

BUSINESS STRATEGY IN THE HEALTH SERVICE

Professional 2 examination
7 June 2000

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**

Southshire Community and Mental Health Services NHS Trust was formed just over two years ago by the merger of three, fairly small, community based Trusts. Within months of its formation the Trust took over the provision of a substantial amount of services from the one remaining community Trust in the district, and is now the main provider of mental health and community services in the district.

The Trust Board, together with other senior managers, is having a weekend away to discuss important policy and strategic issues. The Chairman has raised some issues that he considers will be of importance in the strategy of the Trust in the coming years. He comments that one of the issues which Board members most frequently raise is environmental change, both in terms of its pervasiveness and pace. “We just can’t keep up” is a common complaint. In particular, the following have been mentioned:

- the changing role of Primary Care Groups;
- the Trust’s influence on the Health Improvement Programme; and
- their relationships with other organisations.

Concern has also been raised that the present approach to strategic management adopted by the Board (essentially strategic analysis, strategic choice and strategic implementation) is being partially negated by the frequency and intensity of environmental change.

To facilitate deliberations on this general topic, you have been asked by the Finance Manager to draft a paper which reviews the three policy initiatives mentioned above and illustrates some alternative approaches to strategy making.

- **Requirement for question 1**

Draft a paper which:

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| (a) Describes the three policy initiatives and illustrates their potential impact on the strategy of NHS Trusts. | 12 |
| (b) Defines the concepts of deliberate and emergent strategies, and outlines three possible approaches to strategy making. | 6 |

(18)

SECTION B (Answer two questions)**2**

- (a) Define organisational culture and indicate the importance of its impact on strategy. 2
- (b) Identify and explain the types of culture suggested by Handy, and outline the organisational structure that is appropriate for each. 4
- (c) Explain the ingredients of the cultural web. 4
- (d) Relate cultural theory to an organisation of your choice in the NHS, applying the cultural web and clearly justifying which of Handy's types is dominant. 8
- (18)

3

It has been said that implementation is the key stage in strategy as without it the resources employed in analysis, diagnosis and evaluation would be wasted, and the strategic cycle would be incomplete. An important aspect of implementation is communication.

- **Requirement for question 3**

- (a) Outline the importance of good communication, and describe the features which ensure that it is effective. 6
- (b) Describe the role of marketing in strategy implementation and explain the principal components of the marketing mix. 6
- (c) Analyse how an organisation, of your choice, in the NHS communicates strategic decisions, explaining the methods used, and evaluating whether the communication was effective. 6
- (18)

4

Strategic option selection can be carried out through the evaluation of each option for its consistency, suitability, feasibility, and acceptability.

- **Requirement for question 4**

(a) Outline three methods used in appraising the financial viability of an option, stating briefly the advantages and disadvantages of each method. 6

(b) Discuss two techniques that can be used to incorporate the non-financial elements of an option when making strategic selection, and outline methods of dealing with risks arising from option selection. 12

(18)

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

The Reprographic and Printing Service (RPS) provides a wide range of services and products to a large number of NHS Trusts and private sector businesses. The RPS currently has contracts with a number of Trusts that guarantee that a certain percentage of their reprographic supplies will be purchased from them, in return for a large discount off the normal purchase price. Over the last three years the RPS has established a large customer base and now has an annual turnover of £8 million.

The RPS is structured into four main functions: marketing and sales; design and production; customer liaison; and internal support services. At the start of each year the senior management team agree annual budgets, using the principles of incremental budgeting, for each of the functions as well as performance targets/indicators for the coming year. This process then provides the basis for the annual business plan that is produced by the Head of Internal Support Services. The senior management team comprises the Chief Executive and the heads of the four functions. Performance against budgets is reviewed quarterly by the senior management team. The RPS has a five year strategic plan and this will be reviewed again as part of the planning process for year six of operation. The strategic plan contains the following mission statement for the RPS:

"To deliver best in class services to our customers. We will employ the best people and use leading edge technology to provide services that are of unbeatable quality and value for money."

Details of the performance indicators and outturns for the first three years of operation are given below:

Performance Indicator	Year 1		Year 2		Year 3	
	Target	Outturn	Target	Outturn	Target	Outturn
Return on Capital	6%	9%	6%	8%	6%	6%
Turnover	£5m	£5.8m	£6m	£7m	£7.5m	£8m
Profit as % of turnover	3%	5%	5%	9%	6%	4%
Liquidity:						
current ratio	2:1	1.5:1	2:1	1.8:1	2:1	1.7:1
quick ratio	1:1	0.7:1	1:1	0.5:1	1:1	0.9:1
Average debtor collection period – days	30	45	30	40	30	38
Cost saving	2%	2%	2%	1%	1%	1%
% new contracts	10%	11%	10%	15%	10%	20%
% orders delivered on time	99%	80%	95%	78%	95%	75%
Staff turnover	5%	10%	5%	15%	5%	20%
Customer complaints	0	25	15	40	20	45

The Chief Executive has just returned from a seminar on "Introducing the Balanced Scorecard", and has asked that the application of this approach to performance management be considered at the next meeting of the senior management team. In preparation for this meeting he has asked the Head of Internal Support Services to compare current performance management practice against the Balanced Scorecard model.

• **Requirement for question 5**

The Head of Internal Support Services has asked you, as the Finance Officer, to prepare a report for the next meeting of the senior management team which compares current arrangements for performance management with the Balanced Scorecard model. In particular the report should:

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|-----|--|----|
| (a) | Provide a brief introduction to the Balanced Scorecard; | 2 |
| (b) | Critically evaluate the current system of performance management, identify any gaps or shortfalls in the current range of performance indicators, and list any concerns that the trend in performance indicator results raise; and | 13 |
| (c) | Identify two practical examples of objectives, associated measures and indicative targets for each of the Balanced Scorecard's four perspectives. Examples must be relevant to the case study and linked to the delivery of the RPS's mission statement. | 8 |

(23)

6

Wheatshire Health Authority is the main purchaser of health care for the residents of Wheatshire. It is a medium sized county that contains the city of Wheatly, in which are located the main health care providers. Wheatly is populated with an ethnically diverse population, with a high percentage of low-income families and the unemployment rate is above average. Those who have employment tend to live in the outlying villages and, in general, are more affluent.

Wheatshire Health Authority is currently preparing its commissioning plan for the coming period and it is faced with a substantially reduced cash allocation with which to commission services. The commissioning team is therefore faced with having to reduce the level of services that they commission in order to meet their financial targets.

There are a number of services that are currently commissioned on behalf of Wheatshire's residents that the Health Authority is considering ceasing to commission. The Health Authority is not obliged to make available these services and they believe this to be a good way of reducing costs. Currently, and in the past, in-vitro fertilization (IVF) treatment has always been provided, although it has a three-year waiting list. Recently, one of the Trusts has developed a plastic surgery unit. It deals mainly with cosmetic surgery and this too has a waiting list. The Health Authority considers that they could save considerable amounts by limiting commissioning of these services.

The Chief Executive of the Health Authority is concerned about the stakeholder conflict, particularly the financial situation of the Health Authority, as opposed to the public reaction that would result from a cut in service provision. He has asked you to draft a paper to outline the economic and ethical dimensions to the decision.

- **Requirement for question 6**

Using the information provided in the case, prepare a paper for the Chief Executive of the Health Authority which:

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|-----|--|----|
| (a) | Outlines the importance of ethical considerations in the strategic decision-making process; | 4 |
| (b) | Sets out the economic and ethical factors that need to be considered to evaluate the decision whether to cut the level of services; and | 9 |
| (c) | Identifies the different stakeholders, their likely values and the steps involved in integrating these values into the strategic management process of the Health Authority. | 10 |

(23)