UNIT 1: INTRODUCTION TO BUSINESS POLICY

UNIT STRUCTURE

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1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of policy
- learn characteristics of policies
- describe how one can differentiate among policy, procedures, process and programmes.
- discuss different types of policies formulated by an organization
- lear the framing of business policy statements by corporates
- find out how organizational culture affect policy framing

1.2 INTRODUCTION

This is the first unit of the course "Business Policy and Strategic Management". In this unit we are going to discuss briefly about business policy. Organization is a group of people coming together to achieve common goals. It consists of many people. There is separation of management and ownership. Hence it becomes essential to issue guidelines to manage the business by the people. The top management lays down broad guidelines or general limits within which managers have to decide their course of actions to deal with a particular situation. The guidelines lay down by the top management act as guiding force for decision making by the functional managers. The general statements or understanding which guide thinking and action of subordinates is called 'policies'.

1.3 OVERVIEW OF BUSINESS POLICIES

The word 'Policy' is derived from the Greek word 'Politeia' meaning policy or government. In the autocratic system the policies are framed by the leader whereas in the democratic system the policies are framed by the people.

The Dictionary meaning of 'policy' is a 'planned action' and that plan is a policy. Hence policy and plan are synonymous. According to Flippo, Policy "*is a man made rule of pre-determined course of action that is established to guide the performance of work toward the organization objective. It is a type of standing plan that serves to guide subordinates in the execution of their task.*"

According to George R. Terry, meaning of Policy is " A verbal, written or implied overall guide setting up boundaries that supply the general limits and directions in which managerial actions will take place."

Policies are statements of the organization framed in light of its objectives in the various areas with which its operation are concerned-personnel, finance, and production, marketing and so on.

Every time it is not possible to meet the top management and ask

about the action to be taken in a particular situation. Therefore, general guidelines are framed by the top management. These guidelines or policy are the boundaries within which decisions can be made by the subordinates. The lower level management can handle situation by referring to these guidelines without having the need to meet top management each time.

Policy can be developed for any type of business activity. It can be related with product, pricing, promotion, finance and so on. Statement that codifies such guidelines is called policy statement. Policies highlight the thinking of the top management.

1.4 FEATURES / CHARACTERISTICS OF POLICY

Policy has a key role to play in business management and administration. It helps the management to achieve the desired goals. It also ensures a business firm to have an effective and efficient operation in a more economical manner. The policies are framed the top management and it is implemented at the bottom level. The policy should be definite, positive and understandable to everyone in the organization. Definite and clear policy helps to avoid involuntary deviations from accepted course of action. It ensures that the actions of individual managers are consistent over the time. Nature of business policy depends upon the nature of objectives and the needs of the Oganisation. Following are the characteristics of policy:

1. ***Simple*:** A policy should be as simple as possible. It should be codified in a clear and easily understandable terminology. Such policy formulation will enable the line managers to interpret in a right way.
2. ***Clear*:** There should not be any ambiguity in the policy. It should be clear and not confusing one. Use of technical jargons should be avoided. The words which carry dubious meaning should be avoided.
3. ***Flexible*:** Policy should be flexible. It should be reasonably stable. It should be altered or modified very often. It should remain in force for a long time. In order to make it usable for long time it should be

flexible also. The intention of flexibility is to make the policy usable in repetitive situation by the lower managers.

4. ***Certain*****:** Policy must be definite and concrete. This gives confidence to the line mangers.

5. ***Consistent*****:** Policy should be consistent. A consistency leads to smoothness of action by the subordinates while handling recurring problems.

6. ***Relevant*****:** Policy should be relevant to the goals of the organization. They should relate to the current business situation and environment.

7. ***Comprehensive*****:** Policy should cover broader area of business. A comprehensive statement of policy ensures flexibility in decision making. It also avoid the line managers to approach the top management frequently.

8. ***Stable*****:** A policy should be reasonably permanent and stable. Constant change in the policy makes its implementation difficult. Unstable policy creates uncertainty in the mind of those who refer to policy for guidance. It is not intended that policy should be permanent forever; it should have provision of flexibility depending on the situation. Policy should have capability of adjustment to meet future changes. It should be based on sound judgment.

1.5 IMPORTANCE / ROLE OF BUSINESS POLICIES

Policies are the key for success of the business. Policies offer great advantages to the management if they are stated with clarity. It raises the confidence of the line managers. They make the decisions within given boundary. The managers act without the need for consulting the senior managers every time which minimizes the need for close supervision. It also builds the confidence of the managers. The importance of business policies are discussed as follows:

1. ***Control*****:** Policy facilitates effective control on the working of the orgainsation. It indirectly controls the managers at different level without directly interfering in their routine working.
2. ***Effective Communication*****:** Generally policies are written and well drafted statements. Hence there is not a remote chance of confusion or miscommunication. By setting policies the management ensures that decision made will be consistent and in the best interest of the organization. Clearly laid down policies try to eliminate personal hunch and biasness.
3. ***Clarity*****:** Policies clarifies the view point of the management for the purpose of running a particular activity / activities.
4. ***Motivation*****:** Policy enables the line mangers to be self reliant. They take the decision on their own in the confined border of the policy. This raises their confidence and motivates them. A well drafted policy provides a pattern within which delegation of authority is possible.
5. ***Policy Review*****:** Regular review of policy is must to see to it that the existing policies are relevant in the given situation. If required policy may be modified or altered depending on the business environment. Review of policy at regular intervals provides a method of anticipating future conditions and situations and helps to resolving how to deal with them.
6. ***Economical and Efficient*****:** Policy enables the management to carry out its operations effectively and efficiently. It enhances the working of the organization.
7. ***Coordination of Efforts*****:** Policies ensure coordination of efforts and activities at different levels in the organization. Activities and duties are assigned in such a way that all activities in the organization are integrated effectively. Policy coordinates with individual efforts.
8. ***High Morale****:* A well crafted policy can raise overall morale of an enterprise. Policy enables the mangers to understand the intention of the management.

1.6 DEFINITIONS: Policies, Procedure, Process, Programmes

Definitions of the term Policy, Procedures, Process and Programmes are stated below:

Policy and Procedure :

Ralph Devis defined "*Policy is a statement of a principle or group of principles, with their supporting rules of action that conditions and governs the achievement of certain objectives to which a business is directed.*" Policy is an internal law which guides the administrative actions in the organization. Policy indicates the intention of the management. It serves as the guidelines within which decision makers are expected to operate. Policy is an aspect of planning, a guide for making administrative decisions and it indicates the way of doing the things.

Procedures indicate certain steps to carry out a particular work. A statement of procedure is more specific and concrete than policy. It highlights the chronological sequence of carrying out a particular activity. Procedures involve planned sequence of operations. For example, every organization has its unique procedure of processing order, payment collection or providing after sales service. Procedures are used to indicate how a routine work can be performed. They are the means by which decisions are implemented. Procedures needs to be reviewed and updated.This leads to work simplification, rationalization, increased efficiency and reduced costs.

The following table depicts the difference between the Policy and the Procedure:

Table 1.1: Difference between the Policy and the Procedure

Policy	Procedure
Policy acts as a guide in decision making process.	Procedure is guide to action.
Policy is an aspect of planning.	It is detailed plan indicating steps of carrying out a particular activity or event.

Policy to some extent has flexibility which provides room for managers to use discretion in certain cases.	Procedure is a rigid in nature. No permission to use discretion.
Policies need to be interpreted by its users while using it.	It lays down sequence in which a particular activity is to be carried out.
Policy may be written, oral or implied.	Procedures are always in writing.
Policy is the creation of top management	Procedures are developed by the line managers.

Policy and Process: Policy is a set of guiding principle used to set direction in an organization. A **procedure** is a series of steps to be followed as a consistent and repetitive approach to accomplish an end result. The difference between **processes and procedures** can be termed as breadth and depth. A **process** defines the big picture. It highlights the main elements of business–breadth. A **procedure** captures those elements and adds more information for functional responsibilities, objectives, and methods–depth.

Programmes: According to Oxford Dictionary Programmes means "*A set of related measures or activities with a particular long-term aim*". Eg. An extensive programme of reforms. Business Dictionary defines programme as "a plan of action aimed at accomplishing a clear business objectives, with details on what work is to be done, by whom, when, and what means ot resources will be used."



CHECK YOUR PROGRESS

Q1. Define Policy.

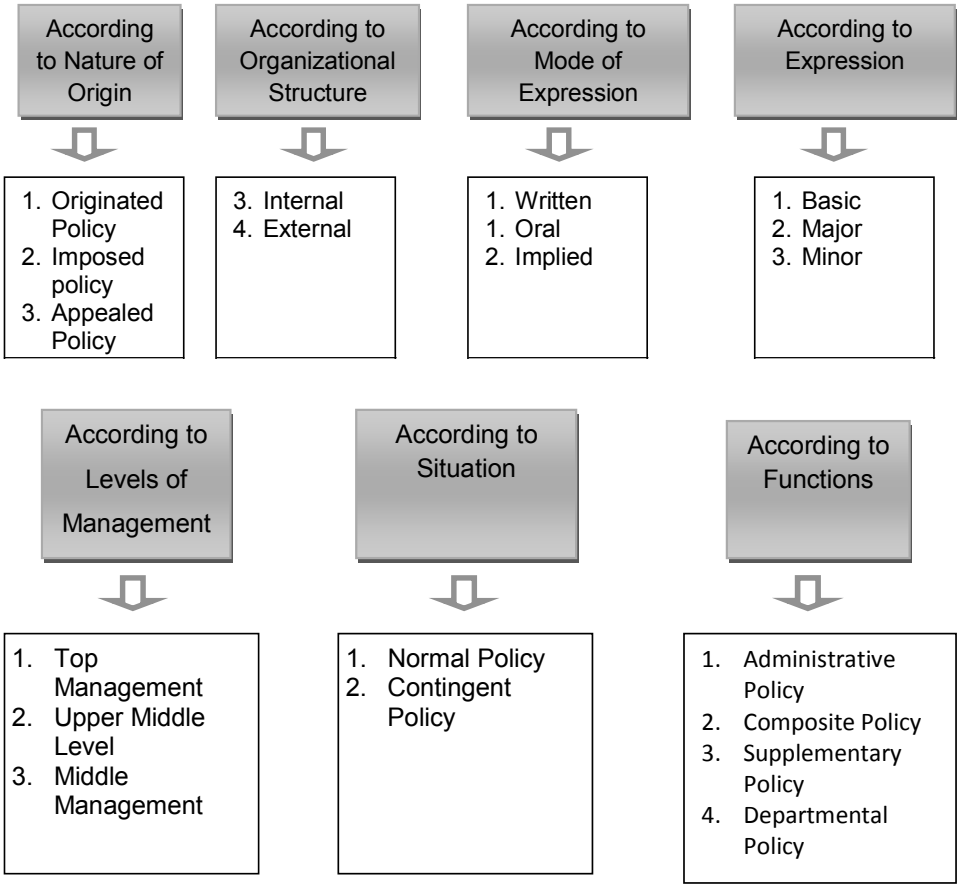
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Q2. State one difference between Policy and Procedure.

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1.7 TYPES OF BUSINESS POLICIES

Business policies are classified on several bases. They may be classified into several categories, which are discussed as follows:

Now we shall discuss the types briefly.

A) According to the Nature of Origin:

a. Originated Policy: These policies are formulated by the top management or managers. The purpose of this policy is to serve as guidelines to the subordinates and their working. The policy act as guide for the managers at the lower levels. The policies are formulated for the benefit of their own subordinates. Eg. Marketing Head may formulate policies and handover to the junior executives for implementation. The policy formulated by the marketing head is called as Originated Policy.

b. Imposed Policy: The policy imposed by some external forces like state or central government. The policies are binding on the organization. Labour ministry formulates policy as regards to labour are binding on the organization. It cannot be avoided.

c. Appealed Policy: When certain exceptional situation arises at that time the manager may make an appeal to his superior for deciding on such problem. The policies are framed to handle such current unpredicted situation. Formulation of appealed policy on regular basis may hinder the work performance. To avoid this appealed policy should be replaced by the originated policies.

B) According to the Organizational Structure:

a. Internal Policy: Internal policies are designed by the management and act as guidelines to the subordinates. It establishes rules and parameters within which subordinates have to operate. It creates realm for subordinates working. The examples of internal policies are recruitment and selection policy, budgetary policy etc.

b. External Policy: Such policies are framed to tackle the external problems. Organizations redesign or frame new policy in reply to the environmental factors or forces. eg. Change in pollution norms by the

state government will compell the organization to reframe their environmental policy in accordance with the changed norms. Hence a change in policy on account of external factors like enactments and circulars of government is an example of external policy.

C) According to the Mode of Expression:

a. ***Written Policy:*** Policies expressed in the form of written statements are called as written policies. It avoids confusion and misunderstanding. It is always advisable to have policy in written format. These policies define boundaries within which decision needs to be taken by the subordinates.

b. ***Oral Policy:*** A policy issued mere by word of mouth is termed as oral policy. These policies are easy to communicate as compared to written policy. Oral policies are simple and quick to exercise. If the policies are not defined clearly it may create confusion amongst the employees. With the passage of time there are chances that the policy may be forgotten or misinterpreted.

c. ***Implied Policy:*** Implied policy is neither written nor oral policy. It is being followed conventionally. Such policies can be inferred from the mere behavior of subordinates or managers. They are not explicit or expressed policies. Eg. Company produces goods in the price range which is comfortable to middle class people.This indicates that the intention of the company is to serve the middle-income groups.

C) According to the Importance:

a. ***Basic Policy:*** It implies the fundamental philosophy of the enterprise. Basic policies are framed by the top management.

b. ***Major Policy:*** These policies are concerned with the major issues and concern of the organization. Eg. Promotion Policy, Distribution Policy etc.

c. ***Minor Policy:*** To tackle routine matters, minor policies are decided by the line managers. It may relate with the amount of discount, time of delivery of product etc.

D) According to the Scope:

a. ***General Policy:*** These policies are framed by the middle level

management.

b. ***Specific Policy:*** Policies which are not general are specific policies. Eg. Departmental policy.

c. ***Directive Policy:*** A directive policy is essential when decentralized discretion is not possible or when it may be contrary to the best interest of the company as a whole.

E) According to the Levels of Management:

a. ***Top Management Policies:*** These policies generally cover long range planning. They are decided by the top management. E.g. Budgeting and Product Launching etc.

b. ***Upper Middle Management Policies:*** These policies are decided by the departmental head. But while framing such policies, manager should link it with the major policies of the organization.

c. ***Middle Management Policies:*** The superintendant or junior manager frames these policies. The policies may relate to sales, finance etc.

F) According to the Situation:

1. Normal Policy: To guide employees about day to day work such policies are framed. Future is uncertain and unpredictable hence these policies act as guidelines to the employees.

2. Contingent Policy: These policies help the subordinates to handle uncertain and abnormal situation.

G) According to the Function:

1. Administrative Policy: These policies are concerned with the administration of the organization. It covers broad area of administration. Such policy aims at controlling the staff.

2. Composite Policy: It is a policy that is made out by combining the policies submitted by every department. Each department submits their policy to the budget officer who prepares consolidated statement in a coordinated manner. Such policy statement when approved by the Board is called "Composite Policy".

3. Supplementary Policy: The issues not covered by the composite

policies are covered under supplementary policy.

4. Departmental Policy: The policies prepared by individual department for their routine working are called as departmental policies. Eg. Personal Department Policy.

1.8 POLICY STATEMENT

A policy statement relates to organization's expectations for the employee behaviour. The behaviour can be confined as work behaviours or personal behaviours at the workplace. Authoring and implementing a policy statement indicates expectations of employee behaviour by establishing rules. These rules are to be strictly followed by everyone in the company.

According to Business Dictionary, Policy Statement is "*a formal document outlining the ways in which an organization intends to conduct its affairs and act in specific circumstances*".

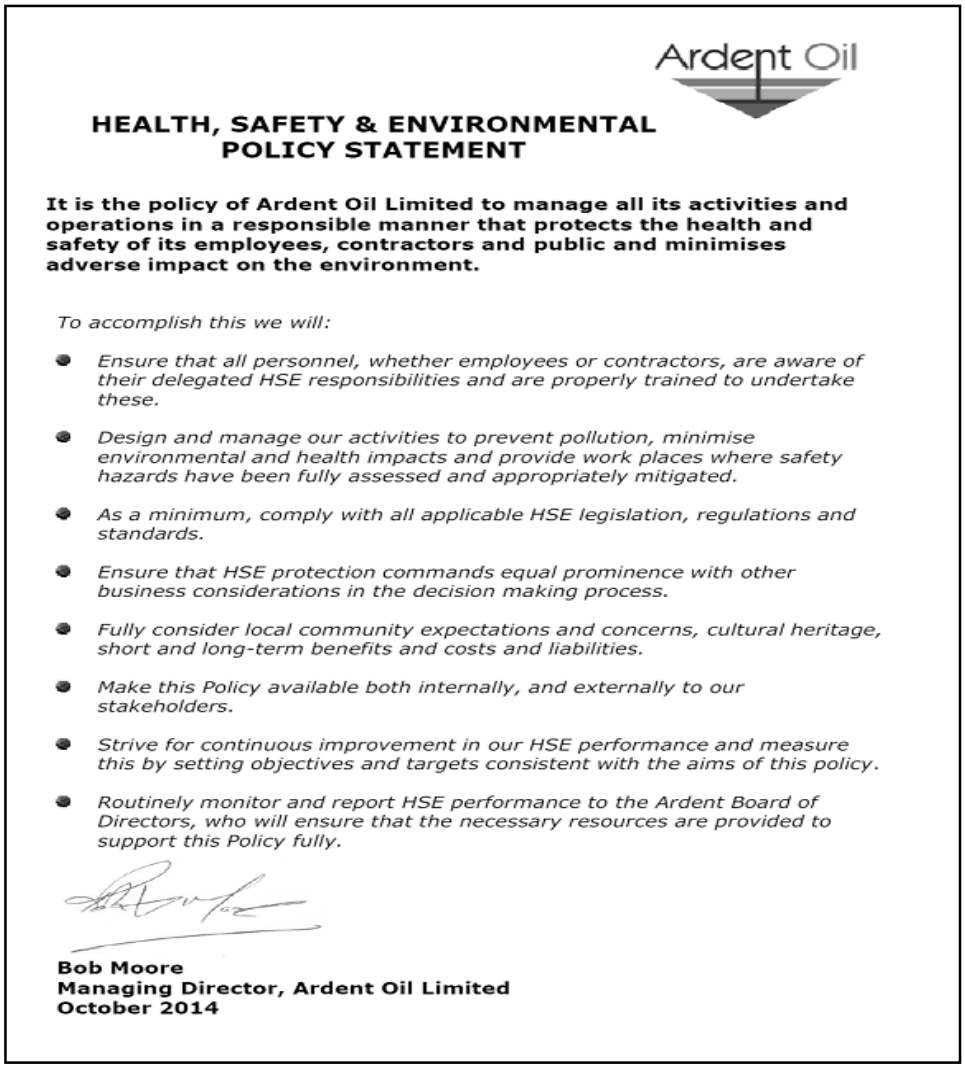
Collins Dictionary defines it as "*a declaration of the plans and intentions of an organization or government*".

A **Policy Statement** is an organization-level document that prescribes acceptable methods or behaviours. A **policy** is simply the way things are done within an organization.

Some policy statements may require acknowledgment from the employees. For example, if the policy relates to sexual harassment, company may want to have employees sign a form acknowledging their receipt of the policy. Every employee will abide by it.

Following are the example of some policies of different organization:

Example 1:



Ardent Oil

HEALTH, SAFETY & ENVIRONMENTAL POLICY STATEMENT

It is the policy of Ardent Oil Limited to manage all its activities and operations in a responsible manner that protects the health and safety of its employees, contractors and public and minimises adverse impact on the environment.

To accomplish this we will:

- *Ensure that all personnel, whether employees or contractors, are aware of their delegated HSE responsibilities and are properly trained to undertake these.*
- *Design and manage our activities to prevent pollution, minimise environmental and health impacts and provide work places where safety hazards have been fully assessed and appropriately mitigated.*
- *As a minimum, comply with all applicable HSE legislation, regulations and standards.*
- *Ensure that HSE protection commands equal prominence with other business considerations in the decision making process.*
- *Fully consider local community expectations and concerns, cultural heritage, short and long-term benefits and costs and liabilities.*
- *Make this Policy available both internally, and externally to our stakeholders.*
- *Strive for continuous improvement in our HSE performance and measure this by setting objectives and targets consistent with the aims of this policy.*
- *Routinely monitor and report HSE performance to the Ardent Board of Directors, who will ensure that the necessary resources are provided to support this Policy fully.*

Bob Moore
Managing Director, Ardent Oil Limited
October 2014

Example 2:

The Raymond Corporation Environmental Policy

The Raymond Corporation recognizes its responsibility to be a good steward of the environment and contribute to a more sustainable planet. Across our organization, we work to minimize our direct and indirect impacts on the environment. This commitment is integral to our corporate culture and business strategy.

Our environmental policy objectives include:

- Comply with all applicable environmental regulations
- Implement and maintain environmental management systems to continually improve and enhance environmental performance
- Review processes and procedures to reduce consumption of natural resources and minimize potential environmental impacts
- Reduce energy consumption and greenhouse gas emissions
- Provide a safe and healthy workplace
- Be an environmentally responsible neighbor in the communities where we operate
- Engage suppliers, partners, customers, employees, and other stakeholders to promote our environmental objectives and targets
- Incorporate environmental considerations into the design process for the life cycle of our products

Source : https://www.raymondcorp.com/about-us/quality accessed on 2.1.2018

Example 3:

Tata Motors has several policies in place that documents relevant guidelines for different areas of operation, whereby rules are stated through which conformation to norms may also be monitored.

Example 3:

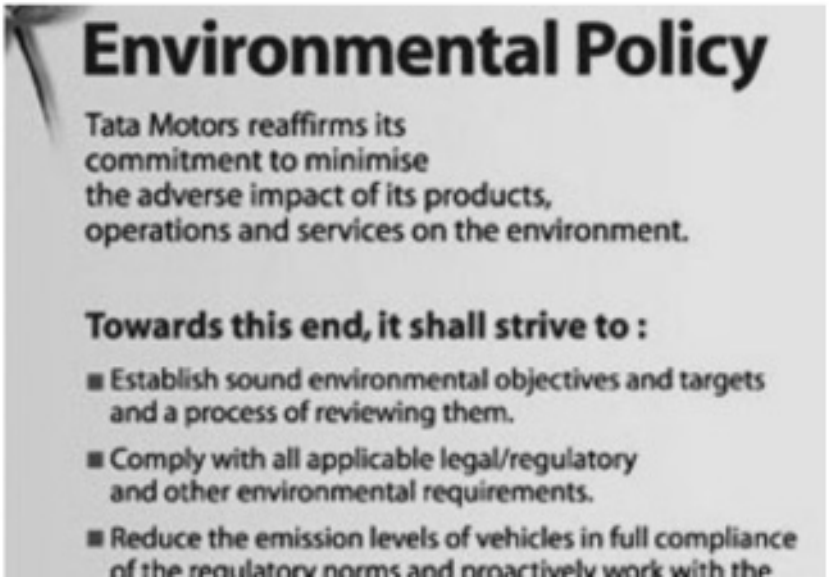
Tata Motors has several policies in place that documents relevant guidelines for different areas of operation, whereby rules are stated through which conformation to norms may also be monitored.



Safety & Health Policy

We are committed to being an injury-free organisation, ensuring the safety and health of the employees, contractors and visitors in our operations. We also play an influential role in upgrading the standards of our business partners.

Our business conduct recognises safety as an integral part of its operations and strives to meet and exceed compliance, with applicable regulatory Safety and Health



Environmental Policy

Tata Motors reaffirms its commitment to minimise the adverse impact of its products, operations and services on the environment.

Towards this end, it shall strive to :

- Establish sound environmental objectives and targets and a process of reviewing them.
- Comply with all applicable legal/regulatory and other environmental requirements.
- Reduce the emission levels of vehicles in full compliance of the regulatory norms and proactively work with the

Source: http://www.tatamotors.com/about-us/corporate-governance/policies/ accessed on 02.01.2018



ACTIVITY

Prepare a Policy Statement for an Organisation that Manufctures Appreals

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1.9 CORPORATE/ORGANIZATIONAL CULTURE

According to C O Reilly, Organizational culture is the set of assumptions, beliefs, values and norms that are shared by an organization's members. It is very essential to understand the impact of organization culture in policy formulation, In the Mckinsey's 7-s framework model developed in the early 1980s by Tom Peters and Robert Waterman, two consultants working at the McKinsey & Company consulting firm, Culture represents the seventh S i.e. Shared Values. It is the culture which shapes or moulds the soft S in an organization. Culture is not created by declaration, it is generally unwritten or unstated assumptions, values and beliefs etc. Culture is one of the internal aspects of an organization that need to be aligned for success of the organization. The McKinsey 7-S model is useful for :

- Improve the performance of a company.
- Examine the probable effects of future changes within a company.
- Align departments and processes during a merger or acquisition.
- Determine how best to implement a proposed strategy.

The McKinsey 7-S model involves seven interdependent factors which are categorized as either "hard" or "soft" elements. "Hard" elements are easier to define or identify and management can directly influence them which includes Strategy statements, organization charts and reporting lines (structure), and formal processes and IT Systems.

"Soft" elements, on the other hand, are more difficult to describe. They are less tangible and more influenced by culture. These include Shared Values, Skills, Styles and Staff. But for the success of the organization both Hard and Soft elements are important. The seven S are as follows:

- **Strategy:** Action plan devised to maintain and build competitive advantage over the competition.
- **Structure:** Way the organization is structured and who reports to whom.
- **Systems:** Daily activities and procedures that staff members engage in to get the job done.
- **Shared Values:** called "super ordinate goals" when the model was first developed, these are the core values of the company that are evidenced in the corporate culture and the general work ethic.
- **Style:** It denotes the style of leadership adopted.
- **Staff:** The employees and their general capabilities.
- **Skills:** the actual skills and competencies of the employees working for the company.

The most important feature of organizational culture is sharing common beliefs, values, attitude and feeling etc. V. Sathe (1985) has highlighted on four components of sharing organizational culture i.e.

i. Shared things (e.g. the people dress)
ii. Shared saying (e.g. let's get down to work)
iii. Shared action (eg. a service oriented approach)
iv. Shared feelings (e.g. hard work is rewarded here)

Values, beliefs and assumptions are expressed in tangible forms like power structures, routines, rituals etc. The culture web as explained by Johnson and Scholes (2006) includes factors like rituals and routines, stories, symbols, power structures, organizational structure and control system. He has shown paradigm in the figure of the centre, as over a period of time it may shift i.e. there may be change in the cultural state or pattern. This may be slow evolutionary process. Sometime the cultural pattern change in an organization due to style effect of a new leader. If the leader

believes in democratic way of working, it may work upon the way employees think, believe and express themselves . Their behaviour or mindset changes and they get mould in the leader's style. The best example of this is Mr. Krishnamurthy. When he took over as a chairman of SAIL he used non-surgical strategy of turnaround. He had worked for more than six months on the mindset of the employees and moulded their thought process and behaviourial pattern. This has led to paradigm shift in SAIL's organizational culture.

1.9.1 Relating Culture to Policy Formulation

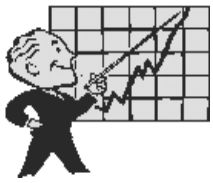
Culture includes ideologies, values, beliefs, attitudes, opinion, frames; discourse; spoken, written, or signed language; and any material object to which meaning is attached. Each shapes making of policies.

A strong culture will have positive impact on the overall working of the organization. It binds the organization together. Strong culture contributes to productivity, efficiency and growth. On the other hand weak culture will end into loose behavioural system. There will be lack of commitments towards achievement of organizational goals and objectives. Strong culture facilitates formulation of effective policies and on the contrary weak culture creates resistance to change and hinders or delays formulation and implementation of policies. One can't afford to ignore corporate culture while framing policies. Policy formulator needs to access the culture and based on that they need to formulate guidelines to the employees.

Cultural paradigm goes beyond the corporate terminology. The culture is rooted in the country where the corporate operates. This is the reason why it is difficult for the corporate to change its culture. The cultural heritage of a particular country creates general cultural environment to the businesses. In this general environment organization creates and develops their own business and work culture. Every country has its unique culture.

For example, Japanese attach a great significance to loyalty and it calls out for consensus, a concept called *Wa*. Wa requires that all members of a group agree and cooperate. This involves continuous discussion, consensus and compromise. Japanese companies evaluate business decisions in terms of effect on the group's Wa. Formal meetings are conducted in informal environment and surrounding to build relationships. Japanese managers are characteristically reserve and quite whereas American managers are generally talkative, impulsive and direct. Life in the US and life in Japan is very different. Americans give more freedom to individual than Japanese to control their own fate. S. Shereman explains cultural differences in Forum '*How to Beat the Japanese*' : "*America is not like Japan and can never be. America's strength is opposite; it opens doors and brings the world's disorder in. It tolerates social change……. They (Americans) break away from their parents' religion… they rediscover their ethnicity"*

A sound organizational culture is always conducive for policy formulation. Therefore efforts should be made to build strong sound corporate culture. Building sound organizational culture has been the concern for many companies. Researches have been undertaken to evolve ways and means to develop and devise sound organizational culture; the culture which is positive, proactive and supports organizational philosophy and values.



CHECK YOUR PROGRESS

Q3. State different types of policies based on nature of origin.

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Q4. Define Policy Statement.

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1.10 LET US SUM UP

In this unit we have discussed the following:

- Policy is a 'planned action' and that plan is a policy. According to Flippo, policy "is a man made rule of pre-determined course of action that is established to guide the performance of work toward the organization objective. It is a type of standing plan that serves to guide subordinates in the execution of their task."
- The characteristics of policy are: Simple, Clear , Flexible, Certain, Consistent, Relevant, Comprehensive and Stable.
- Policy Statement is "a formal document outlining the ways in which an organization intends to conduct its affairs and act in specific circumstances".
- Business policies are classified on several bases. They may be classified into several categories, depending upon their nature of origin, organisation structure, functions, situations etc.
- We have also discussed about organisation cultureand its role on the functioning of an organisation.



1.11 FURTHER READING

1. Cherunilam Francis (2015), Business Policy and Strategic Management, Himalaya Publication House , New Delhi
2. C Appa Rao, B Parvathiswara Rao, K Sivaramakrishna (2008); Strategic Management and Business Policy, Excel Books, Nerw Delhi
3. Tandon A (2010); Business Policy and Strategic Management; Anmol Publications Pvt.Ltd.
4. Rao Subba P();Business Policy and Strategic Management: Text and Cases; Himalaya Publication House , New Delhi



1.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: According to George Terry, "A policy is a verbal, written or implied overall guide setting up boundaries that supply the general limits and direction in which managerial action will take place."

Ans. to Q. 2: Policy is a set of guiding principle used to set direction in an organization. A procedure is a series of steps to be followed as a consistent and repetitive approach to accomplish an end result.

Ans. to Q. 3: Originated policy, imposed policy and appealed policy.

Ans. to Q. 4: A Policy Statement is an organization-level document that prescribes acceptable methods or behaviours.



1.13 MODEL QUESTIONS

Q.1: Discuss briefly the basic features of Policy.

Q.2: Discuss briefly the importance of Business Policy.

Q.3: Discuss briefly different types of Business Policy.

Q.4: Whar are the 7s in McKinsey 7-s Model? Which "s" is directly related with culture of an organsiation and why?

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