

## Activity 17. Review Policies

... a manager who has developed the capacities needed for the recognition of consequences and the analysis of potential problems has moved into the select ranks of those who are competent to make and implement policy decisions about future operations. Kepner and Tregoe, *The Rational Manager*, p. 228.

### Introduction

Integral to the Review Stage of the TSMP is the anticipation and recognition of evolving situations and the use of forethought to guide management in making its future decisions and taking actions optimally. Hence the reviews of operations, the organization and its human resources, budgets and policies as well as other key components of plans, programs, activities and resource allocations require “sober second thought”, reflection and evaluation before they are implemented. Without such forethought, managers are confined to the processes of afterthought. *Ibid.* While extremely valuable, this is always one step behind the march of events and reactionary to other forces and conditions that shape the future of an organization and its success or failure.

Typically, the thrust of progressive management is forward (sometimes “fast forward”) toward achieving organizational aims in the future. With that prevalent mindset, managers often fail to examine, evaluate or reflect on organizational policies and other vital components of its strategies and tactics before they proceed. Entrepreneurs and small business owners are notorious for not having such guidelines. “Shoot, aim, ready” is their credo. They are too busy doing to develop policies. Other limitations abound. One study concluded that policies are often unclear and for a variety of reasons are not followed. John Hendry, “Strategy Formulations and the Policy Issue”, *Journal of General Management*, Vol. 20, Issue 4, Summer, 1995, p. 54. Consequently, many organizations are “out of control”. Decisions are made hastily. Corrupt or other “wrongheaded” actions are taken with the consequences being that the organization and its stakeholders suffer. With all the pressures of managing, including work and social obligations, time and its opportunity costs, the need for urgent decisions and demands for action, directors and managers at all levels are well-advised to “make haste deliberately”. They need to reflect, evaluate thoroughly, discuss and argue issues and, if necessary, revise policies to guide the organization’s endeavors successfully. One only needs to consider the malfeasances and mismanagement of many corporations and governmental bodies throughout history, especially recent times, to be reminded cogently of the necessity and benefits of a policy review process. While they are no panacea, policy reviews are a vital activity in the TSMP.

In countries where shareholders are demanding more responsible governance, policy reviews help to ensure that they are timely and congruent with the prevailing norms of its stakeholders, society, government and regulatory agencies. Would Conrad Black (Hollinger International), Bernard Ebbers (World Com), Dennis Kozlowski (Tyco International Ltd.), Kenneth Lay and colleagues (Enron Corp.) and John Rigas and his sons (Adelphia Communications Corp) been able to mismanage and plunder the corporations they headed if their directors had dutifully reviewed, revised and applied “good governance” policies? Would multitudes of other executives, managers and personnel be so readily able to “rip off” their organizations if policies were prepared and regularly reviewed on a participatory, revised and enforced basis? Whether it is American, Asian or European executives stealing millions or workers in Belarus selling

cement “out the back door”, the need is the same: establish, maintain and apply policies to aid in guiding and controlling the decisions and behavior of the organization and its members. To ensure that policies are 3E, review processes are required to monitor, evaluate and control the functions and operations of an organization as well as guide the morality of management and personnel throughout the organization.

Organizations, especially corporations, are encountering increasingly adverse reactions to such mismanagement, growing pressures and practical reasons for policy reviews that assess the ethical and social responsibility of business managers and personnel. In the United States, for example, the Federal Organizational Sentencing Guidelines (1991) allow courts considerable latitude in sentencing firms for violating federal laws. Fines may be reduced substantially if the convicted company is deemed to have an “effective compliance program” which includes a well-supported code of ethics. Companies such as Daiwa Bank (fined US\$340 million for failing to report trading losses) and Archer-Daniels-Midland (fined US\$100 million for anti-trust violation) exemplify sentence imposed under the Sentencing Guidelines. Mark Schwartz, “Business ethics: Heat’s on to get an effective code”, *The Globe and Mail*, November 27, p. B2. Without such policy guidelines, the fines could have been many millions more.

In Canada, several institutions have required or advised corporations to develop ethical codes and policies. For example, the federal government has endorsed a voluntary International Code of Ethics for Canadian Business that addresses such issues as bribery, human rights and worker health and safety. Hundreds of companies signed on to the code. How many of the companies were role-playing their “social responsibility”? How many were genuinely committed to the code, have followed its principles and been guided in their own policies and practices? All deposit-taking institutions are required by the Canada Deposit Insurance Corporation to develop a comprehensive code of conduct that is reviewed periodically and ratified by the institution’s board of directors. The Canadian Competition Bureau advises corporations to implement and support a code of conduct. The Canadian Institute of Chartered Accountants urges directors to approve a suitable code of conduct for their organizations. The Ontario Human Rights Commission advises organizations to develop and distribute a policy statement, supported by training, that deals with discrimination and harassment.

In the international arena, where corporate morality is the most derelict and exploitive, policy guidelines have been formulated and communicated to businesses throughout the world. For example, the Organization for Economic Cooperation and Development (OECD) has developed international standards for corporate conduct. In 2003, an United Nations panel of experts reported that eight Canadian companies active in the Congo were violating the OECD Guidelines for Multinational Enterprises. Madelain Drohan, “Talisman is not alone”, *The Globe and Mail*, March 12, 2003, A15. The guidelines were prepared by governments and corporations to ensure that companies had policy guidelines and were socially responsible in a range of practices, including human rights, taxation, competition and information disclosure. Would policy reviews based on such guidelines improve the social responsibility of deviant companies operating in developing countries where governments, military, security forces and most others are receptive to bribes or subject to coercion and the illegitimate use/abuse of corporate power? Would policy reviews by a long list of other companies around the world have kept their managements

from continuing to produce unsafe products or otherwise exploit natural and human resources? One is doubtful when experience and observations by experts indicate otherwise. “Multinationals have no ethics. They will deal with the devil himself”, stated a member of the CIA Covert Operations unit. Robert Steele, “The Passionate Eye”, *Newsworld*, Canadian Broadcasting Corporation, November 1, 2004. An imperative part of policy reviews is ensuring that processes and mechanisms are available and useable to achieve the necessary adherence to appropriate policies.

A major survey by KPMG found that two-thirds of Canada’s largest corporations and 90 percent of the largest companies in the United States had codes of ethics. These documents often included statements of the company’s core values and also discussed to some extent the corporation’s obligations to its stakeholders, both internal and external to the organization. Are such codes merely “window dressing”? Results of the survey showed that Canadian companies could do much more to implement effectively the ethics policies that they have developed. John Heinzl, “Survey finds few firms act on code of conduct”, *The Globe and Mail*, February 21, 1997, p. B11. While 66 percent had a published code of ethics, 21 percent offered ethics training and 22 percent had a formal system to protect employees who report ethics violations. However, policy reviews like other progressive management acts are no guarantee or panacea of ethical success. In the Hollinger International situation, where systematic misallocations of funds occurred for years, the directors “waived” the corporation’s code of ethics thus aiding and abetting the use of the corporation as a “piggy bank” to be robbed by senior executives.

#### Nature of policy reviews

The basic purpose of policy reviews is to ensure that the strategic and tactical plans, programs, resource allocations and performances are being guided and controlled according to the aims, principles and progressive practices desired by the organization and its stakeholders. A well-purposed, structured and “policed” review process provides a range of guidelines, i.e., from moral to administrative and operational, for making decisions and taking actions. Reviews are intended to ensure that policies do not unduly obstruct or misdirect the decision making necessary for optimizing strategies, tactics or resource allocations.

Commonly, managers fail to appreciate the merits of evaluating policies and their relationship to past, present and future plans, programs and resource allocations. It is not a “sexy” job. Too often, policies connote bureaucracy and dusty tomes of legalese jargon. Such perceptions alone justify regular reviews of policies. Regular reviews, done diligently, keep policies timely and useful. Like personal medical checkups, policies require re-examination periodically, at least annually. If not, the risk of serious mistakes and repercussions heightens. Such critical evaluations are necessary to ensure that policies are current, complete, relevant and serving the best interests and responsible intentions of the organization. Like preventive medicine, policy reviews are intended to safeguard and enhance the performance of people and collectivities of people or organizations presently and in the future. Recent research has shown that “firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures and made fewer corporate acquisitions.” Paul A. Gompers, Joy L.

Ishii and Andrew Metrick, "Corporate Governance and Equity Prices", *Quarterly Journal of Economics*, 118 (1), February 2003, p. 107. As the research indicates, directors and senior management have practical reasons, i.e., better results, for doing policy reviews and ensuring that its organizations are socially responsible and well governed. A regular and rigorous review process assists directors and managers in being vigilant of what is being contemplated and the new and/or modified policies that are required to achieve organizational aims in 3E ways.

Changing circumstances, such as evolving social norms, competitive conditions or technological developments, require management to ascertain whether or not policies are needed or existing ones need to be modified. As organizations evolve and its personnel encounter new situations, additional policies may be needed to facilitate 3E decision making. With changing situations, some policies become obsolete and cease to be useful. Unlike the Lancashire mill workers a century or more ago, today's employees do not need to be reminded "to wash their hands and face every two days" as stated in the Employees Notice, circa 1900. Policy reviews keep policies current and applicable. With changing situations, management must up-date and/or eliminate policies. Over time policies accumulate. Excessive size, scope and detail make them dysfunctional. Whether it is being out-of-touch with reality, incompleteness, excessive volume and detail, lack of clarity, inadequate communication or other shortcoming, managers are well-advised to examine their policies critically and revise them to ensure their usefulness.

The need for policy reviews is increasingly recognized by leaders at the highest levels, be it international organizations such as the United Nations or the OECD, national governments, regulatory agencies, industry associations and/or corporate directors. In Canada, for example, a national organization has been established to help corporate directors deal with their growing fiduciary and supervisory responsibilities, financial, legal and regulatory obligations and other vital aspects of governance. In its first public publication, the CCAF-FCVI focussed on the information that directors need for policy and other corporate-level decisions that relate to strategies and organizational performance. See the Canadian Comprehensive Audit Foundation-Fondation Canadienne pour la Verification Integree, (CCAF-FCVI) Inc., "Information: The Currency of Corporate Governance", Ottawa, 1997. While the main emphasis of the Foundation has been on accounting and financial information, it has broadened the scope of the informational requirements to include a range of policy and governance matters. As the TSMP model illustrates in Exhibit I, the continuous monitoring and search for information and intelligence available in the environment and within the organization provides necessary and timely inputs for policy reviews.

For various reasons, greater attention is given to policy reviews by organizations in the public sector of democracies. One reason for such reviews is the public's right to know what governments do, especially when taxpayers' monies and related legislation are involved. Freedom of information legislation enables, although does not ensure, such access. By contrast, business organizations tend to consider policies and their reviews, if they do them at all, to be highly confidential if not secret activities, despite the reality that shareholders provide much, if not all, of the capital for share companies. Business organizations are not policy-driven or reliant. By contrast, public policy is an important

basis of democratic politics and government. For that reason, policies and their reviews tend to be more open, transparent and involve interested individuals and groups.

Whatever the reasons, progressive policy evaluations of strategic endeavors have emanated from governments in several countries. For example, under political and public pressure to cut spending and taxes, governments at all levels in Canada, Great Britain and the United States, have promised and endeavored to deliver public services in 3E ways. (Coincidentally, the 3E approach to management originated in the public service.) In Canada, three years of policy, budget and organizational reviews, program evaluations and major cutbacks in spending were required to transform the federal government from incurring annual deficits to one that achieved an uninterrupted series of annual surpluses.

In the United States, state and federal agencies have reviewed key issues and related policies to ensure that they are consistent with and supportive of the strategies being considered. Sharon I. Caudle, "Managing Information and Technology for Results", *Public Manager*, Vol. 32, Issue 1, January, 1994, p. 48. In the United Kingdom, strategic efforts to utilize science, technology and engineering for increasing the competitiveness of businesses were based on and subject to policy reviews provided in the government's 1993 landmark report entitled "Realizing our Potential: A Strategy for Science, Engineering and Technology". Micael Freemantle, "Foresight Program Aims to Increase Industrial Competitiveness", *Chemical and Engineering News*, Vol. 73, Issue 27, July 3, 1995, p. 16. This document contained the first major policy review in this vital strategic area in more than two decades. Similarly, after 20 years of inward-oriented development strategy, Turkey undertook a comprehensive policy review to correct its worsening economic situation. Subidey Togan, "Trade Policy Review of the Republic of Turkey", *World Economy - Global Trade Policy Supplement*, 1995, p. 107. For the future, the Turkish government realized that the long term objective of increasing the GNP per capita could be facilitated by a strategy and policies involving a customs union with the European Union. Such a strategy required major changes in the social, political and economic policies, programs and resource allocations which the government undertook, in part, based on its policy reviews.

Changes in strategies, tactics, related programs, activities and resource allocations usually require changes in their decision criteria and policy guidelines. Reviewing, revising and/or re-formulating policies aids management during the Implementation Stage, especially when it needs to choose and activate strategies and tactics. Such reviews are guided by the corporate purposes and aims of the policies, i.e., to provide top-down guidance for operating and services managers, supervisors, employees, external suppliers and others for the ways, times, qualities and other criteria of performance. Policy reviews are guided by other general criteria such as consistency, dependability and stability in the organization, especially during times of strategic changes. In 2002, as a response to customer complaints, McDonalds made a public commitment to eliminate trans fats from its fried foods within two years. By 2004, the strategic changes in preparing its fried foods had not been made. Would a review of food preparation policies have aided management in eliminating trans fats and dependably keeping its promise to its customers and the general public?

Policy reviews help to align motives, behavior and actions with strategies and tactics in the organization, placing limits on independent decisions and activities and

channelling individual and group efforts toward desired objectives and goals. Thompson and Strickland, *op. cit.*, p. 381. Policy reviews establish or re-establish guidelines for decisions and actions that may be unknown, forgotten or contrary to some members of the organization. Most managers and other employees are reluctant to be contrary to organizational policies or ignoring well-established practices and decision principles. *Ibid* Reviewing policies is one way to ensure that progressive principles and practices are communicated and understood, if not completely acceptable. With the ever-increasing size and number of locations of many organizations, notably global corporations, the need for consistency and sensitivity in decision-making and actions is aided by policies and their timely reviews. Policy reviews contribute to the need for and adjustments to cultural, social, political and governmental sensitivities. Revising out-dated or ineffective policies and establishing new or modified ones usually alters the internal work climate, activities and sentiments. Policy reviews provide 3E ways of sensitizing people and changing the organizational culture and values to result in more participation, involvement and commitment to achieving the aims of strategies and tactics. “Thus, there is a definite role for new and revised policies and procedures in the strategy implementation process.” *Ibid.*, p. 38. That role is based on socially responsible and progressive management.

Larger organizations (“bureaucracies”) are more likely to establish and communicate policies formally. Such communication facilitates their review. By contrast, if they exist, policies of smaller organizations, especially entrepreneurial companies, are more difficult to evaluate because they tend to reflect the unique values and behavior of the owner and are communicated informally, implicitly and haphazardly. Such “policies” create difficulties, conflicts, dysfunctional relations and sub-optimal performance in the organizations. In all sizes and types of organizations, policy reviews seldom occur unless relatively serious issues arise. Then, management looks to its policies for a solution, a position or, at least, an explanation for what has happened to the organization or people related thereto. Even the United States Navy, a long established and highly bureaucratized, formal organization, was caught with its policy “pants down” before, during and after the sexual escapades and harassment trials of several officers in the mid-1990s.

Reviews need to investigate and evaluate more than the substance of the policies. They need to assess critically the processes and methods used by managers and employees to develop, implement, enforce and adapt the policies to legitimate managerial and social values. Based on KPMG’s 1997 Business Ethics Survey, employees often get the impression that breaches of policies are condoned when managers demand that the employees do “whatever it takes” to achieve an objective. Staff, “Cutting corners”, *The Globe and Mail*, June 24, 1997, p. B10. Policies are undermined by bosses who claim that “everyone does it” or “no one needs to know about it”. Not having or using appropriate ethical and legal safeguards also diminishes the effectiveness of policies.

Policy reviews at different levels will have different scopes, focusses, sets of relations, timing and methods or processes. Exhibit 17A provides a basic matrix framework which is useful for organizing policy reviews

Corporate policy reviews considers the organization’s overall governance and how effectively its management is achieving general aims, safeguarding resources and being perceived by various publics and stakeholders. External relations are vital to the

effective monitoring and evaluating of policies and their effects on strategic performance corporately. The enormity of fiduciary and other responsibilities, the lack of relevant policies, the complexity of situations, the vast amounts of information, intelligence and “noise” confronting boards of directors has resulted in some dire consequences for organizations as disparate as the U.S. Navy, Exxon Corporation and the National Football League.

### Exhibit 17A

#### Policy Review Matrix

<u>Policy Level</u>	<u>Scope</u>	<u>Focus</u>	<u>Relations</u>	<u>Process</u>	<u>Timing</u>
Corporate	- general - long term  - strategic	- image - performance - fiduciary, legal, financial and regulatory obligations	- primarily with government, banks, industry, business unit managers, key stakeholders	- external and internal monitoring, evaluating & revising of policies & strategies	- monthly issues; - quarterly performance - annual comprehensive
Business Unit	- functional - medium & short term	- product/service financial, HR, marketing and production performance issues	- with corporate and operating levels; industry; R&D, specialists key customers, suppliers, other stakeholders	- external and internal monitoring; performance, strategic and policy issues evaluations	- on-going usefulness tests; - periodic issue review - complete annually
Operative	- productive activities	- physical input and output, e.g., people, materials equipment, plant - productivity standards and processes	- with functional/ business unit; industry suppliers and technical sources	- external and internal scanning, evaluating, testing of inputs, processes and outputs	- on-going analyses of productivity for periodic reviews and revisions of policies

Business unit reviews focus on policies related to their customers’ environment and the performance of product- or service-specific strategic plans, programs, activities and resource allocations. Since this level of policy review is between corporate and operations, internal relations are vital. Since business units need to survive and grow in an external set of circumstances, external relations with customers, suppliers and governmental agencies are especially important. Reviews are done to determine how policies accommodate environmental circumstances and contribute to or detract from the performance of functional strategies and their inherent programs, activities and resources.

Policy reviews at the operations level deal with the activities and behavior directly related to the actual input, processing and output of the organization. Reviews consider

the appropriate relations with suppliers, competitors and governmental agencies, e.g., health, safety, fire and building inspectors. External scanning is focussed on these and other sources of direct influence on the organization's productive strategies, related programs and activities. Most of the monitoring done by management focusses on the internal influences on strategic performance.

#### How to review policies

1. Decide on the purpose(s) and objective(s) of a policy review. A basic aim is to ensure that policy statements provide meaningful direction, guidelines and controls for decision makers. Each manager will have more specific aims to achieve from such an evaluative exercise.
2. Identify measures, notably principles and values, that can be used to evaluate policies related to strategic and tactical decision making. Such measures will range from subjective, qualitative expert judgments to objective, quantitative standards of performance. Each level of management will have measures that are applicable to their area of authority and responsibility.
3. Apply the measures to the policies under review to determine whether or not the policies meet the standards set. Where policy measures deviate significantly from the standards, then the reviewers need to:
  - a. examine the nature of the derivation(s);
  - b. review the standards to confirm their applicability;
  - c. assess the use of the policies to determine whether or not their use was flawed;
  - d. evaluate the circumstances surrounding the formulation and application of the policies; and
  - e. determine what changes, if any, are necessary to ensure that the policies can be used to achieve the aims established for them.
4. When justified, make the necessary modifications in the policies, their measures of evaluating and/or the ways they are used to direct, guide and control organizational strategies and tactics.

The following key questions may help managers perform policy reviews:

1. what aims (purposes, objectives) are to be achieved by doing a review?;
2. what policies need to be reviewed? why? when? where? how? by whom?; and
3. what standards or norms are used to evaluate policies?