

BUSINESS STRATEGY IN HOUSING ASSOCIATIONS

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**

Rosamund Street Housing Association was formed just over two years ago by the merger of three, fairly small, community based housing associations. Within months of its formation the Association took over more than 4,000 houses from the neighbouring local authority, and this brought its total housing stock to just over 8,000.

The Board of Management of the Association, together with senior managers, is having a weekend away to discuss important policy and strategic issues. The Chairman of the Board has mentioned to the Director 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 reduction in resources available through Housing Association Grant;
- the Social Exclusion Unit;
- pressure to accept transfers of local authority housing stock; and
- the possibility of extending right to buy to housing association tenants.

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 change.

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

- **Requirement for question 1**

Draft a paper which:

- (a) Describes the four policy initiatives and illustrates their potential impact on the strategy of housing associations. 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 a housing association of your choice, 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 a housing association of your choice 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 which 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 80,000 plus housing stock of Glasburgh City Council has been passed over to the control of 14 housing associations within the city as part of a Central Government/City Council joint initiative. The agreement requires community control of the management of the housing stock and the government has taken responsibility for the debt outstanding on the houses transferred to the new associations.

The Design and Printing Service (DPS) provides a wide range of design and reprographic services to the 14 new housing associations, a number of existing associations and private sector businesses. The DPS was formed as a company as part of a management buyout of the then reprographics division of City Housing when this service was included as part of the Council's privatisation programme three years ago. As part of the management buyout the DPS was given a guaranteed contract of all work from City Housing for a five year period. Over the last three years the DPS has established a large customer base and now has an annual turnover of £8 million. The transfer agreement for the City's housing stock contains a two year guarantee of all work from the 14 new housing associations.

The DPS 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 which 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 budget is reviewed quarterly by the senior management team. The DPS 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 DPS:

"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 on the next page:

| 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:

- (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 DPS's mission statement. 8

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6 The Southlands District Council is a small local authority set in a rural county in Southern England. Tourism and farming are the main industries of the area. Tourism is very seasonal, employing a large, but mostly casual, workforce for only four months of each year. Farming is undergoing deep recession, particularly the beef and dairy industry which dominates farming in the area.

Within the area of Southlands District Council, the Three Towns Housing Association has a stock of 700 general needs houses and owns a number of green field sites where it intends to build further houses to help alleviate the present housing shortage.

Southlands is an area of outstanding natural beauty, has a number of Sites of Special Scientific Interest (SSSI) and has extensive woodlands, wetlands, rare flora and fauna. It is also however a deprived area economically with per capita GDP at 85% of the national average. It has high levels of unemployment which is currently three times the national average. It also has large numbers of second ownership homes making housing scarce, though not expensive, for local people. It suffers poor local amenities in terms of sport and leisure facilities, health and education.

Recently the International Global Mining Company has discovered economically significant deposits of limestone in the area. These are not large and will only be significant for 10 to 12 years at most. The company has applied for planning permission to develop an open-cast quarry and processing plant in a location of outstanding beauty which, although not protected as a SSSI, is considered to be of importance due to its woodlands and nesting sites for migrating birds. In order to obtain access and egress to and from the quarry, the company needs to buy a small six-acre site from the Three Towns Housing Association.

The company has promised that the site will create 120 jobs, that it will landscape the area to protect the local scenery and that it will invest in leisure facilities and a health centre in the local town.

The District Council do not have discretion over the planning decision, but the company have made a statement that they will only go ahead with the investment if there is local support, including that of the District Council and the Housing Association.

The Leader of the Council has met with the Chairman of the Housing Association and they are both concerned about the stakeholder conflict, particularly the issue of the economic well-being of the District, as opposed to the negative environmental impact of the quarry. A further meeting has been arranged and your Chairman 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 Chairman of the Three Towns Housing Association which:

- (a) Outlines the importance of ethical considerations in the strategic decision making process; 4
- (b) Sets out the economic and ethical factors which need to be considered in order to evaluate the decision whether to support the development of the quarry; 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 Association. 10

(23)