement for question 1**

You have been asked to prepare a paper for the first meeting of the Steering Group. Your paper should:

- (a) Suggest five services suitable for consideration for market testing, outlining the advantages and disadvantages of market testing generally. 8
- (b) Outline the resultant contractual or quasi-contractual arrangements if the market testing process is taken to conclusion. 2
- (c) Outline the roles and responsibilities of the client and contractor at the different stages of a market testing exercise. 8

(18)



SECTION B (Answer two questions)**2****• Requirement for question 2**

- (a) Identify the principal stages in the strategy making process, and the linkages between them. 4
- (b) Describe and contrast “deliberate” and “emergent” strategies as distinguished by Mintzberg. 4
- (c) In the light of the work of Mintzberg, discuss the extent to which the strategies followed in your organisation have been deliberate. 10

*(18)***3****• Requirement for question 3**

- (a) Describe “Value Chain Analysis” as developed by Porter. 6
- (b) Discuss the principal uses of this model. 4
- (c) Illustrate the applicability of the value chain to your organisation. 8

(18)

4

- **Requirement for question 4**

- (a) Identify and explain the typical barriers to change, together with management styles which can be adopted in managing change. 9
- (b) Identify three techniques used for monitoring strategic implementation, and discuss the advantages and disadvantages of each. 9

(18)



SECTION C (Answer both questions)**5**

Pennylane Housing Association came into being four years ago through the merger of two long established housing associations. It is based on three inner city sites, conveniently located for the major transport services, and has another large office site consisting mainly of technical departments five miles away served by excellent transport links. Many of the buildings on the inner city sites are antiquated and two are derelict and not used. Other buildings on the inner city sites, which are still in a relatively good state of repair, date from the 1960s and are principally devoted to housing management and the finance department.

Since the merger, the Director and the Board of Management have pursued the goal of attaining single site centralised offices. A number of possibilities have emerged and require exploration and a Strategic Planning Group has been set up under the Finance Officer to undertake this task. At its initial meeting the Group identified the following options:

- A The purchase and conversion of a derelict dockland site some ten miles away from the inner city offices. Although the site is somewhat remote, it is situated close to a newly constructed light railway terminus. All staff would be accommodated in the converted building which would be equipped with low energy heating and lighting installations as part of a complete high quality refurbishment. This option would be funded partly through the sale of the current sites. It is assumed that work commences on this option on 1 January 2000 and that the facilities will be ready for use on 1 January the following year.
- B The conversion of some existing accommodation on the site five miles away from the inner city sites, to allow all departments to be accommodated on that site. The site is served by excellent road, rail and other public transport links. Only a partial refurbishment of the property is envisaged by the plan. The property will be partially fitted with solar panels but is not anticipated to be as energy efficient as Option A. Funding from the sale of the other existing sites is assumed to be available for this option. This option is also assumed to have the same timescale for building work as that above.
- C The conversion of the existing accommodation, including the refurbishment of existing derelict property and new build on the largest of the three inner city sites. This would leave the Association occupying one large and two small though adjacent sites and would also maintain the current good transport links albeit with relatively few parking spaces available. The existing structure of the buildings would inhibit some improvements to the office facilities envisaged as being desirable but the same heating and lighting arrangements as Option A would be incorporated. This option is also assumed to have the same timescale as above for building work and would be part funded by the sale of the current site of the technical departments.

In assessing the options, the Planning group agreed on five benefit criteria, namely:

- V - Projected financial performance
- W - Achievement of single centralised site.
- X - Provision of improved, modern office facilities.
- Y - Environmental impact of facilities.
- Z - Quality of staff and public access.

The relative importance of these factors was determined by the Planning Group as follows:

- V was twice as important as W;
- W was 50% more important than X or Z; and
- X and Z were equally important and were twice as important as Y.

The Planning Group then asked the Planning Officer to conduct an analysis of these options and provide the Group with his conclusions.

He was given the following financial projections to assist in his analysis and told to use a discount rate of 6% for any discounting undertaken.

Option A

- capital costs
(net of the proceeds of existing sites) £4,000,000
- expected life 30 years
- operating savings generated £1,500,000 per annum
- running costs £525,000 per annum

Option B

- capital costs
(net of the proceeds of existing sites) £1,000,000
- expected life 15 years
- operating savings generated £1,200,000 per annum
- running costs £400,000 per annum

Option C

- capital costs
(net of the proceeds of existing site) £3,000,000
- expected life 15 years
- operating savings generated £1,500,000 per annum
- running costs £350,000 per annum

- **Requirement for question 5**

- (a) Undertake a weighted benefit analysis of the above options. 10
 - (b) Identify the principal risks that should be taken into consideration, and suggest work that might be undertaken in order to investigate these risks further. 8
 - (c) Discuss the advantages and disadvantages of contracting with a private sector organisation for some or all of the activity involved in the preferred option. 5
- (23)

6

Your housing association published its Corporate Plan in July 1997. It was prepared by the Director and the Senior Managers after several weeks' intensive work, including three consecutive weekends of brainstorming at a remote, but luxurious, rural location. The Plan opens with the statement that:

This document is the Association's statement of where it wants to go over the next five years. It analyses where we are and what environment we are operating within. It is intended to guide all the operations and activities of the Association and its staff and, therefore, all staff must keep in mind, at all times, the values and ways of working set out herein.

It then goes on to describe in some detail how services will be provided to customers and clients and includes values and minimum standards to be achieved. Examples include: "We shall deal with the tenants in a courteous and sympathetic way", "We shall answer telephone calls promptly", and "Quality financial information will be available to all Departments to assist them in the discharge of their obligations".

The Corporate Plan, which runs to over 30 pages of close-typed text, was approved by the Policy Committee with little discussion and every member of staff was given a copy, although complaints were received from tenants' groups about a lack of consultation. The Director then held a number of meetings for staff throughout the Association where he explained the purpose and content of the Plan, and exhorted those staff who attended the meetings to do their best to meet the targets in the Plan.

One of the initiatives contained in the Corporate Plan was the introduction of a complaints procedure for the tenants. This was set up in September 1998. It is in fact the only one of the 37 initiatives in the plan which has been brought to fruition.

The Director has asked for a report on the complaints received so far, and is concerned at the large volume of complaints, which cover all Departments. The Finance Department has received its fair share, including the following examples:

- 17 cases where telephone callers could not make any contact, despite trying for between 2 and 12 minutes.
- A grieving widow who was subjected to legal action for recovery of an alleged outstanding account in her late husband's name, although she stated that she sent in a cheque in payment in good time. She alleges that when she telephoned after receiving a first bill she was told "Oh don't worry if you've sent in the payment - it can be up to a month before mail gets opened in this place. Just ignore the bill and any reminders and it will all get sorted out eventually".
- There have also been a number of complaints from staff in other departments about the lack of financial information available to enable them to monitor their budgets. One

complainant stated that he was using the tenants' complaints system because he was "at his wits' end trying to get any sense from the Finance Department"!

When faced with these complaints, Finance staff assert that they are only doing their best, that they do not have enough staff to cope with the work and that it is the job of management to sort out the complaints with tenants (or "the enemy" as they call the tenants). Staff deny knowing anything about a Corporate Plan, but they do recall some sort of pep talk from the Director about a year ago. At the Management Team meeting the Director of Finance found that other Directors have experienced similar reactions from their staff.

- **Requirement for question 6**

- (a) Explain what may have gone wrong with the planning process as set out in the above scenario. 8
- (b) What actions would you suggest in the short term to begin to address the deficiencies you have identified in the planning process? Show how these might begin to address the problems facing the Finance Department. 8
- (c) Suggest how the overall planning process should be designed in future to reflect good practice. 7

(23)