

Management Research Series No 1/2003

Key findings

Management Development Practice in Australia

A national study commissioned by the Australian Institute of Management 2002

About this series

The *Management Research Series* consists of periodic publications that present the key findings of the Australian Institute of Management's research activities into management practice in Australia.

Published by the Australian Institute of Management January 2003

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Introduction

The release of *Enterprising Nation – Report of the Industry Task Force on Leadership and Management Skills* (the Karpin Report) by the Federal government in 1995 placed the spotlight firmly on management development practice in Australia.

The Karpin Report was instrumental in raising the general level of business and community awareness of the relationship between management capability at all levels of the organisation and company performance. It highlighted the critical importance of education, training and ongoing professional development to ensure managers had the knowledge and skills they needed to perform effectively in the workplace. Emphasis was placed on the important non-technical domains of management: leading and managing people, communicating, negotiating, resolving conflict, fostering creativity and innovation, managing change.

Seven years on, many public and private sector organisations have embraced the underpinning philosophy and directional recommendations of the Karpin Report. Consistent with often heard statements by organisations about the intrinsic value of employees as a source of business advantage, there is anecdotal evidence of greatly increased management development activity in Australia since the Report's release.

It is in this context that the Australian Institute of Management commissioned the *Management Development Practice* study. The objective of the research was to establish an empirical basis for understanding what is actually being done in organisations in Australia to develop the country's management talent and improve business performance.

- The project was initiated to investigate a number of specific questions about organisational practice:
- What constitutes management development in organisations?
- Is management development strategy linked to business performance?
- What is the scope of management development activity?
- Who are the key influencers and implementers of management development?
- How is management development funded and how are outcomes measured?
- What systems and processes are in place to support management development?
- What are the emerging trends in management development practice?

To provide the sample population for the study, the Institute approached its broad national base of Corporate Members. Many of these companies gave their willing support to the research and for this contribution, the Institute expresses its sincere appreciation.

The high level findings of the *Management Development Practice* study are presented in the following pages. This publication is intended to provide interested parties with an executive summary of the learnings derived from the project. If you would like to discuss the results in more detail with an Institute representative in your state, please call 13 16 18 for an appointment with one of our management development specialists.

Key findings

- Management development is taking place in the context of widespread organisational change. The importance of attracting and developing quality staff is recognised as a contributor to business success.
- Senior executives including chief executive officers, managing directors and Boards of Directors are key influencers of management development strategy.
- Human Resource practitioners are the key implementers of management development strategy.
- 95% percent of organisations claim a relationship between management development activity and organisational performance.
- 87% percent of organisations report the use of performance management systems.
- Organisations report an equal contribution of informal and formal learning activities as the tools of management development.
- There is widespread use of coaching and mentoring at all levels of the organisation.
- Evaluation of the impact of management development at organisational level is linked to business performance by a majority of organisations.
- A commitment to management development is regarded as a characteristic of organisations that value employees and is seen as a strategy for attracting and retaining talented people.
- Almost 1 in 2 organisations report the sources of management development funding as a combination of corporate and business unit/divisional budgets.
- The issues impacting on management development and affecting organisational commitment in the immediate future are identified as:
 - Attracting and retaining talent
 - Developing leadership skills
 - Emphasis on individual development needs and individual effectiveness
 - Using performance management initiatives to contribute to business success.

Research design and sample profile

This study was commissioned by the Australian Institute of Management and was undertaken by Woolcott Research Pty Ltd, Sydney.

Research components

The first phase of the fieldwork took place between April 2002 and June 2002 and involved a qualitative exploration of issues with representatives of 34 organisations nationally through in-depth interviews conducted either face-to-face or by telephone.

The second phase of the study was quantitative. Between July 2002 and the end of August 2002 representatives from a total of 400 organisations across Australia were interviewed by telephone using a questionnaire instrument derived from the qualitative phase of the project.

Table 1 shows the distribution of interviews between participating states.

Table 1. Distribution of interviews by state

State	Number of in-depth interviews (n=34)	Number of questionnaire interviews (n=400)
NSW	17	171
VIC	6	115
QLD	5	60
WA	6	54

Sample profile

The sample population for the study was drawn from the Australian Institute of Management's Corporate Member base nationally. It comprised organisations from New South Wales, Victoria, Queensland and Western Australia employing more than 50 people.

All respondents interviewed represented a variety of organisations in size of business, scope of business, and ownership. There was variety in the position titles of the actual respondents represented in the sample and in the situations in which the businesses operated. Table 2 sets out the profile of the sample included in the quantitative phase.

Table 2. Quantitative sample profile

Size of business	Total % (n=400)
50-300 employees	48
301-1000 employees	33
1000+ employees	19
Scope of business	Total % (n=400)
Global	46
National	26
Local	28
Ownership	Total % (n=400)
Listed/unlisted public companies	56
Private companies	44
Job title	Total % (n=400)
CEO/MD/Director	20
Senior HR	57
Other HR	11
Business situation	Total % (n=400)
Stable	31
Has changed	47
Is changing/will change	21

For the purposes of this study, organisations were grouped into three size categories based on their number of employees:

- Small – 50 to 300 employees
- Medium – 301 to 1000 employees
- Large – 1000 employees

Overall, the sample was skewed towards smaller organisations (48%) with a 19% representation of large companies. There was variation in the mix of business sizes across states.

A total of 46% of organisations interviewed were global organisations with the rest evenly split between national (26%) and local (28%) businesses. Again, there were some differences across states with NSW more likely to include global organisations (56%), VIC more likely to be represented by national organisations (37%) and both QLD and WA heavier on local businesses (respectively 36% and 37%).

All organisations were also classified according to ownership. There was a good representation of both listed/unlisted public companies (56%) as well as private (44%) companies across all states. Public Sector organisations were not included in this study.

There was variation in the positions held by respondents. Over three quarters of the sample interviewed were in senior roles (either the most senior person in the company or the head of Human Resources). Differences across states were mainly driven by the size of businesses included in the sample.

Executive summary

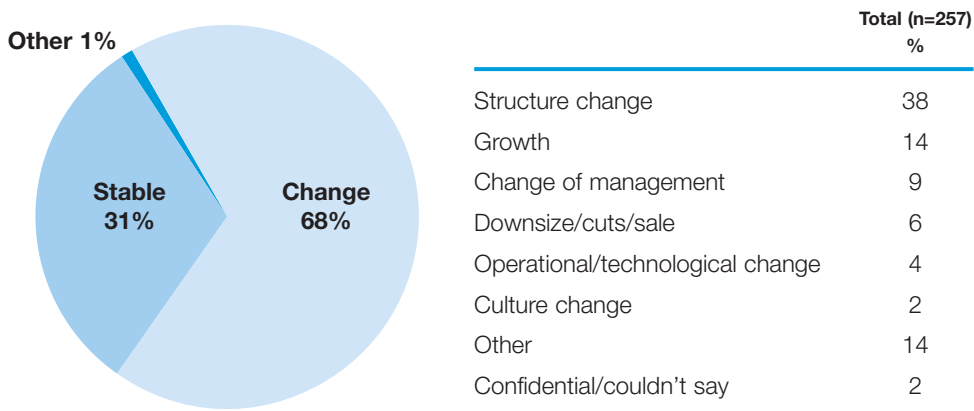
Definitions

The term management development was used by over 72% of organisations to describe the range of activities that facilitate the development of managerial skills. The meaning attributed to the term varied by context in some companies, depending on whether the management development practices were relatively fixed (i.e. had been in place for a long time) or whether they were dynamic (i.e. evolving in response to specific organisational variables). Some respondents described management development as focused on specific work-based skills, whereas others referred to broader areas of concern including what they described as 'soft' skills, including leadership, and the use of tools such as coaching and mentoring.

Current context of management development

Qualitatively, it was clear that the culture of the organisation and/or the business environment facing a company affected management development practices. This context was further explored in the quantitative interviews, where 68% of respondents claimed their organisations had gone through, or were about to go through, some sort of organisational change. The types of changes referred to ranged from structure to growth and business focus to culture, as shown in Figure 1.

Figure 1. Type of organisational change identified



Overall, structural change was the most frequently mentioned, followed by growth and change of management. *Structural change* included organisational re-structuring, change in management structures, reorganising departments, reallocating staff or even accountability/reporting changes. *Growth* referred to such things as merger/amalgamation, expansion/acquisition or business growth in general (acquiring new sites, staff recruitment etc). *Change of management* involved things such as new Chief Executive or Managing Director, change of ownership, globalisation or privatisation.

While larger organisations were more likely to claim a structural change, medium size organisations (301 to 1000 employees), were more likely to claim recent or future growth. However, downsizing also was occurring in almost 1 in 10 organisations interviewed. This was more likely to be the case in larger organisations. *Downsizing* referred to redundancies, closing parts of the business, budget cuts or the business going up for sale. The *Other* changes mentioned included refocusing product lines, changing the nature of the labour force, and relocating.

Factors affecting management development practice

The study sought to identify the issues that companies perceived would affect management development practice in their organisations over the next two or three years. Respondents to the questionnaire were asked to rank on a five-point scale from *very strongly* to *not at all*, a list of issues that emerged from the qualitative sample.

The factors considered to have the potential for greatest potential impact were to do with maintaining good quality people, ensuring that performance management contributed to the success of the business, and an increasing focus on ‘soft skills’, particularly leadership skills, rather than on technology, internal processes, delivery mechanisms or even financial results.

While views about these issues varied to some degree by business size, business scope and industry sector, Table 3 below highlights the general level of impact these issues were anticipated to have on management development practices.

Table 3. Mean ranking of factors affecting management development

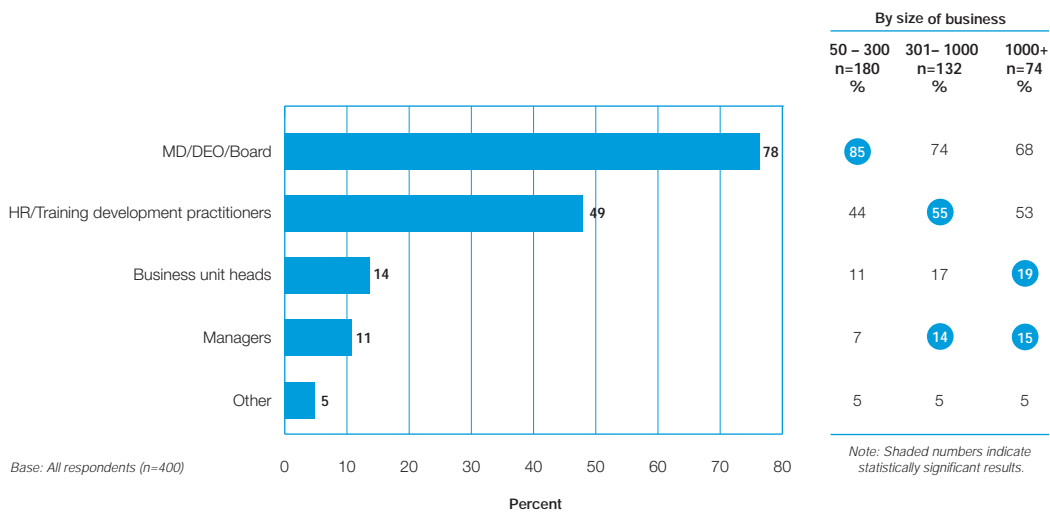
	Mean
Developing leadership skills	4.3
Attracting and retaining talent	4.1
Focus on individual development needs and individual effectiveness	4.1
Performance management to contribute to business	4.0
Focus on the “soft” skills via leadership, coaching, mentoring	4.0
Process improvement	4.0
Effective delivery mechanism in a time-starved environment	3.8
Organisational change	3.7
Understanding financial and business results	3.8
Entrepreneurship	3.0
How to use e-learning to move management development forward	3.0
Changing workforce dynamics	2.9
Working with the framework or policies of a parent company	2.6

Base: All who answered the question (n=392)

Influencers and implementers of management development

While overall the study identified Chief Executives, Managing Directors and Board members as the key *influencers* of management development strategy in companies, this influencing role was closely linked to organisational size. Top executives were more likely to have a major influence in smaller companies (85% of cases), whereas in medium size organisations, the key influencers were also likely to be Human Resource practitioners (55% of cases). In large organisations, however, a mix of individuals were influential contributors to management development strategy, including the heads of business units and line managers. Figure 2 presents the detail.

Figure 2. Key influencers of management development strategy by company size



The *implementation* of management development strategy was identified as the responsibility of Human Resource and/or Training & Development practitioners in 75% of organisations with just 25% of organisations mentioning the involvement of the CEO/MD/Board members. The latter was more likely to occur in smaller organisations.

Scope of management development activity

The study aimed to investigate all facets of management development activity as they currently occur in organisations in Australia. Equal emphasis was given in the questioning of respondents to both the formal and informal dimensions of management learning. For the purposes of the study, formal management development was defined as involving those activities that were components of a structured plan or program of development initiatives. Informal management development was defined as embracing all other types of activities that were not part of a structured program but which might still include formal channels. It related to activities in which employees participated ad-hoc or at the discretion of individual managers.

Informal management development

On average, half the total management development activity that occurred in the companies surveyed happened informally. The most frequently identified informal development activities were coaching and mentoring, ad hoc seminars and courses, on-the-job training which could include special projects or assignments, and management meetings and presentations.

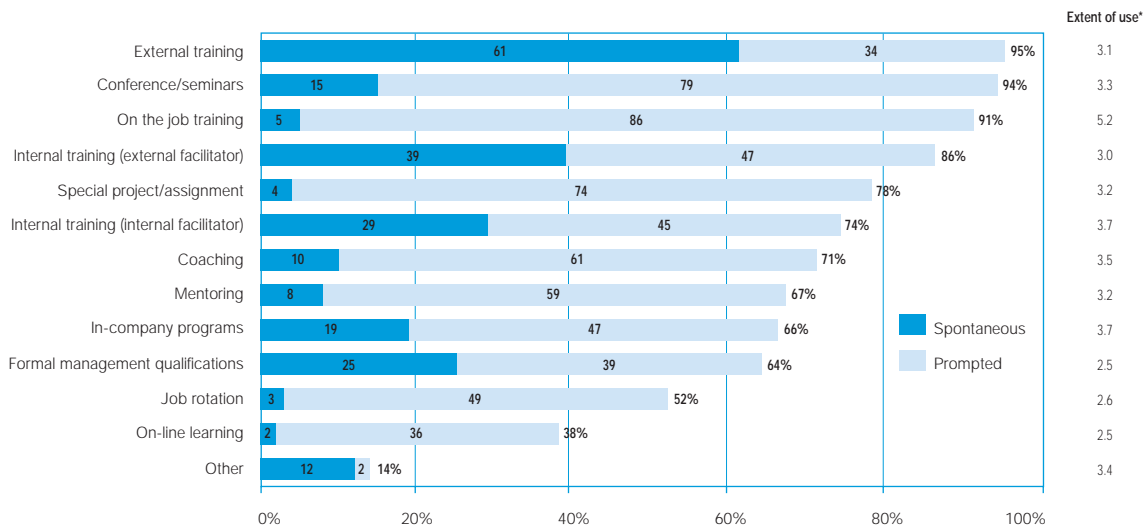
In larger organisations mentoring and/or coaching were likely to occur, as were work assignments and special projects. In smaller organisations, management meetings or presentations as well as informal discussions were slightly more frequently used for informal management development.

Formal management development

Given the profile of respondents and the definition of formal development activity, it is not surprising that those interviewed had greater top-of-mind awareness of the formal practices that took place in their organisations than they did of informal activities.

A wide variety of formal development practices was undertaken by companies. These generally varied according to the level of management responsibility and individual needs. Figure 3 shows the scope of formal management development activities identified by respondents and ranks the extent each was used in the organisations they represented.

Figure 3. Use of formal management development activities



Base: All respondents (n=400)

*Extensively (7) Average (3) Limited (1)

Variation by management level

The types of formal management development activity identified by respondents varied within companies according to the level of management responsibility held by the individual participating. Use of conferences and seminars and formal qualifications (at a low level overall) increased with the level of seniority in the organisation. Internal training and on-the-job training increased amongst lower management levels. Coaching and mentoring were consistent across all management levels.

The qualitative interviews suggested that while management development programs were clearly described for all other levels, at the most senior level of responsibility, there was no clear description of what actually took place. These interviews revealed that management development tended to be left to senior individuals to initiate themselves. Depending on personality, availability, attitude towards and commitment to development, things did or did not take place at this level. A small number of respondents mentioned being 'lucky' to have committed 'leaders' who made sure they attended activities to 'learn'. The types of activities undertaken at this level were workshops, seminars and forums, keeping up with industry memberships and participating with activities provided through this channel (referred to as 'networking').

In general, however, little detail was provided about activities at the top level of management and most respondents were vague about the specific capabilities deemed important in the senior management ranks. Overall, business results were reported as being used to assess the success of the top management rather than any other criteria.

Table 4 highlights the main differences in management development activity between levels of management responsibility.

Table 4. Formal management development activity by level of management responsibility

	Top level management %	Senior management %	Middle management %	Front line management %
Conference/seminars	58	50	31	14
External training	42	49	39	41
Internal training with external facilitator	18	25	33	35
Coaching	17	17	17	19
Mentoring	16	13	14	13
Formal qualification	10	10	9	4
Internal training with internal facilitator	9	19	28	36
On the job training	8	13	18	31
In-company training	7	7	11	9
Special projects	6	12	10	5

Base: All respondents (n=400)

Performance management and succession planning

Overall, 87% of organisations reported having a formal performance management system currently in place. This was more characteristic of larger organisations and, consistent with the sample profile, a higher incidence was reported in New South Wales and Victoria than in Queensland and Western Australia.

58% of companies claimed to have some succession planning in place. This varied significantly as the size of the organisation increased with 77% of organisations with over 1000 employees having succession plans. Global organisations were also more likely to have plans in place. Interestingly, the more senior the respondent to the study, the more likely they were to report succession planning in the organisation. This suggests a potential level of confidentiality surrounding the area.

Management development at the organisational level

Identifying management development needs

All respondents were asked to explain the processes used to identify organisation-wide management development needs.

At the organisational level, performance reviews, individual appraisals and informal reviews were mentioned respectively by 83%, 75% and 65% of respondents as the main tools used to determine organisational needs. This was followed by 59% reporting needs assessment using organisational competencies and, to a lesser extent (36%), the use of 360 degree feedback or similar assessment tools.

There were few differences by size of business with the exception of larger organisations (over 1000 employees) which were more likely to use defined organisational competencies.

When analysing by industry sectors, Finance & Insurance organisations were more likely (92%) than any of the other sectors to use performance reviews as a tool to determine organisational needs. Manufacturing organisations, however, were more likely (70%) than any of the other sectors to use required organisational competencies.

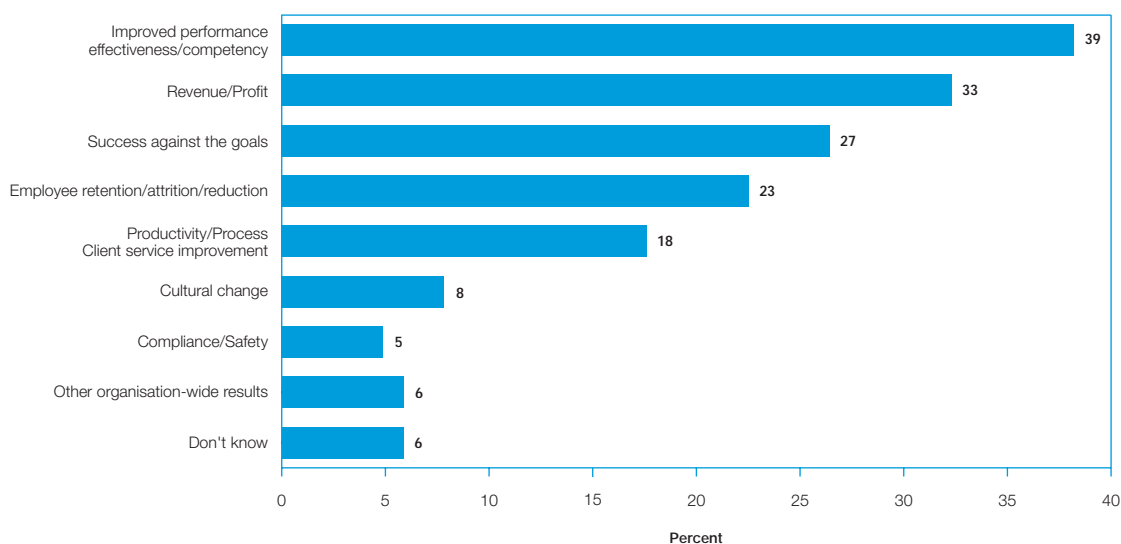
Evaluating management development outcomes

The organisational outcomes to be achieved from management development strategy were largely defined by the Chief Executive, Managing Director or Board members in 74% of organisations. Human resource practitioners (30%) and business unit heads (19%) also contributed to determining the results to be achieved.

Respondents were asked to nominate two major organisation-wide results to be achieved by management development activity within their company. The data captured have been 'netted' into broad categories to provide a snapshot of organisational objectives for management development. The consolidation presented in Figure 4 shows *financial results* and *success against goals* as the most frequently mentioned objectives, closely followed by *people-related outcomes*. All responses were unprompted.

Only 2% of the quantitative sample reported that management development outcomes were not assessed at the organisational level and 6% claimed they did not know the criteria used for the assessment. Overall, the consolidated data identify financial criteria as the most likely to be used to assess outcomes (36%). Employee surveys (27%), performance reviews (24%), and key performance indicators (18%) were also used. Medium to large sized companies were more likely to use employee surveys while smaller businesses were slightly more likely to use performance reviews or appraisals.

Figure 4. Consolidated organisational outcomes for management development



Base: All with organisation-wide results to be achieved (n=371)

Management development at the individual level

Identifying management development needs

Respondents were asked to explain the means by which individual management development needs were identified and whether these differed according to the level of management responsibility of the employees involved. Almost half respondents (49%) claimed that there were differences. Where methods did not differ, individual needs were identified using performance reviews (88%), individual appraisals/recommendations (79%), informal reviews/discussions (67%), defined role competencies (48%) and to a lesser extent, 360 degree tools (29%).

Where respondents indicated that needs identification varied by management level, they were asked to specify the methods used at each level. As shown in Table 5, performance reviews were the main tool used at lower management levels. Individual appraisals are also more frequently used than informal reviews/discussions at these levels. Defined role competencies were more commonly used at middle management level.

Table 5. Individual development needs identification by management level

	Top level management (n=194) %	Senior management (n=178) %	Middle management (n=167) %	Front line management (n=172) %
Performance reviews	54	64	77	70
Informal reviews/discussions	51	57	54	55
Individual appraisal/recommendation	48	60	63	62
Defined role competencies	46	49	52	45
360 degree tools	27	28	24	17
Individual decides what they need	7	3	2	1
Business needs	4	3	1	1
In accordance with Performance Development Plan	3	2	1	1
Other	7	3	6	4

Note: Shaded numbers show statistically significant results.

Evaluating management development outcomes

At the individual level, line managers were more likely to determine performance outcomes for management development in larger organisations (57%). Business unit heads were more likely to take this role in medium sized businesses (33%) and CEO/MD/Board members were more likely to identify outcomes in smaller organisations (35%).

Respondents were asked to nominate the criteria used in their companies to assess whether individual outcomes had been achieved through management development interventions. Unlike organisational level outcomes, financial criteria were not used as much in relation to individual outcomes. Where they were applied, it was generally in smaller organisations. The consolidated findings show performance reviews and appraisals (57%), key performance indicators (18%), and productivity/performance improvement measures (19%) as the most commonly cited evaluation tools.

Factors affecting organisational commitment to management development

Overall, funding for management development was claimed by 48% of respondents to be a combination of both core budget and individual business unit/divisional budgets. This however varied by size of the company. Smaller organisations were more likely to have a core budget and larger businesses were more likely to have individual business unit/divisional budgets.

While it was generally difficult for respondents to quantify their company's investment in management development activity, 63% expected to see an increase in expenditure over the next three years.

The main factors seen as influencing organisational commitment to management development, including funding, over that time were the *skills and competencies required to meet business objectives* (54%), *the need to attract and retain the best people* (48%), *business growth and development* (45%), *financial performance* (40%)

What the best companies do

Respondents were asked to outline the characteristics of the organisations they considered demonstrated leadership in management development. Best practice companies were described as:

- Valuing staff and being committed to development (27%)
- Having a planned and structured approach to development (25%)
- Well resourced with appropriately budgeted training (23%)
- Being an employer of choice with good policies and practices (23%)
- Linking management development to business outcomes (15%)
- Making learning and development part of the culture (14%)
- Being innovative and forward looking (9%).

National organisations were more likely to see best practice as 'valuing staff and being committed to development' and to a certain extent having 'a planned and structured approach to development'.

Local organisations were slightly more likely to think that 'being innovative and forward looking' was the way to demonstrate best practice. They were, however, less likely to be able to explain what it was that companies did to make leaders in this area. Being 'an employer of choice with good policies and practices' was more likely to be an indication of best practice for larger organisations.

Conclusions

The findings of the *Management Development Practice* study suggest that management development in Australia has come a long way since the release of the Karpin Report in 1995.

Management development is now seen as directly linked to enhanced organisational performance. Chief Executives, Managing Directors and Board members play a key role in setting strategy for management development and in determining the criteria for evaluating organisational outcomes. Key stakeholders, including Human Resource practitioners, business unit managers and line managers are significant contributors to the architecture of strategy and evaluation for management development as well as to its implementation.

The key drivers of commitment to management development in the next three years are anticipated to be the skills and competencies required to achieve business objectives, business growth, financial results, and the need to attract and retain talented employees. The outcomes of management development activities are, and will continue to be, measured against 'hard' criteria. Revenue, profit, success against business goals are now the results to be achieved from management development activities in 62% of organisations.

The scope of management development activity is broad and there is an increasing recognition of the important role played by informal managerial learning in the development of capable managers. There has been a widespread increase in the use of non-classroom approaches such as coaching and mentoring in both formal and informal management development practices.

The findings of this study provide a snapshot of management development practices at the end of calendar year 2002 – seven years after the Karpin Report. They provide a source of encouragement that the Institute's Corporate Members are at the forefront of management development practice in Australia and that the organisations represented in the study sample may reflect the wider business population in their efforts to improve the capability of Australian managers.

To discuss the details of the *Management Development Practice* study with one of the Institute's specialist advisors call 02 9956 3079.

Discuss the findings with your state representative

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