BUSINESS STRATEGY IN CENTRAL GOVERNMENT AND AGENCIES

Professional 2
December 1999

MARKING SCHEME

CIPFA

Question 1

(a)   Correct presentation of grid   *1*
      Identification of at least one relevant factor in each quadrant
      ½ mark per quadrant   *2*
                                                                                                             (3)

(b)   Identify the key environmental influences or wide strategic scan.   *½*
      Example   *½*
      Identify driving environmental forces, ie forces to which organisations are sensitive.   *½*
      Example   *½*
      Differentiate between the impact of the various environmental factors, in terms of
      future impact including time horizons and resources etc.   *1*
                                                                                                             (3)

(c)   Definition
      The process by which Cheltham House examine the political, economic,
      technological, educational, demographic and other trends which will affect them in
      the foreseeable future (or equivalent)   *1*

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

      Possible scenarios include

      Balanced portfolio

      Attempt to balance core teaching of accountancy students, consultancy and research.

Merits -	Spread risk, develop broader skills base, integration of all activities, economies of scale.
Problems -	Competition, financial support from departments, falling participation rates.

Elitist activities

Attempt to upgrade quality of teaching and other activities via the tightening of entry standards, recruitment of high calibre staff, public benchmarking of performance.

Merits -	Improve student pass rate, increase share of market, increased competitiveness
Problems -	Increased costs, falling participation rates, competition, benchmarking comparisons not favourable.

Niche market/specialisation

Concentrate on one aspect of current activities, eg consulting (core teaching student numbers are declining).

Merits -	Specialist image, increased volume of business and supluses
Problems -	Policy not consistent with market needs, policy not consistent with MoD Agency strategic direction, downsizing costs, high risk of failure, competition.

Extend access

Introduce distance learning as teaching strategy, introduce web based teaching, lower entry standards, look to overseas/new markets.

Merits -	Increase participation, attract additional funding, reduce costs.
Problems -	Increased costs, decline in quality of teaching, student pass rate falls (image damage), teaching/skills gap.

3 marks for each of three scenarios-
1 mark for statement
1 mark for merits
1 mark for problems
(9)
(18)

Question 2

Strategic planning (or corporate planning). Concerned with planning for organisations as a whole, setting mission, broad strategic objectives, plus issues such as overall organisational structure.

(a)   Business planning. Planning at level of strategic business unit; reinterprets strategic vision in manner relevant to SBU yeilding prioritised objectives, resource forecasts, targets and action plans.

Operational or budget plan. Sets detailed budget, allocating resources to activities identified by business plan.

(6)

(b)   Identification of good practice in planning.
        Criteria could for example be:
        -       appropriate consultation with stakeholders
        -       commitment of appropriate resources, including time, key personnel,
                top management support
        -       match between approach to planning and organisational environment
        -       appropriate linkages between plans eg strategic and business plans
        -       appropriate timing of eg planning cycle and budgetary cycle

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   *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)

(b)   <u>Financial</u>:   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*

      <u>Example</u>:   How well does the budget process align with Ministerial/Departmental
                           objectives and targets; what are the links between Divisional Plans
                           and Job Descriptions and Appraisal Systems?   *1*

      <u>Customer</u>:   How is strategy translated into issues which are real to the public and
                           community (or clients, students, patients, etc)? Refer to:

                               Customer satisfaction
                               Use of facilities
                               Complaints   *2*

      <u>Example</u>:   Achieving Citizen Charter targets/standards; cutting out red tape;
                           Peoples Panel.   *1*

      <u>Internal
      Business Process</u>:
                           Identify processes most important for achieving objectives. Refer
                           to:

                           Innovation (new processes)
                           Operations (improvement of existing)
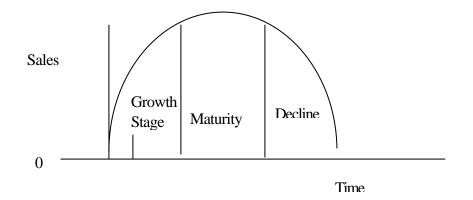   "postsale" (i.e. maintaining & reviewing systems)   *2*

Example: I.T. developments; rationalisation and mergers.   *1*

Learning
& Growth: Measurement of organisational learning. Growth is not so relevant
               in the public sector. Also employee learning. Three categories to
               be mentioned:

               Employee capabilities
               Information system capabilities
               Motivation, empowerment and alignment   *2*

Example: Employee training arrangements, or
               Communications, or
               I.T. Development, or
               Etc.   *1*

               (12)

               (18)

Question 4

(a) The open learning material (SU 7.1) expresses the 3 stages as follows

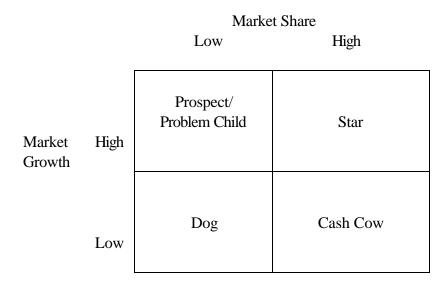| Stage	Characteristics
Emerging	Absence of rules, poor market information, high growth, many new entrants, shortage of key supplies i.e. staff.
Maturing	Accepted rules of competition, slow-down in the rate of growth.
Declining	Falling sales, withdrawals from the market.

1 mark for identifying each stage plus brief description, up to three marks.

Alternatively, students may use variant of product life cycle, eg

Additional descriptive points possible eg flexible customer preferences at growth/emerging stage; more fixed preferences at maturity stage.

For this approach 1 mark for correct diagram (NB different variants possible), 2 marks for substantive definitional comment reflecting definitional points above or similar.

(b)

Market Share

	Low	High
High Market Growth	Prospect/ Problem Child	Star
Low	Dog	Cash Cow

2 marks for correctly labelled matrix

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; however need to spend significantly to maintain that position.

Cash Cow - large market share in mature market, high margin from eg economies of scale, low promotional spend.

Dogs - declining products; candidates for divestment if possible.

1 mark for each quadrant to maximum of 4

Examples for each (Based on Historic Scotland)

Prospect - virtual reality tours of historic sites.

Star - jewel shop at Edinburgh castle.

Cash Cow – membership of "Friends of Historic Scotland".

Dog – publications more than 10 years old.

½ mark for each up to maximum of 2

Practical application
- Ensuring resource allocation between activities sensible; products for future demand being
  developed
- Applicability limited if cross-subsidisation of activities prohibited; if not then Boston
  recommends cross subsidisation of stars/prospects by cash cows.
- Applicability particularly limited when services provision is set in stautute.   *2*

SU7

(c)   Market segmentation - dividing market into groups of customers each sharing
         similar needs for service design; segmentation commonly done on basis of customer
         characteristics eg geography, demography, customer size, quality, etc   *2*

         Main role is to identify and meet more closely customer needs.   *1*

         Example of application : Segmentation in the public services is limited because of
         statutory basis of much of the service delivery. Generally there are two scenarios:

         Segmentation limit be statute eg, payment of benefits, processing of tax forms.
         Segmentation not limit be statute eg, priority processing of passport applications,
         selling/targeting Historic Scotland tours to existing National Trust members.   *2*

(18)

Question 5

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

Format, including presentation of data and report suitable for presentation.

1

Areas include:
- The income and expenditure position is not balanced, with a substantial deficit
- Income from all sources is falling not going up
- Income from 3 of the 4 Registration categories and from Surveys has fallen the most
- The cost improvement program has not been achieved and operational costs are overspent

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

Action the Agency needs to take would include the following;

Marketing the plan
- Communication with key stakeholders
- Review of quality issues
- Review prices (possibly comparison with competitors and other national agencies)
- Promotion
- Review of competitors
- Place (are services being delivered in the right place and at the right time).

Monitoring
- Monitoring delivery of the plan
- Budget monitoring

Identifying the needs of stakeholders
- Consultation
- Appropriate channels of communication (written, face to face)

Review cost improvement targets
- Budgeting
- Review main activity areas and divisional management arrangements
- Regular monitoring of actual performance

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

(b) **Monitoring quality could be done as follows:**
- Market research
- Questionnaires
- Satisfaction surveys
- Performance targets
- League tables
- Benchmarking

The student should give a small explanation of each method described   *4*

(c)   Usefulness of budgeting as a strategic management tool
        Issues concerned with:
- Planning
- Coordination
- 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 RRAS and propose possible solutions that are practical.

(a)   *report style 1*

(i)   **<u>Generation</u> 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 emphasis 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 RRAS 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 <u>evaluation</u>**

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 RRAS 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   *2*

(b)   **Selecting the preferred option**

Each option short-listed should be consider in terms of its:
Consistency with RRAS mission and values
Suitability
Feasibility
Acceptability

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 RRAS, 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)