

BUSINESS STRATEGY IN LOCAL GOVERNMENT

**Professional 2 examination
June 1999**

MARKING SCHEME



Question 1

Technical update 1998 and SU12 (5)

- (a) The purpose of this part of the question is to test the student's knowledge of the five key features (*not* the principles) of BV.

- 1 First key feature is to establish a corporate view of what the organisation wishes to achieve and how it measures up to objective indicators. Illustrate how this would be done for central services, e.g. what services are to be provided? What measures can be used?
- 2 Agree a programme to review a proportion of all services each year such that all services are covered in a 4-5 year period.
- 3 Undertake the fundamental review. Market testing, and benchmarking may be used here. The student should comment on the suitability of these for central services e.g. how easy is it to market test for committee services or internal audit?
- 4 The requirement to set, publish and report back on performance against targets.
- 5 Finally, there is the role of the audit process. This is to ensure that reviews are carried out rigorously and systematically, and to take action against an authority which is not acting in line with the principles of Best Value.

(1 mark for each key feature identified, plus up to 3 for demonstrating relevance)

8

- (b) Benchmarking is founded on comparisons and thus is a key technique in BV. It involves external comparisons and arguably can bring greater improvements than techniques such as continuous improvement. Benchmarking uses similar organisations to share standardised data or can allow for the use of softer, less statistical approaches and the pursuit of "best practice"; it involves measurement, comparisons, judgement, action plans, setting targets, and measuring performance.

- Set targets
- Identify processes that have led to differences identified
- Sets action to address issues

Disadvantages would include problems of inadequate comparability of process or data; temptation of partnering with authorities who would yield flattering comparisons. Cost of Benchmarking.

4

(1 mark per relevant point including at least one advantage and disadvantage)

- (c) Apart from benchmarking other techniques to be described briefly, include resources analysis, gap analysis, portfolio analysis etc. 6

2 marks for each technique identified

½ mark to identify

1½ to explain (½ description, 1 relate to case)

(18)

Question 2

SU2 & TU pg. 43

(a) Strategic Analysis:

Strategic Choice:

Strategic Implementation:

1

Linkages - examples include:

analysis generates strategic issues that feed into choice;
choice will be a function of capability, which will impact on
implementation;
capabilities linked to evaluation linked to implementation;
environment linked to generation linked to monitoring;
review linked to capabilities and environment;

(1 mark for each linkage identified and explained, up to a maximum of 3)

(b) Deliberate:

planned strategy;
formal plans;
centrally driven;
workable in stable environment.

Emergent:

strategies which are realised differently from or in absence of
intention
internalise imposition into internal plans.
continuous response to the environment

(2 marks for each definition)

(c) Clearly answers may differ depending on the organisation concerned. Discussion should centre around extent to which strategies are realised as intended and would normally conclude that an emergent strategy is followed to at least some degree.

(Marks should be awarded for clear argument and conclusion.)

Answer will discuss internal dynamics of strategy formulation and/or extent to which sectoral environment likely to impose strategy upon an organisation.)

(1 mark per point made)

(10)

Question 3

SU12

- (a) A full description of the model should include:
the picture of the model shown in SU 12;
a short note on the activities.

6

(2 marks for the diagram/explanation of model, 2 marks explaining support activities, 2 marks explaining primary activities)

- (b) Uses include assessing:
resource utilisation;
potential for cost leadership;
effectiveness in establishing capabilities for differentiation;
potential for integration.
linkages *(1 mark for each point) 4*

- (c) A good answer will attempt to match their organisation's activities to the value chain. eg

Local Government Sector - use of football fields:

Inbound Logistics: maintenance of playing fields.
receiving bookings for playing field use.

Operations: supervision of users.

Outbound Logistics: transport of users to the location.

Marketing: making local organisations aware of the facilities.

Service: encourage re-use, for example by provision of coaching etc.

Supported by secondary activities

Discussion of linkages would then be useful - e.g. problems in Inbound Logistics affecting the efficiency of Operations, eg poor pitch maintenance having an effect on the cost of Service.

Credit is available for conceptual discussion of applicability or otherwise as well as illustrative matching. 8

(½ mark per activity identified to a maximum of 3, ½ mark per explanation of activity to a maximum of 3, 2 marks for linkages explained)

(18)

Question 4

(a) Barriers to change:

- Routines
- Culture
- Power bases
- Systems
- Symbols

(½ mark for identifying each barrier plus ½ mark for explaining why it is a barrier to change - total 5 marks)

Management Styles:

- Education
- Participation
- Intervention
- Negotiation
- Manipulation
- Power

(½ marks for identifying each style to a maximum of 2 marks, plus ½ mark for outlining the style - total 4 marks)

(9)

(b) Budget monitoring:

pros.	system in operation
	use of resources against objectives
cons.	inputs not outputs
	lateness of preparation

Contract monitoring:

pros.	monitored by client
	external performance management
cons.	may not cover all of strategy
	external focus

Monitoring quality: (questionnaires etc.)

pros. all embrative
 output orientated

cons. cost of collection
 Selznick's management theory

(1 mark for description, 1 mark for pros and 1 mark for cons)

(9)

(1/2 mark for identification without description)

(18)

Question 5

(a) DCF Calculations

Option A

Year	Cashflow (£000)	DF	DCF (£000)	
0	(4,000)	1	(4,000)	
1-30	975	13.765	13,420.875	
			<hr/> 9,420.875	NPV

Option B

Year	Cashflow (£000)	DF	DCF (£000)	
0	(1,000)	1	(1,000)	
1-15	800	9.712	7,769.6	
			<hr/> 6,769.6	NPV

Option C

Year	Cashflow (£000)	DF	DCF (£000)	
0	(3,000)	1	(3,000)	
1-15	1,150	9.712	11,168.8	
			<hr/> 8,168.8	NPV

Annual Equivalent Calculations

Option A	$\frac{£9,420,875}{13.765}$	= £684,407.91
Option B	$\frac{£6,769,600}{9.712}$	= £697,034.59
Option C	$\frac{£8,168,800}{9.712}$	= £841,103.78

6

1 mark - identification

1 mark - identification of annuity factor

1 mark - discounting

1 mark - NPV

(max 1 mark deducted for errors in calculations)

2 marks - AE calculations

Weighted Benefit Analysis

Options

Criteria	Weight	A		B		C	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
V	6	5	30	6	36	9	54
W	3	6	18	4	12	8	24
X	2	5	10	5	10	7	14
Y	1	6	6	5	5	5	5
Z	2	7	14	2	4	5	10
		78		67		107	

weightings 1 mark, Analysis/weighted score 2 marks, comment/conclusion 1 mark

4

(b)

Principal Risks

- outcome is a function of subjective weights and scores
- ability of projects to meet timescale assumed.
- ability to raise levels of capital finance assumed within timescales assumed within borrowing controls.
- robustness of cost assumptions;

Further work:

- review wba weights and scores, based upon discussion with senior managers.
- preliminary pre-tender discussions with interested contractors concerning feasibility of timescale assumptions, reinforced by communicating intention to include penalty clauses in specification.
- discussions with commercial property agents; investigation of possible incentive arrangements to encourage target meeting.
- discuss cost projections with budget managers.

(1 mark per relevant point) 8

(c)

Advantages:

- transfer of risk
- greater efficiency of management may impact favourably on running cost performance
- may make timing of land disposals less material

Disadvantages:

- identification of partner is a complex process with a number of uncertainties
- likely to require higher cost of capital
- loss of control
- possible increase in quality

(1 mark per relevant point) 3

Question 6

(Underlining denotes key points)

- (a) SU2- The Corporate Plan is clearly intended to be a strategic, not a business plan, although it has strayed into the operational area with targets being set for standards of delivery of some services. The glaring omission is that the stakeholders have not been involved or even consulted in the preparation of the plan. Nor has any serious effort been made to sell the ideas to staff. The plan itself is too big at 30 pages and the objectives are not fully SMART, e.g. there is no clear target for answering telephone calls. There is no mention of the existence of departmental business plans and no arrangements for feedback and monitoring. There can therefore be no effective review of strategy.

Other relevant points can also be made by the student.

(1 mark for each point up to 8 marks)

- (b) As with most plans, the intentions, if not the contents, are probably sound. The plan has been launched so it cannot be “unwritten” and started again, and the student should recognise this: the answer to part (b) should not simply be a reversal of the points made in part (a).

1

- The first step would be the relaunching of the Plan, which would serve to address the missing element of communication. This should be done in such a way as to ensure that all stakeholders, especially staff, are aware of its existence and its contents.

2

- Finance, in common with other business units, needs to prepare its own departmental business or operational plan to translate the strategic into the deliverable. Points which appear in the scenario indicate that the Finance Department has a problem in communicating with the public and also financial reporting does not seem too good. There are perceived problems with staff numbers, attitude (“the enemy”) and morale, all of which need to be addressed by the operational plan.

Thus the operational plan might need to include enhanced staffing, though resources for this would need to be sanctioned and training in eg telephone response.

(1 mark per point) 5

(8)

- (c) This section seeks an understanding of the planning process. The candidate should set out the basic steps.

SU 4 sets out the basics of business planning:

- Involve others, e.g. Councillors Employees
Unions Pressure Groups
Creditors Council Taxpayer
Suppliers Government
Local Community
- “Top - down” or “bottom - up” approach?
- Determine the context in which the organisation or unit exists.
- Its current position.
- Action to be taken.
- Other information which is helpful in putting the plan into perspective for users of the plan.
- Presentation of the plan.
- Monitoring & Review

(1 mark per relevant point) (7)

(23)