CEO Beliefs, Management Development, and Corporate Strategy

AN EXPLORATORY STUDY

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This study explored possible relationships between management development (MD) and corporate strategy. First, the beliefs of CEOs and training officers (TO) concerning the role of MD in the strategy process were compared. Second, the study focused on the influence of CEO and TO beliefs on actual MD practices. And finally, possible relationships between MD and various measures of corporate performance were examined. Results revealed differences between CEOs and TOs regarding the role of MD in the strategy process and the link between MD and business need. Some evidence that CEO beliefs influence MD practices were found. No significant difference among firms on the nature of MD practices were revealed. Implications for practice are discussed.

Many researchers and practitioners in the field of human resource management (HRM) seek to clarify the role of HRM in the strategy process (Bolt, 1989; Broderick & Boudreau, 1992; Rhodes, 1988; Snell, 1991). The advantages of bringing HRM into the strategy process would include expanding the range of solutions to organizational problems; assuring that human resources are considered in both the determination of goals and the assessment of organizational capabilities; and, recognizing the people responsible for implementing the strategic plan (Lengnick-Hall & Lengnick-Hall, 1988).

Concurrent with attempts to achieve a more holistic approach to the study of HRM, the field of strategic management is expanding to encompass the

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effective matching of external environmental analysis with internal organizational capabilities, the interlinking of strategy formulation and implementation, and the development of an interdependent strategy and structure (Bartlett & Ghoshal, 1991). This reformulation moved researchers beyond the traditional investigation of strategy, which focused primarily on the analysis of choice and alternatives (Ansoff, 1965). Bartlett and Ghoshal (1991) contend, however, that even this broader perspective of strategy continues to neglect the role of management. More recently, the extent and type of involvement of organizational managers in strategy formulation is becoming a significant research theme in the field of strategic management (Hart, 1992). For example, one study showed middle-management involvement in strategy making to be associated with improved organizational performance (Wooldridge & Floyd, 1990). Thus it appears that the fields of human resource management and strategic management are beginning to intersect in ways that may prove beneficial to both domains.

Several authors (Butler, Ferris, & Napier, 1991; Lengnick-Hall & Lengnick-Hall, 1988; Tichy, Fombrun, & Devanna, 1982) developed theoretical models that integrate the broader human resource practices with corporate strategy. Although it is generally believed that linking human resource practices with corporate strategy may lead to increased effectiveness, such broad relationships have not been empirically tested (Schuler & Jackson, 1987). Some attention has also been given to investigating the use of specific human resource practices to enhance corporate performance (Beatty, 1988; Nkomo, 1987; Zajac, 1990). However, direct payoffs of these specific human resource practices for organizational performance or competitive advantage have not been shown (Lengnick-Hall & Lengnick-Hall, 1988).

Among the various human resource practices, management development (MD) is often viewed as the proper connection to corporate strategy (Hussey, 1985; Wissema, Brand, & Van Der Pol, 1981). This link would appear strongest when participating managers are closely involved with strategy implementation. Tannenbaum and Yukl (1992), in a review of training and development, identify the need to deliver training programs that support the strategic direction of the corporation and to align training objectives with organizational goals as dominant themes in the literature, particularly among practitioners.

This study examined several aspects of management development and strategic management within a broad sample of corporations. Although management development may take many forms, such as formal in-house training programs, university programs, on-the-job training, job rotation, mentoring, and the use of special assignments, our primary focus is the

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company-sponsored programs offered internally to enhance the performance of corporate managers. Our goals were to expand the understanding of CEO beliefs concerning the role of MD and MD specialists in the strategic process, to consider the ways these beliefs influence management development practices, and to identify the possible relationships between MD practices and corporate performance.

RESEARCH QUESTIONS

Our first research question addressed the possible differences between CEO beliefs and training officers' (TO) beliefs regarding the value of linking MD to corporate strategy. Many CEOs question the corporate payoff of MD programs. CEOs often do not consider training policy an issue for their involvement (Hussey, 1985), nor do CEOs typically attribute their own individual successes to external factors such as formal development efforts (Margerison & Kakabadse, 1985). This skepticism on the part of CEOs may stem in part from the lack of empirical studies that demonstrate how internal development programs advance organizational goals (Latham, 1988).

For these reasons, we hypothesized that human resource professionals, in particular those with direct responsibility for training and development (TOs), would hold more positive beliefs than CEOs about the value of integrating MD and involving MD staff in the strategic process. We focused on beliefs because of the impact beliefs have on the way corporate managers think about internal management issues and their relationship to strategic choices (Donaldson & Lorsch, 1983). In addition, these beliefs may play an important role in the way senior managers execute the strategic planning process.

Hypothesis 1: Training officers will exhibit stronger beliefs about the value of management development to the strategic process than chief executive officers.

The second research question focused on the relationship between CEO and TO beliefs and the nature of the MD programs offered within corporations. Some recent literature (Bernhard & Ingols, 1988; Bolt, 1989; Center for Executive Development, 1988; Cianni, 1993; Hussey, 1985; Tichy, 1989; Vicere, 1989) identified characteristics of those MD programs designed to support corporate strategy. Because CEO support may be a necessary prerequisite to bringing MD and MD specialists into the strategy process, we

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hypothesized that CEO beliefs would have a greater effect on the "strategic" quality of the MD programs.

Hypothesis 2: Chief executive officer beliefs will exhibit a stronger relationship with the MD program characteristics within their firms than the training officer beliefs.

Our third research question concerned the actual MD practices within firms and the relationship of these practices to corporate performance. Performance is often measured in comparison to industry averages. Thus individual steel companies are compared to averages for steel companies, pharmaceutical firms are compared to averages for that industry, and so on. We believe that firms are, at least in the short run, most concerned about performance relative to industry standards.

Studies in strategic management (Fiegnenbaum & Thomas, 1988; Singh, 1986) have followed models of corporate risk taking and performance aspirations as functions of firm performance relative to industry averages of return on investment (ROI). Some researchers (Bussard, 1991; Donaldson & Lorsch, 1983) have argued that performance goals are more numerous and more complex than simple returns on investment. We use, therefore, in addition to returns, two additional measures of corporate profitability and three measures of corporate growth, each in relation to industry averages. By normalizing firm performance by industry standards, we are able to attribute similar aspirations and behavior patterns to firms according to their recent performance and prospects for their industries.

We hypothesized that firms whose performance levels are above their respective industry performance levels would have MD programs that possess strategic qualities to a greater extent than those whose performance levels are at or below industry averages. Thus better performing firms would be more willing to try innovative ideas, whereas poorer performing companies may tend to maintain conventional routines (Bromiley, 1991).

Hypothesis 3: Firms whose performance is above industry averages will exhibit those attributes of a strategic approach to MD to a greater extent than firms whose performance is inferior to industry averages.

METHOD

Corporations listed in the 1990 *Business Week 1000* served as the target population. This list provided a representative sample of companies from a

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variety of industries and allowed for the comparison of firms within the same industry. The names and addresses of the CEOs were obtained from the *Business Week* directory. TOs were identified in the membership directory of the American Society for Training and Development (1990). The result was a set of 367 corporations for which we had names of both the CEOs and TOs.

We mailed a cover letter and an identical survey concerning beliefs about management development to each CEO and TO. We sent TOs an additional survey concerning MD activities within their firms. In the cover letter, we defined management development as the internal training programs offered to corporate managers. Neither the CEO nor the TO were informed of the other's participation in our study. Six weeks after the initial mailing, a second survey was sent to nonrespondents. Response rates for the CEOs and TOs were 26% and 47%, respectively. Although the response rate for CEOs appears low, it is similar to other studies using questionnaires mailed to CEOs.

Companies for which performance data were unavailable were eliminated from the study as well as those firms for which the surveys were unusable. The result was a total of 220 firms with complete data: CEO survey and/or TO surveys in addition to corporate performance data. Of the 220 firms in the study sample, there were 45 firms for which both the CEO and TO had responded.

MEASURES

The survey of beliefs about the value of management development (MD) consisted of 13 separate items, each reflecting a belief about the role of MD in relation to corporate strategy (see Table 1). These items were developed based on the findings of interviews conducted with key training officers in companies often viewed as providing exemplary management training (IBM, AT&T, General Electric, Motorola, Marriott, and Aetna) and a review of the literature on strategic approaches to MD. The survey items reflect practices common to corporate programs that attempt to provide a more strategic approach to management development. Respondents indicated on 5-point Likert-type scales their level of agreement with the statements with regard to their corporation.

TOs received an additional survey that included 13 items reflecting the commonly advocated characteristics of MD programs linked to corporate strategy. These survey items were identified in the same manner as those items on the MD beliefs scale. TOs rated the frequency of the MD practices

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TABLE 1

Beliefs About the Value of MD: Summary of CEO and TO Responses

Belief	CEOs		TOs		Adjusted item-total r	Factor 1	Factor 2	Factor 3	Factor 4
	M	SD	M	SD		Communi-cation Tool	Inclusion in Strategy Process	Business Need	Role of Managers
Management development programs are critical to the communication of corporate strategy to managers.	4.0	0.89	4.1	1.02	.54	.80	.43	.05	.15
Management development programs help to create the desired corporate culture.	4.1	0.55	4.3	0.85	.54	.75	.23	.29	.18
Management development programs are useful vehicles for senior management to ensure the primary business goals are understood.	4.0	0.69	4.1	0.88	.59	.77	.18	.26	.33
Management development plans should be developed at the same time business plans are.	3.5	0.78	4.1	0.91	.56	.41	.74	.34	.09
Corporate training and development officers should be included in discussions of business strategy.	3.4	1.10	4.4	0.78	.51	.27	.82	.12	.25
Corporate training and development officers should receive all communications on corporate strategy.	3.3	1.14	4.3	.89	.48	.22	.75	.41	.01

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Senior management should play an active role in identifying management development programs to help support corporate strategies.	4.4	0.67	4.2	0.88	.36	.14	.19	.18	.80
Senior management should play an active role in delivering management development programs designed to meet their corporate strategies.	3.9	1.03	3.8	1.04	.33	.25	.00	.14	.80
No management development program should be offered if it does not meet a business need.	3.3	1.29	4.0	1.05	.35	.09	.17	.74	.16
Management development programs should promote a common management philosophy throughout the organization.	4.1	0.60	4.2	0.88	.63	.49	.36	.76	.08
Management development programs should be a principal means of communicating the corporate vision.	3.6	1.00	3.8	1.03	.50	.68	.30	.37	.02
Management development programs should be evaluated according to how well they support corporate strategy.	3.6	0.89	3.8	0.81	.40	.34	.30	.72	.33
Selection for participating in management development programs should be closely linked to the succession planning process.	3.7	1.00	3.7	1.21	.40	.18	.36	.31	.48

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TABLE 2

Management Development Practices: Summary of TO Responses

Practice	M	SD	*Adjusted item-total r*
Top management identifies training needs simultaneously as business goals are set.	2.7	1.01	.57
Management believes as business partners we support their goals.	3.7	0.67	.56
Management includes us in the strategic planning process within the corporation.	2.8	1.15	.61
Management asks us to design educational programs to help them accomplish their business goals.	3.5	0.82	.66
We share a common management philosophy which unifies all of our management development programs.	3.5	0.99	.66
Line managers participate in the design of our programs.	3.3	0.86	.64
Line managers participate in the delivery of our programs.	3.2	0.93	.49
Our management development programs include presentations which describe the corporate vision and strategies.	3.5	0.89	.64
Specific examples of our firm are used to develop cases and problem sets for our programs.	3.7	0.84	.61
Real business problems are used for our program activities.	3.6	0.75	.57
The selection of program participants is determined by succession plans.	2.8	0.89	.48
Our management development programs have to demonstrate evidence of a clear business need prior to their design.	3.9	0.89	.68
A strategic training plan has been developed in conjunction with the line areas of the firm.	3.1	1.05	.63
Total score	43.2	7.95	

on 5-point Likert-type scales ranging from *never occurs* to *always occurs* within their firms (see Table 2).

Corporate performance data came from *Business Week* (1990) and *Forbes* (1990). We calculated relative performance indicators for each firm as year-to-year changes in firm performance compared to year-to-year averages for the appropriate industry. We chose the average return on capital and the average return on equity for the industries of each of the firms and compared the respective data for each firm to industry average. In addition, we determined year-to-year changes (measured as percentage of increase or decrease)

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in sales, market value, assets, and profits relative to similar year industry averages for each performance indicator. These calculations resulted in three groups of firms for each of six performance measures: above respective industry average (Group A) about equal to respective industry average (Group E), and below respective industry average (Group B).

RESULTS

PRELIMINARY ANALYSES

The psychometric properties of both the beliefs scale and MD practices scale were first examined on the Likert Attitude Scale Main Program.[1] Overall alpha reliability coefficients of .79 and .85 were found on the beliefs scale and practices scale, respectively.

We conducted a principal components factor analysis with the promax rotation using all surveys of the beliefs scale. The scree test and eigenvalues-greater-than-1.0 criteria suggested a four factor solution. We assigned items that had the highest loadings to create four scales: Factor 1—Communication Tool, Factor 2—Inclusion in Strategy Process, Factor 3—Business Need, and Factor 4—Role of Managers. Table 1 presents the original items, means and standard deviations, the factor loadings of the items assigned to the scales, and their coefficient alphas.

CEO BELIEFS AND CTO BELIEFS

To determine if beliefs about the value of MD as it relates to corporate strategy were influenced by position of the manager, a multivariate analysis of variance (MANOVA) was conducted on the four beliefs scales, Communication Tool, Inclusion in Strategy Process, Business Need, and Role of Managers, for the complete sample of CEOs ($n = 95$) and TOs ($n = 169$). All multivariate tests of the main effect for position were significant. Follow-up univariate analyses of variance (ANOVAs) on the main effect produced significant differences on two of the four scales. Results indicate that CEOs and TOs differed on their beliefs about the value of including MD managers in the strategic planning process as well as beliefs about linking MD to business needs. The significant ANOVAs were subjected to studentized post hoc analysis. Significant differences were found at the .05 level. Training officers reported stronger beliefs about the inclusion of MD managers in the strategy process and the value of linking MD to business needs than CEOs.

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TABLE 3
Summary of Multivariate and Univariate Significance Tests With References to Main Effect for Position

Test	*Value*	*Position* CEO	*Position* TO	F	df	p
		Multivariate				
Wilks's	.73			24.48	4, 259	.01
Pillai's	.27			24.48	4, 259	.01
Hotelling	.38			24.48	4, 259	.01
Roy's	.38			24.48	4, 259	.01
		Univariate				
Communication Tool				2.09	1, 262	n.s.
Mean		15.65	16.14			
SD		2.43	2.84			
Inclusion in Strategy				75.30	1, 262	.01
Mean		10.12	12.40			
SD		2.11	2.02			
Business Need				19.52	1, 262	.01
Mean		10.82	12.07			
SD		2.13	2.02			
Role of Managers				0.17	1, 262	n.s.
Mean		11.88	11.78			
SD		1.87	1.99			

Thus Hypothesis 1 received partial support. Table 3 summarizes the relevant MANOVA and ANOVA information.

MD PRACTICES AND BELIEFS

Most firms do not exhibit the attributes of MD practices often characteristic of strategic approaches. The mean scores on the 13 practices ranged from 2.7 to 3.9 on a 5-point scale, reflecting a moderate level of integration between MD and corporate strategy.

To test the relationship between CEO beliefs and TO beliefs on the actual MD practices within the firms, we used the 45 firms for which survey data from both the CEO and TO were received. Correlation coefficients were obtained on a total MD practices score and the four scales of CEO and TO beliefs regarding the relationship between MD and corporate strategy. Pearson product moment correlations for the CEO and TO beliefs with the total score

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TABLE 4
Correlations: CEO and TO Beliefs With Total Score of Strategic MD Practices ($N = 45$)

			Beliefs			
Variables	M	SD	*Communication Tool*	*Inclusion in Strategy Process*	*Business Need*	*Role of Managers*
CEO			.41*	.12	.10	.01
TO			.14	.17	.15	.16
Total score	43.22	7.95				

*$p < .05$.

TABLE 5
Summary of Univariate Significance Tests of MD Practices and Corporate Performance

Performance Measures	F	df	p
Assets	0.76	2	.4717
Market value	2.30	2	.1053
Profits	0.78	2	.4600
Sales	0.72	2	.4908
Equity	0.01	2	.9940
Capital	0.86	2	.4278

of the MD practices are shown in Table 4. Inspection of these correlations shows that CEO beliefs about the value of MD programs to communicate strategy (Communication Tool) had a significant relationship to strategic MD practices. Thus there is some weak support for our second hypothesis.

MD PRACTICES AND CORPORATE PERFORMANCE

To compare the use of strategic MD practices and different corporate performance levels, univariate analyses of variance (ANOVAs) were conducted on the total MD practices score and the six performance indicators for the firms: return on capital, return on equity, growth of sales, increase in market value, growth of assets, and growth of profits. All firms for which we received a complete MD practices scale ($n = 128$) from TOs were included in the analysis. No significant differences among the firms regardless of performance when compared to industry averages were found.

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DISCUSSION

The primary difference between the beliefs of CEOs and TOs relates to the participation of TOs in the strategy process and the direct link between MD and business needs. TOs exhibit stronger beliefs about their inclusion in discussions and communications about corporate strategy. TOs are also more likely to agree that MD practices should be closely tied to business plans and needs than CEOs. Worth noting are the aspects of MD in which CEOs and TOs were in agreement. In general, CEOs and TOs value MD as a tool for communicating strategy. Also, both groups of managers report moderately strong beliefs about the value of management's participation in the MD process.

The results provide partial support for our second hypothesis regarding the influence of CEO beliefs on MD practices. Only one CEO factor, Communication Tool, proved to be related to what actually takes place within firms regarding the strategic use of management development. This finding suggests that CEOs' acknowledgment of the communication role MD may play in the strategy process may influence the nature of the MD programs themselves.

No support for our third hypothesis was found. Thus the nature of firms' MD programs were not related to firm performance as compared to industry averages.

LIMITATIONS OF THE STUDY

One limitation of this study may be our rather circumscribed empirical definition of MD. We did not include development activities such as job rotations, mentoring programs, temporary assignments, and external education programs. A more macroperspective of MD activities may yield more conclusive results. Butler et al. (1991) advocate the use of a fully integrated approach when investigating strategic HRM activities.

Second, this study may have omitted an important link in the relationship between MD practices and performance indicators. The effectiveness of the MD programs in enhancing participants' ability to improve their firms' competitive positions has yet to be evaluated. These management behavior changes may affect the process of strategic management and thus may be important to accurate measurement of the contribution of MD programs to the strategic process. Also, no classifications or evaluations of the firms' strategies were attempted. We could not, therefore, assess the appropriate fit of MD practices with strategy type. Moreover, the limited number of firms

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($n = 45$) used to test the relationship of CEO and TO beliefs with MD practices may limit the generalizability of these results to the larger population.

IMPLICATIONS FOR PRACTICE

Although no broad, empirical links between MD and corporate performance were discovered, this exploratory study does provide some insight into the belief systems of CEOs. CEOs as well as TOs tend to perceive MD as a valuable tool for communicating strategy. Furthermore, CEO's beliefs about MD as a communication tool has a relationship to the strategic nature of MD. Training officers, although not included as direct participants in the strategy formulation process, apparently have an important role to play according to CEOs. Assisting with the effective communication of strategy to corporate managers and helping to create a culture that supports the strategic goals of firms appear to be functions CEOs believe TOs can perform. Thus TOs may be well advised to focus their attention on this communication facet of MD initiatives. The successful execution of this role does not require TO's individual participation in the strategy-making process. Therefore, if TOs are not currently involved in the strategic planning process, they may need to recognize that they still are in positions to create an impact on strategy implementation. This requires the following steps. First, they can ensure that they are knowledgeable about the strategic direction of their firms. Second, they can serve as coaches to training staffs by informing them of the firm's goals and assisting in the design of programs to meet strategic needs. Third, TOs can build alliances with line managers to guarantee that they remain current on strategic goals and business needs. Fourth, TOs can ensure that MD programs are evaluated for their effectiveness in achieving established objectives, particularly as a communication tool for corporate strategy.

However, the challenge remains for TOs to demonstrate the value of their interventions in ways that CEOs view as meaningful. TOs should note that value may not be revealed on broad financial measures of corporate performance. Attempts to provide direct links between MD programs and financial indicators of corporate success may in fact be futile. More importantly, the increased attention to management training and development as a driving force of improved corporate performance may be misplaced. A disproportionate share of the $30 billion dollars currently spent on training is dedicated to managers and professionals who enter the workforce with high levels of skill (*Business Week*, 1992). Performance may be more closely tied to the 50

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million nonprofessional workers in the United States who require technical and basic training to perform their jobs efficiently and effectively.

We are not advocating the dismantling of corporate MD programs but are suggesting two important considerations. First, the demonstrated value of MD may be more accurately reflected on measures other than financial ones. These outcome measures may include employee satisfaction with supervision and management, increased understanding of corporate goals throughout the organization, more effective deployment of all corporate human resources, and retention of high-performing managers. Thus more may be gained by assessing management and employee turnover rates, employee satisfaction levels, and understanding of corporate goals as indicators of MD program success.

Second, although on average only 5% of the workforce requires management skills, many corporate budgets allocate disproportionately large portions of training dollars to managers. A firm's ability to compete may rest more directly with training of nonmanagement and nonprofessional employees, or those who have direct responsibility for delivering quality products and services to customers. Increasing the amount of training dollars spent on certain nonmanagement personnel may deliver strategic payoffs by enhancing a firm's competitive position.

NOTE

1. Kohr, R. L. (1974). *LIKRT: Likert attitude scale analysis main program-computer program documentation.* Unpublished computer program. (Available from Computer Center, Pennsylvania State University, University Park, PA 16802).

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