
UNIT 16 CORPORATE POLICY*

Structure

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16.0 OBJECTIVES

After studying this Unit, you should be able to:

- explain the concept and features of corporate policy;
- discuss the importance of corporate policy;
- describe the internal factors that determine the formulation of corporate policy;
- identify the external factors that influence corporate policy;
- describe the steps involves in formulation of corporate policy;
- classify corporate policy according to different variables under consideration;
and
- classify corporate policy according the areas of work it covers.

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16.1 INTRODUCTION

Corporate policy is basically a set of statements containing broad guidelines which is created after analysing all internal and external factors that can affect an organization's objectives, operations and plans. Usually, the top management has the responsibility of formulating corporate policy for the concerned firm. It is an organization's response to known and knowable situations and circumstances. Corporate policy lays the basis of formulating and implementing corporate strategy which in turn directs the plans, programs and procedures of action, all directed towards achievement of organizational objectives. The primary goal behind formulating corporate policy is to protect the rights and interests of employees' and shareholders'. Corporate policy is nothing but a formal declaration of the guiding principles according to which the management will function. On the face of it, corporate policy may appear complex but actually it is the simplest statement helping the management to direct all its actions towards achieving the common goals of the organization. In today's fast changing world, it is very important for corporate houses to have corporate policy if they wish to compete. Without corporate policy, it will be difficult for a business house to thrive, or even survive.

16.2 MEANING OF CORPORATE POLICY

Corporate policy can be defined as the guiding principle which helps the company to achieve its objectives while performing its routine tasks in an effective and efficient manner. But a lot of contradicting views are attached to the definition of corporate policy. Corporate policy can be defined as "Management's expressed or implied intent to govern in pursuit of the company objectives". Corporate policy indicates the intention of the management on how various issues and problems should be dealt with. Following are the three major viewpoints regarding corporate policy.

- i) In the first category are the researchers who hold the view that policy and strategy are synonymous. As per their viewpoint, corporate policy is the same as corporate strategy. According to William Glueck corporate policy or "management policy is long range planning. For all practical purposes, management policy, long range planning and strategic management mean the same thing." However, this viewpoint is very controversial as corporate policy and strategy are not at all synonymous. Strategy is defined as, "the determination of basic long-term goals and objectives of an enterprise, and the allocation of resources necessary to carry out these goals", whereas corporate policy includes simple statements or assertions stating common behavior of an organization, its management and employees about how to deal with the various day to day problems. Hence, this viewpoint cannot be accepted as corporate strategy and corporate policy are different from each other.

- ii) The second viewpoint is held by people who think that corporate policy is the process of implementing corporate strategy. Robert Mudric, in support of this view, says that corporate policy establishes guidelines and limits for discretionary action by individuals responsible for implementing the overall plan. Supporting this view, Frank I. Paine and William Naumes hold the view that “Policies guide and channel the implementation of strategy and prescribe how processes within the organization will function and be administered. Thus the term policy refers to organization procedures, practices and structures, concerned with implementing and executing strategy.” As per this view corporate policy is considered to be restricted to achieving the strategy.
- iii) As per the third and the broadest view, corporate policy is the decisions taken for future planning of the organization. In its support, Robert J. Mockler defines corporate policy as, “Strategic guidelines for action. They spell out what can and what cannot be done in all areas of a company’s operation.” Corporate policy helps the managers to identify the various problems they are faced with and the basic solutions to take decisions in those problems. Corporate Policy gives management the framework to take decisions.

16.3 FEATURES OF A CORPORATE POLICY

Let us bring out the salient features of corporate policy. They are as follows:

- Corporate policies are formulated with the long-term in mind. They are generally formulated drawing from the corporate vision and mission. Corporate policy usually does not change frequently.
- Corporate policy helps in achieving organizational objectives as it guides the management to focus on important tasks.
- Corporate policy is nothing but general statements which guide the basic code of conduct for all levels of management in the concerned corporate firm.
- Corporate policy is a positive declaration or assertion that acts as motivator for all the members of the organization and hence motivates them to work towards achievement of objectives.
- Usually corporate policy comprises general statements but sometimes it can be specific containing words like “to maintain, to follow, to provide, etc.”
- In order to be able to devote their time on more important work, managers formulate policies for routine tasks which give guidelines to subordinates to follow to perform routine tasks.
- In this way, policies help in delegation of work among different levels of management. Corporate policy, therefore, is also a guide for employees to perform repetitive day to day operations.
- Corporate policies help in creating a unified organization structure as they provide a plan of action to be followed in various situations.

16.4 IMPORTANCE OF CORPORATE POLICY

Careful formulation and implementation of corporate policy is very important. Just as a guides the students, corporate policy is the guiding light for managers. It helps them align their day-to-day activities with realization of organizational goals.

- Top level managers can focus their time and energy on other important tasks as the routine tasks can be done by lower-level management which have been explained explicitly in the Corporate Policy.
- Corporate policy helps in smooth performance of business activities.
- Delegation of power of decision-making is promoted by good corporate policy structure.
- Achievement of organizational goals is much easier with the help of corporate policy.
- Corporate policy helps in better coordination and control in a firm
- Performance analysis is easy with the help of corporate Policy as it provides the benchmark of required performance.
- Corporate policy sets a good platform for decision making.
- Properly formulated corporate policy provides steadiness to all routine task done by the members of the organization.
- Appropriate corporate policy steers the actions of all associated with the organization in the same direction in which all management pursuits are targeted.
- Employees feel committed to work and loyal to the firm when they know that there are corporate policies in place for everyone to follow.
- Good corporate policy aids in setting good public image of the company.

Thus, we can say that corporate policy is an important document for every organisation. Corporate policy helps in multi-facet development and growth of the entity. It gives immense satisfaction to the members of the organization with regards to working culture, organizational structure, authority-responsibility relationships to name a few.

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your progress with those answers given at the end of the unit.

1) What are the main features of corporate policy?

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- 2) What is the importance of corporate policy?

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16.5 DETERMINANTS OF CORPORATE POLICY

Corporate policy of an entity is formulated keeping in mind a number of interrelated factors. These factors influence the working of the company as a whole. These factors can be classified into two broad categories: (i) internal factors, and (ii) external factors. Internal factors relate to the micro environment of the company. These factors influence the decisions of the managers directly. External factors, on the other hand, relate to the macro-environment of the organization. These factors act from outside the organization and hence they affect the organizations' decisions indirectly. We discuss both these factors in detail below.

16.5.1 Internal Determinants

As pointed out earlier, internal factors have a direct influence on corporate policy. Such factors are present in the immediate environment and hence a little change in them has a major effect on the corporate decisions of the organization. Internal determinants of corporate policy could be corporate mission, corporate objectives, corporate resource and management values which are all internal to the organization and play a very important role in the formulation of the corporate policy.

- 1) **Corporate Mission:** The very purpose because of which the company is in existence and the reason behind its operations is the corporate mission of the company. Top management should understand the company's mission very clearly and hence should make the corporate policy for middle and other lower-level management in line with the mission and vision of the organization. Hence, corporate mission forms the basis of formulation of corporate policy of the organization.
- 2) **Corporate Objectives:** The mission of the company is divided into small, time-specific and measurable targets to be achieved. These are known as corporate objectives. Corporate policy is formulated keeping in mind the overall objectives of the organization.
- 3) **Resources:** Resources determine the nature, extent and timing of the working of any organization. Manpower, specialization, expertise, personnel skill, competitive position, nature of products, capital invested in the organization, size of the plant, latest technology available with the company, etc. are all example of resources. All these factors have a direct impact on the corporate policy of the company.

- 4) **Management Values:** An organization's vision, mission, policy, objectives and strategies are steered by the top management's values. Management values are nothing but the perception of the top management towards available opportunities and utilization of the firm's strengths to act in a specific way. All organizations should be guided by ethical values of honesty, fairness to employees, accountability, ethical work practices, sustainable development, teamwork, etc. Every organization, however, has different set of values to guide their corporate policy.

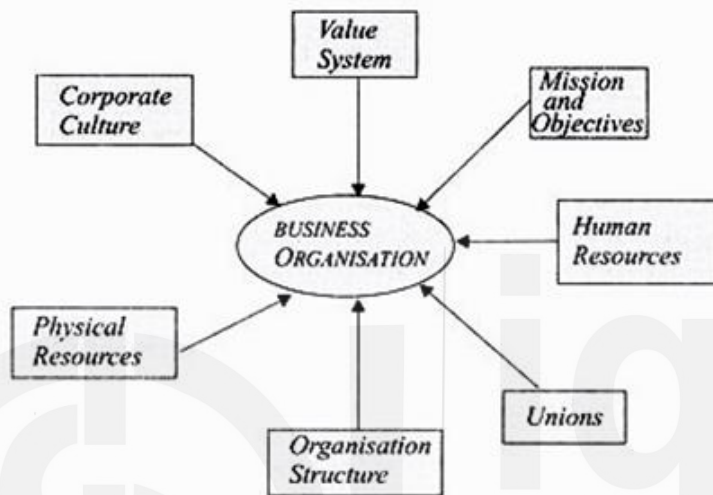


Fig. 16.1: Internal Determinants of Corporate Policy

16.5.2 External Determinants

External determinants have an indirect influence on corporate policy. These factors are present in the outside environment and influence from outside the organization. The external determinants of corporate policy include the industry structure, social environment, legal environment, political environment, economic environment and technology.

- 1) **Industry Structure:** Industry structure includes the number of competitors in the market, the size of the market captured by the company and its competitors, the barriers to entry and exit the market, and various strategies and policies followed by the organization and its competitors. These factors decide the existence and growth of the organization in the industry. Industry structure affects the formulation of corporate policy of the organization.
- 2) **Social Environment:** The social environment in which the entity operates affect the formulation of corporate policy of the organization. Social environment includes religious, cultural, ethnic and social beliefs of society and management in which the organization operates. All these affect the working of the organization.
- 3) **Legal Environment:** An organization has to operate within the framework of government policies and acts such as monetary policy, fiscal policy, direct

and indirect tax regimes, etc. The legal environment plays a major role in setting out the corporate policy of a firm.

- 4) **Political Environment:** Stable political environment in a country helps the corporate sector to flourish. If there is political rivalry, unstable government and lack of credibility of government policies, corporate firms do not find it favorable to establish business in that state.
- 5) **Economic Environment:** Economic environment of an organization includes the existence of market for the product it produces, availability of raw materials and skilled workers, presence of infrastructure such as road and rail connectivity, etc. Further, price trends in the market, unemployment rate in the economy, growth rate of gross domestic product (GDP) influence the growth of the firm. Hence, all these factors should be considered while formulating corporate policy.
- 6) **Technology:** In present scenario, technology is changing at a very fast pace. In order to function and grow in today's time a firm has to keep itself abreast of the latest technological developments. Thus, corporate policy cannot be formulated without keeping such technological changes in mind.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your progress with those answers given at the end of the unit.

- 1) What are the internal factors that influence corporate policy?

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- 2) List the external factors that affect the formulation of corporate policy.

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16.6 PROCESS OF FORMULATING CORPORATE POLICY

Corporate policy is such that it should be able to address almost all the workplace issues. Thus, the top management of a firm should be careful while formulating corporate policy.

16.6.1 Steps in Formulation of Corporate Policy

While formulating corporate policy a firm should consider the following steps:

- 1) **Problem Definition:** The first step in policy formulation is identifying the need for the policy. Top management should observe the working of the entity and see how the members of the organization deal with problems at

work and find out the areas which need improvement. For example, if employees are misusing the attendance register the top management may consider installing a biometric for the same.

- 2) **Designing the Policy:** The team involved in formulation of corporate policy should first draft the proposal of the policy and get it approved from the top management. The draft should contain the following points:
 - a) Key issues to be addressed by the policy.
 - b) It should not include any loopholes for subordinates to misuse them.
 - c) It should include the do's and don'ts of the new policy.
 - d) It should also state the penalty or punishment or any disciplinary action that shall be taken for violating the policy.
 - e) For legal dimensions attached to the policy, legal experts should be consulted.
- 3) **Policy Adoption:** This is the most important phase of policy formulation. Once the policy has been approved it must be communicated to all the stakeholders. In order to reduce aversion from employees (as many people do not like change) the organization can take the help of informal grapevine mode of communication such as one can first tell them informally that a new policy is going to be implemented from a prospective date and take feedback instead of directly implementing it or issuing a notice regarding the same. In this way the employees feel a sense of belongingness as they think that they have a say in the working of the company.
- 4) **Policy Implementation:** After policy adoption, the policy can be implemented from a suitable date. The policy document must be available for all to read either on company website or notice board. There should be no unwritten rules for the same. Also, employees should be motivated to follow the new policy. The management should provide the basic infrastructure for implementation of the policy. For instance, if biometric is installed for marking attendance, the management should install biometric machine and ensure that it is working all the time.
- 5) **Evaluation:** No policy can be effectively implemented if it is not monitored or revised periodically (monthly, quarterly or annually). Organizations should assess that there is proper follow-up and evaluation of the policy. After the evaluation process, management would be in a state to decide that whether to amend the policy or it should be left like the way it is. If the management finds out that if any loophole in the policy document is being misused, then it should be reviewed.

16.6.2 Assessment of Corporate Policy

Policy formulation and implementation is a two-sided sword. With all its benefits comes various liabilities if the policy is not properly formulated and implemented. Hence, corporate policy should be carefully drafted, properly implemented, periodically reviewed, and revised as per requirement. Organizations should avoid the following common and potential pitfalls of a badly formulated or implemented corporate policy.

- All important policies of a firm should be formulated by the top management only.
- There should be an official owner or steward of the policy. When stewardship is delegated to lower levels of management, then the person who is authorised for such policy implementation must be highly skilled professional in that area.
- Corporate policy should not be formulated only to be pasted on the notice board or uploaded on the website of the company. It should be properly implemented in the organization.
- A policy should be properly integrated within the organization and it should be implemented throughout the organization, i.e., it should be implemented in all the departments simultaneously. If there is no integration of the corporate policy with all the departments and is communicated only to the legal department it might have greater legal risk than not having a policy at all.
- Corporate policy should always be up-to-date. A firm cannot afford to have outdated guidelines and strategy. With the world changing at such a fast pace, the corporate policy makers should always keep updating their policies.
- The policy implementation should be properly mapped throughout the organization. Also, it should be integrated for all the members of the organization like through ERP Policy of the Organization.
- Proper attestation of all policy documents like signing of contracts with the employees that they have properly understood the policy and have been given any training, if required for the same. Such documentation helps the company maintain proper paperwork for auditing and other legal purposes.
- There should be proper revision and revaluation of corporate policy periodically. Mere implementing the corporate policy and forgetting it will do no good to the organization.

16.7 TYPES OF CORPORATE POLICY

Corporate policy could be of several types. However, there is no hard and fast rule for classification. We first discuss the variables according to which corporate policies can be put under various categories. Subsequently, we will discuss the types of corporate policies according to the issues it covers.

16.7.1 Criteria for Classification of Corporate Policy

Corporate policy can be put under various categories on the basis of the level of management that formulates it, the scope of the policy, the source of the policy document, the managerial function it covers, the functional areas it includes, and the nature of expression (whether implied or expressed directly). We discuss each of the above categories below.

1) **On the Basis of the Level of management:** Corporate policy can be classified on the basis of the level of management that formulates it. It can be classified as follows:

- a) **Top Level Management:** These include the policies framed by the top level management. Such policies are framed for the organization as a whole. These policies are mostly formulated from corporate vision and mission and do not change easily. Such policies are formulated to achieve the long-term objectives of the organization.
- b) **Middle Level Management:** These include the policies framed by the middle level management. They are framed for particular departments or divisions of the organization. These policies are mostly formulated to guide the working of specific departments. They originate to help the company achieve corporate objectives and corporate goals.
- c) **Lower Level Management:** These include the policies framed by the lower level management. They are framed by foremen and supervisors. Such policies are formulated to guide the day-to-day working of the organization. It mostly covers the routine tasks, and short term measures of the organization.

2) **On the Basis of scope:** Corporate policy can be classified on the basis of the scope of the policy, i.e., its coverage. It classifies policy as following:

- a) **Basic Policy:** Basic policy is framed by the top management and has the widest scope. Such policies are generally for the whole organization. For example, policy stating to send every month's sales report to the Head Office.
- b) **General Policy:** General policy is framed by the middle level management. They are more specific than basic policies. For example, any payment for overtime will have to be approved by the management.
- c) **Departmental /Specific Policy:** Departmental policies are framed by the lower-level management. Such policies are formulated for particular Department or Division and hence are very specific. They are mostly framed by foremen and supervisors for routine tasks. For example: Tea Break timings are 11:30-12 and 4:30-5.

- 3) **On the Basis of the nature of source or origin:** Corporate policy can be classified on the basis of the origin of the policy. Such classification was done by Koontz and O'Donnell.
 - a) **Originated Policy:** These policies originate from the corporate objectives of the organization. Such policies are framed by top level management for the organization as a whole. Subsequently, from these policies the middle and lower level managements frame their own policies. Since these policies are generated from the corporate objectives, all of these policies are known as originated policies. These policies direct the working of the company towards achieving the objectives of the organization.
 - b) **Appealed Policy:** Appealed policies are policies made out of appeals made by subordinates to their seniors. In this the subordinate seeks advise from his senior as to what needs to be done in a certain case. And then those advises become policies for future managerial action when faced with the same problems.
 - c) **Imposed Policy:** Many a times, an organization's working is affected by the external environment. It may be due to government regulation or political instability or pressure from trade association or to adhere to the societal norms, etc. Any policy made in such situation is known as imposed policy.
 - d) **Derivative Policy:** Any policy which is not explicitly stated but derived from expected code of conduct. Also, any guidelines from the management may emanate formulation of such policies.
- 4) **On the Basis of Managerial Function:** Corporate policies can be classified on the basis of managerial function to which they pertain to:
 - a) **Planning Policy:** Policies formulated to give direction about future course of action of the company are known as planning policies. These policies can be for the organization as a whole or for a particular division.
 - b) **Organizing Policy:** Policies which are very specific to the organizational structure, its goals and objectives are known as organizing policies.
 - c) **Motivation and Control Policy:** Policies formulated to motivate the employees as well as controlling their activities by keeping a check on their working, helps in achieving the employees' personal objectives while working towards the organizational objectives.
- 5) **On the Basis of Functional Areas:** Policies can be classified on the basis of the specific functional areas of the organization.
 - a) **Production:** Production policies include the decision related to the following:
 - i) **Size of the Run:** Decision taken with regard to production are covered under this head. Run means the quantity of production in one

go. Decisions related to this shall be taken keeping in mind the trade-off between set up cost and inventory maintenance cost

- ii) **Automation:** The level of automation in an organization is one of the most important decisions that any top management has to take. The increase in the automation level may be done to avoid repetitive and uninteresting work and reduce costs.
- iii) **Production Stabilization:** Production stabilization decisions involve both size of the run and the level of automation. The timing has to be decided carefully as we cannot overlook the market demand. Policies made in the context of production stabilization will come under that.
- iv) **Inventory Levels:** These policy decisions are necessary as over-accumulation of inventory will increase storage and warehousing costs. On the other hand, shortage of inventory will result in idle time of labour and machinery and might result in delay in completing orders. Hence, policy for maintaining exact amount inventory should be followed.
- v) **Marketing:** Policies related to marketing function of the organization come under the heading marketing policy. Marketing Policy can be related to all the four P's of marketing: Product Policy, Pricing Policy, Place Policy and Promotion Policy. We describe each of the above policies below.
 - a) **Product Policy:** Policies formulated to take product related decisions are known as product policies. For example: policy formulated to take decisions like to choose between make or buy alternatives, or nature, timing and extent of diversification, etc.
 - b) **Price Policy:** Policies formulated to take decisions related to pricing. Decisions like to follow price skimming or price penetrating strategy may involve formulating pricing strategy. Also, to choose between the discount offered interest
 - c) **Place Policy:** It pertains to policies regarding place. An example of Place Policy is whether to do direct selling or use many channels of distribution. Further, if distribution channels are to be used then what percentage of discount to be offered to various wholesalers/retailers.
 - d) **Promotion Policy:** Policies formulated to take decisions related to promotion of the product are termed as promotion policy. It includes issues such as the media to be used for promotion of the product, deciding the promotional budget of the product, deciding the amount of discount to be offered to the distributors, etc.

- 6) **On the Basis of Financial Functions:** Policies relating to the financial function are covered under this head. Such policies relate to the following:
- a) **Sources of Capital:** It deals with the sources from which capital will be raised. Capital structure and financial leverage influences these policies. For example: partners bring capital in partnership firms. In companies, there is an option of raising capital either from issuing shares or in the form of debentures.
 - b) **Working Capital:** Working capital is the capital requirements for day-to-day working of the organization. It determines the capacity of the organization to meet its current obligations, extent of credit available and the credit policy of the organization.
 - c) **Profit Distribution:** It includes decision regarding the percentage of profit to be distributed among shareholders and the amount to be kept for future development of the business.
 - d) **Depreciation Allowances:** It refers to policy decisions regarding the amount of depreciation to be charged and the method to be followed for depreciation.
- 7) **On the Basis of Personnel Related Issues:** Personnel related decisions are taken with the help of personnel policies.
- a) **Recruitment Policy:** It involves policies related to recruitment and selection of personnel.
 - b) **Training and Promotion Policy:** Policies which help in taking decisions regarding promotion of employees from lower-level positions to higher-level jobs come under this head. Giving promotion to employees from within the organization means that the organization must have proper training and development policies in place to guide and prepare the personnel for higher positions.
 - c) **Remuneration and Benefits Policy:** Motivated employees deliver best results. To keep the employees motivated, an organization should give them remuneration and other facilities as per industry standards. Other benefits include sick leave, leave encashment policy, dearness allowance, House Rent Allowance, Sales Commission, etc.
 - d) **Industrial Relations Policy:** In order to deal with labour disputes and avoid disputes in future, good industrial relations policy should be there.
- 8) **On the Basis of Expression:** On the basis of expression, Corporate policy can be either expressed or implied.
- a) **Implied Policy** - Corporate Policies which are not expressed in written form are known as implied policies. Such policies are formulated through the basic code of conduct, employee behavior,

societal norms, and traditions. Such policies are spread by word of mouth by key personnel of the organization. These policies are neither available in the manuals or records nor uploaded on the website of the company. However, implied policies are very well understood and practiced by everyone in the organization. For example: being honest towards one's work is an implied policy in all the organizations.

- b) **Expressed Policy** - Corporate Policies which are explicitly expressed, either written or oral, are known as Expressed Policies.
- i) Oral Policy - Policies expressed orally are known as oral policies.
 - ii) Written Policy - Policies expressed as written statements and are included in the manuals or records or handbook of the organization are known as written policies.

16.7.2 Types of Corporate Policy According to Coverage Areas

Corporate policies should be in line with common industry standards. Corporate policies will also depend on the size of the company. Hence, there are some common policies which we can find in most organizations. Some of these policies are mentioned below.



Fig. 16.2: Corporate Policies according to Coverage Areas

- 1) **Code of Conduct:** Every organization's goal is to develop a work culture which is professional, ethical, safe and also enjoyable to its employees. For this a well written code of conduct is necessary. All stakeholders should know what behavior is expected from them. A good code of conduct provides a roadmap to all its employees, managers, visitors, staff members, and everyone else related to the organization to

how to behave in particular situations, what they should do, what they should not do, what disciplinary actions can be taken in case of unacceptable behavior or in worse case, even termination.

- 2) **Equal Opportunity and Non-Discrimination Policy:** Every organization's management should neither intentionally nor unintentionally in any ways discriminate on the basis of race, color, religion, gender, nationality or any other basis. Every organization should promote equal opportunities for everyone and the sole criteria for selecting and promoting people should be their talent and what value addition they bring to the company. People should feel they are welcomed with open arms in the company. All this should be clearly written in the corporate policy of the company which should be available on the notice board, company's manual or handbooks and its website.
- 3) **Workplace Safety:** There are a lot of laws related to safety of workforce. Every organization should focus on maintaining safety of its employees not only to adhere to these laws but also as a matter of professional ethics. Corporate Policy should explicitly mention how to use safety equipment, what to do in case of an emergency, what compensation shall be payable in case of any happening at workplace to injured or families of deceased, any employee life or medical insurances being taken for the company as a whole, to highlight a few.
- 4) **Whistleblower Policy:** whistleblower is a person who reports any wrongdoing (such as fraud, money laundering, harassment, etc.) in the company. According to the Society for Human Resource Management (SHRM), "whistleblower protections are provided in two important areas – confidentiality and against retaliation." The whistleblower policy should clearly mention what plan of action employees need to follow if they are stuck in such an awkward situation. It should mention the names of the go-to persons to whom the employees should report such incidences. Also, it should create confidence among employees that they shall not face any retaliation from the organization or other employees if they do so as their name shall be kept secret so that they can freely report such issues.
- 5) **Anti-Harassment Policy:** Workplace harassment is a very sensitive issue and should be handled with utmost care. Organizations should clearly spell out and try to address all the issues related with it in their anti-harassment policy. Anti-harassment policy should be clear that harassment in any form shall not at all be tolerated. It created a very uncomfortable environment for employees to work and brings down their motivation and productivity levels steeply. The policy should clearly state that any person found doing such actions shall not only be faced with strict disciplinary action but can also be terminated.

- 6) **Privacy Policy:** Right to privacy becomes a tricky issue especially when most of the information is stored online on cloud. Company has right to privacy about its data and employees are not expected to leak any confidential information about the company or its clients. Similarly, the organization should maintain privacy about employee information. Their contact information, etc. should not be leaked to advertising agencies so as to bombard them with spam messages, calls or emails. Hence, a privacy policy should cover the above points wisely.

- 7) **Cyber-Security Policy:** Today’s world revolves around internet. Most of the organization’s data is saved on the cloud. So having a cybersecurity policy is a must. This policy issues guidelines to employees about how their actions can make the company vulnerable to risk. These policies help address the issues created by human error, even if those tasks are done unintentionally. These policies set out guided plan of action to be followed in order to reduce the risk from some common issues such as phishing attacks, insufficient password security, and poor access controls around sensitive information.

- 8) **Disciplinary Action Policy:** Disciplinary Action Policies provide a guideline to employees that what all actions and behavior shall not be tolerated by their organization. These policies clearly set out what will happen if employees break a rule. What shall be the severity of the situation if employees do not adhere to the rules and regulations of the employees. Before formulating such policies, legal advice must be taken by the organization in order to formulate appropriate, legal and a balanced.

Check Your Progress 3

Note: i) Use the space given below for your answers.

ii) Check your progress with those answers given at the end of the unit.

1) List the main steps in formulation of corporate policy.

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2) What are the types of corporate policies from marketing point of view?

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3) List the important categories of corporate policies on the basis of coverage areas.

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16.8 LET US SUM UP

Corporate policy is basically a document containing broad guidelines which is created after analysing all internal and external factors that influences an organization's objectives, operations and plans. Top management has the responsibility of formulating corporate policy. From various perspectives, we can say that corporate policy is different from corporate strategy. Corporate Policy helps in implementing corporate strategy and future planning of the organization. Smooth conduct of business, delegation of power, achievement of organizational goals, better co-ordination and control, performance analysis, optimal utilisation of limited resources, and good public image are some of the important features of corporate policy. Corporate policy of an organisation is formulated keeping in mind a number of inter-twined factors. Internal factors that influence corporate policy formulation are corporate mission, corporate objectives, available resources and management values. External factors that influence corporate policy are industry structure, social environment, legal environment, political environment, economic environment, technology, etc.

16.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) Corporate policy is usually formulated on the basis of the long term vision and mission of a firm. See Section 16.3 for details.
- 2) Corporate policy helps in smooth performance of business activities, achievement of organizational goals, coordination among different branches of the organization and creation of good public image of the firm. See Section 16.4 and answer.

Check Your Progress 2

- 1) Internal factors relate to the micro environment of the company. Internal determinants of corporate policy could be corporate mission, corporate objectives, corporate resource and management values
- 2) The external determinants of corporate policy include industry structure, social environment, legal environment, political environment, economic environment and technology.

Check Your Progress 3

- 1) The important steps in formulation of corporate policies are problem definition, designing, policy adoption, policy implementation and policy evaluation. Describe each of these steps on the basis of Sub-Section 16.6.1.
- 2) From marketing perspective, important categories of corporate policies are product policy, pricing policy, place policy and promotion policy.
- 3) From coverage areas perspective, corporate policies are in the areas concerning code of conduct, non-discrimination, workplace safety, anti-harassment, cyber security and privacy.

GLOSSARY

- Allais Paradox : Best known violation of the Independence axiom in Expected Utility Theory.
- Arithmetic Mean : The Sum of observed values of a set divided by the number of
- Caption : It is a part of a table and labels data presented in the column of a table. It is also called a box head. It may contain one or more than one column head. The caption may be added at the bottom of the table.
- Cell : Cells are the boxes you see in the grid of an Excel spreadsheet. Each cell is identified on a spreadsheet by its reference, the column letter and row number that intersect at the cell's location.
- Certainty Equivalent : Amount of income which, if provided with certainty, would make the individual equally well off.
- Coefficient of Variation : It is a relative measure of dispersion that is independent of the units of measurement. As opposed to this Standard Deviation is an absolute measure of dispersion.
- Column : Columns are denoted and identified by a unique alphabetical header letter, which is located at the top of the worksheet. Column headers range from A-XFD, as Excel spreadsheets can have 16,384 columns in total. Columns run vertically in the spreadsheet, and the data goes from up to down.
- Component Bar Diagram : In the case of a simple bar diagram only one variable can be presented. A sub-divided bar diagram is used to show various components of a phenomenon.
- Contract for Differences (CFD) : CFD is an arrangement made in financial derivatives trading where the differences in the settlement between the open and closing trade prices are cash-settled. There is no delivery of physical goods or securities with CFDs. CFDs essentially allow investors to trade the direction of securities over the very short-term and are especially popular in FX and commodities products.
- Credit Rating Agency : Credit rating determines the likelihood that the borrower will be able and willing to pay back a loan within the confines of the loan agreement without

defaulting. A high credit rating indicates a strong possibility of paying back the loan in its entirety without any issues; a poor credit rating suggests that the borrower has had trouble paying back loans in the past and might follow the same pattern in the future. The credit rating affects the entity's chances of being approved for a given loan and receiving favorable terms for that loan.

- Currency Exchange : The process of changing one currency into another. A currency exchange should not be confused for the foreign exchange (forex) market where traders and financial institutions transact in currencies.
- Data Analysis ToolPak : The Analysis ToolPak is a Microsoft Office Excel add-in program that is available when you install Microsoft Office or Excel. An add-in is simply a hidden workbook that adds commands or features to Excel. Typically, the Analysis ToolPak is installed when one installs Excel.
- Descriptive Statistics : Descriptive statistics summarize your dataset, painting a picture of its properties. These properties include various central tendency and variability measures, distribution properties, outlier detection, and other information.
- Descriptive Statistics : It deals with the presentation and organization of data.
- Ellsberg Paradox : It shows the failure of Subjective Expected Utility Theory and appeals to put preference for known risks over unknown ones.
- Endowment Effect : Individual tend to prefer something they already possess over those they do not.
- Expected Utility Theory : Individuals behave as if their objective were to maximize expected utility.
- Financial Risk : Financial risk is the possibility of losing money on an investment or business venture. It is a type of danger that can result in the loss of capital to interested parties. Some more common and distinct financial risks include credit risk, liquidity risk, and operational risk. Financial risks are everywhere and come in many shapes and sizes, affecting nearly everyone.
- Financialization : Financialization is the increase in size and importance of a country's financial sector relative to its overall economy. It is a process by which financial

institutions, markets, etc., increase in size and influence. Financialization has led to greater investments in technology and product development.

- Formula : In Excel, a formula is an expression that operates on values in a range of cells. These formulas return a result, even when it is an error. Excel formulas enable you to perform calculations such as addition, subtraction, multiplication, and division.
- Function : Functions are predefined formulas that perform calculations by using specific values, called arguments, in a particular order, or structure. Functions can be used to perform simple or complex calculations.
- Histogram : It is a set of adjacent rectangles presented vertically with areas proportional to the frequencies.
- Inferential Statistics : It deals with the use of sample data to infer general conclusions about a much larger population.
- Interval Estimate : An interval estimator draws inferences about a population by estimating the value of an unknown parameter using an interval.
- Line graph : It is the locus of different points obtained with the combinations of X and Y coordinates measured on the X-axis and Y-axis respectively.
- Median : In a set of observations, it is the value of the middlemost item when
- Mode : In a set of observations, it is the value that occurs with maximum frequency. observations in the set are called a mean or an average.
- MS-Excel : Microsoft Excel is the industry-leading spreadsheet software program, a powerful data visualization and analysis tool. It is a spreadsheet developed by Microsoft for Windows, macOS, Android and iOS.
- Pawn Brokers : A person or firm that lends money at interest by taking temporary possession of borrowers' personal assets as security for the loan. Borrowers can reclaim their assets by repaying the loan and interest charges in full in an agreed time, although if they default the pawnbroker is entitled to sell their assets.
- Pie diagram/chart : It is a circle subdivided into components to present the proportion of different constituent parts of a total.

	It is also called a pie chart.
Point Estimate	: A point estimate is a single statistic used to estimate a population parameter.
Primary Data	: Also called raw data, primary data is the data gathered through surveys, interviews, or experiments.
Prospect Theory	: To understand human behaviour and decision-making as it relates to risk and uncertainty.
Risk Averse	: Representation of the behaviour of economic agent who is unwilling to undertake a fair gamble.
Risk Premium	: Difference between the expected value of lottery and the individual's certainty equivalent.
Row	: The row numbers are arranged vertically on the worksheet, ranging from 1-1,048,576 (you can have a total of 1,048,576 rows in Excel). The rows themselves run horizontally on a worksheet. Data is placed horizontally in the table and goes across from left to right. Row 1 is the first row in Excel.
Secondary Data	: Data drawn or collected from the already collected data of some other agency.
Spreadsheet	: A spreadsheet is a computer application for computation, organization, analysis and storage of data in tabular form. Spreadsheets were developed as computerized analogues of paper accounting worksheets.
Standard Deviation	: It is the positive square root of the variance. they are arranged in order of magnitude.
Subjective Expected Utility Theory	: When the probability of the outcome is unknown then the decision maker attempts to subjectively estimate the probability of the outcome from information available to them.
Systematic Investment Plans (SIPs)	: SIPs is a systematic approach to investing and involves allocating a small pre-determined amount of money for investment in the market at regular intervals (usually every month). The SIP route is the preferred way of investing in stocks and mutual funds because it allows to participate in the market while managing risk better. They help inculcate financial discipline and build wealth for the future.
Vanilla options	: A vanilla option is a financial instrument that gives the holder the right, but not the obligation, to buy or

sell an underlying asset at a predetermined price within a given timeframe. A vanilla option is a call option or put option that has no special or unusual features. Such options are standardized if traded on an exchange.

Variance : It is the arithmetic mean of squares of deviations of observations from their arithmetic mean.

Venture Capital : Venture capital financing is funding provided to companies and entrepreneurs. It can be provided at different stages of their evolution, although it often involves early and seed round funding. This capital is known as venture capital and the investors are called venture capitalists. Venture capital generally comes from well-off investors, investment banks, and any other financial institutions. Though it can be risky for investors who put up funds, the potential for above-average returns is an attractive payoff. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise.

Von Neumann-Morgenstern Utility : when risky behaviour incorporated in the theory of consumer preferences.

Web-based Spreadsheets : Whereas Excel is a traditional desktop software program stored on your computer's hard disk, a web-based spreadsheet application is hosted in the cloud—as are the individual spreadsheets you create with the application.

Workbook : An Excel workbook is an Excel file that can contain multiple, somewhat independent spreadsheets called Excel worksheets. If you see multiple tabs in Excel files, each of those is an Excel worksheet. Businesses often organize related spreadsheets into a single workbook.

SOME USEFUL BOOKS

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