

This literature review is structured around the three research questions:

What relationship exists between education and training levels of top management teams and organisational performance in disability-based organisations?

What relationship exists between education and training levels of top management teams, and strategic planning processes and systems in disability-based organisations?

What relationship exists between strategic planning and organisational performance in disability-based organisations?

As previously stated in Chapter 1, no empirical research on the link between education and training of managers, and strategic planning or performance at an organisational level has been conducted to date in the research setting for this Thesis, the disability sector (p.4). Of the studies that have been conducted in other sectors, few concerned not-for-profit organisations and none used a multidimensional measurement of performance such as that described previously in Chapters 1 and 2 (see p.10 and p.44 for example).

Because of the lack of sector specific research, this literature review will approach each research question as a separate issue, incorporating literature from a number of disciplines.

The review commences with research question 1 and examines the link between education and training and performance, before discussing theoretical approaches to the issue, the influence of top management on organisational performance, transfer of training, and finally the learning organisation.

Research question 2 then examines the literature on the link between education and training of managers and strategic planning processes and systems. Finally, research question 3 is discussed. The literature that relates to this question reviews the impact of strategic planning on organisational performance, incorporating separate sections on not-for-profit and small firms.

The Chapter then concludes.

# **1 WHAT RELATIONSHIP EXISTS BETWEEN EDUCATION AND TRAINING LEVELS OF TOP MANAGEMENT TEAMS AND ORGANISATIONAL PERFORMANCE IN DISABILITY-BASED ORGANISATIONS?**

No empirical research on the link between education and training of managers and performance at an organisational level has been conducted to date in the research setting for this Thesis, the disability sector. In the not-for-profit sector generally, research relating to the education of not-for-profit managers and any effects on organisational performance has also been relatively untouched, although the topic continues to grow in interest in the United States and elsewhere (Young, 1997).

Buetow (1979) and Wortman (1988) have noted that not-for-profit organisations face similar management problems to for-profit organisations (mentioned in Chapter 1 – see p.2 onwards), including administrators who are technically well educated in a given professional area (e.g. social work) but who have had little or no managerial education. Such problems have traditionally been handled on a short-term operating basis (for example by merely fixing the immediate problem rather than seeking to ensure the problem does not reoccur), and in Australia, with little regard to the strategic (long-term) nature of management development (see p.2) and the consequent performance effects on the individual and the organisation.

## **1.1 Education and training and performance**

The relationship between education and training of managers and organisational performance is based on the premise that education and training affects the performance of managers as individuals through (preferably) a positive transfer of training and, eventually, the performance of their organisations, and the country in which they live and work. As previously mentioned (see p.2), this link between education and training and national competitiveness is intuitively appealing. However ‘... if the nation’s current strategic and other deficiencies ... [are] to be remedied.’ (Beazley, 1992), it is at an individual and organisational level that managers must firstly perform.

The primary emphasis in this research though will be on the relationship between the education and training of managers and performance at the organisational level. Unfortunately, research into training is most deficient at the level of the enterprise (Billett, 1995; Smith, 1998), perhaps because enterprises themselves have little interest in identifying detailed information (cost-benefit analysis) about returns on investment in training (Billett & Cooper, 1997). A further cause may be found in a comprehensive literature review commissioned by the State Training Board of Victoria (Mission, 1998) which concluded that, although training can indeed have a significant positive impact on productivity, measuring the impact is problematic.

As will be discussed in more detail under the heading of theoretical approaches to training and education and performance (see section 1.2 on p.71), the link between training and education and higher levels of productivity, competitiveness and income has not been universally accepted or demonstrated however, and has been challenged by a number of empirical studies.

#### **1.1.1 Education and training and individual performance**

As discussed on page 2, generally the link between education and training as a major contributor to enhanced performance at the three levels of individual, organisational, and national, has been established, albeit with some qualifications. For example, in a comprehensive review of the literature linking education, training and growth, Maglen et al. (1994) found that the evidence did not support the view that *every* investment in education would result in improvements in personal productivity, but that training had been shown to have an impact on employee productivity.

At the individual level, a small number of studies have found a link between education and individual productivity. Schultz (1960) regarded education as a form of investment, and saw education as a catalyst which had an important effect on improving U.S. worker productivity in the post World War II boom. Also, studies by Bishop (1991, 1994a), Doucouliagos & Hopkins (1993), the Karpin Report (1995), Guzzo, Jette & Katzell (1985), OECD (1994, 1997b), and the World Bank (1995) all support the relationship.

Much of the research on this topic has been conducted in the agricultural sector, where generally education was found to have a positive effect on productivity (Lockheed, Jamison & Lau, 1980).

Recent OECD studies have also found that better educated individuals have higher participation rates, lower unemployment, and higher earnings (OECD, 1995, 1997a), and Coopers & Lybrand (1996) found that staff training brings returns in the areas of (amongst others) worker productivity, workforce flexibility, and quality of output. The findings of this latter study may have important implications for this current research, as those aspects of the Coopers & Lybrand improvements are included in the measures of organisational performance used in this research.

##### **1.1.1.1 Education and training and managerial performance**

From a management education and development perspective, the Ralph Report (1982), the Australian Mission on Management Skills (1991) and the Karpin Report (1995) all stated clearly that Australian managerial effectiveness would be enhanced by high-quality management education, thereby enhancing organisational performance.

Barry et al. (1995) summarised succinctly the early developments in Australian management education and the various Committees of Inquiry, and

concluded that the findings of the latest inquiry, the Karpin Report (1995), may well go the way of its predecessors and receive inadequate attention in so far as implementation is concerned. Of particular interest is their conclusion that:

. . . As in most nations, on-the-job-experience is still the main route to a management position with the typical manager spending, on average, about six days per year on formal education and training.

Such a low level is typical of the non-government disability sector in Victoria based on a 1997 study of managers in the sector (Griggs, 1997, 1998ab). However, since 1979 a number of training and education providers have addressed the challenge of satisfying the real needs of owner/managers for entrepreneurial and managerial skills training, and are making a substantial contribution to improving the quality of managerial performance in Australia (Department of Workplace Relations and Small Business, 1997).

Despite being generally critical of the performance of Australian managers, the normative relationships between education and training and management development, planning, and organisational performance as described by the Karpin Report (1995) were:

- *enterprise best practice management development strengthens enterprise competitiveness; (my emphasis)*
- enterprises using information about what constitutes best practice in management development will enhance their own management development practices;
- *enterprises wishing to become 'learning organisations' will make progress by implementing best practice management development; (my emphasis)*
- publicising best practice management development at the national level by way of published case studies, seminars and workshops will assist enterprises to understand and implement its key elements; and
- the Best Practice Demonstration Program will itself be enhanced if greater emphasis is placed on management development as one key component of enterprise best practice. (p.278)

The ability of managers to manage enterprises flexibly and to achieve world best practice standards therefore impacts at a micro (organisational) and macro (national and international) level.

As previously stated in Chapter 1 (see p.2) however, the thrust of the Karpin Report's (1995) findings accord with other researchers who have concluded that Australian management education is ineffectual and does little to contribute to individual and organisational effectiveness (Billett & Cooper, 1997; Delahaye, 1990; Mission, 1998; Mukhi, 1982; Smith, 1989).

### 1.1.2 Education and training and (inter)national performance

As previously stated in Chapter 1 (p.3), at a national and international level there is much evidence to support the relationship between education and training and productivity, as found by the Australian Council of Trade Unions/Trade Development Council (1987), Australian National Training Authority (1997), Cappelli (1994), Clare & Johnson (1993), Commission on the Skills of the American Workforce (1990), Daley, Hitchens & Wagner (1985), Dawkins (1989), Felstead & Green (1994a), Gemmell (1998), Hicks (1987), Hyman (1992), Heseltine in Littlefield (1995), Lynch (1992a), Martin Report (1964), Mason, Prais & van Ark (1992), Mason, van Ark & Wagner (1994), Norris (1993), Porter (1990), Prais, Jarvis & Wagner (1989), Robinson & Stern (1995), Steedman & Wagner (1987), U.S. Congress (1990), and the U.S. Department of Labour (1989).

On the other hand, Maglen et al. (1994) found that macro-level studies of the relationship were largely inconclusive.

In relation to national performance levels, Porter expressed the relationship in positive terms (1990, p.628):

Education and training constitute perhaps the single greatest long term leverage point available to all levels of government in upgrading industry.

This somewhat ambivalent approach contrasts directly with that of Mission (1998) who found that the most compelling evidence linking training and productivity was to be found at the international level. Regrettably, Mission found a lack of such evidence in Australia.

Mason & Finegold (1997) went so far as to say that, in a global economy characterised by accelerating development of new technologies and increasing competitive pressures in international product markets, increased investment in education and training is now widely regarded as a key to success. Indeed, it may be the case that economies of the future will be education-led (Bontis, 1998).

Put another way, since knowledge has become a dominant form of globally competitive capital, education has become a key issue with absolutely profound economic and political impacts on contemporary society (Nodoushani & Nodoushani, 1996).

It is therefore no surprise that, for a variety of reasons, the most often quoted of which is the need to be internationally competitive, many developed countries have enacted legislation designed to facilitate training e.g. the United Kingdom (Littlefield, 1995); Japan (Robinson & Stern, 1995); United States (U.S. Department of Labour, 1989); and Australia (Dawkins, 1989).

### **1.1.3 Education and training and organisational performance**

The idea that individual employee performance has implications for organisational-level outcomes has been prevalent amongst academics and practitioners for some time (Jennings & Banfield, 1993), but intensified with the notion of such collective performances giving rise to a source of competitive advantage (Wright & McMahan, 1992).

Unfortunately, as stated on page 64, research into training is most deficient at the level of the enterprise (Billett, 1995; Smith, 1998). There are however a number of studies which are relevant.

At the organisational level, Bartel (1994), Baldwin & Ford (1988), Cappelli (1993), Cooper, Gimeno Gascon & Woo (1994), Curry, Caplan & Knappell (1994), Holzer, Block, Cheatham & Knott (1993), Ichniowski, Shaw & Prennushi (1995), MacDuffie & Kochan (1995), Osterman (1995), Roat (1988), Williams (1999), Williams, in McMahon (1989), and the World Bank (1995) have all found a positive relationship between education and training (mainly lower levels) and organisational performance across a range of measures. Such measures include earnings (Maglen, 1990), changes in work practices (Osterman, 1994), flexibility (Berg, 1994; Coopers & Lybrand, 1996), productivity (Bartel, 1994; Coopers & Lybrand, 1996) and quality of output (Coopers & Lybrand, 1996).

OECD studies have also found evidence of a macro-economic relationship between education and productivity (OECD, 1994, 1997b), while McKenzie & Wurzburg (1998) claim that productivity at the enterprise level increases by 10-20 per cent when training is undertaken in conjunction with technological innovation and organisational change.

Special mention must be made of profitability. Although the organisations involved in this current research are not-for-profit by nature and, by definition may not operate according to the profit motive, the general absence in the literature of profitability as a measure of the effectiveness of education and training is noticeable. Although the human capital (see section 1.2 in this Chapter) relationship between education and earnings has been widely observed and documented (Maglen, 1990), the relationship between education and organisational bottom-line profit has not been so well recorded. The consensus amongst researchers is that there are too many compounding and contradictory variables to sensibly suggest that returns can be quantified in this way (Billett & Cooper, 1997).

#### **1.1.3.1 Education and training of managers and small firm performance**

In Australia as elsewhere, a consistent theme in many studies of small business performance attributes a substantial failure rate due to inexperience and incompetence in management (Bureau of Industry Economics Small Business Research Unit, 1991; Fulop, 1992; Report by the House of Representatives Standing Committee on Industry, Science and Technology, 1990). Further, studies have found that formal education, including management-specific

education, is strongly correlated with organisational survival (Hoad & Rosko 1964; Mayer & Goldstein, 1961; Williams, 1986). In the case of management-specific education for some 51,000 owner/managers of small Australian firms for the period 1973 to 1990, the correlation between education and business survival was significant at the .001 level of confidence (Bureau of Industry Economics Small Business Research Unit, 1991).

This analysis also indicated that management education had a greater overall beneficial effect on business survival and business performance than either technical or professional education. Business performance was assessed across four bottom line measures and eight indicators (including quality of planning) of sound management practice.

The World Bank (1995) also found that small businesses with better educated managers were more likely to grow and/or survive, which were similar findings to a 1989 Australian study (Williams, in McMahon), and a 1999 Australian study (Kilpatrick & Crowley). Overseas research also supported the Australian results (Confederation of British Industry, 1986, 1993; Employment Gazette, 1995; Jennings & Banfield, 1993; Midland Bank, 1993; Ruberti, 1994; Small Business Bureau, 1993).

Although a number of studies mentioned above have found that education and training generally has a positive relationship with business *growth*, and the Bureau of Industry Economics Small Business Research Unit (1991) study indicated that management education had a greater overall beneficial effect on business survival and *business performance* than either technical or professional education, generally the evidence is less clear in relation to the link between *management-specific* education and training and small business performance.

In the United Kingdom, training for managerial work was not taken seriously until 1945 (Sadler & Barham, 1988). After that time, things started to change and there was a growing awareness that investment in higher education in general, and in management education and training in particular, was associated with successful organisational and national economic performance (Woodall & Winstanley, 1998). Over the last ten years, the contribution of management development to organisational and national economic performance has been reaffirmed (Training Agency & Deloitte, Haskins & Sells, 1989).

Westhead & Storey (1996) comprehensively reviewed the research examining the relationship between small and medium sized enterprise (SME) performance and participation in management training, and were unable to consistently document methodologically well-conducted research evidence that showed the provision of management training for SMEs clearly leads to improved performance on the part of the recipient firm. Although the prime focus of the 1996 review was limited to the United Kingdom, the review incorporated an earlier paper by the same authors (Storey & Westhead, 1994) which examined research literature from Europe, Canada, the United States

and Australia, which concluded that the relationship between participation in management training and small business performance was not well established, but did indicate that organisational size was positively related to the level of formal management training.

Watkins (1983) and Curran & Stanworth (1989) outlined several management-training initiatives in the United Kingdom which were designed to improve organisational performance based on the premise that management training enhances organisational profitability, but were unable to find a link between the two.

The following table (Table 10) summarises the empirical research concerning participation by managers of small to medium sized enterprises in formal management-specific training, and the relationship of such training to business performance.

**Table 10** *SME Management-specific Training and Business Performance Research*

Researcher	Results
Watkins (1983)	No clear link
Business in the Community (1987)	Positive relationship
Keep & Mayhew (1988)	Positive relationship
Curran & Stanworth (1989)	No clear link
Gray (1989)	Positive relationship
Smallbone (1989)	No positive relationship
Bureau of Industry Economics Small Business Research Unit (1991)	Positive relationship
Maung & Erens (1991)	Inconclusive relationship
Cambridge Small Business Centre (1992)	No clear link
Stanworth, Purdy & Kirby (1992)	No direct effect on performance
Marshall, Alderman, Wong & Thwaites (1993)	No demonstrable link
Tremlett (1993)	Inconclusive relationship
Wynarczyk, Watson, Storey, Short & Keasey (1993)	No clear link
Baldwin, Chandler & Papailiadis (1994)	Not a major explanatory factor
Economic and Social Research Council (1994)	No evidence that training pays
Marshall, Alderman, Wong & Thwaites (1995)	Varied longer-term benefits

A minority of the above studies show a positive relationship. Storey & Westhead (1994) suggested that the lack of supporting evidence is primarily related to methodological difficulties, and that more sophisticated analytical techniques are required. Their 1996 research (Westhead & Storey, 1996) concluded that the absence of a clear link might be either because of a lack of impact, or because of the difficulties of attributing cause and effect.



#### 1.1.4 Summary

In summary, education and training has been shown to have an impact on employee productivity, workforce flexibility and quality of output. Despite numerous reviews into Australian management education, the provision of relevant education is ineffectual and does little to contribute to individual and organisational effectiveness.

At a national and international level, there is much evidence (compelling at the international level although lacking in Australia) to support the relationship between education and training and productivity, although some macro-level studies of the relationship were largely inconclusive.

At the organisational level, research into training is most deficient. Researchers have concluded that methodological difficulties may be responsible for this deficiency.

Generally, studies have found a positive relationship between education and training (mainly lower levels) and organisational performance across a range of measures (not including profitability) including earnings, changes in work practices, flexibility, productivity and quality of output.

Small business studies have found that formal education, including management-specific education, is strongly correlated with organisational survival and performance although the evidence is inconclusive.

As stated on page 3, the intuitive link between training and education generally, and higher levels of productivity, competitiveness and income has not been universally accepted or demonstrated, and has been directly challenged by a number of empirical studies and reviews (Maglen, 1990; Maglen, McKenzie, Burke & McGaw, 1994; Strober, 1990; Westhead & Storey, 1996). Further, the question as to *how* education and training can lead to better organisational performance has not been adequately examined in the literature. This question is examined in the following section.

## 1.2 Theoretical approaches to training and education and performance

In terms of theory, the links between training and education and performance have evolved, from human capital theory (Schultz, 1959), to efficiency wage theory and internal labour markets (Doeringer & Piore, 1971; McNabb & Whitfield, 1994), and to neo-human capital theory or 'new growth theory' (Marginson, 1993), emphasising the importance of organisational contextual factors, and introducing education explicitly or implicitly as the source of human capital accumulation.

Human resource management (HRM) theory has varied these approaches and placed emphasis on HRM practices, including training, as a key driver of firm performance (Arthur, 1994; Cutcher-Gershenfeld, 1991; Huselid, 1995; Huselid & Becker, 1996; MacDuffie, 1995).

From an organisational perspective, human capital theory posits that, in a perfectly operating labour market, organisational productivity increases as individuals become more highly trained and educated, and therefore productive. An important outcome of the process is the higher wage outcomes for the individuals concerned (Becker, 1964, 1970; Denison, 1962). The overall link between training, education, earnings and productivity is based on a concept referred to as factor pricing (Maglen, 1990).

A number of researchers have attempted to quantify the returns of investment in training and education (Becker, 1964; Denison, 1962; Mincer, 1962, 1991), but the methodology has often been questioned (Marginson, 1993).

According to human capital theory, productivity and growth increases in developed countries subsequent to World War II were positively correlated to individual education and training and not just physical capital (Denison, 1962; Friedman, 1962; Schultz, 1960).

The issue of transfer of training is also relevant here. Human capital theory posits that organisation specific training is preferred to general training because the investment in training is more likely to increase the organisation's long term return on their training investment. Limited empirical analysis has been conducted on this view, in the main because distinguishing between the two in practice has proven to be problematic (Bosworth, Wilson & Assefa, 1993; Maglen, 1990). Because positive transfer of training is fundamental to this Thesis, it will be discussed in more detail in item 1.5 commencing page 87.

Although under human capital theory, individual higher wage outcomes as a result of training and education has been empirically demonstrated, the link between training and education and higher levels of productivity, competitiveness and income has not been universally accepted or demonstrated however, and has been challenged by a number of empirical studies (Lazear & Moore, 1984; Levine & Eubanks, 1993; Maglen, 1990; Maglen, McKenzie, Burke, & McGaw, 1994; Medoff & Abraham, 1980, 1981; Strober, 1990; Veum, 1995).

Human capital theory researchers have developed several explanations for the lack of reliable empirical evidence linking training and education to productivity in the face of clear evidence linking training and education and higher wages. Arrow (1973) and Spence (1973, 1974) proposed the explanatory concepts of signalling (a potential employee 'signals' their potential productivity by their level of training and education), and screening (a selection device). Both explanations are plausible and potentially explain the latter link, but not the former, because although a higher level of training and education will assist a person in obtaining and keeping a (higher paid and 'harder') job, there is no direct link between training and education and productivity, only an implied one.

inherent in the human resource 'wheel'<sup>10</sup> (McLagan, 1989). For example, McLagan (1989) and Beer, Spector, Lawrence, Quinn & Walton (1984) see career development as being integral to the success of the individual and the organisation, a notion which dramatically expands the limited premise of human capital theory.

Although other models of 'soft' HRM differ in their emphases on particular aspects of the human resource 'wheel' (e.g. Kochan & Osterman, 1994; Lawler, 1986; Pfeffer, 1994), all focus on employee participation, high selection standards, extensive investments in training and development, opportunities for high levels of earnings, free flow of information, mutual trust and cooperation. The common thread however is that of training and education (Keep, 1989; Storey, 1992).

There is little empirical evidence regarding systematic implementation of the soft models either in the U.S.A. (Applebaum & Batt, 1994; Dyer & Cochan, 1995), the U.K. (Marginson, Armstrong, Edwards, Purcell & Hubbard, 1994; Millward, Stevens, Smart & Hawes, 1992; Storey, 1992), or internationally (Locke, Kochan, & Piore, 1995). There does appear however to be systematic implementation of the common thread of training and education (Ashton & Felstead, 1995; Australian Bureau of Statistics, 1990, 1991, 1994ab; Felstead & Green, 1994ab; Locke, Kochan & Piore, 1995; Lynch, 1994; Osterman, 1994).

As previously described, 'hard' models of HRM incorporate human resource policies into the strategic planning of the organisation so as to develop competencies which might enhance organisational performance (Dyer & Kochan, 1995). This link was developed by Fombrun, Devanna & Tichy (1984) as part of their original four phase strategic HRM model and has particular relevance for this Thesis. The strategic focus of the model equates strategic HRM practices with development of management in particular the skills and knowledge to carry out management functions, and the consequent impact on performance, one of the primary areas of investigation of this Thesis. The emphasis in the four-phase model is on managers because managers are the key drivers of the strategic planning process.

Criticism of the 'hard' models of HRM has been made from conceptual, empirical and prescriptive perspectives (Huselid, 1995; Legge, 1995). In reality, the strategic planning process is rarely rational and normative as has been described in the previous Chapter, and empirical evidence is inconclusive. Evidence is beginning to accumulate however, that employers who use HR management practices will see enhanced organisational performance (Hiltrop, 1996). Legge also questioned the linking of strategy

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<sup>10</sup> The human resource 'wheel' has at its centre the human resource results (productivity, quality, innovation, readiness for change, and HR fulfilment), with three primary human resource development 'spokes' of training and development, organisational development, and career development.

and HRM in large enterprises where internally consistent strategies and HRM practices may be inappropriate.

In more recent years, Hamel & Prahalad (1990) have developed the notion of core competencies as a resource-based view of organisations. Although core competencies are not always visible to external stakeholders, sustainable (Porter, 1985) core competencies as distinct from those easily imitated are more likely to involve human as distinct from capital resources (Wright & McMahan, 1992). For example, in matched pair comparisons of enterprises in the same industry, Cappelli & Crocker-Hefter (1996) found that the competitive advantage of rivals can be traced to the different employment practices that they use. The importance of training and development in the resource-based view of organisations is therefore fundamental to creating and sustaining core competencies.

### **1.2.1 Summary**

In summary, theoretical approaches to the relationship between training and education and performance can therefore be traced back to human capital theory that posits that productivity results from the knowledge, skills and abilities of the individual. Although not clearly established empirically, the premise of human capital theory is that if training and development of individuals is increased, then individual and organisational productivity is enhanced. This aspect of organisational performance is also addressed by the strategic HRM approach that sees management development as the most important focus of education and training.

What seems clear from examining theoretical approaches to the relationship between training and education and performance is that, in the main these approaches are one-dimensional. There is a predominance of models that focus on one factor or construct as being the key driver of individual and organisational productivity. And there are differences in determining what that key driver is. There are no models in the literature which attempt to unite all actual and potential drivers of organisational and individual performance, and the literature on organisational training does not cover the relationship between training and organisational performance. The intuitive assumption that better trained people equates to improved organisational performance is held by the human capital theorists and the strategic HRM theorists, and will be examined in this Thesis.

## **1.3 Top managers and performance**

As just described in the previous section, research on strategic human resource management (SHRM) has increasingly focussed on issues surrounding management, education and training, and organisational performance (Higgs & Dulewicz, 1998). Pettigrew (1992) drew attention to this trend in his comprehensive review of studies of managerial elites, studies which initially focused on the impact of individual CEOs or general managers

Dissatisfaction with the perceived inadequacies of the simplistic human capital view has led to alternative perspectives of the reasons for variations in productivity. For example, institutional economists see productivity as being a function of a job rather than the individual in the job (McNabb & Whitfield, 1994), and training and education as just one factor affecting productivity.

The two key institutional theories of efficiency wages (Akerlof & Yellen, 1984; Cappelli & Cascio, 1991; Lazear & Moore, 1984, Strober, 1990) and internal labour markets (Cappelli & Cascio, 1991; Doeringer & Piore, 1971; Dunlop, 1957; Lester, 1948; Reynolds, 1951) respectively proposed that higher earnings result from above market average rates of pay (so as to retain staff), and that higher earnings result from an employee's position in the job hierarchy.

While the institutional economists were developing the views described, the proponents of human capital theory were incorporating other factors into their original equation that employee education and training determined productivity (Marginson, 1993). Technological innovation, and the ability of the workforce to adapt to, was posited as a moderating variable (Fane, 1975; Huffman, 1977; Welch, 1970). Although primarily related to farmers, these studies revealed that the ability to think systematically and creatively was a function of educational level, and a prerequisite to adapting to new technological innovation, a finding repeated in other studies (Bartel & Lichtenberg, 1987; Schultz, 1975; Wozniak, 1984, 1987).

Just as human capital theory has evolved with the addition of other constructs to the reasons for productivity, human resource management (HRM) theory has also evolved. Legge (1995) comprehensively identified the reasons for this evolution which resulted in an increasing emphasis on HRM practices, including training, as a key driver of firm performance (Arthur, 1994; Cutcher-Gershenfeld, 1991; Huselid, 1995; Huselid & Becker, 1996, MacDuffie, 1995).

There is broad agreement that a strategic approach to HRM involves designing and implementing a set of internally consistent policies and practices that ensure an organisation's human capital contributes to the achievement of its business objectives (Baird & Meshoulam, 1988; Huselid, Jackson & Schuler, 1997; Schuler & Jackson 1987).

This strategic approach to HRM incorporates both a 'soft' and a 'hard' approach (Hendry & Pettigrew, 1990; Legge, 1995; Storey, 1989). Dyer & Kochan (1995) used the terminology of dominant and multiple models to describe the same approaches whose objectives respectively are to develop the potential of the work force for the benefit of all stakeholders, and to incorporate human resource policies into the strategic planning of the organisation.

Originally derived from research linking performance to satisfaction, the 'soft' models see training, education and development as only one of the factors

(Day & Lord, 1988; Gupta & Govindarajan, 1984; Lieberman & O'Connor, 1972).

For most of the last 25 years, thoughtful strategic business planning and human resource planning have been important predictors of organisational success. However, for most of this period these two disciplines were operating in almost total isolation of each other (Burack, Hochwarter, & Mathys, 1997). Integration between the two has occurred as a result of various environmental and competitive factors, resulting in the new paradigm of management development which focuses on enhancing organisational performance and effectiveness while simultaneously maintaining a competitive advantage (Ulrich & Lake, 1990).

Ever since Fombrun, Devanna & Tichy (1984) argued that human resource management (HRM) has strategic implications, researchers have sought out empirical support for the links between HRM and organisational performance. Almost simultaneously, the term 'top management team' became pervasive in the organisational behaviour and strategy literature (Hambrick, 1994). At the same time, the 'upper echelons' perspective (Hambrick & Mason, 1984; White, Smith & Barnett, 1994) developed, and has been a focus for research in strategic management (Flood, Smith & Derfus, 1996), but has not been pursued by strategic HRM researchers. Recently, contemporary organisational forms have emphasised the concept (Morley, Moore & O'Regan, 1996).

Bodies of literature associated with the excellence school (Moss-Kanter, 1983; Peters & Waterman, 1982; Quinn-Mills, 1991), the high performance movement (Buchanan & McCalman, 1989; Hanna, 1988; Lawler, 1986), and the resource based view of the firm (Barney, 1991; Roth, 1995) which is seen as being dedicated to expanding the principles of the value chain (Porter, 1985), have all embraced the top team concept as a means of delivering flexibility, continuous improvement and sustainable competitiveness.

The resource based view of the firm (Barney, 1991; Flood & Olian, 1995), which has emerged in the 1990s is one of the most influential and integrative perspectives in the field of strategic management. This model has also received much attention in the educational literature. Proponents of the system resource model see the organisation as a living social system (Etzioni, 1960; Gouldner, 1971; Hall, 1991; Scott, 1992), with the primary purpose of achieving an advantageous position in its environment. From this position, the organisation can survive and adapt by exploiting its surroundings so as to acquire scarce and valued resources (Hall, 1991; Hoy & Miskel, 1987; Katz & Kahn, 1978; Yuchtman & Seashore, 1967b). The origins of the model can be traced back to Parsons (1960). This adaptability/flexibility aspect of organisational performance (see Table 5) will also be incorporated into the current study.

Another less frequent approach used to relate top teams to organisational performance is to assess CEO mindsets and link their psychological profiles to

subjects of interest (Hage & Dewar, 1973; Kets de Vries & Miller, 1984; Miller & Toulouse, 1986b).

The new paradigm of management development focussing on enhancing organisational performance therefore incorporates the 'top team' and 'upper echelons' perspectives. This new paradigm is only recent however. There appear to be at least three reasons why SHRM researchers interested in linking human resource management arrangements to organisational performance have neglected top management teams. Firstly, many HRM scholars may be relatively ignorant of the literature on strategic management (Flood, Smith & Derfus, 1996). Secondly, there seems to be a lack of a paradigm attractive to HRM scholars that identifies top management teams as human resources in and of themselves (Flood, Smith & Derfus, 1996). Finally, gaining access to such managerial elites in order to obtain direct data has been found to be somewhat difficult (Eisenhardt, 1989; Eisenhardt & Schoonhoven, 1990; Hambrick & Mason, 1984).

Consequently the majority of studies of top teams have focussed on examining the relationships between team demography and organisational outcomes (Bantel & Jackson, 1989; Finkelstein & Hambrick, 1990; Globerman, 1974; Michel & Hambrick, 1992; Pettigrew, 1992). In these studies, demographics was the most often used variable as a surrogate for processes which link input and outcome variables (Lawrence, 1991; Pfeffer, 1983).

Pfeffer (1983) provided the basic rationale for expecting direct relationships between top management team demography and organisational performance. He argued that researchers would find direct effects for demography on performance because it would be impossible to measure all the potential intervening process variables.

Lawrence (1991) challenged this assumption in the study of top teams and argued for the development of means to undertake direct and concrete analysis of the intervening processes and mechanisms that link the input and output variables. Research question 2 (p.93) addresses this aspect.

The strategic leadership literature does however suggest that, since the cognitive bases which influence information gathering and evaluation activities are a product of backgrounds, experiences and training, demographic characteristics *can* be used to assess this construct (Wiersema & Bantel, 1992). Pfeffer argued that demography is an important causal variable that affects a number of intervening variables and processes, and, through them, a number of organisational outcomes (1983).

Researchers investigating the relationship between managerial characteristics and organisational outcomes (Chaganti & Sambharya, 1987; Thomas, Litschert & Ramaswamy, 1991; Wiersema & Bantel, 1992) have demonstrated the usefulness of the approach. Such characteristics are readily observable, unobtrusive and convenient to measure, they possess the

advantages of objectivity, parsimony, comprehensibility, logical coherence, predictive power and testability (Wiersema & Bantel, 1992), and are therefore particularly attractive for theory building (Hambrick & Mason, 1984).

The linkage between demographic diversity and cognitive diversity is generally assumed to exist by most researchers (e.g. Smith, Smith, Olian, Sims, O'Bannon & Scully, 1994; Wiersema & Bantel, 1992), but has been challenged by some (e.g. Glick, Miller & Huber, 1993).

The composition of the top management team as measured by demographic characteristics is important because:

- (i) It affects overall organisational performance as measured by profitability (Murray, 1989; Norburn & Birley, 1988);
- (ii) the size of the top management team and the breadth of background experiences represented within the team affect performance as measured by firm growth (Eisenhardt & Schoonhoven, 1990);
- (iii) measures of composition, social integration and communication patterns within the top management team also affect organisational performance (Smith, Smith, Olian, Sims, O'Bannon & Scully, 1994); and
- (iv) how the CEO relates to the rest of the team affects the dynamics of the team and subsequent organisational performance (Eisenhardt & Bourgeois, 1988).

Other characteristics of top management that play a major role in a strategic perspective for organisational behaviour include how top managers perceive and interpret the environment and the cause-effect relationships they assign to what they see (Jackson & Dutton, 1988).

Despite the intuitive appeal of the impact of top management teams and their contribution to organisational performance, according to some researchers, there is limited empirical evidence available (Haleblian & Finkelstein, 1993; Tjosvold, 1991; West & Slater, 1995). There is some evidence that they are related (Norburn & Birley, 1988), but the case rests largely on anecdotal or specific case study evidence (Furnham, 1992; Handy, 1985).

Child (1972) was the first to examine the influence of management on organisational outcomes, culminating in a series of studies in the 1980s by Miller et al. (1982), Gupta & Govindarajan (1984), Hambrick & Mason (1984), Sturdivant et al. (1985), Miller & Toulouse (1986b), Meyer & Goes (1988), and Day & Lord (1988). Strong associations were found between the characteristics of top level managers and strategy/performance. Murray (1989) extended this work by examining temporal and occupational heterogeneity, reporting mixed results.

Child (1974) also found evidence indicating strong associations between management youth and company growth. Further, Virnay & Tushman (1986)



showed that the profiles of top management teams of high performing firms were significantly different from the top management teams in firms that had poor performance. Norburn & Birley (1988) found that 'top management teams which demonstrate a preponderance of output functional experience, multiple company employment and wider educational training will outperform those which do not . . . ' (p.236).

Thomas et al. (1991) concluded that firms that achieved a greater degree of alignment between their strategy and the profiles of top managers generally realised superior performance outcomes. The Thomas et al. (1991) study went further than its predecessors in that it used a tripartite model encompassing strategic orientation, executive characteristics, and organisational performance to consider the process by which leaders influence organisational outcomes. The identification of strategic orientation in organisations in the not-for-profit sector may be difficult to identify, given the reactive nature of the sector in general, and of disability agencies in particular (DISTSS, 1999).

Thomas & Simerly (1995) found that top managers are important internal determinants of a firm's corporate social performance, and that top management teams and CEOs are both important to social performance outcomes.

The decisions and directives of top management also often determine what the organisation does and how it does them (Schuler, 1997). The values of top management are reflected in those decisions and directives, which are in turn a function of many factors, including their training and education. The assumptions that top management make about the environment relevant to the organisation and about the people in the organisation also play a significant role in what the organisation does and how it manages its people (Miles & Creed, 1995).

The relationship between top managers and organisational performance is not limited to the corporate sector however. The role of management in higher education institutions has been shown to be powerfully and positively related to effectiveness (Astin & Scherrei, 1980). Studies have shown for example, that outstanding principals are more successful in promoting an academic learning climate (Lezotte, 1983; Sizemore et al., 1983, Teddlie, Kirby, & Stringfield, 1989), and in developing high-achieving systems, collaborative working arrangements, and securing resources for their schools (Doll, 1969; Levine & Stark, 1981; Venezky & Winfield, 1979).

Many studies have also pointed to the school principal as *the* most critical determinant of school effectiveness in that such principals frame and effectively communicate school goals that are used in planning and decision-making (Brookover & Lezotte, 1979; Glenn, 1981; Hallinger & Murphy, 1985; Stringfield & Teddlie, 1991; Teddlie, Kirby, & Stringfield, 1989; Weber, 1971). Such leaders are more effective in managing the educational production function (Evans & Teddlie, 1995), and such principals in unusually

effective schools are more likely than other principals to assume a vigorous, proactive role in selecting new teachers and replacing ineffective teachers (Levine & Eubanks, 1993; Sizemore et al., 1983; Stringfield & Teddlie, 1987, 1988; Teddlie, Stringfield, Wimpelberg & Kirby, 1989; Wimpelberg, 1987). Generally and as Coulter & Ingvarson (1985) have stated, the quality of teachers determine the quality of the school system.

Such a view of course rests on the functionalist paradigm (Stewart, 1999), particularly if one views the world of education as a top-down management system (Brown, Duffield & Riddell, 1995). This view is inherent in the work of school effectiveness researchers, and is an anathema to those who see the school of the future as a more flexible organisation with highly permeable boundaries (Elliott, 1996). The overall influence of the principal in affecting organisational outcomes would be considerably reduced according to the Elliott (1996) view of the school of the future.

### 1.3.1 Summary

In summary, organisations are only as good as the people who lead and manage them, and these individuals can only be as good as their management philosophies and skills (Benjamin & Al-Alaiwat, 1998). This view is however quite controversial. Subscribers to the 'upper echelons' theory take the view that top management characteristics can be used to predict organisational outcomes (Hambrick & Mason, 1984), while opponents have argued the contrary view. This perspective suggests that organisational outcomes are *not* determined by leadership effects (Astley & Van de Ven, 1983; Hall, 1977). Rather, environmental constraints (Aldrich, 1979) and industry and company factors (Kimberly & Evansiko, 1983; Lieberman & O'Connor, 1972) have a more important effect on corporate performance to such an extent that corporate performance owes little to CEO contributions (Galbraith, 1984).

As previously stated (p.3), underpinning the research in this area to date is the omnipotent view of management which states that managers are directly responsible for an organisation's success or failure (Hambrick & Mason, 1984; Robbins et al., 1997). On the other hand, the symbolic view (Aldrich, 1979; Kimberly & Evansiko, 1983; Lieberman & O'Connor, 1972; Pfeffer, 1981) suggest that it is the environment which actually dictates the success or not of an organisation.

In much the same way as performance is now seen as multidimensional, the more recent research suggests that in fact top executives and management teams *do* have an impact on organisational performance (Finkelstein & Hambrick, 1990; Hambrick & D'Aveni, 1992; Kotter, 1988; Michel & Hambrick, 1992; O'Reilly & Flatt, 1989; Pedler et al., 1989; Romanelli & Tushman, 1986). The Hambrick & Mason (1984) view which was inspired by Cyert & March's (1963) concept of the dominant coalition appears to have been validated. Researchers are however ambivalent on the question of whether it is top team demography (Pfeffer, 1983) or team process (Michel &

Hambrick, 1992) which is responsible for organisational outcomes, or a combination of both.

This Thesis will focus on the demography (specifically training and education) aspect rather than team process, but it is hypothesised that both education and training, and strategic planning processes and systems will account for variations in organisational performance.

#### **1.4 The Learning Organisation**

If education and training does make a beneficial difference to the performance of the key decision-makers in organisations - top management teams, and through them is transferred into the organisational processes and systems, then there may well be marked differences in organisational infrastructure and psyche, culture, and the adaptation, goal attainment, integrative and latency aspects of organisational performance.

Indeed, the quality of individual and collective learning has been held to be a key determinant of organisational success (Hayes & Allinson, 1998), and perhaps even a prerequisite for business excellence (Eskildsen, Dahlgaard & Norgaard, 1999; Evans & Lindsay, 1999). Lank & Lank (1995) strongly advocated the 'continuously learning organisation' and many academics and practitioners have asserted that the greatest business value in an organisation now lies not in physical assets, but in the various elements of intellectual capital that have been developed (Antal et al., 1994; Bontis, 1996; Brooking, 1996; Cascio, 1998; Darling, 1996; Drucker, 1993; Edvinsson & Sullivan, 1996; Handy, 1989; Osland & Yaprak, 1995; Quinn, 1992; Reich, 1991; Saint-Onge, 1996; Senge, 1990; Stewart, 1991, 1994; Sveiby, 1997; Toffler, 1990).

This aspect of training and education, and learning, is best discussed under the mantle of the learning organisation. Disability-based organisations around Australia are facing not only growing economic pressures, particularly since the boom and bust characteristics of the 1980s, but also the changing nature of the disability industry as it struggles to provide the traditional sheltered employment environment for its clients. The government dollar is becoming scarcer and now comes with more stringent accountability and performance standards, and with market-driven policies. The sector has recognised the need for greater levels of education and training, indeed, 'higher-level' learning that involves an ability to reflect on the efficacy of actions, routines, and practices, and adapt and change accordingly. Ever-reducing time frames to effect change are a feature of the environment for all enterprises (Field, 1995) but specifically disability-based organisations. The need for (organisational) learning is great.

Roth & Kleiner (1995) stated that over 150 books and articles have been published about the concept of 'learning organisations', or about learning in organisations in only the previous four years. There has clearly been an explosion of interest in the concept, which itself is not well understood.

Calvert et al. (1994) contended that no shared meaning of what constitutes a learning organisation currently exists. Indeed, Daft (1997) stated that there are no true learning organisations, only organisations that exhibit certain characteristics which might be expected of a learning organisation. And Senge et al. (1994) pointed out that there is no such thing as a learning organisation, but rather, it is a vision.

The difficulty in understanding the term is evident in the light of the work of Argyris & Schon (1978) who identified six different ways of understanding organisational learning, each based on a particular field of study: social psychology, management theory, sociology, information theory, anthropology, and political theory. Since that time, researchers from other disciplines such as strategic planning, adult learning, and employee relations have entered the field to further expand the literature (Dixon, 1992).

Pedlar et al. (1991) were similar in approach to Argyris & Schon, while Senge (1990) used brevity to emphasise the point that a learning organisation is one that is continually expanding its capacity to create its future. Garvin (1993) used the constructs of creating, acquiring, and transferring knowledge in his definition, constructs which were picked up by Huber (1991) in his four constructs integrally linked to organisational learning - knowledge acquisition, information distribution, information interpretation, and organisational memory. These aspects of organisational learning are all contained in the operational hypothesis of this Thesis.

Although Huber used the terms information and knowledge interchangeably, Nonaka & Takeuchi (1995) succinctly compared and contrasted them, and concluded that information was a precursor to knowledge, and that knowledge is created by the flow of information.

Dixon (1992) modified and extended Huber's (1991) classification to five constructs - information acquisition, information distribution and interpretation, making meaning, organisation memory, and retrieval of information. These elements are continuous and have an interactive effect on each other so that a company's only sustainable competitive advantage is the ability to learn faster than its competitors (De Geus, 1988). Learning organisations are ones that continually expand their capacity to create their future. They are proactive, in the largest sense of that word, not just reactive (Senge, 1990).

Nonaka & Takeuchi (1995) also distinguished between tacit knowledge (subjective and difficult to express) and explicit knowledge (objective and easy to communicate). It is this interaction of tacit and explicit knowledge across levels of knowledge-creating entities (individual, group, organisational, and inter-organisational) which converts, articulates, and amplifies individual knowledge into and throughout the organisation, and may create a competitive advantage (see section 3.2 on page 101). In effect, Nonaka & Takeuchi have put forward another perspective of the learning organisation.

Interestingly, the Nonaka & Takeuchi distinction was picked up and applied in the context of human services by Popp, Aman & Braun (1999).

In this Thesis, the existence of strategic planning systems and processes will be taken to represent organisations' attempts to convert, articulate, and amplify individual knowledge into and throughout such organisations.

Several commonly occurring variations of 'learning organisations' in the literature are evident:

- implementation of continuous improvement (e.g. Francis, 1996);
- an ingredient to attain customer loyalty (e.g. Stambaugh, 1995);
- the use of systems thinking (e.g. Senge, 1990);
- the result of a linear development effort (e.g. Kline & Saunders, 1995);
- development of employee capability database (e.g. Metcalfe & Gibbons, 1989);
- visual-descriptive academic models of learning (e.g. Engestrom, 1994); and
- an intermediate step, after total quality, before world-class (e.g. Hodgetts et al., 1993)

The essence of these themes is relatively well contained in a typical definition put forward by Beck (1989) which has been adopted by the British Training Commission:

a learning organisation is one which facilitates learning and development of its employees, whilst continually transforming itself. (p.22)

There are five disciplines to master organisational learning, according to Senge (1990). First is personal mastery, which requires clarifying our values and goals as individuals, and striving toward our highest aspirations. Second, we must identify and question our mental models - our often unconscious assumptions about how the world works. Third, we must build shared visions, for people excel because they want to, not because they are told to. Fourth, we must master team learning because teams are the producing unit in modern organisations, and teams can produce extraordinary results that individuals cannot. Fifth, we must learn to see and use the underlying larger patterns and systems of which our actions are just a part. This 'systems thinking' is the fifth discipline that gives his book its title, and which is the foundation of effective and efficient strategic planning as can be seen in Figure 8 (p.24).

Of course, 'organisations' do not learn, as can be seen from the Senge (1990), Huber (1991) and Garvin (1993) schools of thought. An organisation cannot create knowledge without individuals (Nonaka & Takeuchi, 1995). It is the

integration of learning into appropriate organisational systems, structures, routines and culture (Burgoyne, 1995; Crossan et al., 1993) which is the engine room of the process, as the following quotation demonstrates.

Organisational knowledge creation . . . [is the] process that 'organisationally amplifies the knowledge created by individuals and crystallises it as a part of the knowledge network of the organisation. This process takes place within an expanding 'community of interaction' which crosses intra- and inter-organisational levels and boundaries. (Nonaka & Takeuchi, 1995, p.97).

Senge (1990) was of the view that this integration is carried out through teams, because it is ' . . . teams, not individuals, [who] are the fundamental learning unit in modern organisations' (p.10). Of course, this process is based on personal mastery, the ' . . . essential cornerstone of the learning organisation - the learning organisation's spiritual foundation.' (Senge, 1990, p.7). It is this personal mastery (or personal continuous improvement orientation - see page 2) that strengthens the critical link between individual and enterprise learning:

Embedding learning into an enterprise culture, and how this is achieved, is seen as the critical issue. Professor John Burgoyne of the University of Lancaster says: we notice that managers can only go so far in developing management skills. They must move to whole company learning to help the organisation as a whole to change, develop and know its own skills base. (Ivanoff & Prentice, In the Karpin Report, 1995, p.277)

This link between managers, the top management team, and organisational performance is therefore fundamental, not only to the notion of the learning organisation, but to this Thesis.

Other tools and techniques evident in the learning literature for individual change and learning are empowerment, learning dialogue, individual learning and needs assessments, Schein's (1993b) learning style anxieties, single/double loop learning, Argyris' (1989, 1991) learning, Senge's (1990) team learning, and cognitions, attitudes, behaviours, motivations, and emotions.

Argyris & Schon (1978) also developed a three-fold typology of learning that they described as single-loop (leads to a refinement of the prevailing mental model and to a modification of the rule that regulate behaviour in organisations), double-loop (involves reviewing the underlying assumptions and principles and the possible reframing of mental models), and deutero-learning (or learning how to learn). Organisational based tools and techniques used by Argyris & Schon were teams, mentors, coaches, core competencies, management styles, scenario analysis, process reengineering, action learning, and experimentation.

It needs to be reiterated that it is individuals who 'learn', intentionally or otherwise. 'Learning' has been described in many different ways by researchers and educationalists, but essentially involves changing actual or potential behaviour, and/or cognition. Morgan (1997) suggests that, using the metaphor of organisations as brains, learning organisations must develop capacities for scanning and anticipating environmental change; challenging operating norms and assumptions; and encouraging emergent organisations.

Harris & DeSimone (1994) defined learning as a '... relatively permanent change in behaviour or cognition that occurs as a result of one's interaction with the environment' (p.54). And Huber (1991) stated that 'An entity learns if, through its processing of information, the range of its potential behaviours is changed' (p.89).

Many models are evident in the literature to describe the individual learning process. White (1992) described learning through cognitions, behaviours and emotions. Garvin (1993) described maintenance, anticipatory and shock learning. Argyris (1989, 1991) was concerned with learning through understanding one's espoused theories, one's theories-in-use, and defensive reasoning that precludes learning, while Kolb described his learning loop of concrete experience, reflection, abstract conceptualisation, and active experimentation (Francis & Mazany, 1996). All these models predominantly deal with the individual and although they may apply to groups, they do not however specifically develop theories on group learning.

The focus of learning is therefore on change that is long lasting, on either behaviour or cognitions, or both, and as a result of interaction with the environment rather than maturation or temporary conditions. This is not to say that learning need be conscious or intentional, as is the primary objective of educators and managers (Porter, 1980; Sammon, Kurland & Spitalnic, 1984). Indeed, the learning may not actually result in observable changes in behaviour (Friedlander, 1983), nor increase the learner's effectiveness, or even potential effectiveness. 'Entities can incorrectly learn, and they can correctly learn that which is incorrect' (Huber, 1991, p.89). A positive transfer of relevant training is required, as will be discussed in section 1.5 of this Chapter.

What is an 'organisation' or an 'entity' as Huber (1991) refers to them? Without exhausting the literature in this regard, Robbins et al. (1994) define an organisation as 'A consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goals or set of goals' (p.859). Based on this definition, manufacturing and service firms such as disability-based organisations are organisations, and so are schools. The similarity between schools and disability-based organisations has been explained previously, and it may seem obvious that schools are by definition learning organisations, given that they are involved in teaching. This is not necessarily the case say MacNeill & Silcox (1996). In their view, teaching does not equal learning, and similarly, teaching does not equal education.

The literature on organisational learning and how organisations can become more like a 'learning organisation' may therefore be synthesised into three fundamental components:

- there must be an emphasis on developing individual capacity for double-loop learning;
- there must be an emphasis on learning how to learn (deutero-learning); and
- there must be sufficient organisational infrastructure and support for the first two items and for inculcating both into the organisational psyche.

Consistent with the adopted definition of strategic planning as 'the process of evaluating and reassessing current and future strategies based upon threats and opportunities in the firm's environment and analysing the firm's resources and capabilities to determine how best the firm can meet threats and take advantage of opportunities' (p.61), it is posited that higher-level learning should therefore involve:

- A need for learning that is derived from the organisation's changing environment;
- A capacity to integrate the learning of individuals through interaction; and
- The need to transfer knowledge, experience, and practices from one organisational level and context to another - strategic through operational.

On this latter point, according to U.S. management writer Peter Drucker (1993):

Knowledge is the only meaningful resource today. The traditional factors of production - land, labour and capital - have not disappeared, but they have become secondary. They can be obtained, and obtained easily, providing there is knowledge.  
(p.38)

Knowledge, experience, and practices, and the understanding to apply them in everyday work will determine enterprise success (Davis & Botkin, 1994). This is particularly the case in service-related jobs like many disability-based organisations where information is the key resource (Quinn, 1992).

The *transfer* of the education and training and learning of the CEO and top management team can only be effected *through* the organisation to the service rendering employees. In this Thesis, it is hypothesised that one of the ways this is done is by the existence of strategic planning systems and processes. 'Organisational learning' is what organisations must do to capture the benefits



of past experience, and to change to meet future conditions. The CEO and top management are merely the initiators and drivers of the process.

### 1.5 Transfer of education and training

As outlined on page 13, the basic research hypothesis of this Thesis is that disability-based organisations whose top management teams have greater levels of education and training perform better than disability-based organisations with top management teams with lesser levels. This enhanced performance is mediated by the intensity of strategic planning processes and systems.

Inherent in this hypothesis is the notion that, in addition to learning and retaining new material (an issue in itself), managers (and employees) must use this new material on the job to improve not only their own performance, but particularly if they are managers, the performance of the organisation (Kozlowski & Salas, 1997). Indeed, Gregoire, Propp & Poertner (1998), found that an agency's commitment to training emanates from upper management.

This transfer of learning can take a number of forms, however the general consensus in the literature is that positive transfer, rather than zero or negative transfer, is what is required (Harris & DeSimone, 1998). By positive transfer is meant that job and/or organisational performance is improved as a result of the training and education. If the basic research hypothesis has any validity, then the means of transfer is of interest. In this Thesis, it is hypothesised that the intensity of strategic planning processes and systems is some evidence of a positive transfer of management training and education.

Training has been regarded as an expensive investment especially when the returns are low (Cheng & Ho, 1998). Estimations of the amount of transfer of training vary. In America, a country which spent an estimated \$52.4 billion on formal training<sup>11</sup> in 1994 (Lakewood Research, 1995), only ten per cent of those training expenditures could lead to positive transfer of training (Georgenson, 1982). Further, Curry et al. (1994) estimated that only ten to thirteen per cent of learned skills are transferred to the work environment, which translates to a skill dollar loss equivalent to 87-90 cents in the dollar. Finally, although the exact amount of transferred learning is unknown, the problem is so pervasive that there is rarely a learning-performance situation in which such a problem does not exist (Broad & Newstrom, 1992).

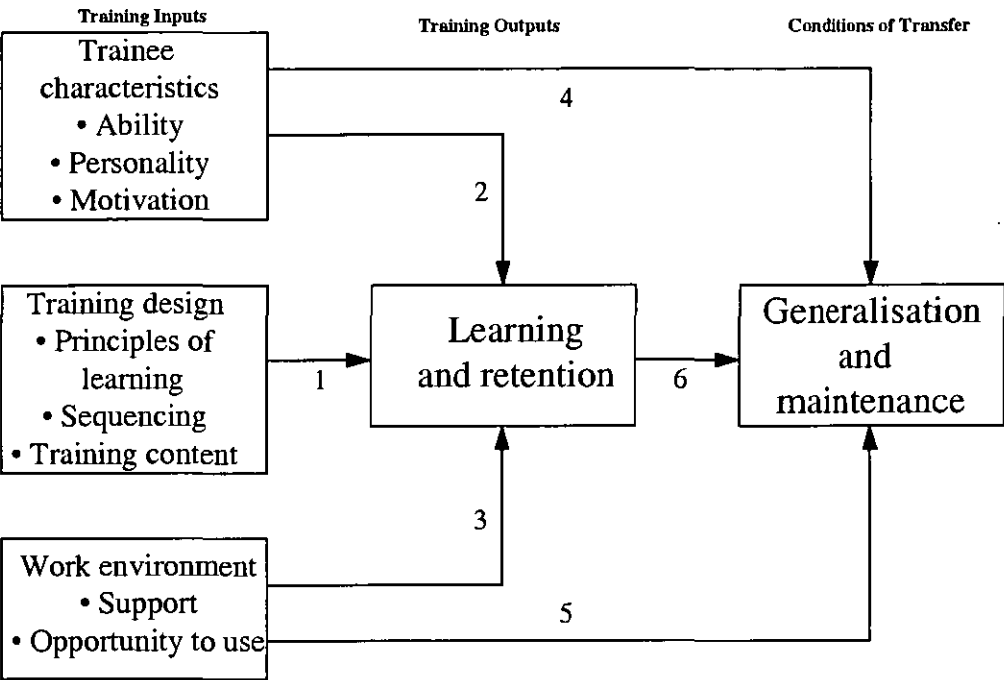
Researchers have similarly concluded that much of the training conducted *in* organisations (70 per cent is on-the-job, Australian Bureau of Statistics, 1997a) fails to transfer to the work setting (Goldstein, 1986; Mosel, 1957; Wexley & Latham, 1981).

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<sup>11</sup> When indirect costs and expenses for informal on-the-job training are included, total estimated annual expenditures are \$200-\$400 billion (Broad & Newstrom, 1992).

Reasons for this low rate of transfer from the training context to the work context have been explained by several authors as being a combination of trainee characteristics, training design, and work environment, not just a function of individual attributes (Baldwin & Ford, 1988; Curry et al., 1994; Ford et al., 1992; Latham, 1988; Miller & Dore, 1991; Noe, 1986; Seipel, 1986; Tannenbaum & Yukl, 1992; Tziner et al., 1991; Wright & Fraser, 1988). Figure 10 contains a more complete model of the factors affecting the transfer of learning which has been widely cited.

Figure 10      *Transfer of Learning Model (Baldwin & Ford, 1988)*



There are two general theories that have emerged in explaining the transfer process, although these two approaches are described in different ways by different researchers. The first approach, referred to as considerable similarities, or ‘identical elements’ (Thorndike & Woodworth, 1901 abc); or ‘lateral transfer’ (Klausmeier & Davis, 1969); or ‘horizontal transfer’ (Joyce & Showers, 1983); or ‘low road transfer’ (Perkins, 1986) takes the view that the more similar the training and the performance situations are in terms of the stimuli present and responses required, the more likely it is that positive transfer of training will occur.

The second of the two approaches, variously referred to as ‘general transferable principles’ (Goldstein, 1986; Hendrickson & Schroeder, 1941); ‘vertical transfer’ (Joyce & Showers, 1983; Klausmeier & Davis, 1969); or ‘high road transfer’ (Perkins, 1986), takes into account that the physical and psychological fidelity (Thorndike & Woodworth, 1901abc), from task to task will not be the same.

The two approaches may be summarised by distinguishing between those transfer situations where there are considerable similarities between situations or tasks, and those situations where the two tasks or skills depend on a general principle or capacity or potential, a distinction made by Klausmeier & Davis (1969), Joyce & Showers (1983), Perkins (1986), and Thorndike & Woodworth (1901abc).

This latter approach clearly has significant implications for managers because it involves people being able to apply general principles in a wide variety of situations with an emphasis on reducing the amount of time they take to become proficient at the new tasks.

Ultimately, transferability depends on a combination of three kinds of factors. These are social and economic (the relationship between the individual's existing skills and the new skill they need to acquire), and the ability of the individual to be aware of and make use of these relationships (Annett & Sparrow, 1985). Indeed, such transfer for managers will require additional learnings, particularly in the form of new skills such as judgement (Joyce & Showers, 1983).

Although developed from a teaching perspective, the Joyce & Showers (1983) approach is directly relevant to a management situation. Their 'high road' or 'vertical' transfer of learning must incorporate 'executive control' by which is meant that it is general transferable skills rather than specific task skills that are required by employers, accompanied by the use of judgement (my emphasis). That is to say, teachers (or managers) are required to use their judgement and discretion more often than when dealing with standard operating procedures, which therefore involves decisions about when and where to use the new skills. For example, well credentialled managers of small disability agencies may decide that it is not appropriate to use formal strategic planning techniques.

In a similar vein to Joyce & Showers (1983), Perkins (1986) stated that learners can be taught 'high road' transfer through the abstraction of rules or by anticipating applications. If the learner reflects on his or her problem-solving processes, and can generalise about elements which help the process, or rules for problem solving are abstracted, then the rules of transfer can be applied to a range of contexts (Perkins, 1986).

Baldwin & Ford (1988) reviewed the available evidence on transfer of training and concluded that the lack of a theoretical framework and the limited number of studies limited the generalisability of the training transfer findings to organisational settings. They did however develop a model that offered an explanation of the training transfer process, shown as Figure 10.

Some three years prior to the Baldwin & Ford (1988) conclusions, a study by Annett & Sparrow (1985) criticised both the identical elements and general transferable principles approaches on the grounds that they were both founded on outmoded and discredited psychological theories. Annett &

Sparrow argued that human skills could be viewed as plans designed to deal with specific situations. These plans are formed of more detailed sub-plans which are often parts of higher-level plans or abilities. Learning, say Annett & Sparrow (1985), involves acquiring a new sub-plan.

Also in contrast to the Baldwin & Ford (1988) model, Holton, Bates, Seyler & Carvalho (1997) believe that no validated and generally accepted instrument exists to measure factors believed to affect transfer of training. Researchers have however identified a number of specific principles that would increase the chances training will transfer back to the job. These are summarised in the table (Table 11) below.

**Table 11** *Transfer of training principles*

Researcher	Principle
Ellis (1965); Kazdin (1975); Shore & Sechrest (1975); Annett & Sparrow (1985); Baldwin (1987)	Transfer can be enhanced when training contains a variety of stimuli. Varied examples and experiences are beneficial.
Annett & Sparrow (1985)	Rote learning discourages transfer. Rote learning cannot teach the comprehension needed to apply skills across a range of situations.
Joyce & Showers (1983); Annett & Sparrow (1985); Baldwin & Ford (1988)	Meaningful learning promotes transfer. Material must be placed within a context to facilitate understanding.
Ellis (1965); Annett & Sparrow (1985); Baldwin & Ford (1988)	Theory and practice must be integrated. Skills need to be developed in stages using the underlying knowledge base to highlight common principles.
Annett & Sparrow (1985)	Plans created by the trainee are more durable and flexible than those that are imposed.
Joyce & Showers (1983); Annett & Sparrow (1985)	Trainees should be selected on the basis of their abilities in a particular area. The more effective the learner, the more he or she understands the principle of transfer.
Joyce & Showers (1983); Annett & Sparrow (1985)	A metacognitive strategy of learning to learn should be implemented.
Annett & Sparrow (1985)	The benefits of training should be stressed to motivate learners.
Ellis (1965); Baldwin & Ford (1988)	Supervisory support for training attendance, goal setting, reinforcement and behaviour modelling all enhance transfer.
Joyce & Showers (1983)	'the more important an addition to one's repertoire a given model of teaching is, the greater the discomfort it will cause' (p.30).

Other factors, specifically relevant to managers, which have been found to enhance the transfer of training in the workplace are an internal locus of control<sup>12</sup> (Baumgartel, Reynolds & Pathan, 1984; Noe, 1986), self-efficacy<sup>13</sup>

<sup>12</sup> A belief that the future is within the individual's control

(Bandura, 1986; Martocchio & Webster, 1992), job/career expectations<sup>14</sup> (Noe & Schmitt, 1986; Williams, Thayer & Pond, 1991), organisational support<sup>15</sup> (Faction, Dobbins, Russell, Ladd & Kudisch, 1995), and a continuous learning culture<sup>16</sup> (Tracey, Tannenbaum & Kavanagh, 1995).

### 1.5.1 Summary

In summary, three important factors that impact learning and transfer outcomes are trainee characteristics, work environment and training design elements (Baldwin & Ford, 1988). Research on trainee characteristics has expanded in recent years (Baldwin & Magjuka, 1997) but has largely focussed rather narrowly on cognitive ability, motivation to learn, and demographic variables such as the level of education (Ford, Weissbein, Smith, Gully & Salas, 1998).

Of particular interest to this Thesis is the trainee characteristic of level of education as it effects transfer of training, and ultimately organisational performance. The hypothesis that disability-based organisations whose top management teams have greater levels of education and training perform better than disability-based organisations with top management teams with lesser levels, implies that somehow this characteristic is inculcated into the organisation, possibly through the intensity of strategic planning processes and systems.

As previously stated, recent OECD studies have found that better educated individuals have higher participation rates, lower unemployment, and higher earnings (OECD, 1995, 1997a). Other OECD studies have also found evidence of a macro-economic relationship between education and productivity (OECD, 1994, 1997b), while McKenzie & Wurzburg (1998) claim that productivity at the enterprise level increases by 10-20 per cent when training is undertaken in conjunction with technological innovation and organisational change. In all these studies, positive transfer of training would appear to be evident.

## 1.6 Conclusion for Research Question 1

It appears that the education and training levels of managers do positively influence organisational performance across a range of measures that include flexibility, productivity, and quality of output. These specific measures are included in this research. There is a noticeable absence in the literature of the use of organisational profitability as an outcome of education and training.

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<sup>13</sup> people's judgements of their capabilities to organise and execute courses of action required to attain designated types of performance

<sup>14</sup> the cognitive state of psychological identification with a job, and expectations of future career accomplishments

<sup>15</sup> coworker and supervisor support for implementing new skill and knowledge

<sup>16</sup> a pattern of shared meanings of perceptions and expectations by all organisational members that constitute an organisational value or belief

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For small business, the findings are generally similar, with several studies finding that management-specific education had a greater effect on business performance than either technical or professional education. For small business, organisational size was positively related to the level of formal management training.

The demographic characteristics of managers affect a number of intervening variables and processes and ultimately organisational outcomes. It is possible that the impact of education and training possessed by managers on organisational outcomes occurs through strategic planning processes, or is transferred by other processes and organisational learning mechanisms.

The literature concerning the relationship between education and training and strategic planning is investigated in the next section.

## **2 WHAT RELATIONSHIP EXISTS BETWEEN EDUCATION AND TRAINING LEVELS OF TOP MANAGEMENT TEAMS, AND STRATEGIC PLANNING PROCESSES AND SYSTEMS IN DISABILITY-BASED ORGANISATIONS?**

No research has been conducted on the link between education and training of managers and strategic planning processes and systems at an organisational or sector level in the research setting for this Thesis, the disability sector. The relationship of education to adoption and implementation of planning was however identified as a research issue for small business as far back as 1982 (Jones, 1982)<sup>17</sup>. At the time it was accepted that small firm managers did not engage in systematic planning (Robinson & Littlejohn, 1981), despite early studies which showed a positive relationship between planning and performance, and that, according to the strategic choice view, key decision-makers have considerable control over an organisation's future direction (Child, 1972).

This research question on the link between education and training and strategic planning is however consistent with the upper echelon theory (Hambrick & Mason, 1984) which posits that top team demography influences organisational performance entirely through processes and systems, and that it has no direct effect on performance.

As described in this Chapter (see section 1.3), the upper echelon perspective provides a framework within which the role of top managers in influencing organisational outcomes can be interpreted. In a classic paper, these authors developed a model based on the research of the behavioural scientists (Cyert & March, 1963; March & Simon, 1958) to explain the link between executive characteristics and strategy. They described the process as a perceptual one that occurs in a series of steps based on the individual manager's experience and values. In this way, different managers make different decisions when faced with identical situations.

This and subsequent research, however, seems to take two directions. The first investigates the association between managerial characteristics and strategic orientations (Hofer & Davoust, 1977; Kerr, 1982; Leontiades, 1982; Wissema et al., 1980), while the second stream studies the relationships between managerial characteristics and organisational performance (Child, 1974; Norburn & Birley, 1988; Virnay & Tushman, 1986).

A rich stream of literature has examined the influence of top management teams on organisational strategy. Closely aligned with the 'upper echelons' perspective (Hambrick & Mason, 1984), research on this relationship has found significant relationships between the demographic composition of the top management team members and organisational strategy. Demographic characteristics such as average level of education and functional background

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<sup>17</sup> Note that most disability based organisations fall into the small business category (see p.23)

diversity have been found to affect choices of strategy (Bantel & Jackson, 1989), and top team demography composition also influences the propensity of a firm to change its strategy (Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992).

The second stream has focused on performance (Haleblian & Finkelstein, 1993; Smith et al., 1994), and generally takes the view (as does this Thesis) that the three constructs of planning/strategy, top management characteristics and organisational performance are all necessary in understanding the *process* by which top management influences organisational outcomes. According to this view however, the characteristics of top management do *not* have an independent effect on organisational performance. Rather, it is the institutionalisation of these characteristics into the planning processes of the organisation that has the impact on performance, all other things being equal.

There has been little empirical work however on the link between top management and the *process* of making strategic decisions (Bantel, 1993; Huff & Reger, 1987; Lewin & Stephens, 1994; Rajagopalan et al., 1993; Smith et al., 1994), although Papadakis, Lioukas & Chambers (1998) found no evidence of a relationship between the top management team's level of education and the making of strategic decisions.

In his study of the evolution of strategic planning in major corporations, Henry (1980) suggested that while management involvement in strategic planning was devoted to ensuring that the process was carried out comprehensively, very little or no attention was paid to whether or not management had the expertise to effectively carry out the process.

Steiner (1979) noted that superior financial performance in firms is not the direct result of strategic planning, but the product of the entire range of managerial capabilities in a firm. These capabilities include the knowledge and expertise to successfully engage in the strategic planning process. It has been suggested that competence in strategic planning may determine the degree to which firms become involved in the strategic planning process (Higgins & Vincze, 1993; Ringbakk, 1971; Steiner, 1969, 1979; Taylor, 1975).

Bantel (1994) examined the effect of top management team demography on the strategic planning dimension of planning openness in a sample of retail banks. The following demographic characteristics were analysed: mean tenure, age, and education level, and heterogeneity on educational major and functional background. After controlling for firm size and performance volatility, Bantel found that low tenure mean, low education mean, and functional heterogeneity had an influence on planning openness.

On the other hand, planning formality involves the ability to be thorough and comprehensive in information gathering, to integrate decisions across organisational units, and to deal with the ambiguity of political pressures and alliances (Bantel, 1993). The more highly educated managers will exhibit



several qualities that will be an asset in this process: the ability to discriminate among a variety of stimuli, higher capacity for information processing (Schroder, Driver & Streufert, 1967), higher boundary spanning, higher tolerance for ambiguity, and higher integrative complexity (Dollinger, 1984).

Ugboro (1991) found the existence of significant positive correlation between top management's involvement in an organisation's strategic planning system and the impact of that involvement on the effectiveness of the strategic planning system.

Many studies specifically examining the relationships between level of education and organisational characteristics have found that better educated managers are more receptive to new ideas and hence associated with more innovative organisations (Bantel & Jackson, 1989; Becker, 1970; Kimberly & Evansiko, 1981; Kitchell, 1997; O'Reilly & Flatt, 1989; Rogers & Shoemaker, 1971).

Research has also generally demonstrated the relevance of CEO mindsets and personal demographics (including education levels) to *small-sized firms* and characteristics of corporate innovativeness (Julian, 1991; Lefebvre & Lefebvre, 1992; Miller & Toulouse, 1986ab; Wiersema & Bantel, 1992); perceptions of challenge (McCauley & Hughes, 1991); strategy (Finkelstein & Hambrick, 1990; Michel & Hambrick, 1992); strategic change (Grimm & Smith, 1991; Wiersema & Bantel, 1992), and organisational processes and outcomes (Finkelstein & Hambrick, 1990; Hitt & Tyler, 1991).

Although tenure and seniority are not key factors in this research, a number of studies have however found negative associations between top management tenure and an organisational propensity to be innovative (Bantel & Jackson, 1989; Thomas, Litschert & Ramaswamy, 1991), or to be receptive to strategic change (Wiersema & Bantel, 1992).

Attention has been drawn in the literature to the positive influence of CEO *personalities* on strategy (Miller & Toulouse, 1986b); organisational culture (Deal & Kennedy, 1982); corporate norms (Tichy & Ulrich, 1984); fostering innovativeness (Hage & Dewar, 1973; Quinn, 1985); and more generally providing effective leadership (Schein, 1985).

Although there is debate in the social work literature concerning the respective benefits of rational planning (the focus in this Thesis) and organisational-political planning activities (Baum, 1986) which incorporate such activities as negotiating with supporting systems, activating customers and marketing a plan (Checkoway, 1987), there has been little analysis of the factors affecting adoption of either planning mode.

One notable exception is a 1997 study (Boehm & Litwin). Generally, previous research had not shown a consistent relationship between individual demographics and level of planning activity, although some influence had been found in terms of seniority or workers (Cohen, 1989). In regard to

education however, professional education had been found to be a meaningful variable although general educational level was found to be less predictive of planning activity (Cohen, 1989; Rabinovitz, Hall & Goodale, 1977).

The Boehm & Litwin (1997) study found that, from a range of personal background variables, only *professional* education of workers in community social work was found to be a significant predictor of the frequency of rational and organisational planning activities. The study was based on the assumption that the direction of the relationship was from individual characteristics to planning activities. No significant correlation between educational level in general and planning activities was found.

Generally however, little attention has been paid to demographic factors that might influence the adoption of planning activities in the social work literature (Cnaan & Rothman, 1986; Livne, 1986). However, the subject of planning has been examined at length and has been found to be useful in improving human services (Lauffer, 1984); improving the ability to predict (Henderson & Thomas, 1980); and improving the ability of organisations to cope with problems and focus on initiatives (Bryson, 1988; Kaufman & Jacobs, 1987; Rothman & Zald, 1985).

In summary for research question 2, the three constructs of planning/strategy, top management characteristics and organisational performance are all necessary in understanding the *process* by which top management influences organisational outcomes. Although almost all of the literature reviewed supports the need for organisations of all types to strategically set goals and plans, and implement systems and processes to measure performance against those goals and plans, the only empirical evidence directly supporting any link between education and training and strategic planning processes and systems was found in the social work literature.

### **3 WHAT RELATIONSHIP EXISTS BETWEEN STRATEGIC PLANNING AND ORGANISATIONAL PERFORMANCE IN DISABILITY-BASED ORGANISATIONS?**

Although no research on this question has been conducted in disability-based organisations, of all the research questions this final question has received the most attention in the literature.

#### **3.1 The people in strategic planning**

Planning within organisations is done by people and copious literature exists on who from the organisation should be a member of the planning staff, what their psychological make-up should consist of, and who should be sought out for key information on the relevant environments which contribute to survival and growth of the firm (Andrews, 1971; Ansoff, 1965; Bower, 1970; Brodwin & Bourgeois, 1984; Burgelman, 1983, 1985, 1988; Chandler, 1972;

Cotton, 1970; Frederickson, 1984; Hall, 1977; Hambrick, 1981; Hutt et al., 1988; Mintzberg & Waters, 1985; Mowday, 1978; Schendel & Hofer, 1979; Schilit, 1987ab; Schilit & Locke, 1982; Shagory, 1975; Summer, 1961; Wildavsky, 1973).

Strategy and planning have traditionally been the domain of top management, because it was felt that it was only top management had the knowledge and expertise to direct organisations. Certainly according to the upper echelons perspective (Hambrick & Mason, 1984), it is the composition of top management which explains most of the variations in organisational performance. David (1995) adds that top managers have the best perspective to fully understand the ramifications of strategy formulation decisions, and have the authority to commit the resources necessary for implementation.

Much of the early research cited the key role of top executives in both determining who should have input into the strategic planning process, and what role they should play (Andrews, 1971; Ansoff, 1965; Brodwin & Bourgeois, 1984; Chandler, 1972; Cotton, 1970; Hall, 1977; Schendel & Hofer, 1979; Shagory, 1975; Summer, 1961; Wildavsky, 1973). All of the cited authors seem to imply a “top management only” perspective when discussing the make-up and contributions of people responsible for planning within a firm. Morgan (1997) opined that it is this top management approach which encourages single-loop learning but discourages the double-loop thinking so critical for the evolution and emergence of intelligence.

Other later researchers (Bower, 1970; Burgelman, 1983, 1985, 1988, 1991; Cascio, 1993; Frederickson, 1984; Ghoshal & Bartlett, 1994; Hambrick, 1981; Hiltrop, 1996; Hutt et al., 1988; Kanter, 1993; Mintzberg & Waters, 1985; Mowday, 1978; Schilit, 1987ab; Schilit & Locke, 1982; Taylor, 1997ab; Thakur, 1998; Woolridge & Floyd, 1990) refer to the phenomenon of (and the desirability for) strategy being initiated *outside* top management. A key criterion cited in the literature for the learning organisation is the involvement of personnel at all levels. This is linked to the importance of holistic or systemic thinking, and to concerns in relation to equity, access, and social justice (Briggs & Keogh, 1999; Ford, 1990; Gahan, 1991; Harley, 1994; Isaacs, 1993; Kofman & Senge, 1993; Meyer, 1991; Newman, 1994; Schein, 1993a; Sharratt & Field, 1993).

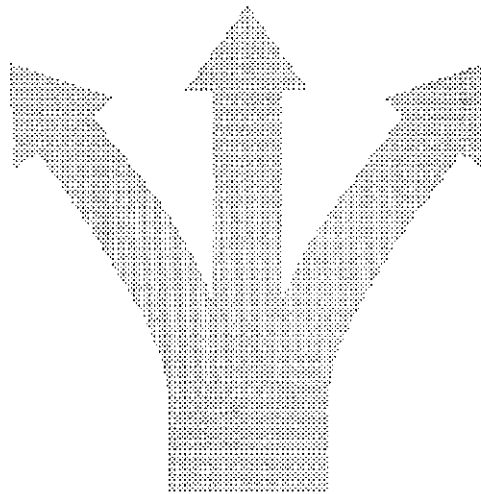
With the advent of the notion of the learning organisation (see section 1.4 on page 81) however, organisations normatively utilise the expertise of everyone available, resulting in emergent strategy (Daft, 1997). This philosophical distinction was cited as the difference between strategic planning and strategic management earlier, and results in boundary spanners (Bateson, 1992), or employees dealing directly with external stakeholders. Such boundary spanners provide data about external changes in technology and customer needs, identifying needs and solutions, and passing ideas into the organisation for discussion (Nevis et al., 1995).

Particularly in small organisations such as most disability-based organisations, most employees are classified as boundary spanners, also referred to as service-rendering employees. The service rendering employee (SRE) is that individual within the service firm who satisfies the properties of performing the service as identified in the adopted definition of a service; (1) the intangibility of a service offering, (2) the simultaneous nature of the production and consumption process in the performance of the service, (3) the heterogeneity (variability), and (4) the perishability of output. For disability-based organisations, such employees are boundary spanners.

The above characteristics of a service accentuate the importance of involving the service-rendering employee (SRE) in organisational planning and strategic decision making. Davison (1978) stated that failure by top management to involve the SRE in strategic planning processes leads to, or is responsible for, most failures in service companies. To remedy this, he suggested that the organisational chart be turned upside down as below, and that the organisation's lower levels must do strategic input and strategic planning.

**Figure 11**      *The upside-down organisation chart*

### **Service Rendering Employees**



**Top  
Management**

Sasser & Arbeit (1976) underscored the importance of input and involvement in the strategic planning process by employees rendering the service. Gronroos (1978) stressed the importance of acquisition of strategic input from the 'bearers of the service'. Shostack (1977) stated that the SRE, as the customer's image of the firm, must be involved in planning decisions. Conger (1989), Denton & Wisdom (1989), Langley (1988), and Reimann (1988), all supported this involvement and empowerment of non-management personnel in the strategic management process, emphasising ownership of the strategies

that result. And Morgan (1988), spoke of the development of '... shared values, shared direction, and shared responsibility ...' as being important managerial competencies.

Other researchers underscored the importance of SRE input by drawing upon the simultaneous nature of the SRE production and consumption process in the performance of a service, a key aspect of the disability sector identified previously. The customer/client/consumer is viewed as an active participant in the production process (Barnard, 1948; Parsons & Smelser, 1956) although Selznick (1949) had a more cynical view and saw the client as 'co-opted', or absorbed into the decision-making policy-determining structure of the organisation merely to avoid threats to organisational stability.

This former line of thinking is consistent with traditional strategic planning literature. Strategic input by the SRE should then be integrated into the total organisational planning system by the firm's management. This key linking-pin function of management, if integrated properly, should foster cooperation between participants in the strategic planning process (Likert, 1961). The linking management group within the organisation should have the necessary skills and abilities to make decisions that coordinate various organisational units and facilitate information flow (Rue & Holland, 1989). Increasingly, such line managers are being asked to assume a more active role in the strategic management process, including participating in work teams, an organisational form which has been linked to high performance organisations (Cohen & Ledford, 1994; Goodman, Devadas & Griffiths-Hughson, 1988; Hiltrop, 1999; Wellins, Wilson, Katz, Laughlin, Day & Price, 1990).

To further accentuate the importance of the SRE, Gronroos (1978), stated that almost every consumer of a service meets at least one representative of that service firm. The information gained from this interaction would seem very important for strategic planning by the service firm. In fact, Irons (1994, p.9) went so far as to say that 'In true service companies, customer expectations are the basis for strategic management ...'.

Management and planning literature seldom point out differences that may exist in service firms per se in so far as specifically involving staff outside top management is concerned. A few do however. Sasser & Arbeit (1976) stated that the service-rendering employee should be closely involved in the firm's strategic planning process. Davison (1978) reflected a similar view to that of Sasser & Arbeit (1976). He stated that most failures in service companies are caused by shortcomings at the bottom of the organisational chart, i.e. failing to involve the service rendering employee in the planning process. He further stated that the blame rests with top management because they fail to recognise that customer contact personnel are the key people within the organisation. His recommendation was to turn the organisation chart upside down with the customer contact people at the top, as shown on the previous page in Figure 11.

Information gathered by the “bearers of the service” (Gronroos, 1978) is considered as important to formulating future strategies and plans as top management’s contribution. Gummesson (1978) also viewed information as the raw material of preparing and delivering services. No one disputes the importance of raw materials as the fundamental component in the manufacturing of a product, Gummesson said, and no one should dispute the importance of information in the productions and delivery of a service. Adequate flows of raw materials must be planned for very carefully.

Bell & Wendell (1973) distinguished between manufacturing organisations as working on things, and service organisations as working on people. Because service firms work on people, communication and knowledge are viewed as key components. As previously stated, Drucker (1969) referred to service firms as “knowledge industries” that process information. If this view is correct, the basic survival of service organisations, particularly disability-based organisations, depends upon their ability to extract vital information from their environment, primarily the customer. This information is transformed to fit the requirements and specifications of both the client/customer and the organisation. The service rendering employee emerges as the organisational unit and the customer as a primary external resource. The customer, in this context, becomes a major resource for strategic decision-making (Child, 1972).

Because the service-rendering employee is in direct contact with the customer, he/she appears qualified to provide key information on both the service and the customer. This key information is critical to sound strategic decision making by the organisation. Therefore, if previous research is correct, an organisation incorporating the service-rendering employee’s input into strategic planning efforts should be more effective than one that does not.

Support for this argument is found in two papers that propose conceptual models to deal with the very concepts and characteristics which are cited as unique to service firms (Hall, 1977; Mills & Margulis, 1980). The authors proposed a model to describe a structural design for professional service organisations. They underscored the importance of the service-rendering employee as a key component for developing service firm organisational structure and strategy.

To emphasise the importance, a more recent study by Woolridge & Floyd (1990), in a study investigating the strategic involvement of middle-level managers in 20 organisations, found that strategic involvement of middle managers in the formation of strategy was associated with improved organisational performance.

In summary, the process model (derived from the social psychology research) suggests that the top management team’s process and systems will directly affect performance. The process model predicts that both demography and *process* will be directly and independently related to organisational

performance, with process accounting for variation in performance that demography leaves unexplained (Smith, Smith, Olian & Sims, 1996).

This Thesis will examine the extent to which all managers are involved in the strategic planning process.

### **3.2 Strategic planning and competitive advantage**

Different organisations have different kinds of goals and objectives that they strive to achieve. For example, the three levels of planning previously discussed (see Table 8 - strategic, tactical, and operational) all have their own characteristic goals and objectives. Also, within an organisation, not all goals and objectives are considered to be of equal importance. Different strategies are developed to accomplish different objectives. This is often done at the expense of other objectives (Hofer & Schendel, 1978). Further, a company's choice of strategies may require trade-offs concerning performance criteria, e.g. cash flow, return on investment (ROI), or growth in market share (Galbraith & Schendel, 1982). For example, a strategy to build market share will result in lower ROI and tighter cash flow than one to maximise ROI and facilitate cash flow.

Researchers in organisational theory present two opposing views of strategy as a determinant of firm performance. Child (1972), Galbraith & Nathanson (1978), Grant & King (1979), Hofer & Schendel (1978), Jemison (1981), Miles & Snow (1978), Mintzberg (1978), Snow & Hrebiniak (1980), and Summer (1980), are all representative of one view. These researchers postulated that managers have a 'strategic choice' in which they help determine the firm's performance by choosing among alternative strategic environmental alignments.

Therefore managers can move the company to those environmental niches in two ways. Firstly as a result of a highly rational 'synoptic' planning system (Andrews, 1971; Ansoff, 1965; Grant & King, 1982; Hofer & Schendel, 1978; Lorange & Vancil, 1977; Steiner, 1979; Thompson & Strickland, 1978), or secondly as a result of many individual 'incremental' decisions. Such decisions are made one at a time over a long period (Braybrooke & Lindblom, 1970; Lindblom, 1959, 1979; Mintzberg, 1973, 1978; Quinn, 1980; Steinbruner, 1974; Uytterhoeven, Ackerman & Rosenblum, 1977; Wrapp, 1967).

An opposing view is presented by Hannan & Freeman (1984). They identified strategy as a population ecology or natural selection perspective. This view states that the environment and not the manager is the key determinant of a firm's survival and success. They state that a firm's positioning relative to its environment is fixed and cannot be changed by managers of the firm. Firms that have achieved an alignment with an environmental resource niche survive and prosper; while those that do not, fail. They call the environmental alignment in which firms prosper the 'survival path'. Note that Hannan &

Freeman's view has important implications for the symbolic and omnipotent view of management mentioned previously (see page 3 and page 80).

Most strategic management scholars adopt the first view espoused by Child (1972) and others. Child's strategic choice model was based on the premise that only strategies based on achieving high market share are associated with strong organisational performance, and thereby severely limits the options available to managers. The use of market share as the primary determinant of a company's performance presupposes that high market share is Hannan & Freeman's (1984) ecological survival path. This view holds that high market share has advantages in scale economies, brand recognition, and greater bargaining influence with suppliers and market channel members (Woo & Cooper, 1981). For disability-based organisations balancing the need to operate profitable business services *and* support services, in an environment where the government dollar is becoming scarcer and now comes with more stringent accountability and performance standards, and with market-driven policies, market share is becoming more critical.

Many of the empirical studies performed also support models stressing the importance of market share. Buzzell et al. (1975), and Buzzell & Gale (1987), in their work developing the Profit Impact of Market Strategies (PIMS) data base, demonstrated that a dominant market share translates into superior return on investment (ROI), and that a ten percent share of the U.S.A. market is worth about five percent of pre-tax profit. The PIMS study used a database of over 3000 companies in North America and Europe and its results reinforce the point that quality is the most effective weapon available to organisations (Terziovski & Dean, 1998).

Some researchers disagree with the notion that low market share corresponds with poor firm performance e.g. Lubatkin & Pitts (1985). Hamermesh et al. (1978) developed four high performance strategies for low market share firms from an indepth study of such businesses. These were 1) creative market segmentation, 2) good leadership, 3) controlled growth, and 4) efficient use of research and development resources. Woo & Cooper (1981), working with the PIMS data, demonstrated empirically that low market share companies could achieve high performance. The strategies of low market share high performers were found to differ in terms of product/market segments and competitive strategy from those of high market share high performers.

Other common links between strategy and performance are quality<sup>18</sup>; high investment activity (which acts as a brake on profitability); vertical integration (works well for some kinds of businesses but not others); and return on investment (ROI) where most of the strategic factors that boost return on investment also contribute to the longer term value of the business (Brown, 1997).

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<sup>18</sup> In the long run, the most important factor affecting a business unit's performance is the quality of its products and services, relative to those of competitors (Brown, 1997).



The discussions above suggest that an alignment must occur between selected strategy and organisational capability. This does not mean that the strategic choice approach does not have validity, rather it points out that not every firm can choose any strategy and expect to achieve high performance. Snow & Hrebiniak (1980) empirically demonstrated that:

... Several strategies are potentially feasible within a particular industry, but in order to achieve high performance, each strategy must be supported with appropriate distinctive competencies (p. 317).

Business strategy must be aligned with distinctive competencies in order to achieve success, a policy espoused by Porter (1980).

Selznick (1957) was the first to use the term distinctive competency. He used it to describe the things that a company does especially well. Andrews (1971) added that distinctive competencies are things that the firm does well as compared with its competitors. Rumelt (1979) cited competitive advantage as the end result of the effective use of distinctive competencies.

Five major areas in which a firm can have distinctive competencies were presented by Jauch et al. (1980) as marketing and distribution; research and development and engineering; production and operations management; corporate resources and personnel (also identified by Barney & Wright, 1998); and finance and accounting.

This Thesis primarily addresses the topic of goals, objectives, strategy and performance from the viewpoint of corporate resources and personnel providing a competitive advantage as a result of the distinctive competency of management.

### **3.3 Strategic planning and performance**

The argument that strategic planning has a fundamental, positive impact on performance has strong intuitive appeal, and has been empirically tested many times. Further, the prescriptive management literature strongly advocates strategic planning as a key to superior performance (Glaister & Falshaw, 1999). A review of the relevant literature has identified 80 empirical studies. Table 12 provides a summary of the researchers, categories of firms, and overall research findings. Overall, it can be seen that 49 (61 per cent) of the studies identified a favourable link between strategic planning and performance, with a further 8 per cent giving qualified support. These results would suggest that there is broad support in the literature for the link.

This however is a tentative conclusion, as it is based on mixed evidence. Further, a closer analysis of the methodologies used suggests that a caveat needs to be expressed when drawing such conclusions. Such a caveat has been noted in several reviews (Armstrong, 1982; Greenley, 1986, 1993, 1994;

Kudla, 1980; Pearce, Freeman & Robinson, 1987; Rhyne, 1986; Shrader, Taylor & Dalton, 1984). From these reviews, the consensus of opinion was that the studies were confusing and contradictory to reconcile.

Because the amount of literature on this topic is so broad, a brief overview of the empirical evidence on the relationship follows.

Empirical support for a favourable link between strategic planning and performance was first found in the seminal studies by Ansoff et al. (1970), Thune & House (1970), and Herold (1972).

The second wave of research sought to establish more rigorous methodologies for measuring strategic planning formality. Fulmer & Rue (1974) sought to discriminate between four types of planners – primary, pro-forma, program-predictive, and impoverished. This attempt proved unsuccessful, as did the following studies – Kudla (1980), who classified planners as non-planner, incomplete planner and complete planner; Leontiades & Tezel (1980), who experimented with the importance of planning; and Klein (1981), who classified planners in terms of levels.

**Table 12** *Studies relating strategic planning to organisational performance*

Researcher(s)	Category of firms studied	Findings
Henry (1967)	Manufacturing firms	Positive relationship
Ansoff et al. (1970)	Manufacturing firms	Positive relationship
Eastlack & MacDonald (1970)	Manufacturing firms	Positive relationship
Gershefski (1970)	Manufacturing firms	Positive relationship
Thune & House (1970)	Small manufacturing firms	Positive relationship
Ansoff et al. (1971)	Manufacturing firms	Positive relationship
Herold (1972)	Small manufacturing firms	Positive relationship
Fulmer & Rue (1974)	Non/durable goods and service industries	No across-the-board relationship
Grinyer & Norburn (1975)	Manufacturing firms	Positive relationship not supported
Karger & Malik (1975)	Manufacturing firms	Positive relationship
Malik & Karger (1975)	Manufacturing firms	Positive relationship
Sheehan (1975)	Manufacturing firms	Positive relationship not supported
Burt (1978)	Australian retail firms	Positive relationship
Kallman & Shapiro (1978)	Motor Freight Industry	Positive relationship
Ang & Chua (1979)	Manufacturing firms	Positive relationship
Robinson (1979)	Small Service firms	Positive relationship
Wood & LaForge (1979, 1981)	Finance industry	Positive relationship
Kudla (1980, 1981)	Fortune 500 firms	Positive relationship not supported

Researcher(s)	Category of firms studied	Findings
Leontiades & Tezel (1980)	Fortune 1000 Industrial Firms	Positive relationship not supported
Van de Ven (1980)	Community Child Care Programs	Positive relationship
Klein (1981)	Banking firms	Negative relationship
Sapp & Seiler (1981)	Finance industry	Positive relationship
Armstrong (1982)	Meta analysis	Positive relationship
Bracker (1982) in Robinson & Pearce (1984)	Service firms	Positive relationship
Kudla & Cesta (1982)	Fortune 500 firms	Positive relationship not supported
Robinson (1982)	Mixed small firms	Positive relationship
Robinson & Pearce (1983)	Small banking firms	No significant performance differences
Frederickson & Mitchell (1984)	Forest product firms	Negative relationship
Frederickson (1984)	Manufacturing firms	Positive relationship
Robinson & Pearce (1984)	Mixed small firms	Positive relationship not supported
Robinson et al. (1984)	Small firms	Positive relationship
Welch (1984)	Mixed firms	Positive relationship
Ackelsburg & Arlow (1985)	Small firms	Positive relationship
Orpen (1985)	Small mixed firms	Positive relationship
Sexton & Van Auken (1985)	Small firms	Positive relationship
Whitehead & Gup (1985)	Banking firms	Negative relationship
Bracker & Pearson (1986)	Dry cleaning firms	Positive relationship
Ramanujam et al. (1986a); Ramanujam & Venkatraman (1987a)	Top companies	Positive relationship
Rhyne (1986)	Fortune 1000 & 500	Positive relationship
Robinson, Logan & Salem (1986)	Small retail firms	Positive relationship
Gable & Topol (1987)	Small-scale retailers	Positive relationship not supported
Javidan (1987)	Manufacturing firms	Positive relationship
Pearce, Freeman & Robinson (1987)	Meta analysis	Mixed findings for small firms
Rhyne (1987)	High, medium and low performers	No across-the-board relationship
Rule (1987)	Manufacturing firms	Positive relationship
Bracker et al. (1988)	Small growth firms	Positive relationship
Capon et al. (1988)	Manufacturing firms	Can improve performance, but not a precondition
Odom & Boxx (1988)	Churches	Positive relationship
Robinson & Pearce (1988)	Manufacturing firms	Significant relationship
Schaffer & Spencer (1988)	Lodging firms	Positive relationship

Researcher(s)	Category of firms studied	Findings
Tse & Olsen (1988)	Restaurants	Inconclusive finding
Verhage & Waarts (1988)	Large companies	Positive relationship
West & Olsen (1988)	Foodservice firms	Positive relationship
Dev (1989)	Lodging firms	Dependent on environmental factors
Dev & Olsen (1989)	Lodging firms	Dependent on environmental factors
Shrader, Mulford & Blackburn (1989)	Small firms	Positive relationship
Van der Walt, Lysonski, Queree, Harper & Hales (1989)	Fortune 500 firms	No effect
Jenster & Overstreet (1990)	Credit unions	Positive relationship
Schaffer & Litschert (1990)	Lodging firms	Marginal relationship
West (1990)	Foodservice firms	Positive relationship
West & Anthony (1990)	Foodservice firms	Only one factor upon performance
Armstrong (1991)	Meta analysis	Positive relationship
Boyd (1991)	Meta analysis	Weak-modest relationship, but positive for formality
Tse (1991)	Restaurants	Structure not strategy has impact
Powell (1992)	Meta analysis	Dependent on contingency factors
Smith, Piland & Funk (1992)	Rural health care organisations	Positive relationship
Baker, Adams & Davis (1993)	Small firms	Significant relationship between strategic planning and profitability
Lyles, Baird, Orris & Kuratko (1993)	Small business	Positive relationship not supported
Schwenk & Shrader (1993)	Meta analysis	Mixed findings for small firms, but positive for formality
Capon, Farley & Hulbert (1994)	Meta analysis	Positive relationship
Kargar & Blumenthal (1994)	Small community banks	Positive relationship not supported
Miller & Cardinal (1994)	Meta analysis	Positive relationship
Lumpkin & Dess (1995)	Mixed firms	Simplistic planning negatively related to performance in dynamic environments
Matthews & Scott (1995)	Small firms	Entrepreneurial firms undertake more sophisticated planning
Kargar (1996)	Small firms	Low explanatory level
Murphy (1996)	Banking firms	Positive relationship
Hopkins & Hopkins (1997)	Banking firms	Significant relationship between strategic planning intensity and financial performance
Siciliano (1997)	YMCA's	Positive relationship
Rue & Ibrahim (1998)	Small firms	Moderately significant relationship
Peel & Bridge (1998)	Small firms	Positive relationship

Recognising the above negative findings lead to a third wave of empirical research which attempted to employ richer conceptualisations of planning. Wood & La Forge (1979, 1981) sought to classify organisations based on a seven-level Guttman-type of planning sophistication (Guttman, 1944, 1947). A score of zero on the scale implies a complete absence of planning, while a score of six indicates comprehensive planning. Wood & La Forge concluded that comprehensive long-range planners significantly out-performed those with no formal planning system.

Frederickson & Mitchell (1984) and Frederickson (1984) proposed other multidimensional formality constructs. Both studies defined comprehensiveness as a measure of rationality. The former study tested the relationship in an unstable environment, and the latter in a stable environment. Comprehensiveness as defined by the researchers was found to be positively related to performance in a stable environment, and negatively related to performance in an industry with an unstable environment.

The rest of the 1980s saw researchers continuing to focus on planning sophistication. Bracker & Pearson (1986), Robinson & Pearce (1988), Bracker et al. (1988), and Odom & Boxx (1988) all reported favourable results.

Significant progress in developing the planning-performance literature was reflected in the study by Capon et al. (1988). One of the major issues addressed was that of classification of planning. Capon et al. developed four categories of planning through a deductive approach: corporate strategic planners, division strategic planners, corporate financial planners, and division financial planners. Their findings were encouraging, but they pointed out that although strategic planning can improve performance, it is not a necessary condition.

Boyd (1991) published a long and detailed meta-analytic review that involved aggregation of 29 samples on a total of 2496 organisations. He surprisingly overlooked the contribution by Capon et al. (1988), which was brought to his attention in Capon, Farley & Hulbert (1994). Boyd concluded that the results of previous research were equivocal. He pointed out that that existing research was subjected to a great deal of management errors, which underestimated the benefits of planning. Second, although the average effect size was small, many firms did not report significant, quantifiable benefits from participating in the strategic planning process. To advance the strategic planning-performance literature, he argued for more rigorous measures for formal planning, controls for industry effects, and separate analysis for the various dimensions of organisational performance. All these aspects will be incorporated into the current research.

Later meta-analytic reviews (Capon et al., 1994; Miller & Cardinal, 1994) were generally more positive towards the overall relationship.

This represents the big picture. A more detailed examination of the empirical evidence follows, particularly the early studies so that the conceptual issues are identified.

The earliest studies investigating the link between planning and performance categorised firms according to the formality of the planning process (Bracker & Pearson, 1986; Herold, 1972; Kudla, 1980; Robinson & Pearce, 1983; Rhyne, 1986; Rue, 1973; Thune & House, 1970). Although the evidence linking planning to performance was mixed, Hofer (1976) suggested that this was because the content of the plan may have been more important than the process.

Notwithstanding the methodological difficulties previously discussed (pages 10, 43, and 107), one of the first of the published empirical studies which tested the premise that planning and strategic planning in particular has a fundamental impact on financial performance, and arguably more rigorous in its methodology (Mintzberg, 1994b), was undertaken by Thune & House (1970). They addressed the issue of "How does the adoption of formal long-range planning procedures affect a firm's economic performance?" In order to test this hypothesis, a sample of 36 U.S.A. firms representing six industrial groups was selected carefully from 92 companies that responded to a questionnaire. All of the firms had sales greater than \$75 million over a period of seven years. Matched pairs were set up and each pair consisted of one firm which utilised formal planning and one which did not. In other respects, such as size and growth-rate of sales prior to instituting formal planning, the two firms comprising a matched pair were the same.

Upon analysing the data, Thune & House (1970) arrived at the following conclusions:

1. Since the advent of planning, the planners significantly outperformed the non-planners in return on investment, in return on equity, and in earnings per share growth, while equalling or slightly surpassing the performance of non-planners with regard to sales growth.
2. Since the advent of formal planning, planners significantly improved their performance prior to the initiation of formal planning with respect to dollar sales growth, earnings per share growth, and stock price appreciation.

Herold (1972) extended the Thune & House study by introducing a new variable, pretax profit, and followed the performance of selected firms for an additional four years. Mergers, acquisitions and other factors limited Herold's (1972) study to the three matched pairs that Thune & House (1970) studied in the drug industry, and to two of the three pairs that they studied in the chemical industry. Herold's study showed that during the additional four years studied, the formal planners continued to significantly outperform the non-planners in dollar sales growth and pretax profit growth.

An additional finding of Herold's (1972) study showed that planners extended the lead that was developed when they initiated formal planning activities. However, as with the Thune & House (1970) study, Herold failed to determine whether the formal and non-planners were matched on specific product lines at the start of the comparison period.

The Thune & House and Herold studies failed to specify explicitly how the firms studied achieved their growth. Herold (1972) did imply that growth was achieved internally because mergers and acquisitions limited the number of pairs he studied.

Ansoff, Avenier, Brandenburg, Portner & Radosevich (1970) studied the impact of planning on the success of acquisitions in American firms during the period from 1946 to 1965. They limited their research to those U.S. firms which experienced a period of at least four years with no acquisitions, a period with at least two acquisitions separated by no more than one year, and a post acquisition period of at least two years. They classified 93 firms as either planners or non-planners and evaluated the performance of each group using 21 different financial criteria. Both subjective and objective measures were used for evaluation. They reached the following conclusions:

1. Subjective evaluation of results by management does not differ greatly between planners and non-planners, but objective financial measures (sales growth rate, earnings growth, total asset growth, etc.) show a significant difference.
2. On virtually all relevant financial criteria, the planners of the sample studied significantly outperformed the non-planners.
3. Not only did the planners do better on average, but they also performed more predictably than the non-planners. Planners appear to have narrowed the uncertainty in the outcomes of acquisition behaviour.

It must be noted that the conclusions drawn by the Ansoff group are much more tentative than those drawn from the Thune & House studies. The research design used by Ansoff et al. (1970) made no effort to identify matched pairs of planners and non-planners, each of which had similar size, assets, growth rates, etc., prior to the initiation of the acquisition programs. It is possible that some of the differences in objective performance between planners and non-planners were the result of factors other than planning (See Table 2 in Chapter 1 for a list of possible input and process factors). For example, it could be stated that managers of 'planner' firms had higher aspirations or motivation than those of 'non-planner' firms. Also, different types of acquisitions with differing probabilities of success could generate differences in objective performance.

Fulmer & Rue (1974) undertook another study investigating the relationship between planning and performance. They surveyed 432 firms and divided them into groups of formal and non-formal planners. They then positioned the firms into 3 industrial groupings: non-durables, durables, and services.

Four different financial measures were used to evaluate the long-range planning and financial performance relationship.

Planners outperformed non-planners on all four financial measures in the durable group; in the non-durable industry the results were mixed; and in the service industry the non-planners outperformed planners in all instances. The larger sample adds weight to their study, however it suffers from similar problems to those experienced in the Ansoff study. Another key limitation of the Fulmer & Rue (1974) study, which is different from the Ansoff research, is that performance for only three years was studied with the service firms. Also, almost 50 per cent of the service firms in the study stated that they had started formal long-range practices only two years prior to the study. It is quite possible that they had not yet realised the benefits of the planning efforts.

Sheehan's study (1975) of Canadian companies produced similar results to Fulmer & Rue's. Also in 1975, Malik & Karger collected planning and financial data on 38 companies in the electronics, machinery, and chemical drugs industries. The firms within each industrial grouping were divided into two groups; "formal integrated long range planners" and "non-integrated planners." The financial performance of these groups was compared on 13 different financial measures. Formal integrated planners outperformed non-integrated planners on 9 of the measures. The other 4 measures showed mixed results.

As can be seen from Table 12, research since the 1970s is ambivalent as regards the relationship between strategic planning and financial performance. Meta analyses conducted to date are mixed (50 per cent supporting the relationship), and Mintzberg (1994b) in his seminal work concluded that the issue is 'problematic and unresolved . . .' (p.97). He also felt that planning is not the one best way, that in general it does not pay, and that ' . . . at best, it may have some suitability in particular contexts . . .' (p.97).

Mintzberg's conclusions have since been challenged by Houlden (1995) who asserted that, over the years, various academics have wrongly forecast the demise of corporate planners or of strategic planning. Houlden's conclusions were based on a 1995 survey and comparisons made with the results of a similar study carried out in 1985. Over that period the number of organisations employing corporate planning units roughly doubled and in 1995 totalled about 320. Some units were eliminated since 1985, Houlden found, either because of poor performance or because the organisation was too small to continue to warrant employing a corporate planner on a full-time basis. The latter is likely to be the case in this Thesis.

In those organisations where corporate planning had progressed well, says Houlden (1995), it was line driven, top management had improved their strategic capability, strategic planning processes had been adapted and improved over time and the role and composition of the corporate planning units had changed. Once the medium to long-term strategic direction of the



organisation had been chosen, there was less emphasis on the annual planning round and more emphasis on looking at particular issues. Major reviews of the overall plan tended to occur at intervals of some three to five years.

Houlden (1995) found that, typically, a successful corporate planning unit expanded with its early success, reached a peak, and then settled down at a slightly lower number of staff but of higher quality, once top management had become more strategically capable. Much of such a unit's work was on projects studying different strategic issues, however the unit needed to be managed efficiently as an internal strategy consultancy. Houlden's (1995) visits to a sample of leading companies in Japan and Australia indicated that corporate strategic planning in both countries was at a stage of development similar to that in the UK.

In a similar vein, Miller & Cardinal (1994), building on previous contingency frameworks, developed an encompassing contingency model that might explain the inconsistent planning-performance findings reported in previous research. The model was empirically tested using meta-analytic data drawn from 26 previously published studies. Their results suggest that strategic planning positively influences firm performance and that methodological factors are primarily responsible for the inconsistencies reported in the literature. The substantive contingency factors that they examined, some of which have been frequently cited as important by previous researchers, did not have a large impact.

In 1992, a study by Powell (1992) had found just the reverse. According to Powell (1992), previous studies of the planning-performance relationship produced inconsistent findings, largely because of a neglect of contingency factors. His study aimed to advance planning-performance research by accounting for the role of contingency factors, particularly firm size, industry stability, and generic strategy. In his empirical study, a direct, significant correlation between planning and profitability was found to be spurious, vanishing when firm size effects were removed. The study also found that planning was more profitable in an unstable industry than in a stable one, and more profitable among cost leaders than among differentiators who might emphasise high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image.

In 1994, Capon, Farley & Hulbert (1994) discussed the Schwenk & Shrader (1993) meta-analysis of the impact of strategic planning on financial performance. The study, they said, omitted a major study of corporate planning practice in Fortune 500 manufacturing firms, and subsequently reviewed that study in light of the results of the meta-analysis. Their additional analysis examined performance and firm survival over a longer time period than in the original work, and concluded that a small but positive relationship between strategic planning and performance exists, and persists.

In the most recent study of large firms, Hopkins & Hopkins (1997) found that the intensity with which banks engage in the strategic planning process has a

direct, positive effect on banks' financial performance, and, importantly, mediates the effects of managerial (strategic planning knowledge, expertise and beliefs) and organisational factors on banks' performance. This finding is a hypothesis in this Thesis. Results also indicated a reciprocal relationship between strategic planning intensity and performance. That is, strategic planning intensity causes better performance, and, in turn, better performance causes greater strategic planning intensity<sup>19</sup>.

This issue of intensity and the positive effects of managerial, environmental and organisational factors on the intensity of the strategic planning effort in organisations has been suggested by several studies (Cragg & King, 1988; Gable & Topol, 1987; Kallman & Shapiro, 1978; Orpen, 1985; Robinson, Logan & Salem, 1986; Robinson & Pearce, 1983; Robinson et al., 1984; Shrader, Mulford & Blackburn, 1989; Unni, 1981; Watts & Ormby, 1990), and will be tested in this Thesis as far as managerial (education and training) factors are concerned.

### 3.3.1 Small firms

In relation to small firms per se (the majority of disability-based agencies fall into this category), the research has been fragmented and the findings inconclusive (see Table 13 below). The literature does however support the argument that planning is a key issue in small business.

**Table 13** *Studies relating strategic planning to organisational performance in small firms*

Researcher(s)	Category of firms studied	Findings
Thune & House (1970)	Small manufacturing firms	Positive relationship
Herold (1972)	Small manufacturing firms	Positive relationship
Robinson (1979)	Small Service firms	Positive relationship
Robinson (1982)	Mixed small firms	Positive relationship
Robinson & Pearce (1983)	Small banking firms	No significant performance differences
Robinson & Pearce (1984)	Mixed small firms	Positive relationship not supported
Robinson et al. (1984)	Small firms	Positive relationship
Ackelsburg & Arlow (1985)	Small firms	Positive relationship
Orpen (1985)	Small mixed firms	Positive relationship
Sexton & Van Auken (1985)	Small firms	Positive relationship

<sup>19</sup> Intensity is defined as the relative emphasis placed on each component of the strategic planning process (Hopkins & Hopkins, 1997).

Researcher(s)	Category of firms studied	Findings
Bracker & Pearson (1986)	Dry cleaning firms	Positive relationship
Robinson, Logan & Salem (1986)	Small retail firms	Positive relationship
Gable & Topol (1987)	Small-scale retailers	Positive relationship not supported
Bracker et al. (1988)	Small growth firms	Positive relationship
Shrader, Mulford & Blackburn (1989)	Small firms	Positive relationship
Baker, Adams & Davis (1993)	Small firms	Significant relationship between strategic planning and profitability
Lyles, Baird, Orris & Kuratko (1993)	Small business	Positive relationship not supported
Kargar & Blumenthal (1994)	Small community banks	Positive relationship not supported
Matthews & Scott (1995)	Small firms	Entrepreneurial firms undertake more sophisticated planning
Kargar (1996)	Small firms	Low explanatory level
Rue & Ibrahim (1998)	Small firms	Moderately significant relationship
Peel & Bridge (1998)	Small firms	Positive relationship

The small business literature on the relationship between planning and performance falls into two main themes. The first relates planning to improved profitability (Aram & Cowen, 1990; Hussey, 1982), and the second recognises that good planning is a key to success (Argenti, 1980; Branch, 1991; Brokaw, 1992; Hillidge, 1990; Knight, 1993).

Although the small firm research has lead to equivocal results (Byars, 1991; Schwenk & Shrader, 1993), small firm planning has been shown to increase the small firm success rate (Jones, 1982), and affect the level of firm performance (Bracker & Pearson, 1986; Schwenk & Shrader, 1993).

Since the early small firm studies (Thune & House, 1970; Herold, 1972; Robinson, 1979, 1982), researchers have taken a more contingent view toward the planning-performance relationship and have begun to control for firm size, industry environment, entrepreneurial/managerial characteristics, environmental uncertainty, etc. (Grinyer, Al-Bazzaz & Yasia-Ardekani, 1986; Shrader, Mulford & Blackburn, 1989).

During the 1980s, Robinson & Littlejohn, (1981) asserted that virtually all of the studies to that point had found the use of planning to be much higher in successful than unsuccessful firms. In 1983 and 1984 however, Robinson & Pearce found no significant performance differences between formal and non-formal small business planners. But also in 1984, Robinson, Pearce, Vozikis & Mescon found that a rather consistent, positive relationship existed between the extent of planning activities and the performance of small business. They also asserted that small firms were not suited to formal

strategic planning, as it is essentially a conceptual activity suited solely to larger firms.

Orpen's 1985 findings strongly suggested that small firms that perform well financially conduct the long-range planning process differently than small firms that perform poorly. This difference was essentially due to the comprehensiveness (quality) of the process. Orpen (1985) found that for mixed small businesses, those undertaking more comprehensive (intense) long-range planning experienced improved performance relative to those that undertook less comprehensive (intense) planning. In 1986, Robinson, Logan & Salem found significantly higher levels of perceived performance for those firms engaging in strategic planning. A contrary finding for the same industry sector was found a year later, when Gable & Topol (1987) found that, for small-scale Australian retailers, a positive relationship was not supported.

In 1986, Wortman reviewed a set of small business planning-performance studies in the context of a broad survey of the methodologies employed in the small business literature. The purpose of Wortman's (1986) review was to review typologies and not to focus on the particular issue of the effect of formal strategic planning on small firm performance. However, he did address the need for continued refinement in planning-performance relationships.

1987 saw Pearce et al. undertake a meta-analysis of eighteen studies relating to small firms, which concluded that the empirical support for formal strategic planning as a means of improving performance was inconsistent and often contradictory. A more recent meta-analysis of small firm studies on the same relationship reached similar conclusions but supported the notion that strategic planning is not just relevant for large firms (Schwenk & Shrader, 1993). Kargar (1996) supported this view and found that system capability was the most important dimension in explaining effectiveness.

In 1988, Bracker, Keats & Pearson found that structured strategic planners among small firms in a growth industry outperformed all other types of planners on financial performance measures, a similar finding to Shrader, Mulford & Blackburn (1989).

Two years later, Parks, Olsen & Bokor (1991) found that merely having a small business start-up plan did not contribute to profitability, and a further two years on Lyles, Baird, Orris & Kuratko (1993) found no significant differences on performance measures of return on equity or return on assets. However, when the growth rate of sales was considered, there was a significant difference, thereby supporting the Robinson et al. (1984) findings. Also in 1993, Baker, Adams & Davis found a significant relationship between strategic planning and profitability.

The 1983 findings of Robinson & Pearce for small community banks were supported by Kargar & Blumenthal (1994), who also found no positive relationship.

From a slightly different perspective, a 1995 study by Matthews & Scott which involved 130 small business ventures concluded that, although previous research in large firms provided some evidence that perceived environmental uncertainty influences strategic planning, the influence that the perception of environmental uncertainty has on the strategic and operational planning of small firms remains largely unexplored. Analyses of data gathered from 130 small business ventures and entrepreneurial firms suggested that entrepreneurial firms engaged in more sophisticated planning than small firms overall. In both types of firms, however, as perception of environmental uncertainty increased, strategic and operational planning decreased.

Finally, in a 1998 study of 253 small firms, Rue & Ibrahim found that greater planning sophistication (intensity) was associated with growth in sales. Further, they found that there was a moderately significant relationship between planning and perceived performance relative to the industry. On the other hand, no significant relationship was found with respect to return on investment. Another positive finding in the same year was reported by Peel and Bridge (1998), who surveyed 150 small and medium sized enterprises, and found that perceived profitability and success in achieving organisational objectives were positively associated with planning intensity.

Generally, the small business studies, as with all the studies, have lacked control of extraneous, independent variables that could have influenced performance, and ignored general economic conditions and government factors, and did not control for inter-industry differences (Beard & Dess, 1981; Kudla, 1980; Robinson & Pearce, 1983). Approaches to operationalising formality have also been overly simplistic (Leontiades & Tezel, 1980), focusing on 'selected' aspects of the strategic planning process and defining planning as the formality or importance associated with those indicators (Pearce, Freeman & Robinson, 1987).

### **3.3.2 Not-for-profit firms**

The focal organisation of most research studies concerning planning and performance has typically been a business or industrial firm. Few researchers have studied these issues in not-for-profit firms (Kohl, 1984; Stone, Bigelow & Crittenden, 1999; Wortman, 1979, 1988), despite the importance of understanding how not-for-profits are different from, as well as how they are similar to, business and government organisations (Stone, 1989), and the realisation that not-for-profits are also operating in an era when they depend strongly on business acumen and resources raised in the marketplace while carrying out public service objectives (Young, 1997).

The growing recognition of the importance of the not-for-profit sector to a nation's economy, to the vibrancy of our civil society, and to the implementation of public policies (Salamon, 1995, 1997; Smith & Lipsky, 1993; Weisbrod, 1998) has also largely failed to stimulate much research. The available empirical evidence is shown below in Table 14.

Over ten years ago, Peter Drucker argued that many not-for-profit firms had rejected commercial organisations' preoccupations with efficiency and the 'bottomline' (Drucker, 1989). Since then however, many not-for-profit firms have adopted strategic planning and control systems as a form of operational discipline (Davies, 1994; Parker, 1998; Richardson & Hawkins, 1995), in their drive to become more business-like, despite in many cases not having the managerial skills, capacity and credibility (Dees, 1998).

**Table 14** *Studies relating strategic planning to organisational performance in not-for-profit firms*

Researcher(s)	Category of firms studied	Findings
Van de Ven (1980)	Community Child Care Programs	Positive relationship
Odom & Boxx (1988)	Churches	Positive relationship
Jenster & Overstreet (1990)	Credit unions	Positive relationship
Smith, Piland & Funk (1992)	Rural health care organisations	Positive relationship
Siciliano (1997)	YMCAs	Positive relationship

Sandler & Hudson (1998) have gone as far as categorising better not-for-profit firms as bold and daring, challenging the outdated assumptions about the hidebound, slow and unresponsive organisations that common knowledge tells us predominate outside the innovative, fast-moving business world.

The subject of strategic planning per se has however been studied in relation to churches (Hussey, 1974; Kohl, 1984; Odom & Boxx, 1988; Webb, 1974) while planning processes and its benefits has also been studied on occasion (McDonough, 1975; Schaller, 1979; Schaller & Tidwell, 1975; Van Auken & Johnson, 1984). Stone (1989) found organisational size (and corporate base) to be a significant predictor of the adoption of formal planning by nonprofits. The smaller the organisation, and the smaller the corporate base of the geographical region, the less the likelihood of the adoption of formal planning.

As can be seen from Table 14, empirical studies linking strategic planning and organisational performance are few. Van de Ven (1980) found a positive relationship in a community child care setting, and the Odom & Boxx (1988) study found a significant relationship between the growth rate of the churches studied and the level of planning sophistication (intensity). Not-for-profit U.S. credit unions were also examined by Jenster & Overstreet (1990) who concluded that formal planning results in superior performance along important growth criteria. Whether planning leads to growth or growth stimulates the need for formal planning is unclear because the studies did not examine causality.

The relationship has also been examined at length in the social work literature albeit in a very general way, and has been found to be useful in improving human services (Lauffer, 1984); improving the ability to predict (Henderson & Thomas, 1980); and improving the ability of organisations to cope with problems and focus on initiatives (Bryson, 1988; Kaufman & Jacobs, 1987; Rothman & Zald, 1985).

Strategic planning-performance relationships were also seen as important to rural health care organisations (Smith, Piland & Funk, 1992), who found that significantly higher average profits, operating margins, and planning system effectiveness were reported by hospitals with highly developed strategic planning systems, a similar finding to Siciliano (1997).

The lack of research on strategic planning in 'nonbusiness' organisations was originally commented on by Hofer (1976), a view later reinforced by Schendel & Hofer (1979), and Stone & Crittenden (1993). Moreover, Stone & Crittenden opined that the research category of performance and related top manager's roles was a noticeable gap in the literature. And in 1998, Sandler and Hudson bemoaned the absence of books on top-performing not-for-profit organisations in the management section of any bookstore.

Although there have been important gains, the amount of research on not-for-profit organisations is still quite small and rather fragmented (Applied Research and Development Institute, 1997; Jenster & Overstreet, 1990; Stone, Bigelow & Crittenden, 1999). The gains since 1990 do however represent a quantum leap in published material concerning strategic management of not-for-profit organisations (Stone & Crittenden, 1993). Most of the gains have however been in the not-for-profit hospital, higher education, and performing arts settings (Wortman, 1988).

The paucity of research prompted Wortman (1988, pp.431-432) to identify the conceptual issues of evaluation and efficiency/effectiveness as being very important in not-for-profits, leading to research questions of:

- What are the characteristics of successful versus unsuccessful not-for-profits?
- Do not-for-profit organisations that utilise strategic management perform more efficiently and effectively than those that do not?
- Do the characteristics of certain types of not-for-profit organisations tend to lead those organisations to the use of strategic management? If so, what are these characteristics?
- What measures of efficiency and effectiveness can be developed for determining the performance of not-for-profit organisations in the long term? (Also identified by Stone, Bigelow & Crittenden, 1999)
- What impact does the chief executive/board/committees have on the strategic management of the organisation?

This current research will attempt to in part answer some of these questions, thereby in part answering Wortman's (1988) and more recently Stone, Bigelow & Crittenden's (1999) calls for descriptive, exploratory studies to attempt to define variables that require statistical testing.

### 3.4 Conclusion for Research Question 3

By way of summary of this research question, strategic planning and its relationship to performance has been measured in a variety of ways. Earlier studies tended to use a simplistic conceptualisation of strategic planning by dichotomising the sample into planners and non-planners (Fulmer & Rue, 1974; Grinyer & Norburn, 1975; Karger & Malik, 1975), or into formal and informal planners. Although these terms may have been appropriate for the 1970s, they are no longer.

An aspect that is gaining increasing momentum in the literature is the effectiveness of the nature of strategic planning systems in firms. Finding the variables that reflect effective planning is now the thrust of the literature. This multidimensional approach has been the thrust of the strategic planning systems literature. However, as succinctly stated by Greenley (1993):

Improved management effectiveness through strategic planning may lead to improved performance, but this will depend on the ability of managers to address the range of internal and external variables that impinge on performance. (p.3)

The need for a multidimensional approach to conceptualisation and measurement of planning system dimensions has been highlighted by King (1983), Ramanujam, Venkatraman & Camillus (1986b), Ramanujam & Venkatraman (1987b), Javidan (1987), Rhyne (1987), Kukalis (1991), Veliyath & Shortell (1993), and Kargar (1996). Unfortunately, there is no clear consensus as to what the critical planning system dimensions are. Nonetheless, a holistic approach to the planning-performance relationship incorporating strategic planning system dimensions would seem to be appropriate for this Thesis. In view of Greenley's (1993) comments above, it would also seem to be appropriate for the ability of managers to be taken into account, as measured by their levels of education and training.

The multidimensional nature of planning has only been examined comparatively recently in terms of the skills required (Kargar, 1996; Venkatraman & Ramanujam, 1987). There is also a bias towards large firm samples (Robinson & Pearce, 1983), ignoring findings which identify firm size as an important contingency factor (Hofer, 1975; Kudla, 1980; Lindsay & Rue, 1980; Robinson & Pearce, 1983; Wood & LaForge, 1979).

Studies also do not appear to have considered the length of time firms have been involved in formal strategic planning (Fulmer & Rue, 1974; Hofer &



Schendel, 1978), nor of the intensity with which firms undertake the process (Hopkins & Hopkins, 1997).

Most studies completed before 1975 report positive results, however since 1975 the findings are somewhat inconsistent. A number of factors have been suggested as possible contributors for the mixed results, including simplistic conceptualisations or operationalisations of planning (Venkatraman & Grant, 1986); sampling bias (Bracker & Pearson, 1986; Robinson & Pearce, 1984); interactive effects of organisational environments and strategy and narrow measures of firm performance (Kudla, 1980); and the failure to control for industry effects (Hitt, Ireland & Stadler, 1982).

This study attempts to overcome some of the methodological deficiencies in previous research by controlling for firm size, controlling extraneous influences by limiting the population to a single industry, employing multiple performance measures, and using a clearly definable measure of planning formality and intensity. Of course, all those who seek to definitively define the relationship between planning and performance suffer from an inability to establish what performance would have been achieved by a planning organisation if planning had *not* been undertaken.

However, contingency theorists claim that all attempts to link strategic planning with performance will increase understanding of the effects of strategic planning on organisational performance under different situations, and will foster a consistent conceptualisation of strategic planning characteristics and their relationships to varying firm and environmental characteristics (Egelhoff, 1985). This Thesis will increase that understanding and add to the knowledge base from the perspective of the disability sector.

## 4 CONCLUSION

The literature reviewed in this Chapter focused on the broad issues of education and training, strategic planning, and organisational performance. These issues were addressed in terms of the approaches taken by researchers across a number of disciplines, before attempting to apply the concepts and principles to disability-based organisations. The first two issues contain components which will affect whether changes in organisational performance will occur as a result of top management teams having higher levels of education and training present within the structure.

Distinctions between manufacturing, service, large and small, and not-for-profit organisations were made, as were distinctions between strategy and strategic planning, and strategic planning and strategic management. The effects of these distinctions on the construct of performance, particularly effectiveness, were noted. No empirical research on the link between education and training of managers and performance at an organisational level has been conducted to date in the research setting for this Thesis, the disability sector, and very little has also been conducted in the not-for-profit

sector generally. Similarly, no research has been conducted in the sector on the link between education and training of managers and strategic planning processes and systems, or between strategic planning processes and systems and organisational performance.

Generally the link between education and training as a major contributor to enhanced performance at the three levels of individual, organisational, and national, has been established, although this is not universally accepted. Of these three levels, the research is most deficient at an organisational level, the focus of this research.

The literature tends to show that the education and training levels of managers do positively influence organisational performance across a range of measures, some of which are included in this research. These include flexibility, productivity, and quality of output, and are generally applicable to small as well as other sized organisations. Further, the small business literature does show that management-specific education has a greater effect on business performance than either technical or professional education, and that organisational size is positively related to the level of formal management training.

The literature also shows that demographic characteristics (including education and training) of managers affect a number of intervening variables and processes and ultimately organisational outcomes, possibly through strategic planning processes, or is otherwise transferred by other processes and organisational learning mechanisms.

In relation to the impact of education and training on strategic planning, the literature relating managerial characteristics to organisational performance posits that it is the institutionalisation of these characteristics into the planning processes of the organisation that has the impact on performance, although there is little empirical work in this regard. The social work literature does however support a link between professional education as a predictor of the frequency of rational and organisational planning activities.

A majority (61 per cent) of the empirical studies in the literature support a favourable link between strategic planning and organisational performance, with a further 8 per cent giving qualified support, although post 1975 studies have been much more ambivalent than pre 1975 studies. The more recent literature also indicates an awareness of the need for multidimensional approaches to measuring strategic planning systems, albeit limited to large organisations. Other methodological deficiencies highlighted in the literature that will be addressed in the current research include controlling for firm size, controlling extraneous influences by limiting the population to a single industry, and employing multiple performance measures.

Chapter 4 outlines the methodology, procedures, and collection of data for a study of the relationship between education and training, strategic planning, and organisational performance in disability-based organisations.