

# BUSINESS STRATEGY IN THE HEALTH SERVICE

**Professional 2**  
**December 1999**

## MARKING SCHEME

The logo for CIPFA, featuring the letters 'CIPFA' in a serif font. The letter 'I' is stylized with a large, elegant flourish that loops around the top of the 'P'.

**Question 1**

(a)

Correct presentation of the grid	1
Indication of at least one relevant factor in each quadrant <i>1/2 mark per quadrant</i>	2

Examples:

**Political**

- New legislation re labour government
- Setting up of PCGs
- Junior doctors hours
- Europe

**Social**

- Changing values (e.g. tattoo removal)
- Longer life expectancy
- Demographic factors

**Economic**

- Public expenditure survey
- Government/consumer spending
- Purchaser allocations
- Growth monies available
- Europe

**Technological**

- New medical developments
  - Year 2000
  - IT systems
- (3)

- (b) Identify the key environmental influences or a wide strategic scan. 1/2
- Relevant example: 1/2
- The demographic time bomb meaning more people over 65.
- Identify driving influences, ie forces to which organisations are sensitive 1/2
- (Those factors which drive change in the longer term)
- Relevant example: 1/2
- Rapidly changing technologies with skills and cost implications.

Differentiate between the impact of the various environmental factors in terms of future impact including time horizons and resources etc. 1  
An increased in demand for healthcare may mean more staff are required however there may be conflict as reduced funds may mean fewer staff are employed. (3)

(c)

Definition: The process by which institutions examine the political, economic, technological, educational, demographic and other trends, which will affect them in the foreseeable future. 1

What is the role of scenario analysis in developing strategy 1  
Relating the scenario to the case 1  
(3)

(d)

The candidate should relate the environmental factors outlined in the PEST analysis (and others if appropriate), to outline four scenarios.

Answers will vary depending on the type of environmental factors identified but possible examples may include:

- Reduction in contract base due to differences in allocation to Health Authority. Problem: loss of income with implications for service delivery. Merit: Opportunity to rationalise services and specialise in certain areas of care.
- A&E facilities at the other Trust are not sufficient due to large amount of out of area tariffs. Merit: Possible change in service provision in terms of A&E provision of immediate support. Problem: Additional cost implications on other service areas.
- Changes in referral and commissioning due to establishment of PCGs. Problem: Potential loss of income. Merit: Opportunity to get more business.

*3 marks for each of three scenarios*

*1 mark for statement*

*1 mark for merits*

*1 mark for problems*

*(9)*

*(18)*

**Question 2**

SU 1,2,3

(a) Strategic Planning (or Corporate planning)

Concerned with planning for organisations as a whole. Setting a broad mission and strategic objectives. Also issues relating to overall organisational structure. 2

Business Planning

Planning at the strategic business unit level. Re-interprets the strategic vision in a manner relevant to the SBU yielding prioritised objectives, resource forecasts, targets and visions and action plans. 3

Operational or Budget Plan

Sets detailed budget, allocates resources to activities identified by the business plan and monitors the actual to those plans. 1

(6)

(b)

Identification of good practice in planning:

Stakeholder consultation

Commitment of resources (staff, money, management support)

Match between approach to planning and organisational environment/requirements of planning

Appropriate linkages between plans (e.g. strategic and business plans)

Timing of planning and budget cycle

- Other relevant criteria are acceptable *1 mark for each aspect up to a maximum of 5*

Remainder of marks for showing awareness of planning mechanisms and critiquing them in the light of 5 criteria chosen above. 7

(12)

(18)

**Question 3**

- (a) The Balanced Scorecard refers to the process of measuring an organisation's performance in terms of not just financial measures but also of non-financial measures and indicators. 2

Clarify and translating vision and strategy  
Communicating and linking strategic objectives and measures  
Planning and setting targets  
Feedback and learning  
Or other relevant points 4

(6)

**Financial** How do strategy and financial performance relate to each other?

Consider:

Income or revenue growth  
Cost reduction/productivity  
Use of assets and capital investment strategy 2

Example: How well does the budget process align with the business plan? 1

**Customer** How is strategy translated into issues which are real to the public and community and patients?

Customer satisfaction  
Use of facilities  
Complaints 2

Example: Time taken to be seen in outpatients, waiting lists, customer complaints. 1

**Internal Business Process**

Identify processes most important for achieving objectives.

Innovation  
Operations (and improvement of existing operations)  
Maintaining and reviewing systems 2

Example: IT developments, new medical and surgical equipment 1

**Learning and Growth**

The measurement of organisational learning. Growth is not so relevant in the public sector. Also employee learning

Employee capabilities

Information systems capabilities

Motivation, empowerment and alignment 2

Example: Employee training arrangements, communications, IT development 1

(12)

(18)

**Question 4**

(a)

The OLM (SU7.1) expresses the three stages as follows:

**Emerging:** Absence of rules, poor market information, high growth, many new entrants, shortage of key supplies (staff)

**Maturing:** Accepted rules of competition, slow down in the rate of growth

**Declining:** Falling sales, withdrawals from the market

*1 mark for identifying each stage plus brief description up to 3*

*Alternatively students may use a variant of the product life cycle.*

*Additional descriptive points possible.*

(b) Correct illustration

2

Discussion of each quadrant's product

**Prospect** – Product not yet established in young, fast growing market, need to spend to increase market share.

**Star** – Again product is immature, fast growing market but with large market share, need to spend to maintain that position.

**Cash Cow** – Large market share in mature market, high margin from e.g. economies of scale, low promotional spending.

**Dogs** – Declining products, candidates for divestment if possible.

4

Examples

Prospect – Genetic engineering

Star - Drug in patent phase

Cash cow – hip replacements

Dog – Some invasive surgical techniques

*½ mark to 2*

Practical application

- Ensuring resource allocation between activities is sensible, products for future demand being developed.
- Applicability limited if cross subsidisation of activities prohibited.

2  
(10)

(c)

Market segmentation – Dividing the market into groups of customers each sharing similar needs for service design. Segmentation is done on the basis of customer characteristics.

2

Main role is to identify and meet more closely customer needs

1

Examples

Different prices according to patient group or customer group. However limited as cross subsidisation not permitted

2  
(5)  
(18)



### Question 5

- (a) The report for the Trust Board should include use of the data provided in the case to illustrate the areas in which the strategic plan is not being achieved.

*1*

These include:

- The income and expenditure position is not balanced, there is a large deficit.
- The GP income is falling and not going up. There are significant variances on all three specialities.
- The contract A income is within tolerance levels and so the income is static.
- The cost improvement program has not been achieved and the non- pay line is therefore overspent.

*1 mark for identification of each point  
plus 1 mark for related analysis of data up to a maximum of 8*

Action that the trust needs to take would include the following:

#### **1 Marketing the plan**

- Communication with key GPs
- Review of issues based on product (reviewing quality)
- Price review (possible comparison with other trusts)
- Promotion (advertising, word of mouth, communication, meetings with GPs to find out problem areas)
- Review of competitors
- Place (is the service being delivered in the right place at the right time?)

#### **2 Monitoring**

Identifying the needs of the GPs

- Consultation
- Choosing channels for communication (written, face to face?)

#### **3 The trust also needs to review its cost improvement target**

- Budgeting
- Review of main areas and heads of department
- Revise the plan in the light of findings
- Regular monitoring

*1 mark for each relevant point made up to a maximum of 6*

(b) Monitoring quality could be done as follows:

- Market research
- Questionnaires
- Surveys in the trust
- Acquiring a quality certification
- Performance targets and performance indicators
- League tables
- Benchmarking with other Trusts

*The student should give a small explanation of each method described.*

4

(c) Usefulness of budgeting as a strategic management tool

SU22

Issues concerned with:

- Planning
- Co-ordination
- Control
- Re-planning
- Shortcomings

4  
(23)

## Question 6

OLM Reference: SU 14 & 16

To gain full marks the student should be able to demonstrate, within the context of the case scenario, their knowledge of the processes for generating, evaluating and selecting strategic choices. Answers should therefore recognise the problems of CCAS and propose possible solutions that are practical.

(a)

*Report style 1*

(i) **Generation of options**

The OLM identifies 3 approaches for the generation of strategic options. To gain full marks students should identify these in the context of the case, though the marks for this section will recognise different approaches and emphases which could be taken.

### Strategic issues approach

Builds on strategic analysis, focuses on a SWOT and uses any number of techniques to analyse resources and the market. Different types of analysis, including:

resource analysis:

Resource audit

Value chain analysis

market analysis:

Porter's 5 forces

Boston matrix

3

### Brainstorming

Possible approach to the study, but student should recognise this as not traditionally used in bureaucratic cultures. Some of the characteristic should be mentioned:

Involvement of stakeholders

Small groups

Imaginative, innovative, challenging

Definition of brainstorming criteria constrains the process

2

Competitive strategy

Cost leadership - relevant in the context of making CCAS more efficient and effective, e.g. rationalisation of resources with introduction of new IT, speed up processes and reduce inputs, improve quality of service.

Differentiation. In the context of innovative ideas of service delivery there may be some relevance, e.g. remote access.

Focus - similar comments to differentiation.

Cost leadership is the most obvious generic strategy given the NAO investigation into the £5m, although the other 2 could be justified.

3

(ii) **Criteria for evaluation**

Answers should cover the following:

Defining relevant objectives:

Organisational

To reflect important stakeholder expectations, e.g. Ministers, Government social policy on housing, LAs, Health authorities

Unit objectives

Reflect the operational aspects of CCAS or aspects of it. Provides the means of aggregation and comparison across the regional offices.

Ranking objectives

Objectives should be ranked in order of priority.

Identifying benefit criteria

E.g.,  
Quality of service  
Timeliness  
Consistency  
Efficiency  
Rationalisation

Benefits should be quantified.

3

(iii) **Shortlisting**

Determined by comparing options against the benefit criteria.

Establish which options are:

Impractical

Unfeasible

Unaffordable

Inferior

Include the do nothing option

3

(b) **Selecting the preferred option**

Each option short-listed should be consider in terms of its:

Consistency with CCAS's mission and values

Suitability

Feasibility

Acceptability in terms of

Direction

Do nothing – given the complaints and NAO interest this is not a realistic option, but should be used as a benchmark to measure other options.

Internal growth – the market and product is effectively determined, therefore main issue probably relates to internal cost improvements through more efficient IT, improved processes, reorganisation, etc

Disinvestment – some work could be contracted out to a third party( eg local authorities)

Combination – of some of the above

Looking at a combination of these directional options may be most appropriate, although a student may be able to justify using only one.

3

Means

Internal development – issue here is about the development of the IT and administrative systems, whether this should be tackled internally. There is also an issue about whether there should be a standard development across regional offices.

Joint development – the history of the internal development of the IT system would suggest that future change should be made in partnership with experts.

Acquisition – not a realistic option.

Most obvious option is joint development.

3

*Up to 1½ marks for each of the 4 major classifications  
ie do nothing; develop improved IT systems; outsource; and joint development.*

Evaluation

There is virtually no financial information on CCAS, but students should refer to the need to apply some form of option appraisal to determine the relative quantified merits of each option. Any of the following analytical tools and sensitivity/risk analysis techniques could be described; these can be used in combination:

payback method  
ROCE  
DCF  
Cost benefit analysis  
Risk analysis  
Sensitivity analysis  
Scenario planning

2

(23)