

## **UNIT 1**

### **INTRODUCTION TO BUSINESS POLICY**

**Overview of Business Policies Importance of Business policies, Definition of business policy, procedures ,programmes, types of policies, Business Policy Statements, Corporate Culture**

#### **BUSINESS POLICY:**

Business policies are guidelines-statements (guide to plans & decision making) to facilitate predetermined objective on the mode and manner in the structural & functional aspects to achieve the objective formulated as plans at all levels of management in the business organisation.

Business policy provides a basic framework defining fundamental issues of a company, its purpose, mission and broad business objectives and a set of guideline governing the company's conduct of business within its total perspective. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in terms of product price, quality, leadership position, resources etc., in relation to its environment.

The term "Business Policy" comprises of two words, Business and Policy. Business as we know means exchange of goods and services for increasing utilities. Policy may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution." Policies are general statements of principles which guide the thinking, decision-making and actions in an organization.

Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization. Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation. They are made from the past experience and basic understanding. In this way, the people who come under the range of such policies will completely agree upon its implementation. Policies help the management of an organization to determine what is to be done, in a particular situation. These have to be consistently applied over a long period of time to avoid discrepancies and overlapping.

R.E.Thomas: "Business Policy, basically, deals with decisions regarding the future of an on-going enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in relation to its environment".

## **SCOPE of Business Policy:**

Scope of business policy may be judge in relation to the following characteristics.

- It deals with future perspective of business.
- Vital role of top management.
- Emphasis on research & development.
- Greater involvement of experts.

Business policy is used to achieve long term goals & objectives once the goal has been indentified they are executed by operational mangers. Operational managers put additional responsibility on strategic manager to monitor and evaluate the performance in the realization of goals. Goals & objectives are adjusted according to the changes in the environment.

Business policy is formulated by top management comprising of board of directors & managing directors. Experts are back bone of effective business policy. Experts are needed to advised & assessed top management to take important role at planning, execution, evaluation & control levels.

Business policy focuses on strategic planning & strategic management. Its elements are

- 1.Mission, objectives, & goals
- 2.Environmental Analysis
- 3.Strategic alternatives
- 4.Swot analysis
- 5.Strategic analysis
- 6.Strategic implementation
- 7.Strategic evaluation

Six major operations are to be integrated into the business policy process. They are

1. **Production:** The production department will address the questions relating to size of production quality of the product to consumer expectation.
2. **Marketing:** The marketing department will highlight the capabilities & limitations of the product promotion. Physical distribution & personal etc.
3. **Finance:** The finance department is responsible for both short term & long term financiers at competitive costs return on investments.
4. **Research & Development:** R&D is nerves system of the organisation. It plays vital role in translation vision in to reality.
5. **Legal:** The legal department should answer the questions relating to patent rights & liabilities.
6. **Personal:** Personal is most crucial component of the organisation. It is involved in all functional areas. It is concerned with selecting the best people. Satisfying them through motivation & training.

**PURPOSE of Business Policy:**

The main purpose of business policy are

- Knowledge generation
- Skill creation
- Attitudinal changes to cope with business situations

Every business practicing business policy to achieve long term goals & objectives of the organisation which has to generate fresh knowledge through R&D and with practice. Research is going on in every functional area such as production, marketing, finance & personal. Lot of research is under taken to improve operating efficiency of business enterprises. In these processes lot of data & knowledge is generated. This is not only useful to the organization but also to the outside work. Knowledge is contributed by most functional department through investigations, group discussions, training programmes like sensitivity training, brain storming sections etc. skills are required through

- Take decisions
- Performing the jobs
- Improving the process
- And to make the organisation effective

**NATURE of Business Policy**

1. It is concerned with goals & objectives of organisation.
2. It is concerned with the study of functions & responsibilities of management.
3. It deals with future course of action.
- 4.To realize its goals & objectives
5. Business policy is also concerned with The mobilization of resources
6. Business policy basically deals with decisions regarding the future of an ongoing enterprise

## Features of Business Policy:

An effective business policy must have following features-

- a) **Specific-** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
- b) **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
- c) **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.
- d) **Appropriate-** Policy should be appropriate to the present organizational goal.
- e) **Simple-** A policy should be simple and easily understood by all in the organization.
- f) **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.
- g) **Flexible-** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.
- h) **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

## TYPES OF POLICIES

Similar to objectives policies are also classified. They are as follows;

- According to level of formation
- Functional area policies
- According to expression
- According to nature of origin

- According to scope of organisation
- According to the nature of managerial functions
- Situational or contingency policies

#### **ACCORDING TO LEVEL OF FORMULATION**

- a) **Top Management policies:** These are usually developed by the MD, VC, and GM. They are usually about investments, diversification, acquisitions, available capital, HR requirement, R & D requirements, problems with promotion, transfer, and achieving organizational goals, etc.
- b) **Middle level Management policies:** These are developed after talks between middle and upper level executives. They usually are about employee selection for a specific job, installation (fixing) new equipment's, resources and their selection, deciding wages and salaries, and developing incentive plans, getting finance to solve problems, etc.
- c) **Lower Level Management policies:** These are developed by the people who are usually supervisors. They are directly related in achieved. They are in-charge of providing tools, raw materials, training, quality, discipline, improving the morale of employees, motivating them and reducing absenteeism, etc
- d) **Operational Level Management policies:** This is usually written down rules and policies in manuals and work books which the operational level employees are supposed to follow.

#### **ACCORDING TO FUNCTIONAL AREA**

- a) **Production Policies:** These involve policies regarding product line, type of product, selection of technology, process, equipment, tools, location of plant, layout, budget, maintenance, inventory control, quality, cost control, labor relations, etc.
- b) **Marketing and sales policies:** These are related to market analysis, trend, demand forecasting, total concept of product mix and market mix. Spotting present and potential market, the size and nature of customers, competitors, distribution of products, promotion and pricing, selection, training and developing sales force, division of market area, establishing sales volume and sales budgets, etc.
- c) **Financial Policies:** These are required for prosperity and long survival. They include capital requirement such as working, short, medium, and long term, methods of fund

raising, utilization of funds, profit policy, accounting policy, allocation policy, finished goods inventory policy, provision for bad debts, etc

- d) **Personnel Policies:** These are concerned with recruitments, selection, and utilization of human resources. Sources of HR, training, promotion, transfer, wages, incentives, benefits, services, etc.

#### **ACCORDING TO EXPRESSION**

- a) **Oral policies:** These are word of mouth policies adopted usually, when organizations are small and face to face communication is desired. Direct communication with better understanding is desired, for flexibility. However, it suffers from drawbacks like improper interpretation, easily forgotten when issued less frequently etc.
- b) **Written Policies:** These are put in black and white and stated clearly, for the personnel to understand. Therefore, it is clear, complete, precise, contain legal terms use simple language and be warm to all those who read. It should be convenient and handy for reference and application wherever and whenever necessary. However, they too have disadvantages, as they are at times problem creating if not properly framed.
- c) **Implied Policies:** These can be understood from the behaviour of executives, they are not stated or written, they may be included in the philosophy of the business, social values and even traditions. Best suitable are dress codes, prohibition of smoking or drinking in working areas. Employing people of certain community, race, gender, etc can only be an implied policy, but written policies like above can cause legal problems.

#### **ACCORDING TO NATURE OF ORIGIN**

- a) **Originated Policies:** These policies are derived from the company objectives, which are determined by the top management. Subordinate are supposed to readily accept such policies.
- b) **Appealed Policies:** These are also known as “suggested policies”, since these are based on the suggestions of employees, subordinate or consultant. They are more effective as they involve employees and the top management.
- c) **Imposed Policies:** These are not accepted willingly, but are rather forced by external forces like government, trade unions, legal acts, society, etc. they have to be followed whether they like it or not.

- d) **Derivate Policies:** These are derived from the basic or major policies and are operational. They are guidelines in day-to-day operations and are usually developed by the respective departments or sections.

#### **ACCORDING TO THE SCOPE OF ORGANISATION**

- a) **Basic Policies:** They form the basis of the organization and are developed by top management. They give idea about the company, its activities, its environment, and their influence over other policies, which is very important to the organization.
- b) **General Policies:** They are usually developed by the middle level management. Such policies are very specific and apply to large segments of the organizations.
- c) **Specific or departmental Policies:** It is developed by a specific department, for managing its routine activities i.e., day-to-day activities of the department.

#### **ACCORDING TO THE NATURE OF MANAGERIAL FUNCTIONS**

- a) **Planning Policies:** These are connected with the path of action, which leads to company activities, and achieving organizational goals. They include;
- Establishing corporate objectives.
  - Collecting and classifying information
  - Developing alternate course of action
  - Comparison of objectives against feasibility, consequence etc
  - Optimum (minimum use of resources) course of action
  - Establishing standards, rules, policies, procedures, programs, budgets, etc
- b) **Organizing Policies:** These policies include
- Establishing and maintaining a clear and precise organizational structure
  - Determining the role of each level of management
  - Deciding authority, responsibility, degree of centralization, decentralization
  - Line and staff relationship and their communication
- c) **Directional Policies:** They are also called ‘actuating’ policies, they involve
- Providing effective leadership
  - Assisting people in achieving their objectives and organizational goals.

- Integrating people to suitable tasks
  - Effective communication with all members of the organization.
  - Proper organizational climate for employee development and motivation
- d) **Controlling Policies:** These are established to measure results. They involve measuring actual results against standards or pre-established results. They involve
- Continuous observation of performance
  - Measurement of results
  - Finding deviation and taking corrective action
  - Best mode of control
  - Comparison of actual with standards
  - Finding causes for deviations, pin-pointing deviations which are significant
  - Implementing corrective action when there is deviation

## SITUATIONAL AND CONTINGENCY POLICIES

- a) **Normal Policies:** These policies provide guidelines to the employees in routine day-to-day conduct of business and its smooth functioning.
- b) **Contingency Policies:** These policies are made to meet unexpected moments or situations like
- Sudden floods, earth quakes, fire, famine, market slump
  - Change in business cycles, war, labor strike, political problems, and social sensitivity.
  - Situational beyond the control of business unit like economic policy, fiscal policy changes, monetary policy, trade or industrial policy being unfavourable.
  - Competitors' strategies in production, R & D, innovations, quality improvement, new techniques of production.

Most companies which are farsighted prepare contingency policies well in advance, to help them to meet the situations whenever they arise.



**Corporate culture**, also known as company culture, refers to a set of beliefs and behaviors that guide how a company's management and employees interact and handle external business transactions.

Corporate culture can have a huge impact on the fortune of a company and its employees.

There are four distinct types of culture: clan culture, adhocracy culture, market culture, and hierarchy culture.

Each of these cultures has its own unique goals. While each culture is unique, certain components define a great culture. Some essential features of corporate culture include vision, values, practices, people, narrative, and place. There are other factors that influence culture. However, these six features can provide a firm foundation for shaping a strong culture.

A clear understanding of the corporate culture definition can help managers to define the right values and culture for their organization.

### **Four types of organizational culture**

Four distinct types of organizational culture emerge from the Competing Values Framework. What are the four different types of corporate cultures? Here is a list of the cultures and what they are all about.

**Clan culture** – Clan cultures have a friendly, collaborative working environment. Similar to a large family, the leaders in the organization are regarded as mentors, and the organization comes together through tradition and loyalty.

There is also more involvement and a greater focus on human resource development. Success has a lot to do with caring for people and addressing the needs of clients. The organization helps to achieve this by promoting participation, consensus, and teamwork.

**Adhocracy culture** – This is a dynamic and creative working environment where both leaders and employees are innovators and risk-takers. Change and agility are core values, and success is defined by the creation of new products and services.

The organization promotes individual freedom and initiative.

**Market culture** – Market culture focuses on getting down to business, getting work done, and achieving results.

The environment is competitive, people are focused on goals, and the organization is results-based. The culture emphasizes winning and considers market penetration and stock as the definitions of success.

**Hierarchy culture** – This type of culture is based on process and procedure, with operations being done in a formalized and structured work environment. Leaders monitor and facilitate adherence to tried and known ways of doing business while keeping costs and mistakes low. Success is defined by low costs, smooth planning and execution, and trustful delivery.

As much as there are different types of corporate culture, they are all geared at helping to achieve set goals through a clear vision. Indeed, some of the functions of corporate cultures are to provide a sense of identity, define boundaries, and generate commitment from members of the organization

### **Importance of corporate culture**

The importance of corporate culture in a company's success cannot be understated. By shaping how a business conducts its operations and reminding employees to work towards the set goals, the culture helps to promote growth. Here are some of the benefits that reveal the value of corporate culture.

### **Employee retention**

One of the benefits of corporate culture is that it helps in promoting employee retention. A company with great culture will not only attract the best talents in the industry but also keep employees for long. Employees love companies that promote their growth and provide a great working environment. Encouraging open communication and engagement will also make employees feel valued and appreciated. This ultimately saves the company the trouble of having to hire and train new employees now and then.

### **Great public brand**

Today, the public brand of a company helps it to attract and retain customers. Company culture has a lot to do with how a business conducts its external transactions and connects to clients. A strong culture will promote a healthy and respectful relationship with customers and other stakeholders. When the stakeholders associate the company with positive values and behaviors, they are more likely to do business with the company.

**Enhanced performance**

Maximizing performance ensures that companies get the best out of the talents it hires. Market culture focuses on getting down to business, getting things done, and delivering results. With such culture employees are goal-oriented, directing their efforts towards pushing the company closer to its goals. The leadership also plays a role in ensuring that employees have what they need to deliver on their responsibilities. The result is enhanced performance that ensures growth in both market share and revenue.

**Quality**

Another of the most prominent benefits of organizational culture is its ability to help companies deliver quality products and services. Focusing on the highest standards and creating the ideal atmosphere for workers to deliver products that meet the high standards, helps to achieve customer satisfaction. Cultural standards for excellence will translate to quality products and services, helping the company earn a reputation for high quality.

**Improved employee well-being**

Company values and culture play an important role in determining how employees are treated and the perks they get. Companies with health-oriented programs and a great work-life balance ensure improved employee well-being. Similarly, providing room for the growth and development of employees go a long way in helping to have a happy and fulfilled workforce. The best company values do not overlook the physical and mental health of employees when stressing performance.

Knowledge of the importance of culture in a business environment helps managers to define company values and culture clearly. However, company culture has to be practiced to give it meaning. The defined values should guide the behavior of both the leadership and employees. In that way, the company culture will reveal itself in everyday activities and processes, and all employees will easily fit into the culture.

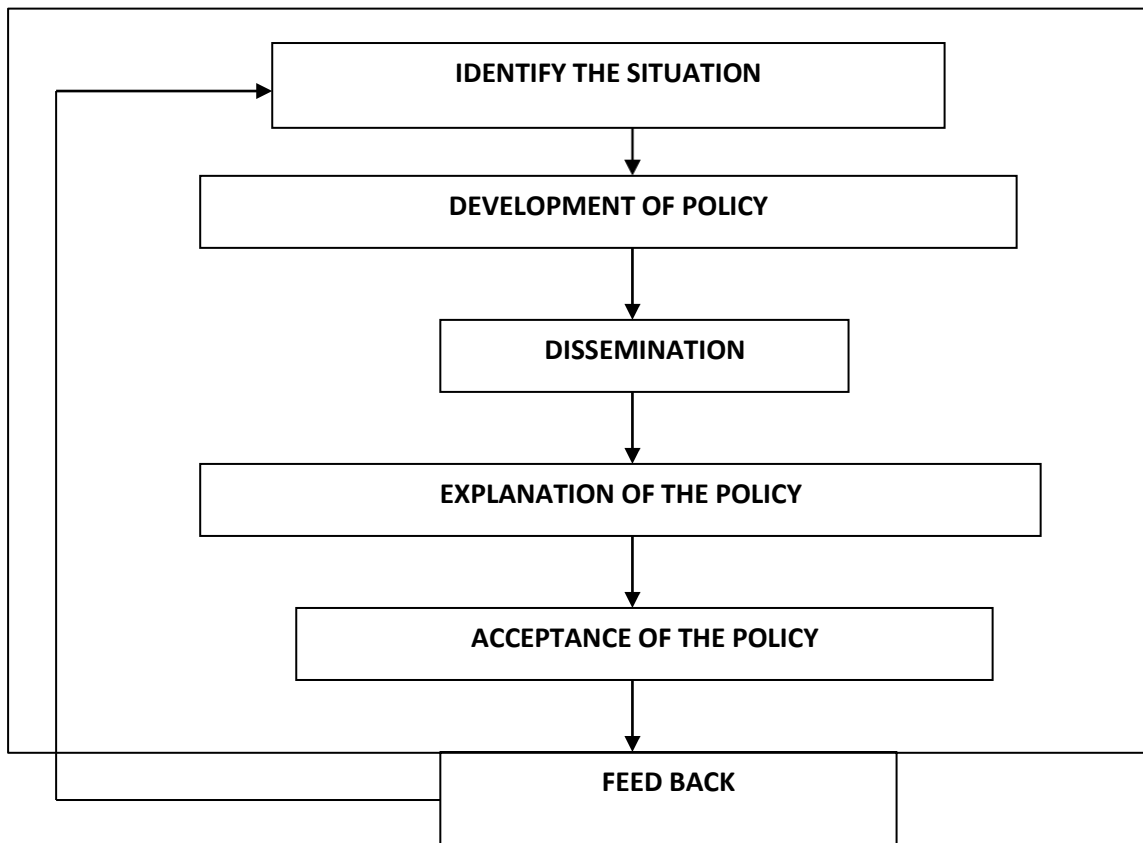
## PROCEDURE OF POLICY MAKING:

Policy can be defined as follows;

“Business policy is an implied overall guide, setting up boundaries, that supply the general limits and direction in which management action will take place” - Prof. George Terry

Besides a business policy - “is nothing more than a well-developed statement of individuals and goals” - Prof. Peter and Wotrube.

## STEPS IN POLICY MAKING:



## **CHIEF FEATURES OF POLICY:**

The following are the important features of any policy

- ✓ policies are general statements for the attainment of objectives
- ✓ policies have hierarchy
- ✓ policies limit the area within which the decision is to be taken
- ✓ policies in general are meant for mutual application by subordinates
- ✓ they pre decide issues and avoid repetition
- ✓ it should be applied in all functional areas and at all levels
- ✓ it should provide the clearest guidelines to avoid confusion

## PROGRAM AND ITS EFFECTIVENESS

Program has the following definitions “It is a single use comprehensive plan laying down the principle steps for accomplishing (completing) a specific job or objective in a specific time”.

Thus, it outlines by whom, when and where new product development programs, management programs, training, sales programs, etc

## EFFECTIVE PROGRAMS

An effective program has the following steps:

- it is divided into several steps for achieving objectives
- it establishes relationship between several steps to ensure a smooth flow of the sequence of operations.
- It decides responsibility and accountability
- It determines the resources needed
- It fixes the time limit by assigning a time for each program, etc

## DIFFERENCE BETWEEN POLICIES AND PROGRAMS

The differences between policies and programs are given below;

CONCEPT	POLICY	PROGRAM
Definition	Broad and comprehensive guidelines about the future direction of the company	Detailed step by step course of action
Time period	Long range plan of action	Short and stable
Type	Broad in direction and has to be followed	Simple and complex activities taken up to carry out the given policy
Basics	It is the foundation for programs	It exists due to policies

## **PROCEDURES ITS IMPORTANCE:**

Procedures can be definite in several ways;“A series of functions or steps taken up to accomplish a specific task” It can also be defined as” It is a precise means of making a step by step guide of action that operates within a policy frame work”.

## **IMPORTANCE OF PROCEDURES:**

The importances of procedures are given below;

- It reduces directing work
- It indicates the steps to be taken and the required time and the order for performing certain activities
- It facilities training
- It reduces the problem of trial and error techniques
- Work operation gets simplified through a well-planned steps
- Better results at lower costs
- The true limit in performance helps in effective control over operations

## **STEPS IN EFFECTIVE PROCEDURE:**

The following are the steps in effective procedures;

- List out the detailed and essential steps and then taken up performance
- Establish accountability and responsibility then standardize the procedure
- All the phases are to be linked with control so that performance can be reviewed
- They should be stable and not rigid
- Develop fruitful decisions in policies by taking into consideration, time, cost and environment
- Any changes to be made should be taken up well in advance and should be written down to help easy understanding
- These procedures should be understood, accepted and known to everyone involved with them.

## DIFFERENCE BETWEEN POLICIES AND PROCEDURES

The following are the differences between policies and procedures;

CONCEPT	POLICY	PROCEDURE
Definition	Guide for thought and action	Guide for action and involves the method of doing a task
Basis	Foundation for procedures	They follow policies
Responsibility	Top management	Middle and lower levels
Stability	Stable	Changes in the short-run
Emphasis	General approach	Step-by-step approach
Scope and flexibility	Broad and comprehensive	Rigid with no freedom
Application	Long range plans	Short range plans
Goal orientation	Directly related	Indirectly related
Work methodology	Does not provide a method for doing work	A standard method for work exists