What Is Policy?

Strategic and Operational Policies
and Good Governance

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3. Strategic Policies

Strategic policies align your organization's vision. They set the company's overarching direction and drive the way you do business. Like a compass pointing north, strategic policies lead the way to your mission. By delineating a corridor of navigation or fields of interest and the linkages among them, these policies reduce uncertainty in strategy formulation and further downstream along the value chain. Without being categorical, strategic policies outline both the markets you want to be in[1] and the ones you wish to steer clear of. They profile the broad characteristics of the customers, investors, vendors, employees and partners you shall seek and those you ought to avoid or treat otherwise.

Strategic policies should be mission driven rather in reaction to surprise events or undue pressure from change advocates. They should delineate the coping mechanisms to deal within unexpected issues, and the conditions under which *ad hoc* decisions can, within limits, override policy, as in major crises or pilot experiments (e.g. proof of concept). Strategic policies must be coherent with equitable, accountable and effective **governance**. Many are derived from your governance machinery, as indicated below under the *Strategic Policies in the Public Sector* and further down, in the paragraphs on *unavoidable obligations*.

In business, strategic policies permit you to focus your efforts on the most promising environmentally-friendly avenues and on the combination of <u>value propositions</u> that make the customer the greatest beneficiary of all your endeavors. In return, this practice results in customer loyalty and yields lasting value for your staff, shareholders, suppliers, trading partners and other allies. The ultimate meaning of loyalty is epitomized by Ritz Carlton's and TD Financial Group's customer for life concepts. That is also what Deutsche Bank founder Georg von Siemens meant by "patient investors". Several organizations use loyalty indices to tracks the rate of defection (loss) of investors or value-added customers.

Here, customer means more than just the immediate internal or external client. Even if you are strictly a wholesaler or a business-to-business vendor, you cannot ignore the profile of end users and ultimate beneficiaries who derive genuine value from your activities.

Strategic policies shape the organization's culture. On this topic, Herb Kelleher, founder and CEO of Southwest Airlines, said: "I've tried to create a culture of caring for people in the totality of their lives, not just at work. There's no magic formula. It's like building a giant mosaic -- It takes thousands of little pieces… The intangibles are more important than the tangibles. Someone can go out and buy airplanes from Boeing and ticket counters; but, they can't buy our culture, our esprit de corps."

3.1 Good Governance and Strategic Policies in the Public Sector

"Governance generally encompasses all aspects of the way a country is governed, including its economic policies and regulatory framework."[2] **Good governance** promotes the rule of law and "ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the most vulnerable are heard in decision-making over the allocation of resources."[3]

"Governance is the exercise of power or authority – political, economic, administrative or otherwise – to manage a country's resources and affairs. It comprises the mechanisms, processes and institutions through

which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. 'Good governance' means competent management of a country's resources and affairs in a manner that is open, transparent, accountable, equitable and responsive to people's needs."[4]

Strategic policies in the public sector guide decision-makers in crafting programs, selecting projects or initiatives or addressing issues to fulfill their mission and provide a coherent framework for future directions in sustainable ways that advance good governance (transparency, equity, ethics and participatory democracy). They spell how conflicting goals and priorities should be balanced. Unlike the private sector focusing mainly on the customer, strategic policies in governments can target the citizen, the nation and the ecosystem, frequently together and simultaneously, with a clear indication about the inherent tradeoffs. They should be firmly grounded in good governance and the agency's mission. Furthermore, they should be compromised neither by political expediency nor the surprise event *du jour*.

3.2 Value Proposition

Strategic policies define four dimensions of your value proposition to customers: *dominant* or flagship features, standard features, giveaways and unavoidable obligations. Each of these elements is outlined below.

The flagship features or *dominant* elements of your value proposition are those that keep customers coming back to you. They are *vital* to set you apart from competitors and their presence should be evident in all your activities. Should you cultivate one-to-one relationships with your customers? Where do you meet or serve them? Should you take your service to them (at least the part that is accessible by telephone or via the Internet)? Should you bring them to your turf or give them the choice? Leading supercomputer makers and the Ritz-Carlton Hotels go for a global solution for an exclusive group of customers. They compete by building intimate relationships and by bundling services with products. ARCO, Wal-Mart, UPS and Staples target a mass market at the lowest price while Intel opts for product leadership through advanced technology. Federal Express, QVC[5] and Microsoft concentrate on other *dominant* values such as speed and hassle-free service.

A *dominant* value proposition cannot be easily imitated by competitors. No company or government agency can be a star in every area. That why it is critical to be absolutely clear about your *dominant* value proposition. Otherwise you run the risk of becoming a mediocre, or at best, an average performer.

The *standard* features are also *essential* for excellence. There can be no compromise on these features because leading competitors also offer them and have made them a measure of excellence. As an illustration, Mobil leads the gas station industry on speed and product variety (its dominant feature). It keeps its prices (a standard feature) very close to ARCO (the price leader on regular gas). By the same token, ARCO cannot significantly fall behind the competition standard on speed. Motorola kept its prices of cellular phones as close as possible to those of Nokia, the industry price and marketing leader, but did not maintain its traditional lead on product development. The company's substantial loss in market share to Nokia and others could be traced to its setback in R&D performance (a dominant value).

The *giveaways* are the nice-to-have features appreciated by selected customers. Not necessarily traffic builders, they are more like an act of courtesy and their strategic value is marginal. Their absence will not turn customers off either. But, a nice-to-have feature for one target group could be a vital ingredient for another. Therefore, it is indispensable to know the psychographic profile of customers prior to finalizing strategic policies. You can bring in new nice-to-have elements or features to your product line at any time. But you cannot withdraw them at will without antagonizing those who get used to them. It is prudent to resist the temptation to introduce these elements without serious strategic or competitive considerations.

Unavoidable obligations are derived from your **governance**, local laws, regulations and commitments to the community. They tend to become more stringent over the years. You can only ignore these obligations at your peril. Unlike average performers, smart leaders in every industry work together with their regulatory authorities and non-governmental organizations to raise these obligations and increase the cost

of entry for competitors. In many German industries, stringent environmental obligations have kept foreign competitors at bay. Home and industrial appliance makers, such as Miele, built their reputation on being at the cutting edge of environmental knowledge and technology.

Your company owners can also set *unavoidable obligations* above and beyond legal requirements. Staying out of debt and reinvesting half of the company's earnings in research are among the self-imposed obligations that govern PDI financial policy since its incorporation in 1975.

Your products and services must exhibit your organization's dominant features and also excel in the standard features. You must also exceed the unavoidable obligation requirements of today to avoid having to catch up tomorrow.

3.3 Capabilities, Competencies and Priorities

Corporate capabilities, including knowledge resources, are scarce and perishable. Explicit policies should be in place to renew, cultivate, leverage and retain these resources. The objective is to maximize returns in the long term and yield consistent performance year after year.

Strategic policies include priority-setting guidelines to resolve potential conflicts among goals and head-off inappropriate competition for resources between managers. They permit each partner or Strategic Business Unit (SBU) to concentrate on its core area of competence while fully cooperating with other units to fulfill the collective mission.

With respect to human resources, it is vital to align your mobilization, training and management policies to nurture the core competencies you need for getting and keeping targeted customers. What relationship should you cultivate with the regular work force, part timers and free-lancers in order to bring out the best in everyone and retain motivated and talented people? What rewards should you offer your own staff?

The importance of customer retention must be reflected in the reward system whose features must mirror those of your value proposition. And in hiring, select those life-time learners with the potential to help you grow and whose psychographic profile is fully compatible with your aspirations and value system. This practice is successfully pursued by ServiceMaster, La Quinta Hotel Chain and Southwest Airlines. Similarly, this critical approach applies to the selection of trading partners including vendors as illustrated by GE and Procter & Gamble.

3.4 Some Caveats

There is a real risk – particularly in large organizations – to cast strategic policies to fit the flavor of the day or to be doctrinaire. Stylish and dogmatic stances detract from the essence of strategic policies which should constantly remind you of the current reality and long-term picture in just a few words.

Changing strategic policies is a serious endeavor akin to medical surgery: for numerous reasons, it should not be done lightly or frequently. A sound corporate strategy takes a long time to develop and implement. It is an ongoing exercise of learning and adaptation intended to strike the right balance between change and stability. Strategic policies must be validated with ongoing intelligence gathering and targeted monitoring of selected technologies, players, issues, products, trade patterns, fiscal trends and emerging values. This scanning exercise provides early warnings about new opportunities and related risks.[6] But, frequent changes of fundamental policies send conflicting signals to customers, investors, shareholders, staff and allies who value stability and constancy of purpose. They should be done by necessity, and as a result of emerging opportunities, expected fluctuations in market structure, new competitive pressure, major shifts in consumer behavior or anticipation of breakthroughs products and processes. Furthermore, a complete review of strategic policies is indispensable every three years to avoid complacency and rigidity.[7]

GE illustrates how consistency in strategic policy can serve the corporate vision for many years. Throughout the eighties, GE policy was to "fix, sell or close" any subsidiary that is neither first nor second in its market. The requirement to be first or second continued to apply to every member of the 50 niche-

oriented businesses long after the conglomerate has freed itself from all but top performers. Introduced in the nineties to further strengthen the GE family, the concept of *integrated diversity* went further to seek synergy through knowledge sharing and joint cooperation where substantial value can be created without hampering the autonomy of each subsidiary. GE concept of *integrated diversity* could be applied to public-service reform particularly in federal-state issues where there is ample space for greater synergy.

In medium and small organizations, strategic policies either remain implicit or ad hoc, emerging as a result of surprise events or trial and error. In this state of affairs, survival is of primary importance and success is frequently elusive. Regardless of the business' size, investing time to produce sound, explicit and flexible strategic policies reduces ambiguity and pays handsome dividends. This activity is the responsibility of the top executive team and one of the few that cannot be delegated.

3.5 Disclosure of Strategic Policies

The competitive elements of strategic policies are among the most proprietary assets of a private organization. Their full and unfettered disclosure to outsiders without regard for consequences (net benefits and unacceptable risks) is not a sound business practice. Even within the company, disclosure should be on a need-to-know basis, particularly in areas that can be penetrated by the competition or other potent adversaries. But, secrecy should be by absolute necessity in the public sector, where good governance, especially transparency and participatory democracy are always at risk. And in the private sector, it should not stifle and the legitimate flow of valuable information and knowledge.

To argue that strategic policies must be explicit does not necessarily mean they should be written in black and white: some of the most secret (and ethical) policies are best left unrecorded for obvious reasons!

3.6 Illustration of Innovative Policies for a Controversial Mission

Well thought out strategic policies can help steer an organization to accomplish a difficult and controversial mission in a counter-intuitive way. The case of a large Australian voluntary organization is illuminating. The core mission of the Brotherhood of St. Laurence (BSL)[8] is to research, disseminate information and educate Australians about the structural roots of poverty. However, securing adequate funding for research is an arduous task; even in the richest of business establishments. The Brotherhood did not want to face an uphill battle to gain resources and acceptance. In sharp contrast to its mission, it decided to create a Material Aid Unit to collect used clothes and furniture from donors for distribution to welfare recipients at no cost. This old-fashioned charity policy was designed and successfully implemented to act as a strategic cover for the agency. This move legitimized the existence of the Brotherhood as a religious charitable organization; legitimacy permitted the institution to engage in sensitive seminal work without provoking controversy in a "hot" area. Moreover, donors identified with the Material Aid Program through their contributions, giving the organization a high profile and community presence. This new position in society consolidated bonds with local leaders who provided political protection and assured resources for frontier social research.

3.7 Summary

Strategic policies set the tone for your competitive strategy and the foundation of your corporate vision. These policies are of such paramount importance to your evolution that they cannot be merely imported from other organizations. *In short, they are what make you unique: your corporate signature.*

4. Operational Policies

Operational policies are the instruments and practices by which organizations rationalize and continuously improve the work they do through available knowledge and technology. This family of policies includes team synergy, decision structures, methods, standards, systems and procedures that yield high performance and consistently respond to changing circumstances. While strategic policies dealt with the substance of what you are about, operational policies deal with the process of getting the job done. The

first policies defined the business you are in, the second help you devote your attention to activities and practices with bottom-line impact. Building a vibrant community, eliminating inequities and waste, absenteeism and high levels of worker turnover are among the goals addressed by these policies. Guidelines to benchmark your performance are indispensable to set targets and keep a sharp eye on progress.

4.1 Fundamental Values

Operational policies make explicit the universal values that guide your socioeconomic life and business conduct and good governance. Included are areas such as ethics, equity, privacy and safety where zero-tolerance for negligence and infractions should be the norm. In order to safeguard intellectual property, operational policies should make explicit who should have access to what proprietary information and expertise. They should also cover security rules where strict control is needed for regulatory and risk-mitigation reasons.

Every public and private organization should make universal values among the first covenants of its business charter. Exemplary leadership requires skilled professionals with extraordinary character who do not compromise on these fundamental values and who walk the talk in *both* their public and private lives.

4.2 Productivity Policies

This category covers overall productivity policies. It also seeks to increase the velocity of decisions and the capacity of the organization to respond to peak demand for decisions. Operational policies protect management and professionals from being swamped with details of *adhocracy* that stifle their performance and creativity.[9] By providing policies to make sound decisions promptly at the front line, less *ad hoc* consultations are required on repetitive situations requiring predictable response. Programmed decisions are formulated in advance to minimize duplication of management effort. Flexible operational policies also facilitate virtual work, decentralization, outsourcing and trading partnerships.

This family of objectives also includes routine matters such as work rules, virtual-team *etiquette* (cyberspace norm of interaction), travel, purchasing, order processing and transactions where unwritten rules are detrimental to productivity and consistent performance.

4.3 Quality-Management Policies

Another major component of this category – quality management policies – provides a set of guiding principles for a continuously improving organization in all its efforts to anticipate and meet customer needs. Quality goes beyond the creation and delivery of better products and services; it encompasses the whole economic system of the firm and considers the societal costs of its interventions. Policies for recovering dissatisfied or lost customers are also an integral part of quality management. As experienced by Intuit and British Airways, regaining the confidence of unsatisfied customers pays handsome dividends and generally costs less than finding replacements.

Where feasible, stable decision rules should be converted into algorithms and ultimately pre-programmed[10] and automated, particularly where consistency in organizational response is necessary. A major overhaul or reengineering should be in order every five years. But once adopted and streamlined, effective operational policies –particularly those relating to regulatory compliance and work rules – should be left on *auto-pilot* and reviewed no more than once a year to allow the organization to devote its attention to its mandate. *The acid test is to never lose sight of the productivity and creativity potential of staff and management.*

4.4 Simplicity Wins!

Devote significant time to operational policies before identifying strategic policies is counterproductive. Furthermore, bulky operational policy manuals complicate and slow work down instead of simplifying and speeding it up. As an illustration, government agencies, mired in procedures and processes, spend

endless time and energy, on tasks outside their core mission, such as determining the fair cost of travel, car mileage and meal allowances wherever their staff go. Yet, local and worldwide up-to-date rates are available, at minimal cost, from a host of credit-card providers.

Entrepreneurs in small firms face the opposite predicament. They rarely sit down to outline operational policies and rely instead on informal practices. As their business grows, they tend to lose valuable time by dealing with each case on an *ad hoc* basis. We went much further in our own company by searching for a fair employer with a long-standing track record in serving the business-to-business market. Once we found the target, a leading well-known multinational corporation, we sought their permission to hitchhike on their policies on mileage, travel, vacation, holidays, health care, security clearance, business hours and compliance issues that are incidental to our mission. Our policy manual on these topics is ultra light. The process saved us hundreds of hours of scarce management and professional time, prevented conflicts, and demonstrates to our staff that they will be treated fairly.

Note

Visit **www.executive.org** for hands-on seminars on crafting good governance and policies; strategic thinking; strategy formulation and risk management. Led by Alain Paul Martin, these workshops apply unique and proven tools to reduce complexity, such as the Harvard University Global System[TM].

Visit www.executive.org/bibliography/policy.asp for further references on strategic and operational policies and good governance.

References

[1] Sun Tzu underlined the importance of terrain. This factor, be it physical or virtual, remains vital in determining the ingredients and focus of strategic policies.

[2] International Monetary Fund: Factsheet: The IMF and Good Governance, September 1, 2009,

[3] Adapted from the UNDP definition cited in: What is Governance? Arriving at a Common Understanding of "Governance", the World Bank, http://go.worldbank.org/G2CHLXX0Q0

[4] Australian Agency for International Development (AusAID): Good Governance Ideals for a Good Society, August 2000, Canberra, www.ausaid.gov.au/publications/pdf/good_governance.pdf

[5] QVC is the home shopping network.

[6] Advanced technologies, global trade, trend discontinuities, natural disasters and other major surprise events merit a special watch; they can produce dramatic change in an industry and wreak havoc on plans. As an illustration, the Internet has expanded the reach of mobile and less visible forms of property including securities and virtual assets (such as knowledge and software).

[7] The departments of defense in NATO countries illustrate a domain where major reviews of strategic policies were warranted to address terrorism, nuclear proliferation, biotech black markets and crime on the cyberspace. But, the mission of defense in each country remains to protect the nation and its citizens by averting conflicts and repelling aggressors. New policies are required to build new core competencies, and broaden and strengthen NATO alliance and also forging innovative corporate partnerships outside the military realm. For example, more and more terrorists resort to the Internet to communicate, transfer funds, recruit and expand their reach. Effective surveillance of their activities and risk mitigation require the combined efforts of business, homeland security and the military.

[8] Excerpts from Wikipedia: Established during the Great Depression, the Brotherhood of St Laurence was the vision of Fr Gerard Tucker, a man who combined his Christian faith with a fierce determination to end social injustice. The Brotherhood has developed into an independent organization with strong Anglican and community links which continues to work for an Australia free of poverty. The charity runs a number of programs to help the poor, for example, during the 1980s, the charity was influential in building the food cooperative movement in Victoria. Services job training and placement programs, care for the elderly and disabled, early childhood development programs and support services for newly arrived refugees and migrants.

[9] For greater corporate creativity, Henry Mintzberg proposed adhocracy in The Structuring of Organizations: A Synthesis of the Research, (1979, ISBN 0138552703, Prentice-Hall). Unfortunately, adhocracy represents the costliest and most chaotic form of

organization structures with unpredictable results. Among others, Francis Rourke warned about the drawbacks of adhocracy years before he and Paul Schulman published a paper titled <u>Adhocracy in Policy Development</u> in 1989. In it, they state that "the growth of adhocracy is a symptom of failure of the regular government and presents dangers of inadequacy, lack of accountability, and threats to democracy." Although there is no ideal organization structure, Richard Beckhard's task-force concept is a more effective alternative to adhocracy. The task-force structure is succesfully practiced by Google, Cisco, RIM, Nike and Apple.

[10] Expert systems and fuzzy logic are among the powerful tools used to capture and streamline communication processes and business rules. These rules represent practical knowledge (scripts, procedures, workflow, roles, systems, heuristics and algorithms) that businesses use to model (express, classify, codify) and optimize their actions (strategies, decisions, transactions).