BUSINESS STRATEGY IN LOCAL GOVERNMENT

Professional 2
June 2001

MARKING SCHEME

Question 1

(a) This question draws upon the 1999 Technical update section for business strategy in local government.

  (i)

- Directly elected executive mayor with a cabinet (local referendum required if this model to be implemented)
- Cabinet with leader
- Directly elected mayor with council manager

1 mark for each
3

  (ii)

- More frequent elections
- Electronic voting
- Increased postal voting
- Mobile polling stations
- Voting on different days
- Credit also available for a range of activities designed to generate greater citizen commitment to local government, which could be expected to have impact on electoral turnout eg more widespread consultation, innovative forms of consultation such as citizens' juries, citizen involvement in decision taking.

½ mark for each up to a maximum of 2

(b) The open learning material lists the following principles:

- Community leadership
- Duty to uphold the law
- Duty to help constituents but not necessarily to put their interest above the general interest
- Acting in the public interest and not using position for personal gain
- Integrity and propriety
- Not to accept gifts or hospitality that may be thought to influence judgement or bring discredit on the council
- To be responsible and accountable for taking own decisions
- Openness
- Ensuring that confidentiality is respected and that privileged information is not used for private purposes
- Stewardship of public resources
- Declaration of private interests and resolution of any conflicts with public duties
- Treat council officers and employees in such a way as to engender mutual respect.

1 mark per point up to maximum of 5

Other appropriate points can receive credit eg honesty, selflessness. However, marks for broad ethical principles not contained in above list restricted to 2.

The effect on modernising local government should be limited as the code simply formalises previous best practice.   However, it does formalise the position and reinforce modern ethics and governance.

Marks for sensible comments up to a maximum of 2
(7)

(c) Challenge: ie challenge level and quality of service to be delivered and whether local authority is the appropriate delivery mechanism of any service.

   Consult: ie consult local stakeholders about service requirement and local service related targets.

   Compare: ie compare performance with analogous organisations, including private sector ones if possible/appropriate, by means of a variety of benchmarking techniques.

   Compete: ie ensure that services are appropriately exposed to competition as part of the process of assuring best value; this need not embrace full competitive tendering exercise.

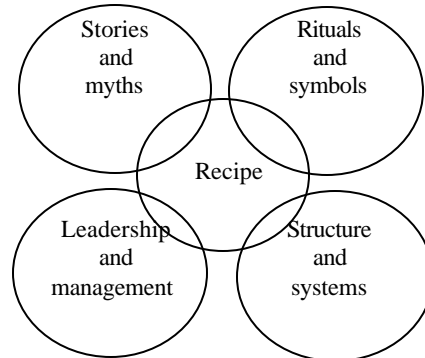*½ mark available for identification of '4 Cs*
(2)
1 mark for explanation of each C
(4)

(6)

(18)

Question 2

(a)   This section draws upon study units 12.2 and 19.

1

Stories and myths (beliefs)
- What core beliefs are held?
- How strongly held are these beliefs throughout the organisation, and particularly at senior level?
- Do the beliefs constitute strengths and/or weaknesses?

Rituals and symbols
- What do rituals and symbols tell you about the organisation?
- What behaviour is expected and how is it rewarded?
- What language is used to describe the organisation and its activities?

Leadership and management style
- What are the core beliefs of leadership?
- How are the core beliefs expressed both internally and externally?
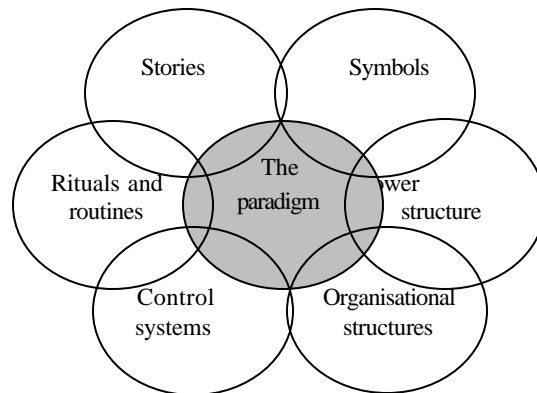- What kind of strategies are preferred?

Structure and systems
- Do structures and systems promote collaboration or competition?
- How formal are structures and how important are informal structures?
- Which systems are stressed as being of key importance?

2 marks for each area (2 issues required each area) up to a maximum of 8

NB. Other variants of cultural web acceptable; one shown overleaf.

(9)

Elements of an organisation's cultural web

- **Routines** - established ways of doing things. Determine how individuals relate to each other and how much organisational communication occurs.

- **Rituals** - eg training programmes, induction, assessment, promotion.

- **Stories** - told by members of organisation to each other, outsiders or newcomers.

- **Symbols** - eg logos, promotional material, common language and terminology.

- **Control systems** - eg measurement and reward systems.

- **Power structures** - the most powerful management groups likely to be ones most associated with core assumptions and beliefs about what is important.

- **Organisation structure** - will reflect power structures, embody important relationships and indicate what is important.

(b)   Good answers to this section will demonstrate how the web and elements therein can constitute barriers to change and in the process of doing so will give sectorally relevant examples.

Typical points could include:

Transformational or fundamental organisational change can be defined as change that involves appropriate cultural change.   *1*

The individual elements of the cultural web tend to mutually reinforce each other and this contributes to the problem of culture being particularly resistant to change.   *1*

Having said that, some cultures will tend to be more resistant to change than others; many would argue that public sector cultures have developed over a period in which the sector was shielded from significant change and are therefore still somewhat resistant to change.   *1*

Other points more related to specific elements could include:

Power Bases
People do not give up power and influence easily and conflict occurs when people believe their own position is being undermined.   Sectoral examples could include fact that senior management in local government have experienced a significant amount of employment insecurity in recent years which has probably reduced ability to resist change in some circumstances. The declining power base of unions could be mentioned here.   *2*

Systems

Reward, information and control systems, for example can all block change. This is particularly the case if eg reward systems or appraisal systems are not changed consistently with the desired organisational change; again appropriate organisational examples should be possible.   *2*

Symbols

Symbols are significant as barriers to change and are linked with the power issue discussed earlier. Symbols can cover anything from a company car or personal office to less tangible symbols such as the clothes or uniform people wear; again organisational examples possible. Transformational change needs to be accompanied by appropriate changes in symbols which may be resisted.   *2*

For such points concerning individual elements, broadly marks should be split equally between identifying why an element contributes to resistance and giving relevant example. Many other examples to the above are possible and should receive credit.

(9)

(18)

Question 3

(a)   The steps should follow a framework similar to that provided by Bryson ie:

- Initial agreement on purpose, steps, timing, roles and resources

- Identification of mandates – legal frameworks, regulatory issues

- Mission and values – raison d'etre, reason for existing, stakeholders

- Environment assessment – PEST, opportunities and threats

- Internal resources – strengths and weaknesses, resource analysis

- Strategic issue identification – fundamental policy issues, priorities

- Strategic development – choices, options, evaluation, direction and means

- The future organisation – the vision of success

1 mark for each step up to a maximum of 8

(b)   Illustration using the steps in part (a) applied to their sector organisation. Marks will be given for effective matching of the steps to an organisation setting.

Marks will be given if students offer the counter-argument that strategy is incremental and reactive ie does not follow or need a disciplined approach. This is the argument for emergent strategies put forward by Mintzberg and covered in the 1998 update material.

5 marks for each appropriate illustration plus 5 for evaluation against steps in (a)
10

(18)

Question 4

(a)   Elements of a market strategy

<u>Market segmentation</u>

The breakdown of the market into groupings of different customers ie who should the organisation be targeting and why?

ie   large enough to justify committing the resource
        potential for growth
        not dominated by competition
        needs the organisation's services

4

Market entry

 How do we penetrate the market?

ie   sales and marketing plans
        collaboration

3

<u>Timing</u>

When do we enter the market?

ie   customer awareness
        demand patterns
        competitor activity   *3*
        publicity and marketing campaigns

1 mark for each definition, 2/3 for attributes
(10)

NB   An alternative acceptable approach would be to use the four 'P's ie:

Product – match to customer needs

Price – basis for pricing (cost?, market etc), competition

Place – accessibility, cost, convenience

Promotion – clear, open, appropriate

2 ½ marks for each element up to max. of 10

(b)   A discussion under each element of its relevance to the sector

           eg segmentation – specialist services, balance of resources and investment, future needs

           entry – collaboration with others in the sector etc

           timing – pressures and awareness, publicity

3 marks maximum for each element up to max. of 8

or the four 'P's

           Product – match of needs dictated by professionals, government, society

           Price – cost driven, taxpayer, government influence/dictated

           Place – through gateways, generally fixed

           Promotion – emphasis on information, awareness

2 marks for each element
(8)

(18)

Question 5

(a)

Financial Performance Measures

Possible calculations:

	2000	**1999**
Gross profit percentage	<u>1,200</u>	<u>900</u>
	3,000	2,500
	40%	36%
Net Profit Percentage		
(ignore apportionments)	786	576
	3,000	2,500
	26%	23%
ROCE	<u>786</u>	<u>576</u>
	10,000	8,000
	7.9%	7.2%
Economic Value Added (EVA)	786-(10,000x.06)	576-(8,000x.06)
	£186k	£96k

Revenue by programme area

Management training	40%	28%
Health and safety	23%	20%
IT training	17%	28%
Financial training	20%	24%

Comments:

1. All ratios indicate an improvement in performance
2. Indicates Unit can earn returns above cost of capital
3. Strong financial position
4. Turnover by programme area indicates move to management training
   (See Innovation)

Internal Business Processes

Possible calculations: Year <u>2000</u>

Development Expenditure as % of operating costs $\dfrac{100{,}000}{1{,}214{,}000}$ 8.2%

New courses to market   3

Revenue generated from new course   £300,000

New course failures   cost £40,000

Revenue from new successful developments as % of revenue $\dfrac{10\%}{\dfrac{300}{3{,}000\text{k}}}$

% of revenue from new programmes under 5 years   70%

% return on R & D (first year) $\dfrac{300{,}000\text{-}40{,}000}{100{,}000}$ 260%

but problems over life span of current innovations

Comments

1. 8.2% of operating costs spent on innovation
2. Vital importance of new programmes
3. 260% return in first year
4. Function trends show growth areas (IT) in decline and failure
5. Innovations appear short lived and focussed on public sector

Learning and Growth

Possible calculations:

		2000	**1999**
% FTE/PT	$\dfrac{64 \times .5}{52}$	62%	57%
% days lost through sickness (assume 260 days)		7.3%	3.1%
Turnover per FTE		£57,692	£54,348
Labour cost per FTE		£34,615	£34,783
Turnover of staff – F/T		20%	20%
P/T	25%	25%	15%

Comments

1.   Greater reliance on part time staff
2.   Significant turnover of part time staff
3.   Possible greater stress on full time staff leading to increased sickness
4.   Reduction in activity of full time staff
5.   Increased incidence of sickness amongst full time staff

Customer measures

	2000	1999
Revenue by client		
Cumberdale County Council	70%	60%
Other local authorities	13%	16%
Private sector	17%	24%
No.of new clients (% of total)	20%	15%
No. of returning clients (% of total)	15%	21%

Comments

1.   Increase in dependence on Cumberdale
2.   Strategy of move to private sector not achieved
3.   Wide spread of customer satisfaction
4.   Fewer returning customers and declining customer base

4 marks for each dimension
(1 mark for each distinct measure and ½ mark for each comment)
2 for presentation and approach
18

(b)   Purely financial measures indicate strong and improving performance but disguises
fundamental weaknesses clearly highlighted in the BSC analysis ie

1.   Weak, short term course innovation
2.   Low spend on programme development though importance
3.   Greater dependence on Cumberdale
4.   Weak in growth areas and dependence on short life cycle products
5.   Increase use of part time staff and stress of full time reflected in increased sickness
6.   Declining customer base. etc, etc

Stresses value of BSC in

Clarifying and translating vision and strategy
Identifying linkages
Matching short term and long term goals
Enhancing learning

1 mark for each relevant point up to 5

(23)

Question 6

Porter's 5 Forces Model

- Power of buyers

- Power of suppliers

- Intensity of current rivalry

- Threat of entry

- Threat of substitution

The strength and configuration of the above forces will determine the profitability/performance of an organisation (or industry).

2

Power of Buyers

Proportion of buyers' budget spent on TCU training; not possible to quantify; however, transitional arrangements likely to ensure will be large; NB. TCU provision perceived to be expensive; future budgets due to come under more pressure; all factors tend to lead to buyers scrutinising provision.   *2*

Product differentiation; TCU has reputation for meeting client needs effectively; some tailored courses provided within contracts.   *1 ½*

Switching costs; not many; some within contracts that exist. Requirement for business case constitutes switching cost for going to outside providers for annual training requirements above 2,000 peso.   *2*

Ability of buyer to integrate forward – some but probably not much; ie development of mentoring, self study etc arrangements.   *1 ½*

Power of Suppliers

Staff – only supplier referred to in any detail in case.

Recruitment of staff from alternative training organisation suggests potential for staff to integrate forward.   *1*

Certainly high impact of trainer inputs on quality/performance; increased by reputation for effective tailoring of courses to client needs.   *1*

Threat of Entry

Universities – priorities lie elsewhere for foreseeable future; therefore no significant threat from this source.	*1*
Accountancy Training Colleges – over capacity here may lead to entry; fuelled by track record of diversification. Tempered to small extent by prior private sector short course focus.	*2*
KPA – possible source of further entry; cost combined with budgetary pressure may militate against that.	*1*
Product differentiation and switching costs as analysed under power of buyers will tend to constrain threat of entry.	*1*
TCU training relatively capital intensive, which is suggested by theory to generate entry barrier.	*1*
Expensive computer based facilities and corresponding investment cost could constitute entry barrier.	*1*
Knowledge of client organisations probably generates cost advantages for TCU via learning effects.	*1*
Product differentiation/switching costs as analysed above.	*1*

Intensity of rivalry

None really at present due to current policy; KPA activity on single project only exception to that.	*1*

Threat of Substitution

Mentoring, self study could be seen as substitutes. Difficult to evaluate comparative price/performance though n.b. perceived high cost of TCU provision.	*1*
Propensity to substitute difficult to evaluate; current use of these options suggests may be reasonable.	*1*

Credit available for other relevant points. 1 mark per point well made up to a maximum of 23. The above marking scheme consists mainly of case based points. Some students may provide the basic theoretical determinants of Porter's model but fail to relate them effectively to the case (which on occasion could be seen as quite demanding). Only a total of 8 out of 23 marks available for theoretical determinants of forces presented in isolation from case references (this excludes the 2 marks for overview of model at beginning of scheme).

(23)