

Chapter I. Policy

1. Objective of the enterprise

Why does any company exist? What is the reason for being of any business enterprise? Many people would probably answer these questions by saying that the purpose of a company is to make a profit. In fact, if I were to ask you to write down right now the principal reason why your companies are in business, I suppose that most of the answers would be something of this sort.

But such a statement is not a complete idea, nor is it a satisfactory answer because it does not clearly state the objective of the company, the principal goal that the company management is to strive for. A company's objective should be stated in a way which will not permit of any uncertainty as to its real fundamental purpose. For example, there are two ways of looking at that statement about profit. One is to make the product for a cost that is less than the price at which it is to be sold. The other is to sell the product for a price higher than it costs to make.

These two views are almost the same — but not quite. The first implies a cost-conscious attitude on the part of the company. The second seems to say whatever the product costs, it will be sold at a higher price.

There is another fault that I would find in such a statement. It is entirely selfish and one-sided. It ignores entirely the sociologic aspects that should be a part of a company's thinking. The business enterprise must be founded upon a sense of responsibility to the public and to its employees. Service to its customers, the wellbeing of its employees, good citizenship in the communities in which it operates — these are cardinal principles fundamental to any business. They provide the platform upon which a profitable company is built.

The founder of the Newport News Shipbuilding and Dry Dock Company, when he was starting his company many years ago, wrote down his idea of the objective — the purpose — of the enterprise.

He put it this way. "We shall build good ships here; at a profit if we can — at a loss if we must — but, always good ships."

This is the guiding principle of this company and its fundamental policy. And it is a good one too because in a very few words it tells the whole reason for the existence of the enterprise. And yet inherent in these few words there is a wealth of meaning. The determination to put quality ahead of profit. A promise to stay in business in spite of adversity. A determination to find the best production methods.

Every business enterprise should have as its very basic policy a simple clear statement, something of this nature, which will set forth its reason for being. In fact, it is imperative that it should have such a fundamental pronouncement because there are some very definite and important uses to which it can be put. The most important use of basic policy is to aim the entire resources and

efforts of the company toward a well defined target. In a general way it charts the course that the activity of the company will follow in going toward the target. (See Fig. III.)

Making a clear statement of the objective of the enterprise is like providing a target for a man shooting an arrow with a bow. Figure No. III shows such a man who represents company management holding a bow which represents company policies and an arrow which represents the total efforts and resources of the company. If no target is provided for management (the man), toward which company efforts and resources (the arrow) can be aimed and directed, company policies (the bow), no matter how good they may be will be utterly useless. But altogether, policies, efforts and resources and ultimate purpose to which they are to be put are all part of a single picture. Any one part has a definite intimate inter-relationship with every other part, and no one part is able to stand alone. Each demands the co-existence of the other elements in order to comprise the total picture which is the entire business enterprise.

A great advantage to be gained in a statement of the objective is the stabilizing effect it is bound to have on all features of the organization. For one thing, employees will better understand the use to which their efforts are being put in relation to the total enterprise. At the same time, the statement of the objective will build up confidence in the customers by letting them know just what they can expect from the company. Then too, the part that everyone in the company must play in relation to the attainment of the desired goal is more easily recognized because of the stated objective.

The statement of purpose also serves as a point of measurement, a standard, against which current operations can be measured in order for management to assess the accomplishments of the company. Not the least of the advantages to be gained is the opportunity afforded for pre-determining all the factors involved in attaining the sought-for goal.

Thus, the basis of the organization lies first of all in the enunciation of the basic policy, the fundamental objective of the enterprise.

Obviously, there can be as many different stated objectives as there are different business enterprises. But one point stands out clearly. *A very necessary preliminary to the establishment of any company is a clear, concise, complete statement of the purpose of the company's existence.*

2. Administrative Policy

But such a short statement of this nature cannot contain all the necessary elements of procedures and instructions to employees on how to accomplish the ultimate goal of the company. So, within the framework which has been established by the enunciation of the objective of the enterprise, and in order for the company organization to become a living, functioning body, there must be established general rules for the conduct of business which we may call administrative policies. Whereas the basic policy may have been laid down by the stockholders or the owners of the business, the administrative policies which cover the broad problems of the enterprise are generally issued by the Board of Directors or the President and the other top company officials.

Administrative policies are those that determine the scope within which management is to operate and they set the objectives which are to be attained in the normal operations of the business These policies become the general laws of the company and usually are concerned with the broader aspects of financial, production, sales, accounting and organizational matters.

For example, financial policies are usually related to the issuance of stock, declaration of dividends, borrowing of money, investment of surplus, etc.

Production policies have to do with the location of a new plant, change in location of an existing plant, collective bargaining agreements, method of wage payment, etc.

Sales policies may be concerned with the method of selling, whether direct or through jobbers, establishment of branch offices, and whether to aim for large volume — small profit sales or small volume — large profit sales.

Executive policies related to accounting have to do with the installation and use of a budget, selection of a cost system, and the nature and character of administrative and operational reports.

In each case, an administrative policy is a general rule which states the established procedure which is to be followed in a recurring situation.

3. Management Policy

On the other hand, management policies are more specific and detailed rules which prescribe procedures to be followed in particular situations. But the main distinction between administrative and managerial policies lies principally in the executive level at which they are formulated. The former are framed by the “top executive” group while the latter are usually set by the executives in the operations group.

Management policies are those that are determined by the personnel group which leads, guides, and directs an organization to the accomplishment of predetermined objectives.

Persons in this group include the Treasurer, Comptroller, Plant Manager, Chief Engineer, Sales Manager, General Affairs Manager, Personnel Manager and the Purchasing Agent.

The purpose of management policies is:

- a. To make every person in the organization clearly understand his position in the organization and his relation to others in the organization.
- b. To clearly define the duties of every person and every part of the organization and definitely fix the responsibility and authority of every person.

- c. To coordinate the efforts of every person and every part of the organization in order to achieve a single effort toward the realization of the enterprise's administrative and basic objectives.
- d. And in the case of several persons being on the same level of authority, to carefully prescribe and coordinate the efforts of the separate field of each one.

Good policies are coordinative in their influence upon the organization and are basic for management control. In order to develop and implement this control certain devices are used in conformity with established policies in order to make those policies effective. The devices which are used to secure and maintain coordination are called the system — the management system.

Of the several mechanisms that are used to coordinate efforts and exercise executive control the most important are: organization charts, organization records, standard practice instructions, orders and returns, records of performance, administrative reports, and committees.

The organization chart is, of course, a picture of the structure of the enterprise.

The organization record is a written interpretation of each position shown on the chart.

Standard practice instructions make policies effective by telling precisely, step-by-step, how a particular job is to be done.

Orders and returns is the name given to the flow of instructions and advice from top management down to the lowest level of workers and the return flow of reports and suggestions from that lowest level to top management.

Records of performance are the data sheets that are gathered from inspection, production, sales and other activities of the company.

Administrative reports are such things as profit and loss statements, balance sheets, stocks and bonds reports, etc.

Committees are cooperative groups which are organized to make best use of the combined knowledge and talent of the company.

Now before analysing the nature of management policies, let us see to what sort of problems they are applied. Some of these are:

- a. Development of an organization plan for departments and subdivisions, defining authority, nature, scope, and limitations of activities and relations and responsibilities of each department.

Attention should be given to the use of the words "limitation of activities" Just as it is important to specify the scope of the functions of a department, it is also desirable,

by specifying the limitation of activities, to tell what functions are not to be included within its scope of activities.

- b. Development of a layout plan for departments and equipment, to provide for rearrangement where necessary and to include provisions for expansion and new departments in accordance with the major organization plan.

This item is concerned with the Organization for Operations, which is the physical requirement (plant, machines, tools, equipment, workers and such other physical necessities for production) of the manufacturing company.

- c. Collection and summarization of data relating to products.

The emphasis here is on making market and sales studies not only of your own company's products but also of your competitors' products, analyzing such things as customer preference, sales reaction, *etc.*

- d. Collection and summarization of data relating to machinery and equipment.
- e. Standardization of machines and development of a *maintenance* system.

On the assembly line where there are several operators all doing the same work, the same production machinery should be used. It would thus be possible to maintain better control of production if there is some plan to standardise on the type of machine equipment used. At the same time it is of utmost importance that that machine equipment be maintained for proper operations. A definite routine of keeping machinery in good order should be established as a maintenance system.

- f. Standardization of tools and development of a tool room system.
- g. Development of a stores system.

A great deal of money is being lost in Japanese companies through petty thievery and damage because of the lack of an adequate warehousing system. Besides this there is often large amounts of materials purchased unnecessarily because of inadequate inventory control systems.

- h. Development of an order system (flow of instruction and returns).
- i. Development of a time-keeping system to serve accounting purposes.
- j. Development of a routing system including complete planning in advance of work to be done in turning out the product.
- k. Development of methods to follow up and control work in process.

- l. Development of time studies, development and standardization of operations and operating methods and a pay system based thereon.

The present system of wage payment does not take into consideration the amount of good work, efficient work, that is being done in the factory. Standard costs based upon factual knowledge of the manufacturing process in use are almost nonexistent. There is hardly any company in Japan that does not need a definite policy in this regard.

- m. Development of a cost accounting system.

4. The Nature of Policies

Even though in different companies there are bound to be widely differing policies depending upon the different individual situations, there are certain elements which are common to all policies. These are:

- a. A policy must be flexible in application.
- b. It must be subject to change and improvement.
- c. It must be enforced in order to be effective.

What is meant by flexibility is, an industrial policy must be capable of meeting special situations. In formulating a policy it should be framed with as much foresight as is humanly possible to bring to bear on the problem. For this reason, generally a policy should be considered as almost a fixed practice. But it is inevitable that from time to time, there will be cases where the facts of a pressing situation are in contradiction to established policy.

In this case executive judgement will be called upon for a decision to relax or temporarily amend the policy and it should be possible to do so without running the risk of endangering the continuance of life of the policy or its applicability in other normal cases.

At the same time a policy cannot really be considered as a rigid sacred standard. Rather it should be regarded as progressive in nature and as susceptible to modification, change, or improvement at any time when a better practice is discovered. *A policy is never ultimate.*

It should be realized too that no statement of established procedure is effective simply because it has been enunciated. To produce the effect desired through the influencing of activities and actions, *policy must be enforced by the impact of a human will through (a) organization structure, (b) planning programs and schedules, (c) standard practice instructions and (d) checks and corrections of performance.*

This impact of a human will is the functioning of managerial leadership; that which makes a policy effective because of enforcement.

All too often in Japan we find a general inclination on the part of management to think that if a plan exists then automatically the problem covered by that plan is solved. Nothing could be further from the truth. A plan only exists if it is put into effect by purposeful and consistent action. A plan only has value in relation to its actual use.

Figure No. 112 shows graphically the relationship of the various phases of policy establishment. Industrial policies are of two natures: Administrative and Managerial (management). In order to provide a consistent method of dealing with specific problems, and also for the purpose of relieving busy management personnel from having to act personally in every case which could just as well be handled by a subordinate who follows an approved procedure, policies are formulated. But as it has been said above, in order to make policies effective they must be enforced. Management enforces policies by exercising leadership and acting through the lines of authority provided in the established organization.

Any business enterprise is capable of being divided into two component parts. One is the organization for operations; that is, the physical aspects of the enterprise, and the other is the organization for control. This latter includes the management functions which guide, lead and direct the operational activities toward the accomplishment of stated objectives.

For effective use this organization for control must be designed just as any structure is designed. Personnel must be selected, trained, and assigned positions within this organization and given the responsibility for carrying out the functions of executive control. Finally, management must coordinate the activities of all the various functions of the enterprise so that out of separate efforts there must come a single combined effort which is devoted to the accomplishment of a single purpose — the realization of the objectives of administrative policies and of the basic purpose of the enterprise.

There are, of course, internal conditions in a company which influence the making of policies. Just as there are many factors external to the company which may affect policy making too. These might be national laws, local laws and regulations, trade agreements, labor contracts, public opinion, etc. But, no matter what factors may be involved, there are eight essential steps which should be followed in policy formulation.

- a. A policy should be definite, positive, clear and understandable by *everyone* in the organization.

Particular attention should be paid to the use of the word “everyone”. The welfare of enterprise demands that every single person in the organization know, understand, and use the policies which are established for the guidance of the enterprise. That means that it is important for each worker as well as the president to know the laws of his company.

- b. A policy should be translatable into practices and peculiarities of every department and part of the organization.
- c. A policy should be *flexible* and at the same time have a high degree of *permanency*.
- d. A policy should be formulated to cover all reasonably foreseeable conditions.
- e. A policy should be founded on facts and sound judgment.
- f. A policy should conform to economic principles, statutes, and regulations, and should be compatible with public interest.
- g. A policy should not prescribe minutely detailed procedure.
- h. Policies are useless unless they are enforced.

The eight points stated above can be used as a yardstick to measure the adequacy of your own company policies. Take each of your own policies and compare them step by step against each of these eight points. How do they measure up? Do your policies meet every qualification or are they lacking in some element? If they are, then you know wherein your policies must be corrected in order to make them good policies.

Policies are like standards or like the laws of the nation in that they represent the best that can be devised at the time and they should be adhered to until good reasons appear for making a change. For this reason, policies should be under constant review by company management so as to make sure that they do not become obsolete or ineffective.

Policies, again like standards or laws, are useless unless they are enforced. They are the best and perhaps the only way that management can impress its ideas and ideals upon the rank and file of its employees.

For this reason they should be definite and tangible and presented to all in a simple understandable form. The most difficult task in this regard is to get the ideals and ideas of the management clearly before every worker. Ways of accomplishing this might be by periodic meetings of management and workers in small groups wherein the policies are explained and discussed. Another publicity scheme is to use printed statements in company periodicals. The point to be remembered here is that building up company morale and making policies effective are a constant process of education which must never be allowed to become neglected.

5. Leadership and Policy Enforcement

But, policies alone are not of much avail. However, good policies plus wise leadership may be very effective. No enterprise, industrial or otherwise, prospers without able leadership. Inasmuch

as a policy is merely a general statement of procedure of something to be done and how to do it, it has within itself no force to bring about results. Executive action — leadership — is required to make any policy effective. The more positive and more effective the leadership exerted, the greater is the probability that policies will be adequately enforced and the predetermined results realised. In other words, achievements in manufacturing enterprises come from decisions put into effect by the will of the ones who are responsible for policy enforcement and who exercise leadership.

Whenever men are gathered together for the purpose of accomplishing some common purpose the basic principle underlying all operations — the principle of leadership — applies. That principle is stated thus: *Wise leadership is more essential to successful operation than extensive organization or perfect equipment.*

Leadership is the faculty or capacity to direct, control, or influence others in definite lines of action, and to maintain a high level of morale. A leader's main obligation is to secure the faith and respect of his followers. To do so he must be the best example of what he would like to see in his followers. In the democratic sense a leader does not drive his people, nor does he make his people advance by kicking them in the back.

Rather he goes ahead of the others, as if he were lighting their way through a dark tunnel, showing them the path to take and forging ahead so that the others can come after having full confidence that they are treading a firm safe path that will ultimately lead to the desired goal.

The characteristics required for leadership are: Creative power, high purpose, courage, honour, independence, tireless industry.

These characteristics are not qualities that are to be reserved as private property only for the company's president or directors. They must be possessed by everyone in the organization who has to do with the enforcement of policy whether he be president or foreman. And in those cases where there are supervisors who do not have these necessary characteristics, such people must be trained and the qualities developed in them so that they can become good leaders and thus correctly enforce the policies of the company.

6. Examples of Policies, Sales, Personnel, Public Relations

Up to this point we have discussed the basic requirements of organization. We have learned that a company must be based first of all upon a clear statement of its objective. This objective is then amplified into general rules of procedures by the formulation of administrative policies. Finally, by the development of managerial policies the general procedures are put into more detailed form so that the objectives of the company can actually be realized.

a. Sales

Now let us give some attention to particular policies and see how they come about. Let us take an example of a sales policy which is stated as, “The sales policy of this company will be to extend our product into every available market.”

As good as this statement might be, it does not tell how the result is to be accomplished. The usual procedure has been just to send salesmen into a sales area without any preparation whatever with a hope that they may be able to find some customers. Modern management uses a different system and follows a management policy.

Suppose we have a sales organization as is shown in Figure 123 and the management policy outlines the sales procedure as indicated. The steps which would be followed in developing a new market would be to first of all make a market survey. The new sales territory is surveyed from the point of view of the population, the distribution of wealth, the nature and character of the residents, and the competition which may be encountered in that area. This survey becomes a recommendation to the company on the sales possibility of this new area.

Using the information gained from the survey an advertisement campaign is started which is tailored to fit the requirements of that particular area. Only after this advertising campaign has been started and is in full force is a direct approach made in that area by the salesmen, but these salesmen have been previously armed with completely organized sales material.

They have complete information on the product they are selling, delivery schedules, credit information, application of the product and the customers’ particular use, authority to conclude sales contracts and such other things required to adequately exploit this new sales territory.

This whole sales procedure which has been outlined may be embodied in the sales policy which is used to implement the administrative sales policy of extending the market. It is a policy which is built upon facts. The method is logical and scientific.

It is not personal or casual. Figure 124 indicates other problems which may be covered by the establishment of sales policies.

b. Personnel

An example of a personnel policy was stated by a certain company in these words: “It will be the policy of this company to secure the maximum prosperity for the employer coupled with the maximum prosperity for each employee.”

This statement is an administrative statement and enunciates the objective which will be sought. It does not tell the manner in which it will be accomplished. For that we need management policies of more detailed nature. These will be concerned with wages, job evaluation and bonuses for merit, production, and operating efficiency. They will also contain procedures relating to employee welfare and benefit activities, working conditions,

discipline and will set the rules to be followed in such matters as promotion, hiring and firing, seniority and training.

Figure No. 125 is the personnel policy of Western Electric Company. It may be desirable for you to use this example in a comparison with your own personnel policy. How does your policy measure up to this one?

c. Public Relations

The relation of the company to the community in which it is located has recently come to be recognized as having a significant importance. In this regard company management have often found it necessary and advisable to make definite plans to obtain and maintain a spirit of good will and thus they have formulated what are called public relations policies.

d. General

In general, there will be a policy enunciation for every major function of management. Policies on pricing, on research activity budgets, on the number and quantity of product models to be made in any production period, on whether raw materials will be bought on speculation. Such matters as these will be clarified for the benefit of management by policy statements. What this really means is that management will try to foresee every problem with which it may be confronted and have a predetermined plan ready to be used in any event.

Figure No. 126 is a policy statement promulgated by the Ministry of Telecommunications. It is one of the first and certainly the best of such statements to come out of any government agency in recent times. Here again is a good example of what policy statements should be.

7. Operational Policies

We have said that the objective of the enterprise will be stated in very general terms and that administrative policies are general rules for the conduct of business. Management policies are more detailed rules of procedures but do not state the detailed steps which are to be followed. To cover this phase there are operational policies which generally take the name of standard practice instruction. Such instructions are usually formulated on a departmental or section level by immediate work supervisors. These instructions prescribe the steps to be followed in actually accomplishing particular specific jobs.

There are usually several ways any given result can be achieved. The purpose of the standard procedure is to *select the one best way*, taking into consideration the particular conditions of management, personnel, product, facilities and plant, putting that best way into *writing*, distributing the instructions to all concerned departments and individuals, instructing personnel in the use of the procedures, supervising its execution to see that it is being properly carried out and

that the desired results are being achieved, and periodically reviewing the procedures to see if a better way of doing the job can be formulated.

This is a method which applies to every function in the company, office, factory and laboratory.

If each department of the company is to efficiently perform its part of the total task it must know definitely what it is to do as well as the best and quickest way of doing it. If the operation as a whole is to be performed effectively each department must do its part in proper sequence and must do it in such a manner as to facilitate the operations to be performed by other departments. The using of written procedural instructions is of utmost importance since it will prevent conflict of authority, gaps in responsibility and also costly errors.

In our previous example of the sales policies, standard practice instructions would be detailed on how the market survey is to be done, detailed instructions on the procedures to be followed in conducting and processing the advertising campaign and specific instructions to the salesman on how they are to do their job. The actual functioning of the operations of every phase of the business is clarified and specified in this manner.

One of the greatest advantages to be found in the use of operation policies (standard practice instructions) is that they relieve the management people of themselves having to act in every routine matter that occurs in the normal course of business in the company. A management person's time is valuable and it should be used only for the important aspects of the business which are not of a recurring nature. Where only ordinary problems occur, these instructions should be used and followed, thus relieving management of some of its burden and allowing the upper level people time to function in the proper sphere, namely, managing and planning ahead for the overall welfare of the entire company.

It is the responsibility of each of the labor management level persons who formulate operational policies to see that such policies are consistent with and in harmony with the management policies within which he is to function. At the same time it is the responsibility of the top management people to see that operational policies which are formulated, are designed to effectively carry out the major policies of the company in the best and most efficient manner.

It is also the responsibility of top management to define the nature of policies which can be determined by the lower management levels, which policies must be submitted to the higher level for approval before putting them into effect and which policies are to be determined only at upper levels of management. Such decisions as these will be made in conformity with the organization chart and organization manual (that which is used to interpret the structure of the organization) and usually will be specified in the job description which is written for each of the positions in the company.