



## Corporate Policy-its Determinants and Importance in Present Corporate Scenario

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**ABSTRACT:** A business does not operate in vacuum. It has to act and re-act to what happens inside and outside the organization. Those factors which happen inside the organization called Internal and those outside the organization called External factors. These factors influence the business and possibly the objectives of the business and its strategies.

**Keywords:** organization, corporate policy, industry structure determinant, corporate mission, resources.

### I. INTRODUCTION

Corporate Policy is usually a documented set of broad guidelines formulated after an analysis of all internal and external factors the can affect a firms objective, operations & plans. Formulated by the firms board of directors, corporate policy lays down the firm's response to know and knowable situations and circumstances. It also determines the formulation and implementation of strategy and directs and restricts the plans, decisions and actions of the firm's officers in achievement of its objectives. Corporate Policy is the guideline which helps the management to carry out its activities in a efficient and effective manner so that the objective of the organization are met. However, there are different views with regard to definition of the corporate policy. Corporate policy has been defined as "Management expressed or implied intent to govern action in pursuit of the company objectives". Corporate policy clarifies the intension of the management in dealing with the various problems faced. It gives the management a transparent guideline to take their decisions by being on the safe side corporate policy helps the managers in identification of the solutions & the problems. It provides framework in which he has to take the decisions.

### II. DETERMINANTS OF CORPORATE POLICY

The Corporate policy of an organization is influenced by various inter related and interacting factors.

These factors can be classified as internal and external factors. The determinants which are internal to the organization and which influence the decisions directly are known as internal factors and those factors which act from outside the organization and influence it externally are called external factors. These factors are discussed below:

### III. INTERNAL DETERMINANTS

These determinants include the corporate mission, corporate objectives, corporate resource and the management values which are all internal to the organization and play a very important role in the formulation of the corporate policy. All the above factors influence the corporate decision directly.

**(a) Corporate Mission.** The missions of the company stand for the purpose for which it exists and operate. The policy makers should be very clear in their minds for which the company exists and operate and accordingly formulate the policies and guidelines for managerial and other activities so that corporate mission is accomplished.

**(b) Corporate Objective.** The organization objectives are designed, framed and operationalised to work for achieved them. Corporate policy should be made by taking into account the economic, financial and other objectives of the company.

**(c) Resources.** The activities to sum any organization depend upon the size of the plant, capital structure, liquidity position, personnel skills and expertise, competitive position and nature of products etc. The above factors and resources are considered in formulating the corporate policy. In other words, an organization can decide about its activities by keeping the above resources.

**(d) Management Values.** Another internal determinant of corporate policy is management value. The corporate policy is influenced by the values of the persons responsible for formulating it. Their views reflect the values absorbed by the organization. These values differ from organization to organization.

#### IV. EXTERNAL DETERMINANTS

These Determinants include all these factors which act from outside the firm and influence the organization externally. The external determinants of corporate policy include – Industry structure, social environment, political environment, economic environment, technology etc

**(a) Industry Structure.** The structure of the firm depends upon its size, barriers of the entry into the market, number and market captured by the competitors, strategies and policies of the competitors. All these factors are kept in mind while formulating the corporate policy of any business house. These factors decide the existence of the firm in the market.

**(b) Social Environment.** The various groups in the society also influence and affect the activities of an organization / firms. The social, religious, cultural, and ethnic factors of the managers running the business also influence the making of the policies of the organization. Even the holidays are decided as per the social and cultural beliefs of the majority of population. So the above factors are to be considered while making the policy.

**(c) Political Environment.** The firm has to carry out its activities in accordance with the government's regulations and policies. If these are not complied with, the firm would not be able to meet its objective in an efficient manner. The various policies like Monetary Policy, Fiscal Policy & credit policy of the firm.

**(d) Economic Environment.** Economic environment comprises of the demand, supply, prices trends, the national income availability of inputs, the various institutions etc. It includes all those factors which influence the policies of the firm. Therefore, it becomes one of the most important determinants of corporate policy.

**(e) Technology.** The Technologies are changing rapidly throughout the world and these changes are entering the market at regular or intermittent intervals. For any organization to sustain and remain in the market has to cope up with these technologies changes. Thus technology plays a very important role in formulating the corporate policy.

#### V. IMPORTANCE OF CORPORATE POLICY IN TODAY'S SCENARIO

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 a 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 activities towards the same goals. The importance of Corporate Policy may be well seen in following areas:

- (a) Policies are needed to carry out the business activities in a smooth manner.
- (b) They provide a clear cut course of attainment of business objectives.
- (c) If a paper 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.
- (d) Policies provide a guide and frame work for decision making.
- (e) Policies encourage delegation of power of decision making.
- (f) Good policies provide a direction in which all management activities are focused.
- (g) Policies provide stability to the action of the members of the firm.
- (h) Policies deter the subordinates to rethink on the day to day issues and thus avoid repetitive analysis of issues.
- (i) Policies facilitate evaluation of performance by acting as a standard.
- (j) They help in solving the problems optimum utilization of scarce resources.
- (k) The sound policies help in building good public image of the business.
- (l) Policies provide the firm with clear objectives with which the managers can decide about the future course of action.
- (m) They act as tool for coordination and control.

#### VI. CONCLUSION

Thus, Corporate Policy is very important for an organization and help in the overall development and growth. A Sound policy provide satisfaction to the employees in term of working conditions, culture, authority responsibility and relationships.

It is guideline which helps the management to carry out activities in an efficient and effective manner, so that the objectives of organization are met and these policies have an important role to play in organizations.

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