
UNIT 3 CORPORATE POLICY

Objectives

After reading this unit you should be able to

- understand the concept of corporate policy and its features;
- list out the determinants of corporate policy;
- develop an understanding about the scope and need of corporate policy;
- explain the steps in formulation of policy;
- discuss the various types of corporate policy; and
- understand the significance of corporate policy.

Structure

- 3.1 Introduction
- 3.2 Concept and Meaning of Corporate Policy
- 3.3 Features of Corporate Policy
- 3.4 Determinants of Corporate Policy
- 3.5 Scope of Corporate Policy
- 3.6 Policy Formulation Process
- 3.7 Classification of Corporate Policy
- 3.8 Importance of Corporate Policy
- 3.9 Summary
- 3.10 Key Words
- 3.11 Self-Assessment Questions
- 3.12 Further Readings

3.1 INTRODUCTION

The organization sets the objectives and works towards their achievement. Once these objectives are defined and strategies determined, certain policies have to be made to put them into action. Corporate policies act as a guide to action. They provide the framework within which an organization has to meet its corporate objectives. The policy points out the direction in which the company ought to go. Some of the policy statements are-

“We promote employees on the basis of experience”

“We sell televisions only for cash”

In each of these statements, one could understand that there is a problem and the policies help as a guide for finding the solution.

Some policies are just broad guidelines while some can be more specific. According to Koontz and O'Donnell, “Policies are plans in that they are general statements of principles which guide the thinking, decision making and action in an organization.”

Policies aid in decision making and are the basis for procedures. They are responsibilities of top management. Policies are applied in long range planning and are directly related to goals. They are concerned with estimating availability of resources, their procurement their augmentation and their efficient utilization.

In this unit, we shall discuss the concept, features, scope and essentials of a policy. The classification of policies has also been discussed. In this era of competition and dynamic environment, the need and importance of policies has also been explained alongwith the formulation process.

3.2 CONCEPT AND MEANING OF CORPORATE POLICY

Corporate policy is the guide post to decision making. It helps in the managerial thinking process and thus leads to the efficient and effective attainment of the objectives of any organization.

Corporate policy has been defined as “Management’s expressed or implied intent to govern action in the pursuit of the company’s objectives.” Corporate policy clarifies the intention of management in dealing with the various problems faced. It gives the managers a transparent guideline to take their decisions by being on the safe side. Corporate policy helps the manager in identification of the solutions to the problem. It provides the framework in which he has to take the decisions. The distinct views regarding policies can be categorized into the following three broad groups:

- i) The first category holds the opinion that **policy and strategy are synonymous**. Corporate policy has been defined by William Glueck as “Management policy is long range planning. For all practical purposes, management policy, long range planning and strategic management mean the same thing.” However, this view is quite controversial as strategy and corporate policy do not mean the same thing. Strategy includes awareness of the mission, purpose and objectives. It has been 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”, while policies are statements or a commonly accepted understandings of decision making and are thought oriented guidelines. Therefore, strategy and corporate policy cannot be used interchangeably as there is a clear line of differentiation between the two terms.
- ii) The second group of experts view corporate policy as the **process of implementing strategy**. In the words of Frank I. Paine and William Naumes, “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.”

Supporting this view, **Robert Mudric** has defined corporate policy as “A policy establishes guidelines and limits for discretionary action by individuals responsible for implementing the overall plan.”

The view represents corporate policy to be

- Restrictive
 - Laying stress only on the tactical side and ignoring the strategic dimension.
- iii) The third view considers corporate policy to be decisions regarding the future of an organization.

In this view, **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.”

According to the **policy manual of General Electric Company**, “Policy is definition of common purpose for organization components of the company for benefit of those responsible for implementation, exercise discretion and good judgment in appraising and deciding among alternative courses of action.”

The views of different management scholars differ because of following reasons:

- There is no clear differentiation of policy from other elements of planning.
- There are different policies made at different levels of management for directing executives.

- Corporate policy encompasses and relates to the entire process of planning. Thus, corporate policy focusses on the guidelines used for decision making and putting them into actions. It consists of principles along with rules of action that provides for successful achievement of corporate objectives.

3.3 FEATURES OF CORPORATE POLICY

After understanding the concept of corporate policy, following features can be identified:

- **General Statement of Principles:** Policies are general statement of principles followed by corporate for the attainment of organizational objectives. These principles provide a guide to action for the executives at different levels.
- **Long Term Perspective:** Corporate policies have a long life and are formulated with a long term perspective. They provide stability to the organization.
- **Achievement of Objectives:** Corporate policy is aimed at the fulfillment of organizational objectives. They provide a framework for action and thus help the executives to work towards the set goals.
- **Qualitative, Conditional & General Statements:** Corporate policy statements are qualitative in nature. They are conditional and defined in general manner. These statements use words as to maintain, to follow, to provide etc. They can be specific at times but most of the times, a corporate policy tends to be general.
- **Guide for Repetitive Operations:** Corporate policies are formulated to act as a guide for repetitive day to day operations. They are best as a guide for the activities that occur frequently or repeatedly.
- **Hierarchy:** Corporate policies have an hierarchy i.e. for each set of objectives at each level of management there is a set of policies. The top management determines the basic overall policy, then the divisional and / or departmental policies are determined by the middle level management and lower level policies are more specific and have a shorter time horizon than policies at higher levels.
- **Decision Making Process:** Corporate policy is a decision making process. In formulating corporate policy one has to make choices and the choice is influenced by the interests and attitudes of managers engaged in making the policies.
- **Mutual Application:** Corporate policies are meant for mutual application by subordinates. They are made for some specific situation and have to be applied by the members of the organization.
- **Unified Structure:** Corporate policies tend to provide predetermined issues and thus avoid repeated analysis. They provide a unified structure to other types of plans and help managers in delegating authority and having control over the activities.
- **Positive Declaration:** Corporate policy is a positive declaration and a command to its followers. It acts as a motivator for the people following it and thus they work towards the attainment of the objectives efficiently and effectively. The corporate policy lays down the values which dominate organization's actions.

3.4 DETERMINANTS OF CORPORATE POLICY

The corporate policy of an organization is influenced by various interrelated and interacting factors. These factors can be classified as internal and external factors. The determinants which are internal to the firm/organization and which influence the decisions directly are known as the internal factors. External factors include all those

factors which act from outside the firm and influence the organization externally. We discuss these determinants one by one below:

Internal Determinants

The determinants include the corporate mission, corporate objectives, corporate resources and the management values which are all internal to the organization and play a very important role in the formulation of corporate policy.

i) Corporate Policy

The policy maker has to understand the corporate mission, so that the policy is in tune with it. Corporate mission provides the company with the meaning for which it exists and operates. Because policy provides guidelines for managerial action, it has to be made in a manner that it accomplishes the corporate mission.

ii) Corporate Objectives

Another internal determinant of corporate policy are the corporate objectives. All organizations frame organizational objectives and work towards their achievement. Policy makers must take into account the economic, financial and other objectives of the company.

iii) The Resources

The organization has to carry out its activities keeping in mind the resources it has. The corporate policy has to identify the various resources available and then only can it be made sound. The size of plants, capital structure, liquidity position, personnel skills and expertise, competitive position, nature of product etc. all elp in the formulation of corporate policy.

iv) Management Values

Corporate policy reflects the values imbibed in the organization. The personal values of the managers forming corporate policy influences its formulation. Management values differ from organization to organization. It is an important determinant of corporate policy.

External Determinants

These include the forces external to the firm. The external determinants of corporate policy are industry structure, economic environment and political environment.

i) Industry Structure

The formulation of corporate policy is influenced by the industry in which the firm exists. The structure of industry comprises of size of firms, the entry barriers, number of competitors etc. The corporate policy is formulated keeping in mind competitors, strategies, policies etc.

ii) Economic Environment

Economic environment comprises of the demand, supply, price trends, the national income, availability of inputs, the various institutions etc. It includes all these factors which influence the policies of the firm. Therefore, it becomes one of the most important determinants of corporate policy.

iii) Political Environment

The firm has to carry out its activities in accordance with the government regulations and policies. If these are not complied with the firm would not be able to meet its objectives in an efficient manner. The various policies like monetary policy, fiscal policy, credit policy influence the corporate policy of the firm.

iv) **Social Environment**

The firm affects various sections of the society. The various sections in turn influence the activities of the firm. The social beliefs of the managers influence policies. The religious, cultural and ethnic dimensions have to be dealt with while formulating policies of an organization.

v) **Technology**

Every now and then, new technologies are entering the market. An organization has to change with the changes in the environment. It has to remain up to date with respect to technology it uses. Thus technology also plays an important role in formulation of corporate policy.

3.5 SCOPE OF CORPORATE POLICY

Corporate policies are statements of guidelines for corporate thinking and action. They lay down the approach before the management to deal with the challenges in the environment. They cover the following broad areas that affect the decisions of the organization.

- i) Corporate policy consists of a variety of subject that affect various interest groups in the organization and outside it.
- ii) Corporate policy is concerned with the various functional areas like production, human resources, marketing and finance.
- iii) We can understand corporate policy areas in two broad categories: Major and minor policies. The overall objectives, procedures and control are covered in major policies. These policies are concerned with each and every aspect of the organization, its structure, its financial status, its production stature, its human resources and all those issues which require attention like mergers, research, expansion, etc. Basically, the top management is involved in the framing of such major policies. Further, the operations and activities are also carried out by executives so that the organizational objectives are met.

The minor policies are concerned with each segment of the organization with emphasis on details and procedures. These policies are part of the major policies. The operational control can be made possible only if the minor policies are implemented efficiently. The minor policies are concerned with the day to day operations and are decided at the departmental levels. The minor policies may cover relations with dealers, discount rates, terms of credit etc. Thus, corporate policies cover wide range of subjects ranging from operational level policies to the top level policies.

Activity I

- 1) “Policy and Strategy are synonyms to each other.” Comment.

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2) What are the determinants of corporate policy?

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3.6 POLICY FORMULATION PROCESS

A corporate policy is formulated by the top management. The formulation comprises step wise procedure. The process is similar to the decision making process and requires analysis, judgment and experience. The steps involved in the process are:

- i) Environmental analysis
- ii) Identification of policy alternatives
- iii) Evaluation of alternatives
- iv) Choice of policy

Figure 3.1 explains the process.

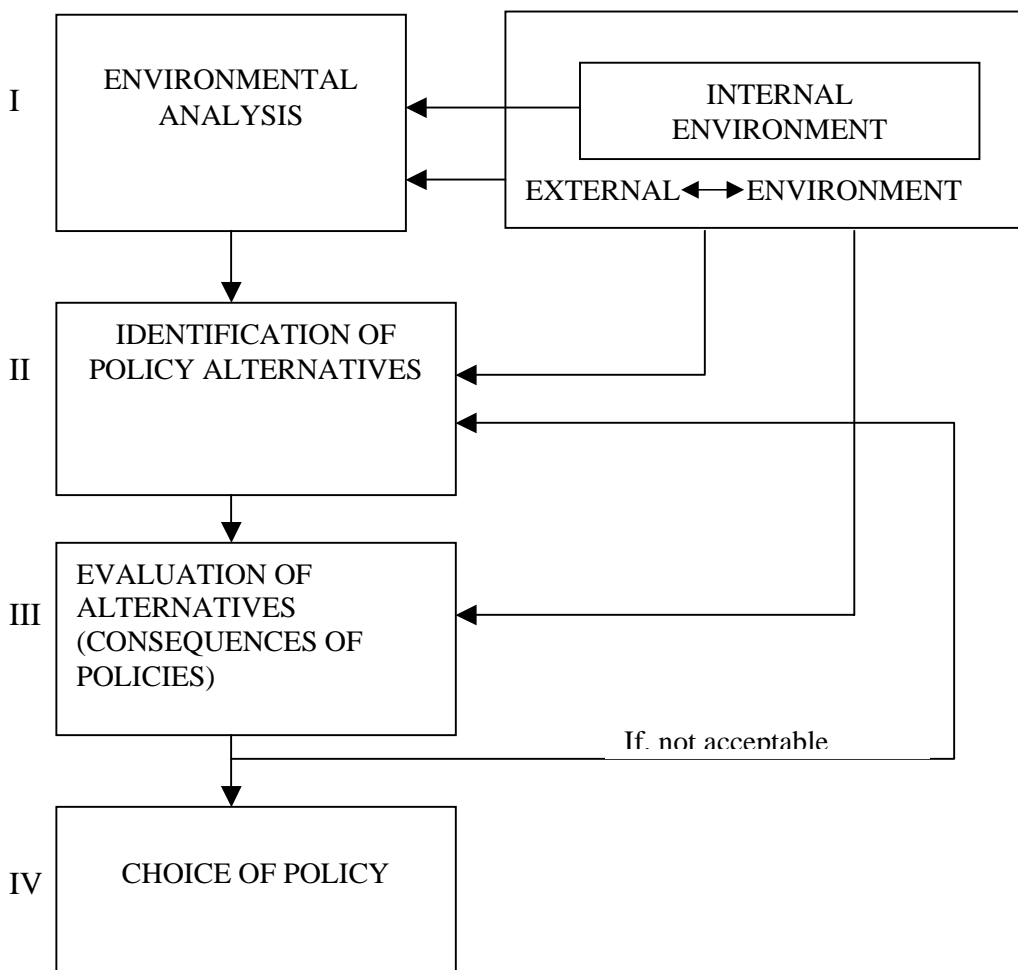


Figure 3.1: Policy Formulation Process

I) Environmental Analysis

The first step in the process of policy formulation is environmental analysis. There are basically two environmental factors: internal and external. The external environment of the company comprises of economic, technological, political and social forces operating outside the boundaries of the company. These influence the company indirectly and the company has no control over them. These have to be continuously analyzed and understood before the formulation of policies.

The internal environment of the organization comprises of the firm's employees, the organization structure, resources, value system, functional departments etc. These affect the organization's activities directly as they are internal to the organization.

Both internal and external forces interact and a change in one affects the other one. The two together provide for identification of problem areas with respect to which the policies could be made.

II) Identification of Policy Alternatives

Once the analysis has been done, the next step requires identification of policy alternatives. The environmental analysis helps to determine the opportunities and threats facing the company and also its strengths and weakness. When the organization is engaged in the matching of its strengths with the opportunities, various policy options emerge. The options or alternatives also arise with the help of past experience, past performance results and the practices followed by the management. Identification of alternatives has to be done efficiently and then only can they be evaluated for one choice.

III) Evaluation of Policy Alternatives

After the various alternatives have been identified, they are to be evaluated so that the best one could be selected. The evaluation of policies is known as policy audit. The alternatives can be evaluated on the basis of their consequences in terms of their contribution to corporate goals. Several criteria could be used for evaluation like growth, unit, profitability, development, organizational goals, etc. The evaluation has to be done with care so that errors may not occur. Policy should not only be feasible but it should also be consistent with organization's goals.

IV) Choice of Policy

The last step in the policy formulation process is the choice of the best alternative from among the various alternatives identified and evaluated. The evaluation helps in the selection of the best possible policy. If any of the alternatives are not acceptable and not consistent with company's objectives then the process reverts back to the identification of alternatives where fresh alternatives are looked for. The search begins again.

The various alternatives are compared with each other and the most preferred option is selected. This selected policy has to be tested so that it could be known whether it fits in the organizational boundaries and meets the organizational goals. After being successfully tested, the policy becomes ready for implementation and the manner in which it would be implemented should be explained clearly.

After the policy has been made, it becomes necessary to review it from time to time so that it does not become obsolete.

Activity 2

- 1) Discuss environmental analysis aspect in strategy formulation.

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- 2) Discuss the fourth step in policy formulation process.

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3.7 CLASSIFICATION OF CORPORATE POLICY

Corporate policies have been classified on the basis of various criteria. Over the years, the number of bases have changed and developed.

Basically there are three main types of policies:

- Basic Policies
- General Policies in
- Departmental Policies

Different authors have given different kinds of classifications. Some have classified policies on the basis of functional areas, while some have classified them on the basis of levels. Alfred and Beatty have classified policies as:

- Top Management Policies
- Upper Middle Management Policies
- Middle Management Policies
- Foremen Policies
- Operating Force Policies
- Sales Policies
- Production Policies
- Research Policies
- Financial Policies
- Costing Policies
- Accounting Policies
- Marketing Policies
- Promotion Policies
- Product Policies

To make the study easier, the policies have been classified differently in figure 3.2 given below.

I) Classification on the Basis of Scope

On the basis of scope of an organization, policies are classified as Basic Policies, General Policies and Departmental or Specific Policies.

- **Basic Policies:-** These are framed by the top management and spell out the basic approach of a company to its activities and its environment.
- **General Policies:-** These are framed by the middle level management and are more specific. They apply to large segments of the organization.
- **Specific Policies:-** These are framed by the foremen and supervisors and are very specific in nature. They are applicable to routine activities.

II) Classification on the Basis of Expression

On the basis of expression, corporate policies can either be expressed or implied.

- **Expressed Policies:-** The policies which are expressed in clear words either orally or in writing are the expressed policies. These are most suitable for small organizations.
- **Implied Policies:-** The Policies which are understood by the employees, code of conduct or behavior and are not expressed orally or through written statements are known as implied policies. They flow from philosophy, values and traditions of the organization.

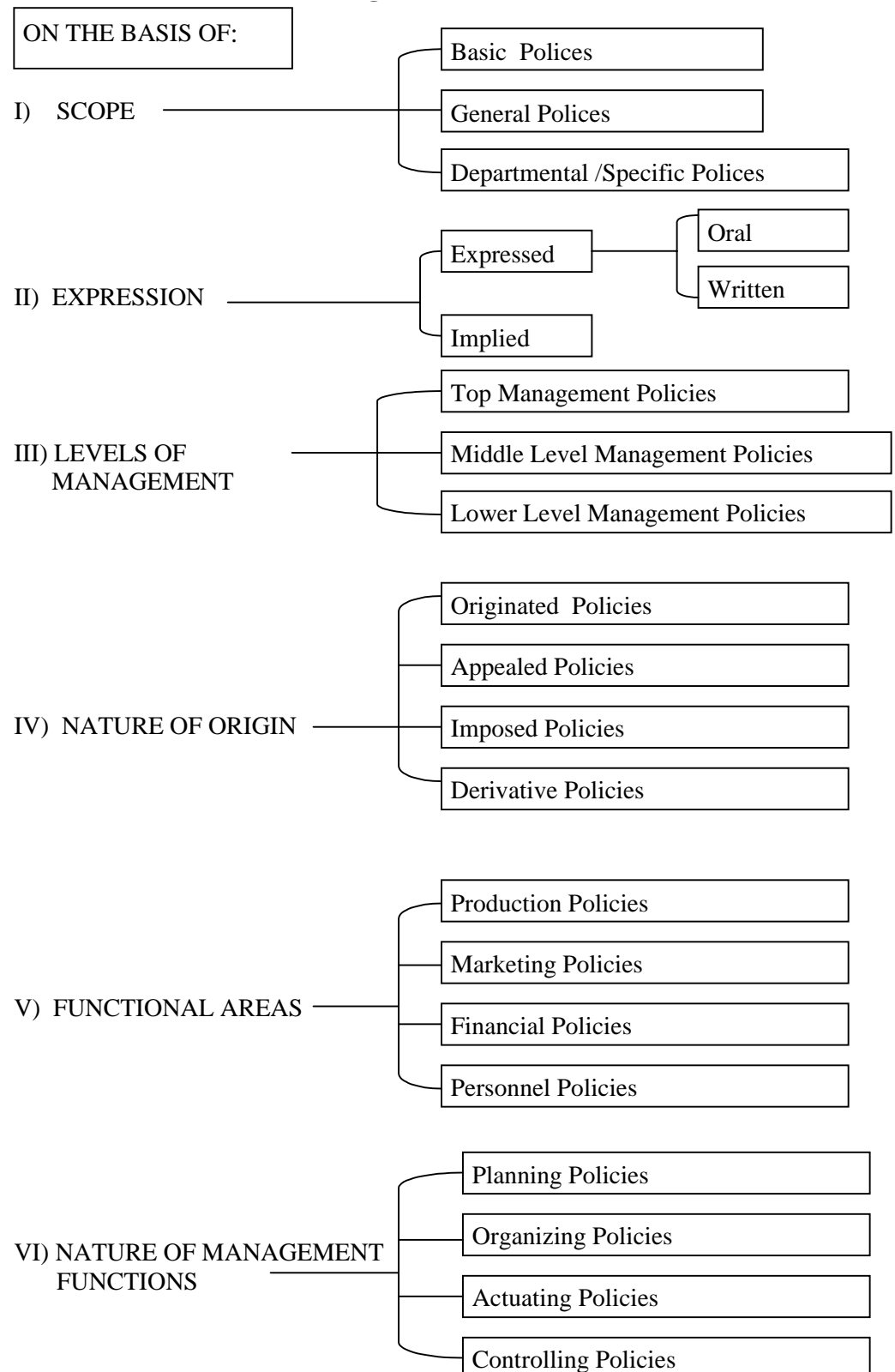


Figure 3.2: Classification of Policies

III) Classification on the Basis of Level

Different policies are framed at different levels of management. These include:

- **Top Management Policies:-** These are framed by the top management and it is only responsible for them. The policies are derived from top management planning and top management sees that they are put into effect and judges the results.
- **Middle Level Management Policies:-** These are laid down by the middle level managers and deal with the organizational activities e.g. selection of executives, employee training, deciding processes, methods, techniques etc.
- **Lower Level Management Policies:-** Those people who have direct control over the working force comprise the lower level management. These people set up policies with respect to the accomplishment of tasks of sub divisions of the organizations.

IV) Classification on the Basis of Origin

On the basis of origin, policies are classified as original policies, appealed policies, imposed policies and derivatives policies.

Original Policies:- These policies are formed from the company objectives. These are formed by the top management and the top management is responsible for guiding and directing them and the subordinates are responsible in the attainment of organization objectives.

Appealed Policies:- These are also called “suggested policies” because they are made by taking into account the suggestions of subordinates or people who implement these policies.

Imposed Policies:- External forces sometimes force the company to accept certain policies forcibly. These policies are called imposed policies. The external forces could include government rules and suggestions, arguments with trade unions etc.

Derivative Policies:- These policies are operational in nature and are derived from company's major policies. They are made as guidelines to perform day to day operations.

V) Classification on the Basis of Functional Areas

In an organization, various functional areas are seen. The policies are classified according to functional areas i.e. production policies, marketing and sales policies, financial policies and personnel policies.

Production Policies:- These policies are concerned with product to be produced, type of technology, equipment, selection of plant layout, location and size, manufacturing cost, inventory control, quality control, etc.

Marketing & Sales Policies:- The policies which relate to policies in market analysis, business law, salesmanship, advertising are concerned with total process of marketing mix and product mix. These include decisions with respect to customers, channels of distribution, dealers, sales control, promotions, etc.

Financial Policies:- The success of business depends upon these policies. These consist of policies with respect to capital structure, methods of raising funds, the utilization of funds, credit policy, dividend decisions, profit policy, costing and accounting policy, etc.

Personnel Policies:- Employees are very important for the organization and the personnel policies are concerned with issues like recruitment, selection, training and development, promotions and transfer, wages and incentives, etc.

VI) Classification of Policies on the Basis of Nature of Management

The main functions of an organization comprise of planning, organizing, actuating and controlling. The policies may therefore be classified as planning policies, organizing policy, actuating policy, and controlling policy.

Planning Policies:- These policies are concerned with the determination of ways to attain the objectives of the organization. Such policies decide corporate objectives, alternative courses of action, comparison of alternatives, establishment of budgets, schedules, procedures, etc.

Organizing Policies:- These policies are concerned with allocation of activities to members of the group so that through their collective efforts, objectives could be achieved. These are those policies which provide for issues like organization structure, authority, responsibility, delegation, centralization and various relationships.

Actuating Policies:- The actuating policies include providing leadership, integrating tasks, communication and organization climate. These policies are concerned with organizing the employees of the organization.

Controlling Policies:- Controlling is the process by which the performance is compared with the set objectives. These policies provide for establishment of standards, pointing out deviations, ascertaining causes for deviation and taking corrective actions.

3.8 IMPORTANCE OF CORPORATE POLICY

For effective management, the solving of day to day problems is not enough. What is required is the proper assessment of all kinds of activities and operations taking place in the organization. After the assessment, they are to be defined in clear cut way, so that objectives could be met. For definition of the business activities and their efficient implementation, the selection and application of policies is required. Without a guiding light, it would become very difficult for the business to go on and policies act as guide and facilitate the manager to direct all the activities towards the same goal.

- Policies are needed to carry out the business activities in a smooth manner.
- They provide clear cut courses for attainment of business objectives.
- If a proper explicit policy has been formulated, many of the details could be conveniently handled by the subordinates and management would not unnecessarily waste its time and energy in doing them.
- Policies provide a guide and framework for decision making.
- Policies encourage delegation of the power of decision making.
- Good policies provide a direction in which all management activities are focused.
- Policies provide stability to the action of the members of the firm.
- Policies deter the subordinates to rethink on the day to day issues and thus avoid repetitive analysis of issues.
- Policies facilitate evaluation of performance by acting as a standard.

- They enhance employees' enthusiasm and loyalty for the organization.
- They help in solving the problems for optimum utilization of scarce resources.
- The sound policies help in building good public image of the business.
- Policies provide the firm with clear objectives with which the managers can decide about the future course of action.
- They act as tool for coordination and control.

Thus, corporate policy is very important for an organization and helps in the overall development and growth. A sound policy provides satisfaction to the employees in terms of working conditions, culture, authority, responsibility and relationships.

Activity 3

- 1) Distinguish between expressed and implied policies.

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- 2) Explain functional policies in brief.

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- 3) State the importance of corporate policy.

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3.9 SUMMARY

Corporate policy is the guideline which helps the management to carry out its activities in an efficient and effective manner so that the objectives of the organization are met. However, there are different views with regard to definition of corporate policy. The features of corporate policy include general statement of principles, long term perspective, achievement of objectives, qualitative, conditional and general statements, guide for repetitive operations, helps in decision making process, provides a unified structure and helps to determine a positive declaration for its followers. The determinants of corporate policy include internal and external determinants. The scope of corporate policy is very broad and consists of variety of subjects that affect various internal groups in the organization. The formulation of corporate policy is very important and facilitate the managers to achieve goals. The process of corporate policy formulation include four steps- environmental analysis, identification of alternatives evaluation of alternatives and choice of corporate policy. Policies are

classified on the basis of various criteria - scope, expression, level of management, nature of origin, functional areas and nature of management functions. Policies have an important role to play in organizations.

3.10 KEY WORDS

Corporate Policy :

Management's expressed or implied intent to govern action in the pursuit of the company's objectives.

Internal Determinants :

The internal factors which influence the policy formulation of a firm.

External Determinants :

The external factors which influence the policy formulation of a firm.

Actuating Policies :

The actuating policies include providing leadership, integrating tasks, communication and organization climate. These policies are concerned with organizing the employees of the organization.

Appealed Policies :

These are also called "suggested policies" because they are made by taking into account the suggestions of subordinates or people who implement these policies.

Derivative Policies :

These policies are operational in nature and are derived from company's major policies. They are made as guidelines to perform day to day operations.

Implied Policies :

The policies which are understood by the employees code of conduct or behavior and are not expressed orally or through written statements are known as implied policies. They flow from philosophy, values and traditions of the organization.

3.11 SELF-ASSESSMENT QUESTIONS

- 1) What do you mean by corporate policy? What are the different views with respect to corporate policy?
- 2) Discuss the features of corporate policy. What are the essentials of an effective corporate policy?
- 3) How is corporate policy formulated? Describe with the help of a diagram.
- 4) In today's changing scenario, what is the importance of forming a corporate policy?
- 5) How is corporate policy classified? What are the various kinds of corporate policy?
- 6) Select an organization of your choice and name various types of policies it had adopted.

3.12 FURTHER READINGS

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CASE STUDY

Maharaja Textiles India Ltd.

Maharaja Textiles India Ltd. New Delhi was one of the leading companies with staff strength of 2030 in the field of textiles. It started its manufacturing activities in Oct., 1986 with an installed capacity of 1,52,000 spindles and 60 tonnes production per day. About five years back, the company bought a smaller textile company at Cochin. Primarily, this unit has to cater to the needs of southern region comprising Andhra Pradesh, Tamilnadu, Karnataka and Kerala of the country. This taken over unit was set up long back in 1940 by Rustom Ji, a private entrepreneur.

Reports from the Cochin Division were not encouraging. Hence, the top management of Maharaja deputed a core group of experts from the headquarters to understand the nature of problems confronted over. A few specific problems were identified by the company. Their brief description is given below:

- **Profits** – The Cochin units is incurring losses. Earlier, it was earning profits. During the last few years, a few more textile companies were set up in southern area. This has enhanced competitiveness. Last year, the company could achieve break even point after lot of special efforts.
- **Absenteeism** – Employees have tendency to remain absent without giving proper information to the management. During festivals and marriages, they prefer to meet their social obligations instead of organizational duties. This disrupted the entire production schedules. Statistics have revealed that this rate is around 20%.
- **Sales** – The sales curve of the division has started flattening. Products having the design from North are not acceptable in South. Variety, Colour and Texture are the other issues affecting the sales of the company. On the other hand, the sales of corporate office has increased annually by 8%.
- **Dealer Relations** – The erstwhile company at Cochin which was taken over by Maharaja later on, had very good relations with dealers in the area. Once the company was taken over by Maharaja, the dealers started moving towards the competitors. Competitors have also started paying higher commission for promoting their local products.
- **Old & Obsolete Textile Machines** – The company was following traditional process of manufacture. It has old machines acquired in 50s. Most of the machines have completed their life. They needed replacement immediately with newer models.
- **Shortage of funds** – Maharaja has gone for a fresh issue of equity. The equity was fully subscribed. But, it could not raise debt funds from the market later on. This has led to reduced allocation of funds to Cochin unit.
- **Strategic Intent** – The company has not formulated its mission. The objectives of Cochin division are not in tune with the objectives of Maharaja at New Delhi. The employees working at these two places place themselves differently.
- **Autonomy** – The chief executive of Cochin unit contends “If we people are allowed to work independently, they would be doing fine. The company at New Delhi ties their hands with policy manuals, directions, forms, reports”

The core group has collected some important facts about Cochin unit:

- The unit was purchased for Rs. 20 crore five years back. Now, it requires an additional investment of Rs. 160 crore.

- The unit has staff strength of 130. They include 45 unskilled and 30 officers. Newly recruited employees are only three.
- The unit does not have quality control and R&D cells.
- The unit sends one six monthly report to Maharaja, New Delhi. No other communications were formalised.
- The unit is located at around 10 kms. from Cochin city and at around 5 km. from Cochin harbour.
- The unit is not making any exports. Further, it has to get the cotton from producers residing near Kolkata.

The top executives are presently busy in identifying the most important problem of Cochin unit.

Questions

- 1) Which of the problems reported by the core group is most important?
- 2) How will you set corporate level and divisional level objectives for the company?
- 3) What policies and procedures be laid for better coordination between Maharaja Head Office at New Delhi and Divisional Office at Cochin?
- 4) What strategic action may be taken to improve the performance of Cochin unit.