

“Managerial business qualifications, organizational performance and managerial behavior - evidence from Australia”

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## Managerial business qualifications, organizational performance and managerial behavior – evidence from Australia

### Abstract

In this article, we assess the operational impact of tertiary qualifications in business of senior managers experienced by organizations led by them, as opposed to those led by managers without such qualifications. We find that business qualifications coincide with various significant differences in the area of business planning and occupational health and safety systems. Overall, however, the level of performance of firms between the two groups does not vary significantly.

**Keywords:** business, education, organizational performance, managerial practice.

**JEL Classification:** M53, M54.

### Introduction

Business education is of vital importance to Australia, both in terms of local demand and in terms of its value as an export service. Education, primarily in the form of post-secondary University education, is Australia's third largest export. Business education, at undergraduate and postgraduate levels, accounts for approximately half of the total overseas enrolments in Australian universities.

As a driver of demand, universities provide 'positional goods' (Hirsch, 1976) that facilitate access to prestige and higher income. This is highly valued in certain social contexts where cultural norms place a high value on the status of education and educational achievement. Further, research has focused on other 'extrinsic' drivers – generally financial (Oosterbeek, Groot & Hartog, 1992; Soutar and Turner, 2002) – that tend to drive the demand for educational services across borders. Assuming such outcomes do indeed occur, there is an assumption that tertiary education produces more skilled employees, more able to lead their organizations more effectively and profitably. Intellectual capital and individual skills are recognized as intangible assets of an organization; hence, it could be expected that organizations led by managers with tertiary qualifications in business exhibit higher levels of management function, and one would hope higher levels of operational and financial performance. As a result, most organizations encourage employees, in particular those holding managerial positions, to obtain tertiary qualifications in business.

This link between formal qualifications of leaders and organizational performance has, surprisingly, received little academic attention. Some recent work by Storey (2004) notes the ambiguity of much recent empirical work in the area. He notes that if

the direct and indirect costs of management training were readily recouped in higher organizational performance then the absence of such training and its coincident qualifications would be an indication of market failure. He finds, however, that such performance-based outcomes (both financial and other) are difficult to find.

More intrinsic drivers also exist (social motivations, desire for learning), though they tend to be less important where students travel across borders to undertake their study. This is due to the fact that local substitutes tend to be available to meet these intrinsic drivers, though these may not meet the requirements of those students seeking financial and status rewards associated with offshore educational qualifications. Baruch, Bell & Gray (2005), in the context of MBA students, propose a framework linking business qualifications with scholastic capital, social capital, cultural capital, inner-value capital and market-value capital. Such integrative models offer more analytical promise than those that examine decision drivers for the consumption of business education only in isolation.

### 1. Understanding the impact of business education on managerial practice and performance

Departing from the international questions, it is important to assess, based on what evidence we have, the impact of tertiary qualifications in business held by organizational managers on organizational behavior, systems and performance. Recent research has provided mixed empirical results on the impact of formal management education on firm performance (Bassi and McMurrer, 1998; Savery and Luks, 2004; Westhead and Storey, 1996). Various dependent variables relating to firms processes and financial performance have been investigated, to determine whether the little research has been undertaken on whether firms achieve better innovation outcomes if major decision makers have formal tertiary qualifications in business. Formal learning processes

may facilitate major decision makers to develop knowledge and gain new insights. However, little research has been undertaken on whether such decision makers better utilize techniques to assist innovation, like R&D networks, internal R&D and effective project planning.

Boyatzis and Renio (1989) argue MBA degrees increase entrepreneurial and analytical skills of graduates. MBA programs often focus on the development of formal skills and knowledge of models to assist in the analysis of business cases and practices. The MBA program was first offered at Harvard Business School, and this School's development and use of the case study method encourages the student learner to engage with and analyze practical business situations using theoretical models. In general, the learner is put in the place of the decision maker, and the case builds towards a 'decision point' of focus for the individual case.

Such learning processes encourage the learning and/or development and application of formal decision making rubrics. It is intended here to assess the impact of formal tertiary education in business on these innovation-related variables. It is hoped that if significant results emerge, they can inform the development of better curriculum in business education relating to innovation and entrepreneurship and can encourage the development of skill sets at University business schools that will facilitate the direct transfer of innovation techniques to industry by business graduates.

Surprisingly, there is little research investigating the impact of business qualifications on organizational efficiencies, process improvements and performance, variously measured. This study seeks to address some of this paucity of evidence-based research on the impact of formal business qualifications on business practice.

## 2. Data source and methods

The dataset employed for this study is a subset of the Business Longitudinal Survey (BLS) available from Australian Bureau of Statistics (ABS). The purpose of the BLS is to provide information on economic and structural attributes of growth and performance for Australian industrial organizations. The BLS contains panel data at the firm level which includes financial reports, information on employment and managerial practices, profiles on training and development, and so on. Under the Census and Statistics Act 1905, the BLS data was released as a confidentialized unit record file (CURF, CD ROM Catalog No. 8141.0.30.001 released in June 2000), provides information for four financial years (from 1994-95 to 1997-98). The

panel data is restricted to Australian small-and-medium-sized enterprises (SMEs) with less than 200 employees.

This paper only empirically investigates manufacturing firms in the BLS CURF during the period of 1996-97 and 1997-98. There are around 2400 manufacturing companies, which may be defined as "legally organized" (generally firms with more than five employees and required to report annual taxation records to the Australian Taxation Office). The subsample is further constrained to ensure that only firms with the following criteria are analyzed: (i) live in all four survey years and not to be closing in the last surveying year; (ii) at least one full-time staff member and one manager; (iii) no missing, zero and negative value filled in annual total income, expenditure, sales and wages, as well as in total assets, equity and liabilities; (iv) balance sheets items are indeed balanced; (v) no missing value filled in profits; (vi) turnover rate on assets (the ratio of annual sales income over total assets) is more than 50%; and (vii) there are definitely organizational activities that are expected in the manufacturing industry, including organizational structure, production, products and evidence of access to markets whether in foreign or domestic areas. In the final analysis, the sample used in this study, thus, includes 449 firms that meet all of the above criteria.

The quantitative approach is very simple. Basically, t-test (between firms led by managers qualified in business, and those led by managers without such qualifications) results are presented graphically, with significance levels reported below the relevant comparison bars. As a rule of thumb, significance below 0.05 is considered non-random and, hence, representative of significant difference in the social sciences. Where significance exceeds this benchmark, it is noted as N.S. – i.e. no significant difference between the two subsamples of evidence.

## 3. Overall impact of tertiary qualifications in business on business practices

Data, collected for the survey, allowed an assessment of the use of various formal business management practices in firms led by managers with tertiary qualifications in business, and those without. The summary of these statistics differences between these two groups is presented in the bar chart below.

In essence, the results indicate that there is a significantly higher use of Budget Forecasting, Regular Income and Expense Reports and Export Marketing in firms led by managers with tertiary qualifications in business. On the other hand, such firms exhibit lower levels of inter-business benchmark.

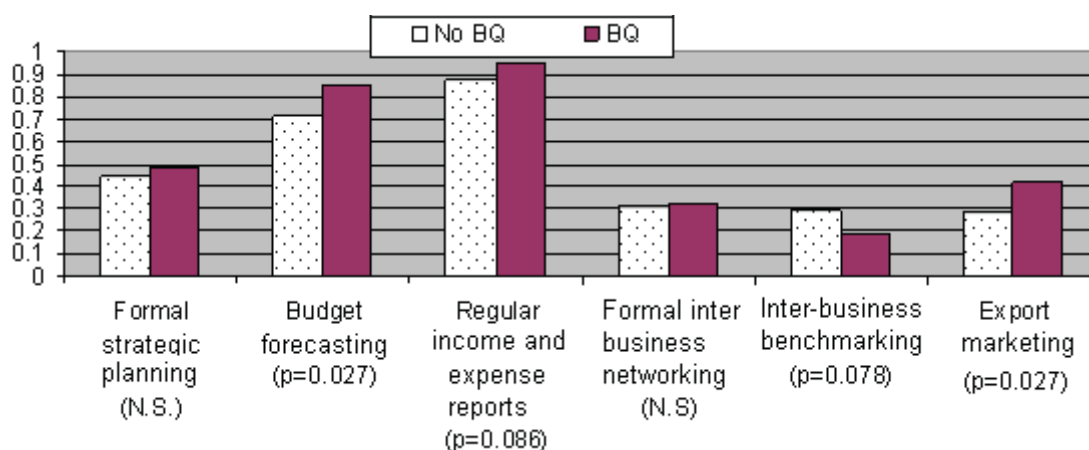


Fig. 1. Business practice variation between groups

Source: Australian Bureau of Statistics, Business Longitudinal Survey

#### 4. Focal area – occupational health and safety

The data allowed a focus on an important operational activity – namely, occupational health and safety. Occupational health and safety (OHS) policy in Australia has emerged from lackadaisical attitudes prevalent in the 1960s to a highly regulated and policed operational focus today. In many respects tertiary education in business studies has been a strong catalyst for the transfer of knowledge about OHS practices to Australian workplaces (Phoon, 1998). Data were available to compare the two sub-sampled groups regarding their use of various policies and practices relevant for OHS management.

In this instance, it was established that firms, led by managers with tertiary qualifications in business, had a higher prevalence of written OHS policies and also employed more workplace inspections than firms led by managers without such qualifications. Unfortunately, data were not available to indicate whether the prevalence of these formal systems led to better OHS related outcomes. Such divergence in practices is indicative, however, that the information contained in their business courses in the OHS area led managers to create appropriate systems and structures in their organizations to improve the outcomes available to their organizations.

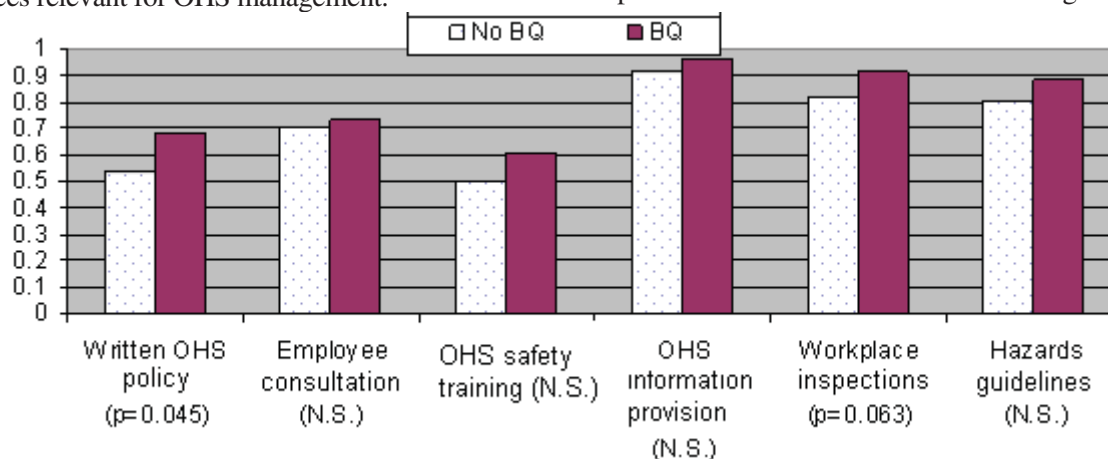


Fig. 2. OHS policy and practice variation between groups

Source: Australian Bureau of Statistics, Business Longitudinal Survey.

#### 5. Variation of firm performance between groups

Generally, businesses in the private sector exist to make money. It is interesting to observe if there is a discernable difference in various measures of performance between firms led by business qualified managers, and other firms. Consistent with

the findings relating to the higher use of export marketing by business qualified managers, it is observable that firms, led by business qualified managers, have significantly higher levels of export income, although in most other measures of firm financial performance, there is no significant difference between the two groups.

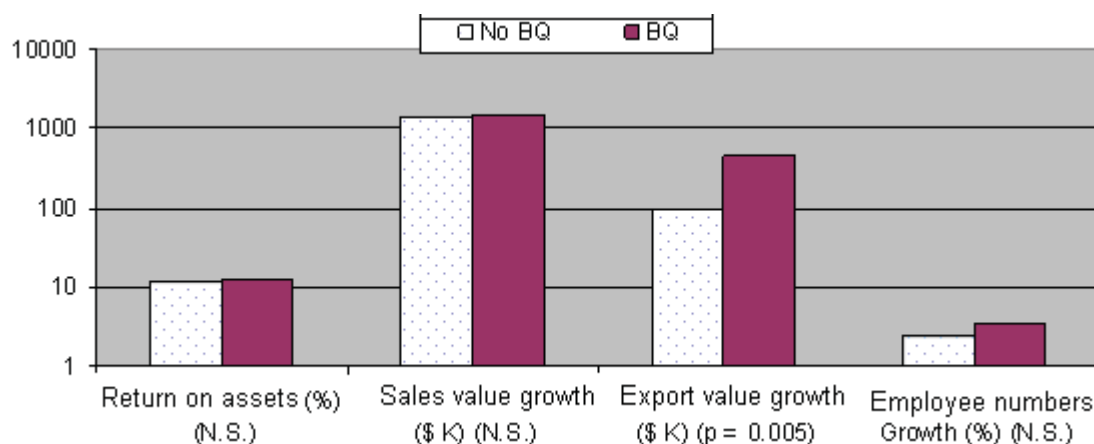


Fig. 3. Firm performance variation between groups

Source: Australian Bureau of Statistics, Business Longitudinal Survey.

### Conclusions and implications for Australian universities

There are many interesting issues to emerge from this brief analysis for business schools in Australian universities. There is observable and significantly higher use of formal business planning processes in firms, led by managers with tertiary qualifications in business. In a related manner, there is a higher use of formal OHS policies, which may also coincide with more formal processes of inspection. This extra formality may be viewed as either a positive or negative issue, but nonetheless it does point to an impact on managerial practice by the learnings garnered in business schools by practicing managers.

Informal inter-business benchmarking appears to be more prevalent among managers without business qualifications, than those with such qualifications. This, it could be argued, is in response to the lack of

formal training which may have presented University students with some indication of what is considered best practice, at least in text-book terms. As such, the use of inter-business benchmarking by managers without business qualifications could be seen as a compensatory search strategy that garnered much the same level of organizational financial performance between the two groups.

There is a consistent effect on exporting – both in terms of marketing and sales growth – within firms led by managers with tertiary qualifications in business. Australian universities are highly international with a large number of international students studying, especially in the Business faculties (Bambacas, Sanderson, Feast & Yang, 2007). Such evidence may be indicative of the creation of an international perspective among Australian business graduates, and surely warrants further research.

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