**STRATEGIC MANAGEMENT & BUSINESS POLICY**

**UNIT-1**

Business Policy defines the scope or spheres within which decisions can be taken by the subordinates in an organization. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organization to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organizational success and the decisions affecting organization in long-run.

**Features of Business Policy:**

An effective business policy must have following features-

1. **Specific-** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
2. **Clear-** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
3. **Reliable/Uniform-** Policy must be uniform enough so that it can be efficiently followed by the subordinates.
4. **Appropriate-** Policy should be appropriate to the present organizational goal.
5. **Simple-** A policy should be simple and easily understood by all in the organization.
6. **Inclusive/Comprehensive-** In order to have a wide scope, a policy must be comprehensive.
7. **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.
8. **Stable-** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.





# Classification of Business Policy:

 Policies may be divided into different types of policies from different approaches.

#### ****On the Basis of Source:****

**Koontz and O’Donnell divide the sources of policy into the following four types:**

(i) Originated Policy

(ii) Appealed Policy

(iii) Implied Policy

(iv) Externally imposed policy

1. **Originated Policy:**

By originated policy they refer to policy which originates from the top management itself. These policies are aimed at guiding the managers and their subordinates in their operations. They flow basically from the organisation’s objectives as defined by top management. From the broad policy at the top, other derived policies may be developed at subsequent levels depending upon the extent of decentralization. However all such policies, whether originated by top management or subordinate managers, are described as “originated policy”.

1. **Appealed Policy:**

It is meant decisions given in case of appeals in exceptional cases upto management hierarchy. In case of doubts, an executive refers to higher authority on how he should handle the matter. The direction that he gets is described as appealed policy and constitutes a precedent for future managerial action.

1. **Implied Policy:**

Implied policy is meant policies which emanate from conduct. It also originates where existing policies are not enforced. Again, guidelines may be provided by the decision makers unconsciously and become implied policies.

1. **Externally Imposed Policy:**

Policies may be imposed externally that is from outside the organisation on such as by Government control or regulation, trade associations and trade union etc.

#### ****On the Basis of different Levels:****

**Policies are divided into the following types on the basis of levels:**

1. Basic Policies.
2. General policies.
3. Departmental Policies.

**1. Basic Policies:**

Policies which are followed by top management level are called as basic policies. For example, the branches will be opened in different place where the sales exceed Rs. Five, lakhs.

1. **General Policies:**

These policies affect the middle level management and more specific than basic policies.

**Example:**

Payment will be provided for overtime work only if it is allowed by the management.

1. **Department Policies:**

These policies are highly specific and applicable to the lower levels of management.

**Example:**

Tea will be provided free for workers in night shifts.

#### ****C. On the Basis of Managerial Functions:****

Policies arise from decision pertaining to fundamental managerial functions are called managerial policies.

**These includes the following policies:**

1. Planning policies.
2. Organisation policies.
3. Motivation and control policies.

**1. Planning Policies:**

Planning policies involve the future course of action. Mere policies are formulated as to achieve the targets regarding the future. Planning policies may formulate for whole organisation or for divisional departments.

1. **Organisation Policies:**

These policies are highly specific to organisational goals and objectives.

1. **Motivation and Control Policies:**

Here policies are formulated to motivate people and control the activities, which leads to achieve the organisational objectives with the fullest satisfaction of employees.

#### ****On the Basis of Dissemination:****

**Policies can be classified into two types on the basis of dissemination:**

1. Written statements—Explicit policies.
2. Oral dissemination—Implicit policies.

**Explicit Policies:**

Policies which are in writing or included in the manual or records are called explicit policies. In case of written statements adequate media should be used.

**The following are some of the written media:**

(a) Bulletins or notice boards.

(b) Hews releases.

(c) Company manuals or handbooks.

**Advantages of written policy:**

(a) All the members of the organisation can be guided as to the exact interpretation of policies so that they all possess a common understanding.

(b) It can be more easily reviewed from time to time to meet changing conditions.

(c) It can be checked more readily for compliance within the organisation.

(d) Policies becomes available in the same form to all concerned.

(e) They can be communicated and taught to new employees more readily.

(f) The process of writing down policies forces the managers concerned to think through more clearly about the policy.

**Disadvantage of written policies:**

(a) Written policies are inclined to promote rigid thinking and prevent flexibility which may be undesirable in special circumstances.

(b) It is difficult to adopt written policies to situations and conditions which change from time to time. There is bound to be a time lag for incorporation of such changes into existing written policies.

(c) Although in one sense there is uniform communication of policies in the form of a written statement it is likely to be interpreted in many cases differently depending on the background of the interpreter.

(d) In case of confidential policy statements, there is a greater chance of their being communicated to those from whom they are to be kept secret, thus, probably marring the strength of the organisation.

(e) Difficult to write it accurately and adequately.

1. **Implicit Policies:**

Implicit policies are disseminated merely by word of mouth through the key people in an organisation. Policies which are not in writing or not included in the manuals or records but which are well understood and practised are called implicit policies.

#### ****E. On the Basis of Functions:****

Policies which affect the functions of business are called as functional policies.

**Functional policies can be classified as follows:**

1. Marketing policies.
2. Production policies.
3. Finance policies.
4. Personnel policies.

**Marketing Policies:**

Basically marketing policies relate to each of the “four Ps in marketing” namely.

(a) Product,

(b) Pricing,

(c) Promotion, and

(d) Physical distribution.

**(a) Product Policies:**

In connection with product policies for example a policy decision might have to be taken as to whether to make or buy the product. Policy decisions might have to be laid down with regard to the nature and extent of diversification, for example whether diversification in the future will always be in terms of related products or whether new product ideas can be considered in connection with unrelated products.

The make or buy decision can also be a part of the product on policy but can be part of the marketing strategy which is concerned with the overall strategy of the business.

**(b) Pricing Policies:**

Policy decisions have to be taken in the area of pricing. The market segment or segments aimed at determination of price range. The policy decisions on pricing are also affected by the type of trade channels and the discounts that might have to be offered.

**(c) Promotion Policies:**

The promotional policy is also tied in with the pricing policies. The policy to concentrate on certain advertising media would be dictated in terms of product policies and the customer segment involved. Policy decisions would also help in arriving at the amount to be spent on promotional activities.

Certain organisations fix a policy of budgeting a certain percentage, say 5% of the rates for advertising expenditure. Some organisations adhere the policy of certain fixed return on investment for arriving at the advertising expenditure to be permitted.

**(d) Physical Distribution Policies:**

Policy decisions have to be taken in the area of physical distribution of the product which involves considerations of channels of distribution and logistics. Difficult policy decisions are involved in arriving at the selection of an appropriate set of distribution channels for the products of the company. Some organisations prefer to give sole distribution ships. Some others advocate the policy of direct selling.

1. **Production Policies:**

**Production policy decisions involves with the following:**

1. a) The size of the run,
2. b) Automation,
3. c) Production stabilisation,
4. d) Extent of making or buying component, and
5. e) Inventory levels.

**(a) The Size of the Run Policy:**

This depend on the backlog or orders as well as the nature of automation introduced. It will also depend on the type of the market. The temptation is to increase the size of the run to take advantage of avoiding the setup costs. However, these have to be weighed against the cost of heavier inventories.

**(b) Automation Policy:**

The automation involves consideration of technical problems apart from economic aspects. The policy of increasing automation or mechanisation may be merely with a view to avoid repetitive and uninteresting work or it may be to reduce costs. Policy decisions, however, have to be taken in this behalf at the top level.

**(c) Production Stabilisation Policy:**

It is related to the size of the run and the extent of automation. Production has to be stabilized through proper timing as market demands cannot be overlooked.

**(d) Make or Buy Policy:**

It is related to both the marketing policy as well as production policy. Policy decisions have to be taken as to the extent of the product that has to be manufactured within the organisation itself and the extent, if any of purchases from outside.

**(e) Inventory Levels Policy:**

This policy involves with the levels of inventory or stocks. These should be maintained in the exact extent. Higher inventories increase the costs and reduce the ultimate profits.

1. **Financial Policies:**

**Financial policies related to the following:**

(a) Sources of capital

(b) Working capital

(c) Profit distribution.

(d) Depreciation allowances.

**(a) Sources of Capital:**

This policy involves the sources of capital, `that is from which ways, an organisation can accumulate its capital. For example in case of sole trader, he/ she provide the capital form his/her own money or by loans from individual or bank. In partnership, partners provide the basic capital. In companies, large capital is possible from large number of shareholders.

**(b) Working Capital Policy:**

The difference between the current assets and current liabilities is the working capital. Since the working capital determines how far the business organisation or business unit can immediately meet its obligations, the policy decision will have to take in the area of working capital. These policies are also concerned with the extent of bank borrowings permissible and allowances of credit facilities that should be extended to the customers.

**(c) Profit Distribution Policy:**

It involves with regard to how much profits should be distributed by way of dividends to the shareholders and how much should be kept back for future capital requirements. Some companies follow a policy of dividend equalization by setting aside profits in good years to be used for payment of dividend in lean years.

**(d) Depreciation Allowance Policy:**

Policy decisions have to be taken on the extent of depreciation to be written off whilst keeping in mind the tax provision as well as its possible use as a source of funds for the enterprise.

1. **Personnel Policies:**

This policy decisions have to be taken in connection with personnel administration.

**These relate to the following.**

(a) Personnel selection.

(b) Training and promotion.

(c) Remuneration and benefits.

(d) Industrial relations.

**(a) Personnel Selection Policy:**

It involves with the source of recruitment e.g., policy decisions may be taken with regard to the minimum educational or experience requirements.

**(b) Training and Promotion Policy:**

Policy decisions have to be taken with regard to manpower planning and filling up higher vacancies by promotion from within. A policy of promotion from within presupposes the existence of adequate training policies to develop persons for each higher positions.

**(c) Remuneration and Benefit Policy:**

These policies regard with the remuneration and other benefits of employees. Other benefits include sick leave, vacations, canteen facilities and working conditions. In case of sales force, some organisations prefer to rely merely on salaries, but some other companies wish to build in a commission component to provide the necessary incentive.

**(d) Industrial Relations Policies:**

Proper policy decisions must be taken in connection with dealing with labour disputes and avoiding them in the future.

**Four most Important business policy process**

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.

**Basic Elements of the Business Policy Process**

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.

1. **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.

**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.

One example of a mission statement is that of TTK Groups:

To improve the quality of home life by designing building, marketing and servicing the best appliances in the world.

A mission may be defined narrowly or broadly in scope. An example of a broad mission statement is that used by many corporations. Serve the best interests of shareowners, customers, and employees.

A broadly defined mission statement such as this keeps the company from restricting itself to one field or product line, but it fails to clearly identify either what it makes or which product/markets it plans to emphasize. Because this broad statement is so general, a narrow mission statement, such as the receding one by TTK appliances is more useful.

A narrow mission very clearly states the organization’s primary business, but it may limit the scope of the firm’s activities in terms of product or service offered, the technology used, and the market served. Instead of just stating it is a “railroad,” a company might be better calling itself a “transportation company.”

**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 fulfillment 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.

Robert, Chairman of Deere & Company, the world’s largest maker of farm equipment, uses the phrase “double and double again” to express ambitious objectives for the company. “It gives us a sense that we’re on the move,” explained Robert.

For example, the Deere’s current objectives is to double the market value (number of shares multiplied by stock price) of the company (8 crore in 2000) to 16 crore and then to double it again to 32 crore over 10 years.

Similarity the sales objective is to have sales (13 crore in 2000) double and double again over the next 10 years.

The term ‘goal’ is often used interchangeably with the term ‘objective’. In this paragraph, we prefer to differentiate the two terms. In contrast to an objective, we consider a goal statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion.

For example, a simple statement of “increased profitability” is thus a goal, not an objective, because it does not state how much profit the firm wants to make the next year. An objective would say something like, “increase profits 10% over last year.”

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).

**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 о 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.

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.

**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.

For example, consider the following company policies:

* **Intel:**

Cannibalize our product line (undercut the sales of your current products) with better products before a competitor does it to you. (This supports Intel’s objective of market leadership.)

* **General Electric:**

GE must be number 1 or 2 wherever it competes. (This supports GE’s objective to be number 1 in market capitalization.)

* **3M:**

Researchers should spend 15% of their time working on something other than their primary project. (This supports 3M’s strong product development strategy.)

Policies like these provide clear guidance to managers throughout the organization.

**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.

**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.

Another example is FedEx Corporation’s program to install a sophisticated information system to enable its customers to track their shipments at any point in time. FedEx thus installed computer terminals at 100,000 customers and gave proprietary software to another 650,000 so shippers could label much of their own packages.

**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.

**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.

For example, Delta Airlines used various procedures to cut costs. To reduce the number of employees, Delta asked technical experts in hydraulics, metalworking, avionics, and other trades to design cross-functional works teams.

To cut marketing expenses, Delta instituted a cap on travel agent commissions and emphasized sales to bigger accounts. Delta also changed its purchasing and food service procedures.

**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.