# UNIT 2

## Business Policy Process:

4 Important Business Policy Processes

Four most Important business policy process are:

1. Environmental Scanning
2. Policy Formulation
3. Policy Implementation
4. Evaluation and Control.

### 1 . Environmental Scanning:

Environmental scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the corporation. Its purpose is to identify strategic factors those external and internal elements that will determine the future of the corporation.

The simplest way to conduct environmental scanning is through SWOT analysis. SWOT is an acronym used to describe those particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company.

The external environment consists of variables (Opportunities and Threats) that are outside the organization and not typically within the short-run control of top management. These variables form the context with which the corporation exists.

The internal environment of a corporation consists of variables (Strengths and Weaknesses) that are with the organization itself and are not usually within the short-run. Control of top management. These variables form the context in which work is done. They include the corporation's structure, culture, and resources. Key strengths form a set of core competencies that the corporation can use to gain competitive advantage.

### 2 . Policy Formulation:

Policy formulation is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies, and setting policy guidelines.

**a. Mission:**

An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society, either a service like house cleaning or a product like automobiles. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from the other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served.

It may also include the firm's philosophy about how it does business and treats its employees. It puts into words not only what the company is now, but also what it wants to become management's strategic vision of the firm's future. (Some people like to consider vision and mission as two different concepts.

A mission statement describes what the organization is now; a vision statement describes what the organizations would like to become. We prefer to combine these ideas into a single mission statement).

The mission statement promotes a sense of shared expectations in employees and communicates a public image to important stakeholder groups in the company's task environment. It tells who we are and what we do as well as what we'd like to become.

**b. Objectives:**

Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfilment of a corporation's mission. In effect, this is what society gives back to the corporation when the corporation does a good job of fulfilling its mission.

Some of the areas in which a corporation might establish its goals and objectives are:

1. Profitability (net profits)

2. Efficiency (low costs, etc.)

3. Growth (increase in total assets, sales, etc.)

4. Shareholder wealth (dividends plus stock price appreciation)

5. Utilization of resources (return on investment or equity)

6. Reputation (being considered a 'top' firm)

7. Contributions to employees (employment security, wages, diversity)

8. Contributions to society (taxes paid, participation in charities, providing a needed product or service)

9. Market leadership (market share)

10. Technological leadership (innovations, creativity)

11. Survival (avoiding bankruptcy)

12. Personal needs of top management (using the firm for personal purposes, such as providing jobs for relatives).

c. **Strategies:**

A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage. For example, after Rockwell International Corporation realized that it could no longer achieve its objectives by continuing with its strategy of diversification into multiple lines of businesses, it sold its aerospace and defence units to Boeing. Rockwell instead chose to concentrate o commercial electronics; an area that management felt had greater opportunities for growth.

The typical business firm usually considers 3 types of strategy:
Corporate, Business and Functional.

1. **Corporate Strategy** describes a company's overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. Corporate strategies typically fit within the 3 main categories of stability, growth strategy by acquiring other appliance companies in order to have a full line of major home appliances.

2. **Business Strategy** usually occurs at the business unit or product level, and it emphasizes improvement of the competitive position of a corporation's products or services in the specific industry or market segment served by that business units.

Business strategies may fit within the two overall categories of competitive or cooperative strategies. For example, Apple Computer uses a differentiation competitive strategy that emphasizes innovative products with creative design.

The distinctive design and colours of its iMac line of personal computers (when contrasted with the usual beige of the competitor's products) has successfully boosted the company's market share and profits. In contrast British Airways followed a cooperative strategy by forming an alliance with American Airlines in order to provide global service.

3. **Functional Strategy** is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.

Examples of R&D functional strategies are technological follower ship (imitate the products of other companies) and technological leadership (pioneer an innovation). For years, Magic Chef had been a successful appliance maker by spending little on R&D but by quickly imitating the innovations of other competitors.

This helped the company to keep its costs lower than its competitors and consequently to compete with lower prices. In terms of marketing functional strategies. Procter & Gamble is masters of marketing "pull" the process of spending huge amounts on advertising in order to create customer demand. This supports P&G's competitive strategy of differentiating its products from its competitors.

Business firms use all 3 types of strategy simultaneously. A hierarchy of strategy is the grouping of strategy types by level in the organization. This hierarchy of strategy is a nesting of one strategy within another so that they complement and support one another. Functional strategies support business strategies, which, in turn, support the corporate strategies.

Just as many firms often have no formally stated objectives, many firms have unstated, incremental or intuitive strategies that have never been articulated or analyzed. Often the only way to sot a corporation's implicit strategies are to look not at what management says, but at what it does.

Implicit strategies can be derived from corporate policies; programs approved (and disapproved), and authorized budgets. Programs and divisions favored by budget increases and staffed by managers who are considered to be on the fast promotion track reveal where the corporation is putting its money and its energy.

**d. Policies:**
A policy is a broad guideline for decision-making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategies.

## 3 . Policy Implementation:

Policy implementation is the process by which strategies and policies are put into action through the development of programs, budgets, and procedures. This process might involve changes within the overall culture, structure, and /or management system of the entire organization.

Except when such drastic corporate-wide changes are needed, however, the implementation of strategy is typically conducted by middle and lower level managers with review by top management. Sometimes referred to as operational planning, strategy implementation often involves day-to-day decisions in resource allocation.

**a. Programs:**
A program is a statement of the activities or steps needed to accomplish a single-use plan. It makes the strategy action oriented. It may involve restructuring the corporation, changing the company's internal culture, or beginning a new research effort. For example, consider Intel Corporation, the microprocessor manufacturer.

Realizing that Intel world not be able to continue its corporate growth strategy without the continuous development of new generations of microprocessors, management decided to implement a series of programs:

i. They formed an alliance with Hewlett-Packard to develop the successor to the Pentium Prochip.

ii. They assembled an elite team of engineers and scientists to do long-term, original research into computer chip design.

**b. Budgets:**

A budget is a statement of a corporation's programs in terms of money. Used in planning and control, a budget lists the detailed cost of each program. Many corporations demand a certain percentage return on investment, often called a''hurdle rate," before management will approve a new program.

This ensures that the new program will significantly add to the corporation's profit performance and thus build shareholder value. The budget thus not only serves as a detailed plan of the new strategy in action, but also specifies through pro forma financial statements the expected impact on the firm's financial future.

**c. Procedures:**

Procedures, sometimes termed Standard Operating Procedures (SOP), are a system of sequential steps or techniques that describe in detail how a particular task or job is to be done. They typically detail the various activities that must be carried out in order to complete the corporation's programs.

## 4 . Evaluation and Control:

Evaluation and control is the process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Managers at all levels use the resulting information to take corrective action and resolve problems.

Although evaluation and control is the final major element of strategic management, it also can pinpoint weaknesses in previously implemented strategic plans and thus stimulate the entire process to begin again.

Performance is the end result of activities. It includes the actual outcomes of the strategic management process. The practice of strategic management is justified in terms of its ability to improve an organization s performance, typically measured in terms of profits and return on investment.

For evaluation and Control to be effective, managers must obtain clear, prompt and unbiased information from the people be low them in the corporation's hierarchy. Using this information, managers compare what is actually happening with what was originally planned in the formulation stage.

The evaluation and control of performance completes the strategic management model. Based on performance results, management may need to make adjustments in its strategy formulation, in implementation, or in both

## Steps involved in business policy formulation

**1. Environmental Analysis**

**2. Identification of Policy Alternatives**

**3. Evaluation of Policy Alternatives**

**4. Choice of Policy**

**1. Environmental Analysis:** There are basically two environmental factors: internal and external. The two together provide for identification of problem areas with respect to which the policies could be made

**2. Identification of Policy Alternatives:** The environmental analysis helps to determine the opportunities and threats facing the company and also its strengths and weakness. When the organization is engaged in the matching of its strengths with the opportunities, various policy options emerge

**3. Evaluation of Policy Alternatives:** The evaluation of policies is known as policy audit. The alternatives can be evaluated on the basis of their consequences in terms of their contribution to corporate goals. Several criteria could be used for evaluation like growth, unit, profitability, development, organizational goals, etc.

**4. Choice of Policy:** The evaluation helps in the selection of the best possible policy. If any of the alternatives are not acceptable and not consistent with company's objectives, then the process reverts back to the identification of alternatives where fresh alternatives are looked for. The search begins again. After the policy has been made, it becomes necessary to review it from time to time so that it does not become obsolete.

## TYPE OF POLICIES:

Basically there are three main types of policies

**1. Basic Policies:** These are framed by the top management and spell out the basic approach of a company to its activities and its environment.

**2.General Policies:** These are framed by the middle level management and are more specific. They apply to large segments of the organization.

**3.Specific Policies:** These are framed by the foremen and supervisors and are very specific in nature. They are applicable to routine activities.

**Every enterprise has a number of policies. Some of the types are discussed as follows:**

**1. Major Policies:**

Major policies are those which give a unified direction to an enterprise and imply a commitment of resources. These policies give shape to an enterprise in the accomplishment of its purpose. They should also be supportive to the organisational objectives.

**2. Supportive Policies:**

Besides major policies, there is a need to have supportive policies also. Supportive policies are meant to help in implementation of major policies. A concern may have the development of a new product as a major policy, the research to find out the unfulfilled needs of consumers may be a supportive policy.

**3. Minor Policies:**

The policies which do not influence main objectives of the enterprise may be called minor policies. These policies may relate to some routine matters of less importance. A policy may be to hire casual workers in case of emergencies. A manager may allow workers to go on leave if the workload is less. The policies relating to such matters may be called minor policies. These policies do give directions but are not of much significance.

**4. Composite Policies:**

Some concerns have a number of policies or group of policies. To increase sales, a concern may follow expansion, taking up of similar products, following aggressive marketing etc. To achieve one objective a number of policies may be used, these are composite policies.

**Process of Policy Formulation:**

Policy formulation is an important aspect of planning. The smooth working of an organization requires the formulation of policies. A well thought exercise is essential to formulate sound policies.

Following process should be followed for formulating a policy:

**1. Defining Policy Area:**

The area for which a policy is to be framed should be defined. The objectives and needs of the organization should be kept in mind while specifying the policy area. While framing a marketing policy, the marketing expectations and thrust areas should be kept in mind. The scope of the policy will depend upon the area which it is supposed to cover. So first thing in policy framing is to decide the area which it will cover.

**2. Identifying Policy Alternatives:**

The second step in policy formulation is the identification of policy alternatives. The alternatives should be decided on the basis of an analysis of external and internal environment. The internal environment will tell about the strengths and weaknesses of the organization while external environment will reveal opportunities and level of competition. Every alternative must ensure that the objective of the policy will be achieved.

**3. Evaluating Alternatives:**

All the alternatives are evolved in the light of organizational objectives. It should be analysed as to what contribution these alternatives will make in helping the organization for achieving its objectives. The factors like cost, benefits, resource requirement of each alternative should be properly assessed. The effect of various alternatives on the environment of the organization should also be analysed.

**4. Selection of a Policy:**

After proper evaluation, most appropriate alternative is selected. The selection of a policy is a long term commitment. In case the alternatives do not look satisfactory then efforts should be made to develop other alternatives.

**5. Trial Run of a Policy:**

The policy should be implemented on a trial basis. It should be assessed if the policy is achieving the desired objectives. There may be suggestions during the test run, these should be used to modify the policy. Ultimately the policy should achieve the desired results otherwise a new policy alternative should be thought of.

**6. Implementing Policy:**

If the policy is finally alright it should be implemented. The policy should be explained to those who are to implement it. There should be a proper discussion about the implications and impact of various clauses or provisions of the policy. Proper communication of the purpose and objective of the policy will help it in its implementation.

**Purpose of Policies:**

Policies are regarded as important for realizing the objectives of the organization. They also ensure co-ordination of efforts and activities in the enterprise.

The policies are formulated for the following purposes:

1. The main purpose of policies is to ensure that there is no deviation from the planned course of action. The framework is set within which everybody is expected to work. Policies ensure that the broad guides for action are adhered to.

2. Since policies chalk out a framework for each and every person, it ensures proper delegation of authority also. A manager knows the extent of authority required by a subordinate to undertake the work allotted to him. Policies serve the purpose of delegating adequate authority downwards.

3. Policies allow the scope for interpretation. The main aspects are given in a policy but the actual mode of implementation is decided by the concerned person.

4. Policies are helpful for future planning also. The impact and influence of policies help in thinking about the future.

5. Policies also ensure consistency of action. The guidelines are similar for everybody and actions must conform to the broad outlines.

**Points to be Considered in Policy Formulation:**

While framing policies, following aspects should be taken into consideration:

**1. Organizational Goals:**

The policies are formed to achieve organizational goals. The goals are the targets which are to be achieved and policies devise ways of reaching them. Policies should assist by basing them on relevant facts and figures and not on mere guess work.

**2. Proper Participation:**

Policies should be framed by the participation of persons at various levels of management. If policies are framed at top level without knowing the views of those for whom these are meant then there is likelihood that policies may not achieve the desired results. To ensure successful implementation of policies, there is a need for joint participation at the time of formulating them.

**3. Reflect Business Environment:**

The policies should be based on the internal and external environment. The situation prevailing inside and outside will provide a realistic base for policies. The policies should have the flexibility for adjustment if there is a change in business environment. Any type of rigidity followed in policies will defeat their purpose.

**4. Consistency:**

Various policies of an enterprise should conform to each other. There should be no inconsistency among various policies. If there is inconsistency among policies then these will not be implemented. It must be ensured that policies are related to enterprise objectives and do not give conflicting guidelines.

**5. Proper Communication:**

The policies should be properly communicated to each level of management. If the policies are not properly known by those who are to implement them then there will be no use of such policies. Sometimes policies may not be well understood, there may be some doubt in the minds of persons, it will be the duty of management to clarify them and provide proper clarification.

**6. In Writing:**

The policies should always be in writing. This will ensure their proper and correct implementation. If the policies are not in writing, then a dispute may arise about their contents and purpose. The language of policies should also be simple so that it is well understood by concerned persons.

## Factors Influencing Policies:

Policies are framed to help in smoothening the operations of a business. They are influenced both by internal and external factors.

**1. Objectives and Strategies of the Organization:**

All policies are framed to facilitate the achievement of objectives. The objectives and strategies fix the parameters within which the policies will operate. The policies should be consistent with the organizational goals and strategies.

**2. Organisational Structure:**

Organisational structure determines the levels of positions and fixes authority and responsibility of employees. The implementation of policies will be influenced by the type of organisation structure. A policy will be consistent with the positions and authority roles in the organisation. Policy determination will certainly be influenced by the organisational structures.

**3. Available Resources:**

The availability of resources such as human, financial, physical facilities will influence the formulation of a policy. If a policy implementation requires more resources than are available in the organisation then it will not be feasible. Rather the resources will fix the limits beyond which a policy cannot go.

**4. Managerial Values:**

Managers are the persons who are the prime movers of policies. The ethics and value systems of managers have a direct influence on the formation and implementation of policies. For example, if managers believe in honesty and truthfulness then these things will be reflected in various policies framed by them.

**5. Social Factors:**

A number of social factors also have an influence on the policies of the organisation. If society wants only quality products, does not tolerate exploitation of consumers, gives importance to pollution control, all these factors will have to be taken into account while framing policies for the organisation.

**6. Political Factors**:

Political factors have a great influence on the policies of an organisation. The framework of business is determined by the party in power. The thinking of a political party will certainly be reflected in the industrial, fiscal and monetary policies of the government. Every enterprise has to incorporate government policies into their policies. So political factors have a direct bearing on organisational policies.

**Limitation of Policies:**

Policies are the guidelines which may help the managers in their day-to-day working. Policies do not provide ready-made answers to every problem.
They suffer from the following limitations:

**1. No Universal Solutions:**

Policies do not offer universal solutions to all problems. Policies are framed under particular situations and remain suitable under those circumstances only. The fast changing economic, social and political situations influence the working of an enterprise. New policies are required under changed situations. This problem can be met by constantly evaluating policies. Policies may be modified as per the requirements of new situations.

**2. No Instant Solutions:**

Policies do not provide instant solutions to problems. These are only guidelines for the decision-makers. The solutions are to be found by the executives themselves. Policies cannot replace human judgment under any circumstances.

**3. Dampen Human Initiation:**

Too many policies kill the initiative of managers. They become habituated to act according to policies and do not try to their judgment. Policies also leave little room for individual initiative.

**4. No Substitute for Human Judgment:**

Policies do not provide standard solution to various problems. They are only guidelines which help managers in taking decisions. Managers have to judge the things according to the prevailing environment. Human judgment cannot be substituted by framing policies meticulously.

## Business Cycle

The **business cycle** is the natural rise and fall of economic growth that occurs over time. The cycle is a useful tool for analyzing the economy and can help you make better financial decisions.

**Alternate definition**: The business cycle is the downward and upward fluctuations of the productivity level of the economy, along with its natural growth rate over a long period.

**Alternate names**: Economic cycle, trade cycle.

When businesses are increasing production, they need more employees. As a result, more people are hired, there is more money to spend, and businesses make more profits and can focus on growth.

The rate at which production and consumption change positively is called "economic expansion." It continues until circumstances occur that cause production to slow.

If business production slows, not as many employees are needed. As a result, consumers have less spending money, and businesses reduce spending on growth.

The rate at which production and consumption as a whole change negatively is called "economic contraction."

### Factors

Three factors cause each phase of the business cycle: the forces of supply and demand, the availability of capital, and consumer and investor confidence. The most critical is confidence in the future—when consumers and investors have faith in the future and policymakers, the economy tends to expand. It does the opposite when confidence levels drop.

## Expansion

An economic expansion is a period of growth throughout an economy. Because productivity is increasing, it is generally represented on a curve as an upward movement. The expansion phase is also known as the economic recovery phase because it occurs after the economy has contracted for a long period.

**Gross domestic product** is the measurement that is most used to indicate economic output. During the expansion phase, it increases. Economists consider a GDP growth rate range of between 2% to 3% to be healthy.

In an expansion, the stock market experiences rising prices, and investors are confident. Businesses receive more funding and make more, and consumers have more money to spend. An economy can remain in the expansion phase for years.

The expansion phase nears its end when the economy begins to grow too fast. This is called "overheating"—the unemployment rate is well below the natural rate, and inflation is increasing. Stock market investors are in a state of "irrational exuberance" where they become overly enthusiastic about prices and believe they will continue to rise—this causes stock prices to rise to a point where they are very overvalued.

## Peak

The peak is the second phase of the cycle. It occurs when all of the expansionary indicators begin to level off. The economy might take weeks or a year to transition into the contraction phase. The GPD growth rate falls below 2% and continues to decline. The peak is displayed on a graph as the highest portion of the curve before moving downward.

## Contraction

The third phase is the contraction stage. It begins after the economy peaks and ends when GDP and other indicators cease to decrease. In this stage, the economy does not experience growth; instead, it shrinks. When the GDP rate turns negative, the economy enters a recession. Businesses lay off employees, the unemployment rate rises above normal levels, and prices begin to decline.

A contraction is generally portrayed on a graph as the part of the curve that is consistently decreasing.

## Trough

The trough is the fourth phase of the business cycle. The declining GDP begins to decrease its rate of negative change, eventually turning positive again. The economy begins a transition from the contraction phase to the expansion phase. A trough is displayed on a graph as the lowest point of the curve. The business cycle begins again when GDP begins to increase, and the curve moves upward consistently.

The business cycle's four phases can be so severe that they have been called the "boom-and-bust cycle."

### How Is the Business Cycle Influenced?

The government monitors the business cycle, and legislators attempt to influence it by implementing tax and spending changes. When the economy is expanding, taxes can be increased, and spending can be decreased. If it is contracting, the government can lower taxes and increase spending. This is called "fiscal policy."

The Fed, the nation's central bank, influences the business cycle by targeting inflation and unemployment with targeted rates. It uses tools designed to change interest rates, lending, and borrowing by businesses, banks and consumers. This is called "monetary policy."

The Fed lowers its target interest rates to encourage borrowing in attempts to end a contraction or trough. This is called expansionary monetary policy because they are attempting to push the business cycle back into the expansionary phase.

To keep the economy from growing too quickly, the central bank raises its target interest rates to discourage borrowing and spending. This is called "contractionary monetary policy," because the bank is trying to contract economic output to keep expansion under control.

**Implementation of policies and strategies**

- All policies and strategies must be discussed with all managerial personnel and staff.
- Managers must understand where and how they can implement their policies and strategies.
- A plan of action must be devised for each department.
- Policies and strategies must be reviewed regularly.
- Contingency plans must be devised in case the environment changes.
- Assessments of progress ought to be carried out regularly by top-level managers.
- A good environment and team spirit is required within the business.
- The missions, objectives, strengths and weaknesses of each department must be analysed to determine their roles in achieving the business's mission.
- The forecasting method develops a reliable picture of the business's future environment.
- A planning unit must be created to ensure that all plans are consistent and that policies and strategies are aimed at achieving the same mission and objectives.

All policies must be discussed with all managerial personnel and staff that is required in the execution of any departmental policy. Organizational change is strategically achieved through the implementation of the eight-step plan of action established by John P. Kotter: Increase urgency, get the vision right, communicate the buy-in, empower action, create short-term wins, don't let up, and make change stick.

**STRATEGIC DECISIONS**:

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates, the entire resources and the people who form the company and the interface between the two.

**Characteristics/Features of Strategic Decisions:**

**a.** Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

c. Strategic decisions deal with the range of organizational activities.

d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

e. Strategic decisions are complex in nature.

f. These are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

g. Strategic decisions are different from administrative and operational decisions. **Administrative decisions** are routine decisions which help or rather facilitate strategic decisions or operational decisions. **Operational decisions** are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decision.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

| **Strategic Decisions** | **Administrative Decisions** | **Operational Decisions** |
|---|---|---|
| Strategic decisions are long-term decisions. | Administrative decisions are taken daily. | Operational decisions are not frequently taken. |
| These are considered where The future planning is concerned. | These are short-term based Decisions. | These are medium-period based decisions. |
| Strategic decisions are taken in Accordance with organizational mission and vision. | These are taken according to strategic and operational Decisions. | These are taken in accordance with strategic and administrative decision. |

| | | |
|---|---|---|
| These are related to overall Counter planning of all Organization. | These are related to working of employees in an Organization. | These are related to production. |
| These deal with organizational Growth. | These are in welfare of employees working in an organization. | These are related to production and factory growth. |