

# BUSINESS STRATEGY IN THE HEALTH SERVICE

**Professional 2 examination  
June 2000**

## MARKING SCHEME

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

### 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)

#### Primary Care Groups

- Replaced GP fund holders. Primary care groups established from April 1999.
- Management board consisting of GPs, Community nurses, social services representative, Health Authority non exec director, other professionals.
- Functions are to contribute to the Health Improvement Programme (HIP), develop primary care, commission services, promote better health of the population, integrate primary and community services.
- Exist at one of 4 levels:
  - (i) Sub committee of the local health authority acting in an advisory capacity
  - (ii) As above but with devolved budget
  - (iii) Free standing primary care trust, accountable to the health authority for delivery of the HIP
  - (iv) As above but also responsible for provision of certain community services

Implications in terms of the way that services are commissioned.

4

#### Health Improvement Programme

- Evolve from existing service planning arrangements
- Local plan of action
- Health Authorities will take the lead and involve Trusts, local authorities and the voluntary sector.
- Cover a rolling three year period
- Measurable targets
- The first comprehensive HIPs addressing all national priorities will be required for 2002/2003

4

#### Relationship with other organisations

- Implications for strategic planning.
- “The new NHS” introduced changes in terms of planning that involves other parties in the process.
- NHS is required to involve local authorities in devising HIPs. Social services are given a seat on Primary care group governing bodies.
- Health Action Zones formed from a wide range of organisations, based on integrated treatment giving a better quality of care.
- Agenda of HAZs will be self determined and agreed by the Department of Health.
- Implications for joint planning.

- Impact on: crime and disorder, educational attainment, welfare to work, social housing initiatives. 4
- (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 alternative 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 guidelines, within which decision maker will work.
- Ideological: deliberate strategy based on shared beliefs and collective vision.
- Consensus: lack of central direction but strategy emerges through consensus and pervades the organisation.
- Unconnected: lack of central direction which allows strategy to emerge in separate and loosely connected parts of the organisation.
- Imposed: strategy imposed from outside organisation, either by imposition or use of constraints.

Other approaches are possible and should receive credit when properly articulated

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

Features of effective communication:

- relevance
- regularity
- credible
- honest
- understandable

*½ mark each 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 to 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)

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*

(b) 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 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 RPS 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, not balanced with lead or long-term indicators
- No link between PIs and strategic direction of the organisation (indeed, not clear whether RPS 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 RPS'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:**

Impact on the financial situation of the Health Authority  
Impact on the Trust that provides these services  
Effect of a 'knock-on' effect on other services (e.g. mental health)  
Impact on jobs

*1/2 mark for each point up to 4*

#### **Ethical:**

##### *Moral*

Is IVF an illness or not?  
Is it morally correct to choose not to treat people?  
To what extent is cosmetic surgery an illness? (eg breast reduction/mental)

2

##### *Social*

Impact on well being of population  
Can they afford to go private?  
High incidence of smokers amongst unemployed?

2

##### *Legal*

Obligations of health authority?  
What about those already on list?

1

| (c) | <b>Stakeholders</b>   | <b>Likely values</b>   |
|-----|---|--|
|     | Local community   | General need for health care<br>Couples trying to have children<br>Smokers/drinkers in need of treatment |
|     | Trusts and their staff  | Providers of services<br>Impact on their jobs<br>Impact on finance                                       |
|     | Government  | Influence<br>Economic – dictate resources ultimately   |
|     | Pressure groups in respect of IVF<br>Media coverage<br>Community Health Council |  |
|     | Chief Exec/Managers   | Managing likely conflict of views<br>Local v national pressures<br>Legal issues                          |

*½ for naming stakeholder groups 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 Authority. 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

Study Unit 13

**Interest identification**  
ie stakeholders  
dominant/passive

**Identify the stakeholders**  
dominant/passive

**Interest analysis**  
How to serve these interests  
eg 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)