7 Corporate Policy: Its Strategic Role

Policy is a fundamental guide, a general statement or understanding guiding the thinking of subordinates. General statements of policy are never specific, they are based on a philosophy or belief that serves to orient the actions of the company executives. More precisely, policies

- deal with broad matters, not detail;
- require study and thought;
- are approved only at the highest level of the organisation;
- extend over a long range of time;
- having been established, should be expressed in written text; and
- should be observed fully.

Within the enterprise, policy decisions offer 'the line' for the development of plans, and can be compared to the frame on which planning will be built. The existence of a certain policy eliminates on the part of subordinates the need for repeated decision making on routine subjects. The board of directors is deeply and continually concerned with policy. Not only do its members guide the action of others by policy, but also they themselves are guided by it.

Policy is generally regarded as a major instrument for the direction of an industrial enterprise or financial institution. Clear and well-communicated policies are cited among the most important tools of management. A company establishes policies so that the management and employees know generally what the position of the company is in a given situation. Three main types of policy can be distinguished:

1. Policies that are established precedents;
2. Officially formulated policies;
3. Unofficially formulated policies.

Policies are not commands for action, but merely guides. They can be formulated at every echelon of management; obviously those bearing the most weight are the policies formulated by top management. The board of directors of a company passes down to the executive branch certain policies. The executive branch channels its actions along these policies and formulates other policies for the middle management.
Executives have shown a marked curiosity concerning policy and its place. Business and management research associations receive many requests each year for information on policy practices of other companies. It is a difficult subject for factual research as, to a great degree, it is one dealing with intangibles. Furthermore, policy is dynamic rather than static, taking different forms and often changing emphasis as the evolving need of the enterprise for guidance displays itself.

MAKING THE COMPANY'S POLICIES

Policy making is not restricted to large-scale organisations. While there is some tendency to recognise policy coverage as necessary in more areas than do smaller firms, the difference is not enough to be very significant. Nevertheless, if the need for policy coverage is generally felt by companies, both large and small, the requirements of present action are found to be much greater in the larger entities. The bigger the company, the greater the chances that policy will be formalised by written permission.

Two reasons are cited for this. First is the communications problem in the management of larger companies, which must publish fixed statements to ensure uniformity of understanding and interpretation rather than rely upon word of mouth, as the smaller management teams can do. Second is the increasing complexity of the managerial environment which presses hardest on the large companies, and which requires clear and consistent policy direction for uniform operating practice.

A good example of management policy successfully zipping down the line is one established by one of the financial organisations for whom I have been working as consultant to the chairman of the board. Figure 7.1 exemplifies this policy. The problem was personal computers and networks. The decision has been:

(1) Personal workstations (WS) should not be shared and their microfiles should be encrypted.

(2) Given security protection, networks and computer resources can be shared – always subject to authorisation and authentication prior to access.

(3) The personal computer at client site should also be dedicated to the client firm, but could be shared among its departments at its discretion.