

## Activity 4. Prepare Policies

### EMPLOYEES NOTICE

1. Employees must wash their hands and face every two days.
2. Employees must wash all over once every two weeks.
3. Men caught in ladies toilet will be fired.
4. Underwear must be changed once a month.
5. Toilet paper is provided free – should we run out, our paint shop will provide a four inch brush & jug of water as a temporary measure.
6. Working hours are from 6AM to 6PM with half hour for lunch – six days per week.

BY ORDER OF THE MANAGEMENT

Policies of a Lancashire mill, circa 1900

### Introduction

Preparing and utilizing policies are integral to and imperative for tactical and strategic management. This Activity is influenced by and involves many dynamics --- never-ending sets of changing forces and conditions in the organizational and managerial environment, new or innovative objectives and goals, creative strategic and tactical plans, unforeseen circumstances and difficulties in implementing programs and performing activities in uncontrollable and fluid situations. Somewhere in all of these dynamics, management, personnel and other stakeholders in an organization find some constants, parameters, principles and guidelines that they can rely on for guiding them in making decisions. If management does not have policies upon which to rely, it risks chaotic conditions. What strategic manager wants chaos to manage, especially if he/she can be prevented or guided perceptively in their analyses and decision making by meaningful and effective policy statements? Some authors suggest otherwise. See, for example, Tom Peters, *Thriving on Chaos - Handbook for a Management Revolution*, New York: Harper-Perennial, 1987, pp. 452, 454-5. However, most mortal, pragmatic managers opt for more order than chaos. Policies are intended to contribute to orderly, yet dynamic and progressive management.

Establishing policies involves deciding what ethical and organizational values and sound management principles to incorporate into statements that will guide decision making in a variety of circumstances or situations. Establishing policies means that management must create, evaluate and authenticate statements that are visionary and will be reliable in the short, medium and long term futures of the organization. Establishing policies means that such statements must be communicated to all who may be relevant to them. Establishing policies involves management and others in the formulation and enforcement of the values and principles of the organization that are to be used consistently in making decisions over time. Establishing policies requires capabilities that enable management to develop and disseminate "organizational commandments", not unlike those that the prophet Moses brought down from Mount Sinai. However, despite the best efforts of directors, managers and others in the organization, professional and industry associations, society's institutions and the laws of the land, policies cannot be etched in stone. Despite the need for consistency in policy preparation and application, as Albert Einstein discovered everything is relative. In human organizations, few absolutes exist. Establishing policies means that some flexibility must be given to managers and personnel in their application.

In today's environment of endless and accelerating rates of change, managers are expected to identify the change sources, evaluate their influences and decide what to do, when, how, where, with what resources and why. These and other decisions are performed under growing pressures of time, increasing opportunity costs, conflicting positions, resource constraints, competition and other sources of uncertainty and risk. A growing number of situations involve business policies that are contrary to public policy and the "laws of the land". In mid-2004, the mutual fund industry in North America was being investigated and found wanting. In the United States, the Attorney General of New York State laid charges against several mutual fund companies for breaches of trading laws. In Canada, the mutual fund industry had "failed to introduce rules to detect and deter abusive trading practices such as market timing, leaving companies to tackle the issue on their own." Karen Howlett, "industry resists rules to police trading", *The Globe and Mail*, July 12, 2004, B. 1. As a result, policies intended to curb illegal and unethical practices vary significantly from company to company. Market timing is not an insignificant issue. "Rapid in-and-out trading in mutual funds totalled more than \$220 billion between 2000 and 2003, a pattern highly suggestive of market timing", one investigation found. Howlett, *ibid*.

### Nature of Policies

Well-formulated policies assist in managing pressures, risks and uncertainties, especially in situations that:

1. go beyond personal capacities;
2. go outside appropriate jurisdictions, domains or areas of authority and responsibility;
3. are repetitive and wasteful of time, talents, energy, money and other scarce resources;
4. may be potentially very costly and otherwise intimidating; and
5. suffer from inconsistent decision making.

Francis J. Bridges, Kenneth W. Olm and J. A. Barnhill, *Management Decisions and Organizational Policy: Text, Cases and Incidents*, Boston: Allyn and Bacon, Inc, 1971, p.61.

With the increasingly dynamic and complex environment in which most organizations function, managers need to prepare guidelines for a growing range of situations. Such policy formulation flows logically from the first three Activities in the TSMP and are fundamental to the successful achievement of the entire management process.

Despite the merits of well-formulated policies, managers, personnel and other stakeholders in an organization often ignore or act contrary to such guidelines. Insider trading is illegal in Canada and the United States. Yet, contrary to "common sense", corporate executives such as Martha Stewart and Jeff Banfield have been charged with and punished for insider trading. In another area of growing social concern and legality, Internet pornography, policies have not been established or are being ignored. According to one expert labor lawyer,

Corporate policies designed to prevent the downloading and e-mailing of porn in the workplace are too often left to gather dust in a human resources file and not passed on to employees. Joe Friesen, "Corporate porn policies sit on shelf, expert says", *The Globe and Mail*, July 14, 2004, A6.

Such disregard for business laws and management policies suggests more than incompetence. It suggests indifference and “being above the law”. As a result of such disregard for laws, ethics and “good sense”, policies need to be policed and enforced.

**Caution:** In developing policies, managers are advised to be careful not to be unduly pressured by time, job demands, the lack of principles or "the boss". Incomplete policies result in wasteful decisions and other adverse consequences. Like tactics and strategies, policies must be made with a wide range of perspectives and time horizons. Policy-making requires wisdom, integrity and the ability to foresee the implications of each policy on the entire organization, its TSMP and related managerial situations.

Policies provide one (and only one) means of coping with changing circumstances. They provide guidance and constancy in the "sea of changes" that buffet and batter organizations. They are like the rudder of a boat in the "white water" of management. Like the rudder, policies are used to guide, maneuver, fend off, direct or lean on. Policies are aids, not panaceas for managers. Those aids must be relevant, sensitive and useful in managing the dynamic, priority forces and conditions managers face presently and are likely to encounter in the longer term.

Policies reflect the purposes, environmental forces and conditions, objectives and goals of an organization. They are used as guidelines to achieve these aims. Policies are closely aligned with strategies, tactics, plans and budgets. For each organization, policies are uniquely situational and facilitative of longer-term, recurring sets of circumstances. In addition to being oriented to the principles and aims of an organization, policies are sensitive to and encompass, the values, beliefs and behavior of the culture and society in which the organization functions. Policies are influenced, if not determined, by the environment in which an organization is located and functioning. Historically, governments and corporations, with their armies and colonizing mercenaries, exploited their host countries, their institutions, social ways and human rights. Increasingly, organizations and especially global corporations, are realizing the need to establish policies that are culturally sensitive and socially responsible within each geo-political location in which they operate. Among a growing number of progressive companies, British Petroleum and Royal Dutch Shell have developed and followed policies that are intended to guide them in becoming ecologically sensitive and less destructive in their expansion and operations. Others ignore or overlook such opportunities for progress at their own risk and costs.

Policies provide organizational prescriptions. They provide directives and oftentimes control-oriented statements for decision making in recurring and sometimes very difficult, controversial and risk-laden situations. Such situations have been common in the human resources management (HRM) of organizations. Previous reference was made to Internet pornography in the workplace. In addition, sexual harassment, gender, racial and ethnic bias, employment conditions and ways of terminating employment are just four other issue areas in HRM that merit meaningful policies. The lack of clear policies governing the use of the Internet and e-mail has resulted in such inappropriate communication of racist or sexist jokes, confidential information and competitive secrets.

Such policies need to be prepared and applied at all levels in the organization, especially at the top. The co-founder and vice president of strategic planning at Westjet Airlines Ltd. resigned “amid allegations that he masterminded an elaborate corporate espionage scheme against Air Canada”, its major competitor. John Partridge, “Hill had to go to remove stain: analysts”, *The Globe and Mail*, July 16, 2004, B4 Such indiscretions are widespread and can be diminished, if not eliminated by well-founded, visionary policies.

Sexual impropriety in the workplace is an especially sensitive set of policy issues. Policies need to cover gender discrimination, sexual harassment and a growing range of other sexually-based misbehavior. Organizations face a range of risks, including legal liability and costs, damage to reputation and employee morale, loss of sales, market share/position and profits. Mitsubishi Motor Corp of America settled a lawsuit with 27 women who accused the company of sexual harassment, even though a U.S. government suit against it was still active. The lawsuits alleged that the company tolerated a number of degrading actions and remarks by male managers and workers. Malcolm MacKillop, "A manager's guide to sexual impropriety", *The Globe and Mail*, October 17, 1997, B23. Technology heightens the problem. Organizations are having difficulty monitoring what their employees do at work, especially with pornography so readily available on the Internet. Organizations need new policies that outline, direct and guide appropriate behavior.

An ever-increasing range of ethical issues are receiving attention from boards of directors, executives and senior managers. *Governance* is a major and growing area of policy responsibility for senior officials in private and public organizations. A wide range of other corporate, business unit and operative policies need to be developed if individual and organizational performance is to be optimized and not distracted or detracted by irresponsible, fatuous or otherwise misguided behavior. To ensure optimality, policies need to be well-researched, analyzed, discussed, thought out during their formulation, reviewed thoroughly and regularly, communicated and enforced effectively.

Well-developed policies are beneficial to strategic managers. While they may limit the scope, creativity and initiative of some managers, well-formulated policies facilitate optimal 3E performance by executives, managers and staff. Accurate policy statements provide consistent means to expeditious decision making. Policies need to be based on well-founded principles and standardized decision criteria. As directives, they have to be designed to guide the thinking, decisions and actions of managers and others in the organization as they formulate and implement their strategies, tactics and resource allocations. Policies provide guidelines and controls for personnel at all levels of the organization. Succinctly stated, policies are intended to:

1. facilitate quicker, more consistent decisions by standardizing guidelines and providing predetermined answers or criteria for routine questions;
2. promote uniform managing of similar issues and activities which helps to diminish uncertainty, confusion and conflict;
3. establish controls over otherwise independent actions, thus establishing parameters of authority and responsibility;
4. institutionalize desired patterns of behavior which helps to ensure that undesirable behavior, e.g., padding expense accounts or sexual harassment, is not condoned nor done by any employees;

5. accommodate optimal strategic, tactical, budgetary and other changes by clarifying expectations, safeguarding against emotional or expedient decisions and facilitating acceptance.

**Caution:** Managers need to beware of bureaucratizing the organization and its personnel by having too many policies rigidly enforced which unduly constrain or prevent them from performing their duties and responsibilities optimally. Such was the over-reliance and dysfunctional nature of the former Soviet Union. In fact, policy bound, bureaucratic “enterprises” exist today in Eastern Europe. On a macro level, Belarus continues to be guided by the centralist policies of its President. On the micro level, previous reference was made to the plant in Tambov, Russia. Five years after the breakup of the Soviet Union, “little Nikita” continued to follow the former Communist regime’s dictates in regard to product line, i.e., gas masks, brass valves and plastic house wares as well as subsidized housing and food supplies for employees. Other policy dominant, highly bureaucratized “enterprises” are manifest in a concrete plant in Gomel, a tractor plant in Minsk, a sawmill in Archangelsk and numerous obsoleting collective farms.

Policies take many forms. They may be formal or informal, explicit or implicit, consciously developed or evolutionary, written or spoken, disseminated or restricted. Each of these forms may be legitimate and useful or illegitimate, inhibiting or harmful to an organization and its strategic management. To achieve the optimal purposes, objectives, goals and performance of an organization, policies should be:

1. reflective of the *ideals* and *realities* of the organization and its stakeholders.

Policies must contain principles that guide members of an organization toward socially-desirable and economically responsible behavior. A policy that does not facilitate the attainment of the organization's legitimate aims or the legitimate means for achieving them does not served its fundamental purpose, i.e., the streamlining of legitimate decision making. Ideally, policies will prevent making decisions that will have adverse consequences to the organization and the organization presently and in the future. As with most foresightful decision-making, policy formulators consider the *likely logical consequences* that would flow from them. Using this principle enables managers to prevent as well as remedy problematic and issue situations;

2. *consistent*. Using the principle of likely logical consequences provides a basis for consistency. Whether or not the circumstances are repetitious or dynamic, managers must make decisions that are logically compatible with and conform to the organization’s circumstances. For example, in situations involving allegations, overt or implicit acts of sexual harassment, managers need guidelines which enable them to deal with such issues on timely and personally-sensitive bases. Such policies might be based on the common law principle of "presumed innocent until proven guilty" and facilitated by paid leaves until the matter is decided by a stated "due process";

3. *flexible*. While the previous attribute is based on consistency, which implies some degree of rigidity, policies need to be adaptable. Organizational and external factors, such as its culture, social norms, laws, rules and regulations, will influence the degrees of adaptability and rigidity that managers choose to use in making their decisions. Organizational stability will be "traded off" with dynamic influences. Policies, while they must be flexible to meet changes in decision situations, should not be regarded

too lightly, manipulated and changed or discontinued for minor "reasons" or expediency. Like stable organizations in general, policies need balance, e.g., between ideals and realities, between immediate tactical situations and long term strategic scenarios;

4. guidelines for decision making. Being policy-oriented assumes that managers will have discretion in making decisions. Policies should guide, even direct and control, but not obligate decision makers to make choices that are not socially-desirable and economically responsible;

5. in writing. Many organizations have tacit policies that have evolved, sometimes haphazardly through institutionalized behavior over time, e.g., paying the "gate-keeper" becomes bribery and a crime, and are adhered to informally. Such informal policies pose problems because different people have different interpretations and uses of them. In addition, some managers and owners have apprehensions about written policy statements. "I don't have the time to do them" or "They might need changing and that's a waste of time" or "We don't need them" are common excuses for not having written policy statements. Written policies provide explicit guidelines and directives. Reliability in decision making and consistency in performance tend to be seriously compromised by oral or implicit guidelines;

6. explained. To use policies optimally, managers and employees need to understand their bases, especially if they have not been involved in their development. While the reasoning and justification for policies should be inherent in formulating them, such logical bases need to be explained clearly to ensure that the policies are understood, used and enforced effectively; and

7. disseminated. To provide the understanding necessary to make policies optimally effective, they must be distributed to all relevant members of the organization. In addition, master copies should be available upon request by employees, their unions and other legitimate stakeholders of the organization.

### Scope of Policies

The scope of policies varies in degrees of specificity and discretion. The degrees of specificity is a function of the need for scope, organizational situations, managerial and personnel roles and responsibilities, time, money and other resources involved, information and intelligence and various other cogent considerations. The degrees of latitude depend on the freedom from decision restrictions available for relevant decision makers. Corporate policies tend to have the least specificity and the greatest latitude. By contrast, operative policies tend to have the greatest specificity and the least latitude. As with organizational strategies and tactics, policies may be usefully categorized as: *corporate, divisional, departmental or business unit and operative*.

### Corporate policies

Like objectives, corporate policies tend to be wide-ranging and philosophical, reflecting the purposes and aims of the "owners" and other stakeholders, traditional sectoral norms and ethical values of the organization, its personnel and their various influential environments, especially technological, economic, socio-cultural and legal. They provide consistent guidelines that deal with general, broad scope issues related to

many, if not all, aspects of the organization, its performance, strategies, tactics, resource allocations and related behavior. In a classic annual report, Alcan Aluminum Company identified 11 areas of corporate policy, including:

1. its employees, more specifically, promoting their understanding, attitudes, opportunities for personal development and advancement, occupational health and safety, wages, salaries and benefits and good faith for them and their representatives;
2. information about the company and its subsidiaries, notably about its accounts, overall structure, activities and performance;
3. its quality standards, particularly for the products the company supplies and support of similar efforts by trade associations and governments;
4. its competitive position, through continuing R&D, innovation, relevant technology and know-how, protection of industrial and intellectual property rights and recognition of such development and transfer;
5. pollution, by taking "all practical steps to prevent or abate all forms of pollution which result from our operations and to minimize requirements for energy and other natural resources in our processes";
6. accounting, by refraining "from the offer or receipt of improper payments and to ensure that all financial transactions are properly recorded...", "that books of account and accounting procedures are supported and reinforced by a comprehensive system of internal controls and ... available for inspection by the directors and auditors of the unit"; and
7. conflict of interest, directors, officers and employees in a position of trust to remain free of such commitments and relationships.

In addition to the areas outlined above, corporate policies commonly deal with key issues such as customers and public relations, product and service quality, technological research and development, the ecology and ethical matters.

#### Divisional, departmental or business unit policies

Divisions, departments or business units tend to be based on products, services, processes and/or some combination of them. They may have other bases for their structure, e.g., geography, customers, projects, technology or strategic unit. Typically, the policies are functional and vertically-oriented within different levels of the organizational hierarchy. They tend to focus on production, distribution, marketing, finance, human resources, administration, information systems, applied research and development and other component activities of groups or units of the organization. In recent times, these organizational units and their policies have become more, if not totally, strategic in orientation and function. The policies are vertically and horizontally integrated. They may be oriented toward a product, service, market, category of customers, region or other common foci of an organization. They are closely aligned to the development of the objectives, plans, budgets and structural arrangements integral to the strategies for which management is responsible.

Policies at these levels in an organization are commonly developed "under the umbrella" of the corporate policies. Once the corporate policies have been formulated or re-formulated, then managers and staff at the functional level have the responsibility to develop policies that are consistent with the corporate ones and that contribute to the direction and/or control of the unit's functions. Some managers, using a "bottom-up" approach to policy formulation, will utilize the inputs from the operative level before or while they develop and forward their policies upward in the organization.

### Operative policies

At the operative level, policies deal with a wide range of productive issues, including:

- \* conditions of employment, such as hours of work, sick or disability leave, coffee breaks, vacations, training, other employment terms and procedures;
- \* allowances for travel, sales activities, customer entertainment or public relations;
- \* production quality standards, facility and equipment maintenance and repairs;
- \* inventory procedures; and
- \* research and development processes, especially related to employee and public safety and concerns about ecological impacts.

Oftentimes, operative policies are closely aligned to and include rules, regulations or standards stipulated by governmental agencies or industry associations.

### How to formulate policies

Managers approach policy formulation in various ways. As a general rule, policies are "works in progress". They are evolving. Proactive strategic managers, with existing policies in place, use information and/or intelligence from its organizational and environmental monitoring, to review, evaluate and revise them periodically. Some managers formulate policies and apply them concurrently and congruently with other activities in the TSMP. Other managers develop policies in a more detached way. They do not want to get caught up in the flow of the organization or the swim of enthusiasm that envelopes people when they are creating plans, strategies and tactics. It is with this sense of detachment that formulating policies is presented in the TSMP as a separate activity.

Depending on the size, scope and complexity of an organization, developing policies may or may not be a complex, difficult management activity. Processes may be needed to simplify and streamline policy formulation. The following process will assist managers in such development.

1. Decide on the *need* or *use* for the policy. New organizations or units generally need policy statements to establish values, stipulate principles and guide managers and other stakeholders who evaluate situations and make decisions. Existing organizations need policies to assist managers and others who are responsible for dealing with changing situations, especially those circumstances that result in *issues* or *conflicts*. How many organizations have policies on technology transference or sexual harassment in the

workplace? How many had such policies 5, 10 or 20 years ago? Such needs arise frequently and can be dealt with proactively, concurrently or reactively.

2. Decide on the *definition* of situations, values and principles to be incorporated into the policies. Nothing destroys the effectiveness and efficacy of policies quicker than irrelevant statements. Policy-makers must state and explain policy statements clearly to the people who may be influenced by them. Management must ensure that policies have precise purposes, values and principles. So they are not abused, policies must also have context and limits to their use(s).

3. Decide on the *level* and *scope* of the policies. While the managers of a small organization may choose to develop one common set of policies that encompasses many aspects of management, large, multinational corporations will have policies that are common to all, e.g., "thou shalt not sexually harass other employees", and unique to more specific aspects of management, e.g., "thou shalt not give technological knowledge to competing companies". The small organization will likely have one level and limited scope inherent in its policies. The corporation will likely have policies relevant to three, e.g., corporate or general, departmental or functional and operations, or more levels and a vast, complex set of issues, circumstances and situations.

4. Decide on the *issues* that have the greatest actual or potential impact and prepare policies based on such *priorities*. Identifying the areas in which policies are needed is facilitated by listing, evaluating and agreeing on the *risks*, *opportunity costs* and *benefits* and/or other *impact measures* of likely occurrences, e.g., employees arriving late to work, disrupting work flows and negating the 3Es or employees being discriminated against and taking legal action against the organization. By focussing on the organization's aims, managers can be directed in their efforts to formulate policies on a priority basis. Priority policies can be developed by applying the principle of likely logical consequences to the issues of greatest threats or opportunities. Focussing on desired strategic and tactical results also contributes to determining the policies of highest priority. By obtaining a consensus on the most influential issues, management is better able to focus its policy development efforts.

5. Delegate the preparation of specific policies to the people with the most relevant experience and expertise. In any size of organization, few managers will have the time or talent to prepare a *magnum opus* (a great work) of policies. Several people will be required to contribute their experience, expertise and resultant values as well as their knowledge of policy situations, sound management principles and practices. At this stage in the process, policy statements must be elaborated or distilled, evaluated, modified and tested for their desired effects on the issues or decision situations that managers, personnel and other stakeholders are likely to encounter in the future.

6. Communicate the policy statements to the relevant stakeholders. Implicit in the communication of policies are management's responsibilities for disseminating them, facilitating relevant evaluations and utilizing the feedback from people interested in their optimal use(s) and benefits. Policies must be prepared in written format and disseminated to all relevant stakeholders. Clear, concise statements of policy and explanation will enhance the 3E results of the policies by expediting decision making. While a complete set of policies may be kept in a central location, e.g., the organization's annual report or a website, specialized sets should be distributed directly to relevant locations throughout the organization. Employees should be reminded about the contents of the policies, their

availability and of opportunities to read and/or discuss them. Policies should not be the organization's "best kept secrets".

7. Review and revise the policies developed A process of critical review and substantive revision is necessary to ensure reliability, validity, timeliness and practicality of policy use. Suitably qualified experts from inside and outside the organization, e.g., lawyers, accountants, management consultants, union leaders and/or governmental officials may be used. In large organizations, directors with governance responsibility, review and revise senior management's policies. In turn, senior management reviews and revises middle management's directives and middle managers do similarly to operative level policies. Such a process helps to ensure consistency and applicability between and among the policies in all levels and areas of the organization.

#### How to use policies optimally

Managers who are familiar with and have utilized policies in their organizational endeavors will have their own ways of using (or abusing) them. Notwithstanding such realities, a few suggestions might be useful to experienced and neophyte policy makers, implementers and adapters. The suggestions include:

1. Be certain that the relevant employees and managers know and understand the purpose(s) and principle(s) underlying the policies;
2. Be sure that the policies are consistent with and applicable to the aims, means and realities of the stakeholders' circumstances, the organization's situations, including its environment, strategies, tactics, programs, activities and resource allocations;
3. Use the policies as a "boatman's paddle", not a cripple's crutch. Policies should not be relied upon as the sole means of making or carrying decisions;
4. Policies should be used to direct, guide and control but not to rigidify an organization; and
5. Keep policies current and relevant to situations encountered by the organization, its management, employees and other pertinent stakeholders.

At this point in the TSMP, management is becoming well-oriented. It has a clear sense of purpose. It has searched and continues to search for intelligence and information that will define the organization's situation and provide valid and reliable substance for analyses. A well-defined and analyzed set of circumstances provides management with a situation that is conducive to guidance by various types of thoroughly prepared, tactical and strategic policies. Management is enabled to go forward to forecast futures, prepare scenarios and set objectives and goals.