

BUSINESS STRATEGY AND MANAGEMENT

Professional 2 examination 12 June 2002

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. **All three** questions from **Section A**, and **two** questions from **Section B**. All questions carry equal marks.

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)

Middletown Hospital NHS Trust is a medium sized one-hospital trust, located in a densely populated industrial area and serving a local population of approximately 200,000 people. The trust is traditional in its systems and procedures. Its organisation and management structures are still relatively centralised and hierarchical, and budgeting and finance are controlled from the centre. The adoption of traditional public service values based upon the provision of good quality medical care means that a lot of power and status remains with the key medical personnel. The trust has been described in the past as having a “white coat” culture (taken from a report produced by management consultants employed as change agents).

Development of the hospital site has proved to be difficult in recent years as the city centre location of the hospital does not allow for expansion onto contiguous or adjacent land. The site itself has been built upon very intensively and the only practical options which are open to the Trust are in respect of making more efficient and effective use of existing land and buildings. On site car parking has become a major issue and concern as the existing car parks are constantly used to full capacity. This causes difficulties for staff, patients and visitors alike and the problem is exacerbated by a lack of public car parking in the near vicinity.

Twenty years ago the Trust built a two storey block for use as an Education and Training Centre. This was largely to accommodate the requirements of nurse training and for in-house provision of staff development courses. Education and training is still seen as being a priority within the Trust and one of its strategic aims is “to strive to become a learning organisation”. The facility, however, has become quite run down and little money has been spent upon it since it was first developed. The basic configuration of the building is not felt to be appropriate for modern education and training methods and there is little in the way of learning technology available within the centre.

A major problem for the centre arises out of the provisions of the Disabilities Discrimination Act. The Act requires that there should be proper access to all public buildings for disabled users. Presently the building, which is built on two stories, does not have a lift and access to the upper level is only by way of a relatively narrow staircase. The main entrance to the building is through a narrow single door up to which there are two steps, with no ramp.

For some time there has been pressure within the Trust for the Education and Training Centre to be relocated. It has been felt that this is a non-core facility which could be moved from the main site and that such a move would free up the building for medical or administrative uses, both of which areas are feeling the need for expansion. No alternative site has as yet been identified and the idea remains unexplored.

The costs of support services have been coming under scrutiny as the Trust has sought to use its finances more cost effectively and education and training is one of the areas which is due for an overall review. Changes in the ways in which nurse education and training are provided have meant that less time is being spent in the hospital itself but the Education and Training Department has responded to this by providing more, and a wider range of, in-house training courses. The manager of the department holds the strong view that his department has been highly successful and he has quality assurance evidence that courses are highly regarded. He is also of the view that, given better teaching facilities, courses could be marketed outside the Trust itself and could provide the Trust with a source of additional income. There is, however, little information available on course costings and it is not certain that courses could be run at a profit.

A project group has been set up to look into possible development of the Centre. It has been charged with identifying the best option for the Trust and with the development of a business case for the preferred option. This would be considered by the Capital Planning Group before being submitted to the NHS Management Executive.

The project group comprises the manager of the centre (responsible for the day to day administration of the facility), the manager of the Education and Training Department, the Director of Nursing Services, a senior clinician from one of the medical directorates and a representative of the finance department of the Trust.

If the centre stays on site refurbishment work on the building could be carried out to a range of specifications. The Education and Training manager has had discussions with the Estates Department and with a local disability access group. Together they have come up with three possible development options. At one end of the spectrum there is a basic level of development which simply covers the essential disability access work and internal redecoration of the rooms and corridors. At the other end there is an ideal specification which involves totally redesigning the interior of the building which would involve changing room sizes as well as acquiring new furniture and equipment to bring the facility up to conference standard. The middle road option consists of doing the basic work, including redecoration, as well as providing new furniture and some equipment. The Education and Training manager sees this as a compromise position and would not be completely happy with it although he is mindful of the financial realities of the situation.

Initial capital expenditure estimates have been provided by Estates. They have costed the basic option at £200,000 and the ideal option at £750,000. The middle option would be somewhere in between depending upon the precise specification adopted. No estimate of revenue implications has been produced so far.

It seems likely that the Trust would only be able to support an investment of around £250,000 as a top limit. However, Middletown is a “deprived area” with option one status which could mean that European funding might be available for the scheme. This has not been investigated fully but the Director of Finance has expressed some optimism. The business case would have to be submitted through the relevant EU processes which could delay the scheme and there would also be a requirement to demonstrate compliance with EU criteria for acceptance of such schemes. The Director of Finance has promised to provide some clarification on this but there obviously needs to be a clear link made between the scheme and the potential impact which it could have upon the infrastructure of the Middletown area.

The other potential source of capital income is from other trusts but this would only be available in the event of the ideal option being adopted. The Education and Training manager reports that his colleagues in two neighbouring trusts have expressed interest but funds would be dependent upon acquiring a stake in the ownership and management of the facility. The Trust Board has, in the past, been unhappy with similar partnering arrangements which have been put forward for consideration.

You are a trainee accountant within the Finance Department of the Trust. Your manager, who is the Assistant Director responsible for financial management, has been asked to represent finance on the project team and has reluctantly accepted. She has a very heavy workload at the moment and will be going off on maternity leave in two months time. She is keen to involve you in this project as she feels that you would be an ideal deputy for her later on when she becomes unavailable. The first meeting of the project team took place last week and various tasks have now been identified and responsibilities have been allocated for carrying them out.

Requirement

Your manager has asked you to report to her on the current position facing the Education and Training Centre and on the options which need to be considered before any decisions can be made on the Centre's future. She also wants you to suggest a process which could be used for the evaluation of these options given that there is a wide range of issues that need to be considered.

You should therefore:

1

- **Requirement for question 1**

Prepare a briefing note for the Assistant Director of Finance which

- (a) Presents a SWOT analysis for the Education and Training Centre which shows clearly the relationship between the strengths and weaknesses and the major environmental influences on the Centre. 10
 - (b) Identifies the main issues that the Centre will have to face and the options available to the Centre. 10
- (20)

2

- **Requirement for question 2**

Produce a separate briefing relating to the process of option evaluation. This note should cover:

- (a) An outline of an overall framework which would allow for the evaluation of options. 12
 - (b) The identification and application of appropriate criteria. You should explain the basis upon which criteria have been selected and suggest how they could be weighted. 8
- (20)

3

- **Requirement for question 3**

The Assistant Director is aware that you have been studying management as part of your CIPFA studies and would appreciate your input into her understanding of some of the broader issues that she is likely to have to deal with during the course of her involvement in this project. Provide her with an explanation of two terms which she has recently encountered. You should ensure that any explanation you provide is rooted in the situation currently to be found within the Trust. She has sent you an informal note which details the questions she would like you to answer.

- (a) I've never fully understood the concept of organisational culture. Could you explain to me what it is and where you think this term "white coat" culture has come from? I assume it means a fairly traditional NHS culture but how does this look? Is there an analytical approach which might help to explain it to me and could you use it to provide me with an explanation?

12

- (b) The other concept I'm not clear about is "learning organisation". I think I know what it should mean but what actually is a learning organisation? Are we a learning organisation and how might we become one? I've heard of someone called Peter Senga (sic). What did he say about learning organisations?

8

(20)

SECTION B (Answer two questions only)**4**

GYROS is a not for profit charity which works in partnership with a number of public sector organisations. Its management board is made up largely of volunteer and nominated members, resulting in the membership being subject to frequent changes, including key roles up to and including the Chair.

The professional and permanent management of the organisation is headed by a General Manager who leads a small management team of four senior officers who are each responsible for a major area of service provision. The General Manager post was unfilled for a period of nine months prior to the present incumbent taking up position. The previous postholder left quite abruptly after a disagreement with the then Chair.

A new General Manager has recently been appointed and has now been in post for two months. She is concerned at a perceived lack of direction within the organisation, and believes that the current organisational mission and other published statements (including a vision statement) are out of date, irrelevant and consequently that they have little credibility. She has had discussions with a newly appointed Chair who shares her views. He feels that GYROS has been stagnating and he wishes to see the organisation moving forward again. They have agreed that a fundamental review of strategic direction aimed at producing and publishing a set of clear and agreed statements should be given priority.

You work for a firm of accountants and have been involved with GYROS on a financial and consultancy basis. Your firm has been approached by the General Manager to provide facilitation in the development of the required strategic direction statements. Initially GYROS has asked for a proposal to be put forward for their consideration.

- **Requirement for question 4**

You are required to produce a proposal addressed to the General Manager. She has requested that the proposal includes:

- (a) An introduction which sets out the benefits to be gained by having a written and published set of strategic direction statements and which also identifies the potential problems which could arise.
- (b) A detailed specification of the aims and objectives of the development, the methodology to be followed and an indication of who should be involved, both from within and from outside the organisation, and the extent of their involvement in the process.

8

12

(20)

5

“The essence of strategy formulation is coping with competition”
Michael Porter

The main aim of strategic management has often been seen as being the pursuit of competitive advantage.

The problem for public sector organisations is that they may not perceive themselves as being in competition with each other and may view the principles and concepts of strategic management as being irrelevant to them. In particular, they may take the view that they are led by public policy rather than the market place, and that they are more concerned with collaboration than competition.

- **Requirement for question 5**

Briefly describe the techniques of strategic management listed below and provide arguments for and against the relevance of each to the management of a public sector organisation of your choice.

- Value Chain Analysis.
- Boston Consulting Group (BCG) Matrix .

You should make your answers organisation specific and provide illustrations and examples to support your arguments.

(20)

6

Public sector organisations have traditionally been viewed as bureaucratic, possessing formal organisational structures which have been strongly based around hierarchies and the concepts and principles of departmentalism. Recently there have been moves away from these forms of structure as a result of changes in organisational environments, information technology, management thinking on devolution and key relationships within sectors.

One major change has been a trend towards more project based and team based working. Matrix structures have been introduced as an attempt to cope more effectively with changes.

- **Requirement for question 6**

(a) Explain what is meant by a matrix organisational structure and illustrate your explanation with a diagram

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(b) Referring to an organisation with which you are familiar, identify an area in which a matrix structure currently operates or where one could be introduced. Outline the real or potential benefits and problems arising from the use of a matrix structure in this area and suggest a set of guidelines for the successful operation of a matrix.

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(20)