

# BUSINESS STRATEGY IN THE HEALTH SERVICE

## **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**

Following a recent value for money review by the external audit service for the Millennium NHS Trust, strong recommendations were made to senior management regarding the current arrangements for the provision of a number of the support service functions within the Trust. The main issue raised was that there was a need to demonstrate that value for money was being achieved in these areas, as several services had been examined in detail and it had been found that substantial savings could be made.

The audit report examined ten support service areas other than the catering, domestic services and laundry that were already subject to a regular tendering process. This showed that in eight out of ten areas, services had been in place for five years or more and there was no substantiated evidence that value for money was being achieved.

The Chief Executive and other Executive Board members have been aware that there is not only an increasing need to demonstrate internally and to commissioners that value for money is being achieved, but also to be able to demonstrate this to the taxpaying public. The Chief Executive has demanded that the continuing need for and future operation of all support services be critically examined against robust value for money criteria, in a review which considers all options.

The Chief Executive decided to establish a steering group 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) Describe the principal resource analysis techniques available and explain the possible relevance of each to the review required by the Chief Executive. 10
- (b) Outline the roles and responsibilities of the client and contractors at the different stages of a market testing exercise. 8

(18)



# 2

**SECTION B (Answer two questions)**

- **Requirement for question 2**

- (a) Identify the principal stages in the strategy making process, and suggest 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**

Whitedown NHS Trust is a teaching hospital that has expanded rapidly in recent years, mainly as a result of the growth in numbers of nursing students. It is based on three inner city sites, conveniently located for the major transport services, and has another large site consisting mainly of students' residential and recreational facilities. However, although this is only five miles away, it requires an awkward and difficult journey for those without their own transport. Many of the buildings on the inner city sites, which house teaching facilities, a medical library and staff accommodation are antiquated, and two are derelict and not used. A third is in a very poor state of repair and has been subject to significant criticism by the local community health council, despite housing the well-respected school of Dentistry. Other buildings on the inner city sites, which are still in a relatively good state of repair, date from the expansion of the 1960s and are principally devoted to teaching and staff accommodation for the school of Physiotherapy, also part of the same Trust.

The Chief Executive and the Trust Board have as one of their strategic objectives to establish Whitedown as the leading teaching hospital in the area, where currently there is one other Trust that attracts larger numbers of students. They have been obliged to accept that this is unlikely to be achieved unless there are substantial improvements to the teaching, staff and student accommodation to make Whitedown more attractive to funders. A number of possibilities have emerged and require exploration and a Strategic Planning Group has been set up under the Director of Planning to undertake this task. At its initial meeting the Group identified the following options:

- A The purchase and conversion of a large, derelict dockland site ten miles from the inner city sites. The site would be used to house extensive student residences, and also the Dental School in a new purpose built facility which would include staff accommodation and teaching facilities for the exclusive use of the school. The new facilities would include a dedicated library freeing up 10% of the current library space. This option would be funded partly through the sale of the currently unused buildings and the current site of the Dental School. 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 student residences on the site five miles away to house the Dental School plus additional teaching facilities. This would have the effect of reducing student residential accommodation and increasing pressure on the Lodgings Officer in a city where student lodgings are already in short supply. The same funding as above is assumed to be available for this option. This option is assumed to have the same timescale for building work as that above.
- C The refurbishment of the existing accommodation. This option would maintain broadly the current roles and designations of the existing sites and is also assumed to have the same timescale as above for building work.

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

- V - Projected financial performance.
- W - The provision of improved, modern teaching facilities.
- X - Quality of library facilities for students.
- Y - Improved staff accommodation.
- Z - The provision of student residential accommodation.

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 buildings and sites) £4,000,000
- expected life 30 years
- operating income generated £1,500,000 per annum net of teaching and administrative costs
- running costs £525,000 per annum

#### **Option B**

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

**Option C**

- capital costs £3,000,000
- expected life 15 years
- operating income generated £1,500,000 per annum net of teaching and administrative costs
- 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 entering into a PFI deal for this project. *5*

*(23)*

# 6

Your Trust published its Strategic Plan in July 1997. The Chief Executive and the Directors prepared it 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 Trust'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 Trust 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 public 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 Trust Board, approved the Corporate Plan which runs to over 30 pages of close-typed text, with little discussion and every member of staff was given a copy, although the community health council complained about the lack of any consultation on the plan. The Chief Executive held a number of meetings for staff across the whole Trust 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 public. 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 Chief Executive 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 student nurse who was subjected to legal action for recovery of accommodation charge arrears, although she stated that she had moved out of the student residences 3 months previously and had written to notify the finance department of this fact. She alleges that when she telephoned after receiving a first bill she was told "Oh don't worry if you've sent in a letter - 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 public 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 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 complaints from the public (or “the enemy” as they call the public). Staff deny knowing anything about a Strategic Plan, but they do recall some sort of pep talk from the Chief Executive about a year ago. At Management Team the Director of Finance found that other Directors have experienced similar reactions from their staff.

- **Requirement for question 6**
  - (a) Explain what has 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)