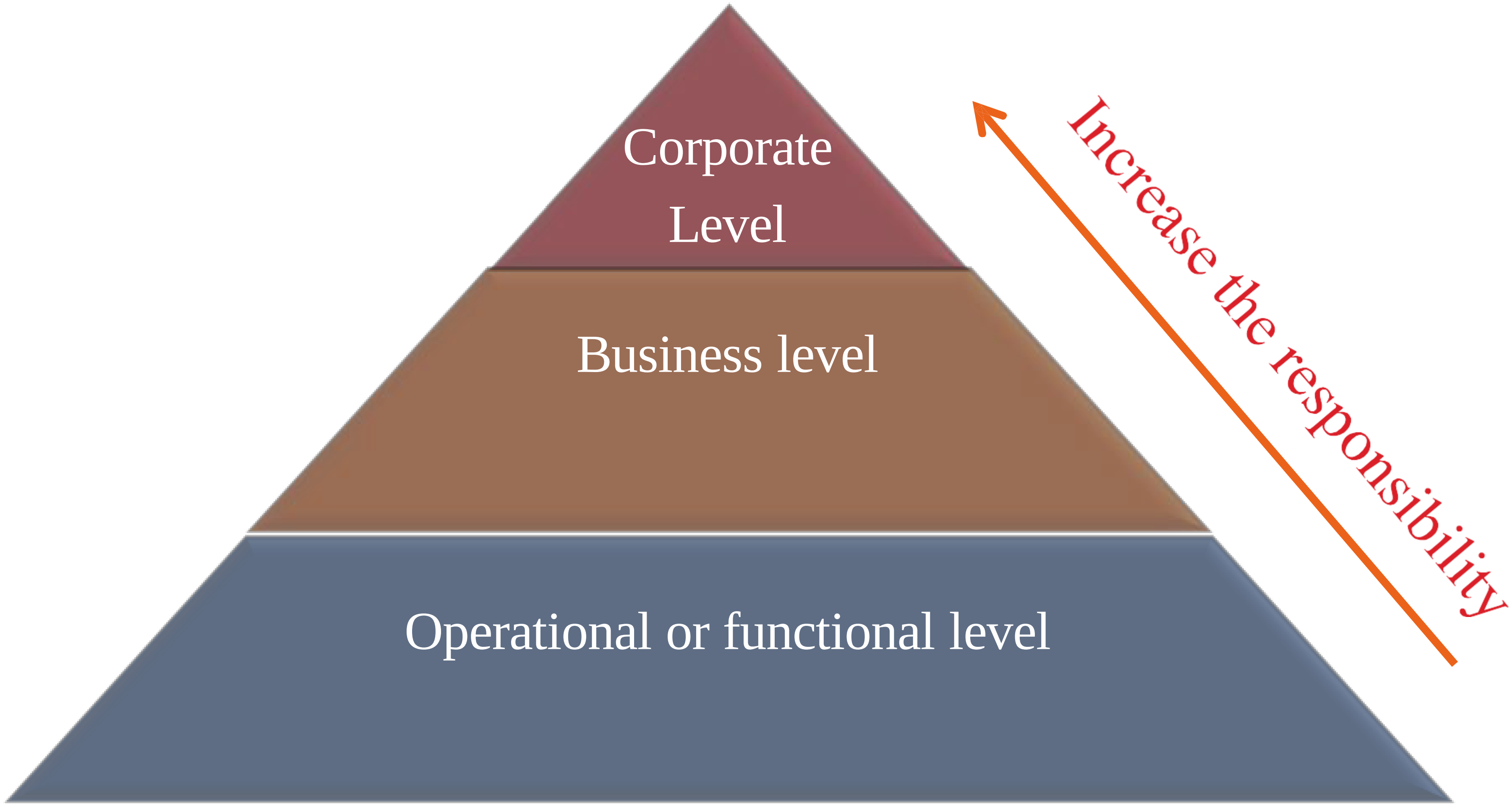
UNIT II
CORPORATE POLICY

Syllabus:

Corporate Policy: Importance- Characteristics- Objectives-Types of Business policies-formulation and Implementation of Business policies. Business and society: CSR- Social Responsibilities of Business- Corporate Governance-Ethical Responsibilities.

DIFFERENT LEVELS OF STRATEGY



CORPORATE LEVEL:

- Top management's overall plan for the entire organization and its strategic business units.
- Corporate level strategy occupies the heights level of **DECISION MAKING.**
- the nature of the decisions tends to be value oriented, conceptual than the Business level, and Operational or Functional level.

Types of Corporate Strategies:

- **Growth**: expansion into new products and markets.
- **Stability**: maintenance of the status of the organization.
- **Renewal**: redirection of the firm into new markets.

CORPORATE LEVEL STRATERGY

- **Growth Strategy**
  - Seeking to increase the organization’s business by expansion into new products and markets.
- **Types of Growth Strategies**
  - Concentration
  - Vertical integration
  - Horizontal integration
  - Diversification

GROWTH STRATERGIES:

- **Concentration:** Focusing on a primary line of business and increasing the number of products offered or markets served.
- **Vertical Integration:** 1). Backward vertical integration.

  2). Forward vertical integration.
- **Horizontal Integration:** Combining operations with another competitor in the same industry to increase competitive strengths.

GROWTH STRATERGIES(cont'd)

- **Diversification:**

1). **Related Diversification:** Expanding by merging with firms in different, but related industries.

2). **Unrelated Diversification:** Growing by merging with firms in unrelated industries where higher financial returns are possible.

CORPORATE LEVEL STRATERGY(cont'd)

- **Stability Strategy:** A strategy that seeks to maintain the status with the uncertainty of the environment, when the industry is experiencing slow- or no-growth conditions.

- **Renewal Strategy:** Developing strategies to counter organization weaknesses that are leading to performance declines.

Ansoff's Matrix

Markets \ Products	Exisiting	New
Exisiting	Market Penetration	Product Development
New	Market Development	Diversification

Importance of Corporate Policies

(a) Policies are needed to carry out the business activities in a smooth manner.

(b) They provide a clear cut course of attainment of business objectives.

(c) If a paper explicit policy has been formulated, many of the details could be conveniently handled by the sub- ordinates and management would not unnecessarily waste its time and energy in doing them.

(d) Policies provide a guide and frame work for decision making.

(e) Policies encourage delegation of power of decision making.

(f) Good policies provide a direction in which all management activities are focused.

(g) Policies provide stability to the action of the members of the firm.

(h) Policies deter the subordinates to rethink on the day to day issues and thus avoid repetitive analysis of issues.

(i) Policies facilitate evaluation of performance by acting as a standard.

(j) They help in solving the problems optimum utilization of scarce resources.

(k) The sound policies help in building good public image of the business.

(l) Policies provide the firm with clear objectives with which the managers can decide about the future course of action.

(m) They act as tool for coordination and control.

Mintzberg’s Strategy Modes

- Entrepreneurial
  - One powerful individual, founding vision
- Adaptive
  - Reactive solutions to existing problems (emergent)
- Planning
  - Systematic info gathering, focus on analysis (deliberate)
- Logical Incrementalism
  - Top set goals, interactive process and continuous learning

Business-Level Strategies:

- A strategy that seeks to determine how an organization should compete in each of its SBUs (strategic business units).

- At Business-level ALLOCATION of re-sources among Functional-level and COORDINATE with the Corporate level to the ACHIEVEMENT of the Corporate level OBJECTIVES.

Business-Level Strategies(cont'd)

- **Cost leadership:** Attaining, then using the lowest total cost basis as a competitive advantage.

- **Differentiation:** Using product features or services to distinguish the firm's offerings from its competitors.

- **Market focus:** Concentrating competitively on a specific market segment.

Functional-Level Strategies:

➢ Focus is on improving the effectiveness of operations within a company. Which is done by:

- Manufacturing
- Marketing
- Materials management
- Research and development
- Human resources

Business policy-Purpose

- Clarify Objectives
- Guide Planning
- Help Subordinates in reaching operating decisions
- Facilitate an overall coordination and control
- Acts as an yardstick for evaluating the quality of decisions
- Buildup employee enthusiasm and loyalty
- Seek to ensure consistency and uniformity in decisions.

Features of Business Policy

- An effective policy must be:

  -Specific

  -Clear

  - Reliable/Uniform

  -Appropriate

  -Simple

  -Inclusive/Comprehensive

  -Flexible

Steps in 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

Policy making process

- Identification of the situation
- Development of policy
- Dissemination(announced) of the policy
- Explanation of the policy
- Acceptance of the policy
- Feedback

Classification of Policies

- According to the level of formulation
- According to functional areas of organisation
- According to expression
- According to nature of Origin
- According to scope of organisation
- According to situation

According to the level of formulation

- Top Management Policies
- Middle level Management Policies
- Lower level management Policies
- Operating force policies

According to functional areas of organisation

- Production policies
- Marketing and sales Policies
- Financial Policies
- Personnel policies

According to expression

- Explicit Policies

  -Oral policies

  -Written Policies

- Implied Policies

According to nature of Origin

- Original or originated policies
- Appealed Policies
- Imposed policies
- Derivative Policies

According to scope of organisation

- Basic Policies
- General Policies
- Specific to departmental policies

According to Situation

- Normal Policies
- Contingency policies

Basic policies of organisations

- Company Policy
- Communications and Information Policy
- Human resource policies
- Privacy policy
- Public policy
- Defense policy
- Domestic policy
- Economic policy
- Education policy
- Energy policy
- Environmental Policy
- Foreign policy
- Forest policy
- Health policy
- Housing policy
- Information policy
- Macroeconomic policy
- Monetary policy
- Population policy
- Public policy in law
- Science policy
- Security policy
- Social policy
- Transportation policy
- Urban policy
- Water policy

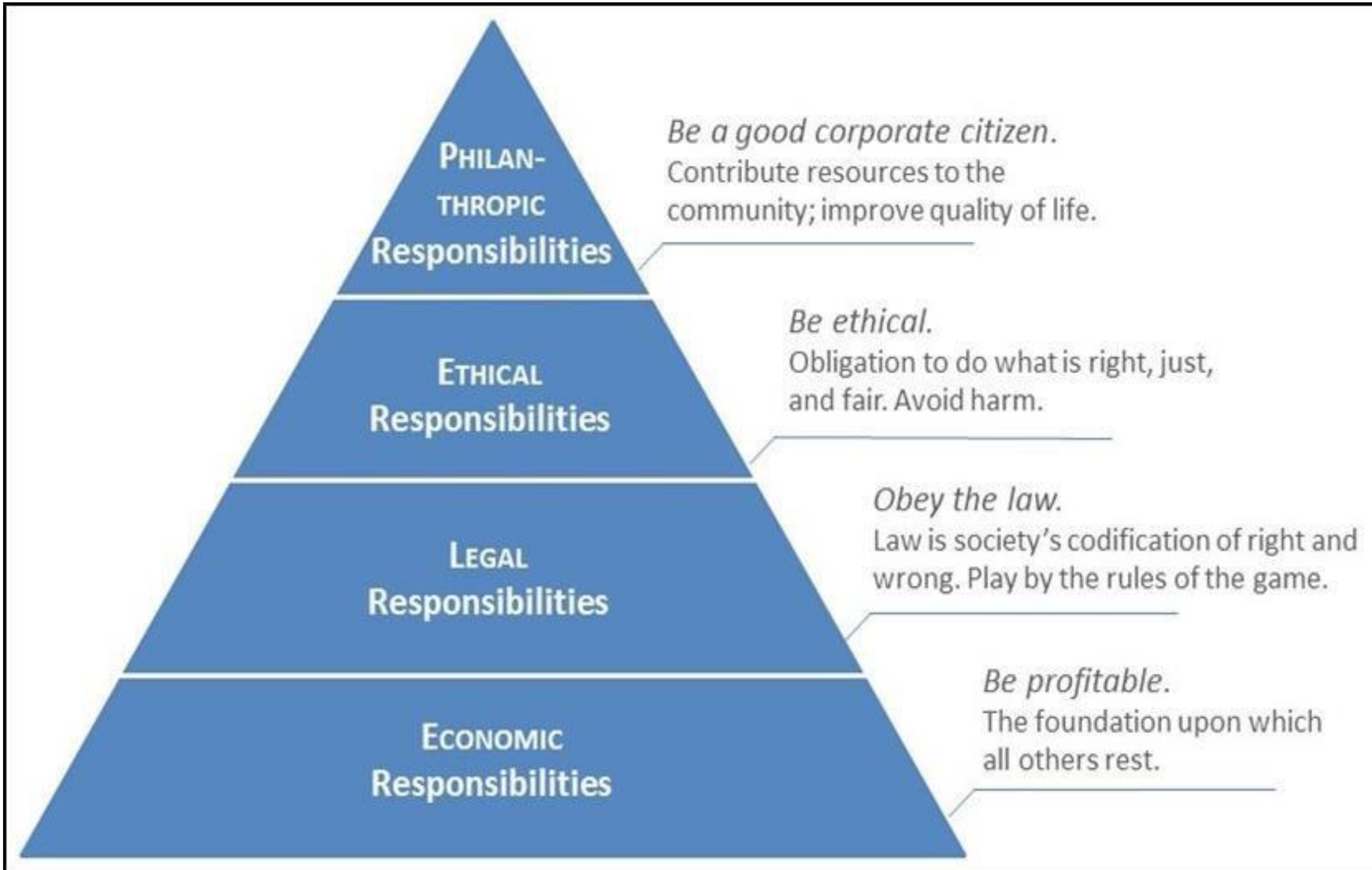
Concept of Social Responsibility

- We all know that people engage in business to earn profit.
- However, profit making is not the sole function of business.
- It performs a number of social functions, as it is a part of the society.
- It takes care of those who are instrumental in securing its existence and survival like- the owners, investors, employees, consumers and government in particular and the society and community in general.

Why should business be socially responsible

- Public Image
- Government Regulation
- Survival and Growth -Every business is a part of the society
- Employee satisfaction
- Consumer Awareness
- Tax Benefits from the government

CARROL'S CONCEPTUAL MODEL OF CORPORATE PERFORMANCE



THEORIES RELATED TO CSR

- INSTRUMENTATION THEORIES – Corporation is seen as an instrument for Wealth Creation and its social activities are only means to achieve *economic results*
- POLITICAL THEORIES – emphasizes the power of corporations in society and a responsible use of this power in the *political arena*

THEORIES RELATED TO CSR

- INTEGRATIVE THEORIES – Corporation is focused on the satisfaction of social demands
- ETHICAL THEORIES – Ethical responsibilities of corporations to society

- A number of studies has been conducted to determine the correlation between CSR and corporate financial performance.

Responsibility Towards Different Interest Groups

Figure No. 1 Social Responsibility of Business Towards Society.

i. Responsibility towards owners

a. Run the business efficiently

b. Proper utilisation of capital and other resources

c. Growth and appreciation of capital

d. Regular and fair return on capital invested

ii. Responsibility towards investors

a. Ensuring safety of their investment

b. Regular payment of interest

c. Timely repayment of principal amount

iii. Responsibility towards employees

a. Timely and regular payment of wages and salaries

b. Proper working conditions and welfare amenities

c. Opportunity for better career prospects

d. Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc

E. Better living conditions like housing, transport, canteen, crèches etc

f. Timely training and development

iv. Responsibility towards suppliers

a. Giving regular orders for purchase of goods
b. Dealing on fair terms and conditions
c. Availing reasonable credit period
d. Timely payment of dues

v. Responsibility towards customers

a. Products and services must be able to take care of the needs of the customers

b. Products and services must be qualitative

c. There must be regularity in supply of goods and services

d. Price of the goods and services should be reasonable and affordable.

e. All the advantages and disadvantages of the product as well as procedure to use the products must be informed do the customers

f. There must be proper after-sales service

g. Grievances of the consumers, if any, must be settled quickly

h. Unfair means like under weighing the product, adulteration, etc. must be avoided

vi. Responsibility towards competitors

i. Not to offer exceptionally high sales commission to distributers, agents etc

ii. not to offer to customers heavy discounts and /or free products in every sale

iii. not to defame competitors through false or ambiguous advertisements

vii. Responsibility towards government

a. Setting up units as per guidelines of government
b. Payment of fees, duties and taxes regularly as well as honestly
c. Not to indulge in monopolistic and restrictive trade practices
d. Conforming to pollution control norms set up by government
h. Not to indulge in corruption through bribing and other unlawful activities

viii. Responsibility towards society

a. To help the weaker and backward sections of the society
b. To preserve and promote social and cultural values
c. To generate employment
d. To protect the environment
e. To conserve natural resources and wildlife
f. To promote sports and culture
g. To provide assistance in the field of developmental research on education, medical science, technology etc

Responsibilities of business towards the different interest group

i. Protection of environment

ii. Better living conditions like housing, transport, canteen, crèches etc

iii. Promotion of sports and culture.

iv. Opportunity for better career prospects

v. Regular supply of goods and services

vi. Proper working conditions and welfare amenities

vii. Goods and services at reasonable and affordable price.

viii. Prompt after sales services.

ix. Conservation of natural resources and wildlife

Corporate Governance

- Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled.
- Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Corporate Governance

- Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.
- The Framework of rules and practices by which a board of directors ensure accountability, fairness and transparency in a company’s relationship with all its stakeholders.

Stakeholders

- **Internal stakeholders** are groups within a business or people who work directly within the business, such as employees, owners, and investors.
- **External stakeholders** are groups outside a business or people who are not directly working within the business but are affected in some way from the decisions of the business, such as customers, suppliers, creditors, community, trade unions, and the government.

Corporate Governance-importance

- It is the way a corporation policies itself. In short, it is a method of governing the company like a sovereign state instating its own customs, policies and laws to its employees from the highest to the lowest order.
- It increases the accountability of the company and to avoid massive disasters before they occur.
- Well – executed corporate governance should be able to weed out and eliminate problems with extreme prejudice.

Corporate Governance- FRAMEWORK

1. Explicit and implicit contracts between the company and stakeholders for distribution of responsibilities, rights and rewards.
2. Procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties privileges and roles
3. Procedures for proper supervision, control and information-flows to serve as a system of checks-and-balances. Also called Corporation Governance.

- Good corporate governance seeks to make sure that all shareholders get a voice at general meetings and are allowed to participate.
- In particular, taking the time to address non-shareholders can help the company establish a positive relationship with the community and the press.
- To make sure all board members must be on the same page and share a similar vision for the future of the company.

The historical roots of corporate governance :

- World wide privatization wave.
- Mergers and takeovers.
- Deregulation and capital market integration.
- Scandals and failures at major corporations.

Why Corporate Governance?

- **TRANSPARENCY**
- **ACCOUNTABILITY**
- **CONTROL**
- **TRUSTEESHIP**
- **ETHICS**

Emergence of Corporate Governance in India

- SEBI appointed in May 1997 the Kumar Mangalam Birla Committee
- Companies Amendment Act, 2000 introduced

  - Setting up of Audit Committee

  - Directors' Responsibility Statement
- Kumar Mangalam Birla Committee recommendations adopted by SEBI in 2000
- Clause 49 introduced in Listing Agreement
- Narayana Murthy Committee recommendations revised Clause 49
  - Definition of independent directors
  - Certificate by CFO & CEO
  - Risk Assessment & Mitigation strategy of the company
  - Code of Conduct for top Management

Companies Bill 2012

- ✘ Concept of Independent Directors introduced for the first time.

- ✘ A full-time director is also covered under the definition of "key managerial personnel.“

- ✘ The auditor is to be rotated "at such interval" as may be determined by resolution.

- ✘ The limit of the number of companies for which a person may be appointed as auditor is proposed as 20 companies. In case of an audit firm, the limit is applicable to each partner.

- Appointment of auditors for a five-year period is subject to ratification at every annual general meeting.

- The bill proposes that corporates spend certain percentage of three years average profits towards CSR activities.

Ethical Responsibilities

- Business Ethics refers to carrying business as per self-acknowledged moral standards.
- It is actually a structure of moral principles and code of conduct applicable to a business.
- Business ethics are applicable not only to the manner the business relates to a customer but also to the society at large.
- It is the worth of right and wrong things from business point of view.
- Business ethics not only talk about the code of conduct at workplace but also with the clients and associates.

- Business ethics implies conducting business in a manner beneficial to the societal as well as business interests.
- Every strategic decision has a moral consequence.
- The main aim of business ethics is to provide people with the means for dealing with the moral complications.
- Ethical decisions in a business have implications such as satisfied work force, high sales, low regulation cost, more customers and high goodwill.

List of some significant ethical principles to be followed for a successful business

1. Protect the basic rights of the employees/workers.
2. Follow health, safety and environmental standards.
3. Continuously improvise the products, operations and production facilities to optimize the resource consumption
4. Do not replicate the packaging style so as to mislead the consumers.
5. Indulge in truthful and reliable advertising.
6. Strictly adhere to the product safety standards.
7. Accept new ideas. Encourage feedback from both employees as well as customers.
8. Present factual information. Maintain accurate and true business records.

9. Treat everyone (employees, partners and customers) with respect and integrity.
10. The mission and vision of the company should be very clear to it.
11. Do not get engaged in business relationships that lead to conflicts of interest. Discourage black marketing, corruption and hoarding.
12. Meet all the commitments and obligations timely.
13. Encourage free and open competition. Do not ruin competitors' image by fraudulent practices.
14. The policies and procedures of the Company should be updated regularly.
15. Maintain confidentiality of personal data and proprietary records held by the company.
16. Do not accept child labour, forced labour or any other human right abuses.