

# **Management development does pay off in Non-profit organisations, but they don't see financial management as a priority.**

## **ABSTRACT**

In for-profit organisations, management development has been shown to be effective in improving performance, both for the individual and ultimately the organisation. In contrast, little is known of the effectiveness or otherwise of management development in the Non-profit sector. Nevertheless, organisations in this sector have many of the characteristics of small business, so organisations in the disability sector in Queensland were surveyed to see whether 'for-profit' management development had any beneficial effects on performance.

As might be expected, the research found that management development enhances performance in that it is related to higher job satisfaction, higher interest in jobs, greater organisational effectiveness, and greater organisational goal attainment. Unexpectedly, financial management was not considered to be a high priority by many Non-profit organisations in the disability sector. If left unremedied, this financial blind-spot is likely to prove a serious impediment to the sound operation of such organisations.

## **Keywords:**

Management development, performance, non-profit

## **INTRODUCTION**

Major reviews<sup>1</sup> of the state of Australian management development support the notion that, in general, education and training is a major contributor to enhanced performance. For example, the Karpin Report (1995) concluded that further education and training of management was required if the nation's current strategic and other deficiencies were to be remedied. Also in 1995, more than half of Australia's frontline managers (comprised of team leaders and supervisors and estimated to number 450,000) had no formal qualifications or training relevant to their responsibilities (Australian Training, 1998). 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; Kilpatrick & Crowley, 1999; Report by the House of Representatives Standing Committee on Industry, Science and Technology,

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<sup>1</sup> The major reviews were the Industry Task Force on Leadership and Management Skills (the Karpin Report, 1995), which investigated the current status of Australian managerial preparation as did its predecessor, the Midgley Inquiry (1990), and prior to that, the Ralph Report (1982). None of these studies looked at the Non-profit or disability sectors.

1990; World Bank, 1995). However, formal education, especially for-profit education, has been found to be positively linked with a firm's expansion and the development of its capabilities, thus enhancing profitability (Bureau of Industry Economics Small Business Research Unit, 1991; Cosh, Duncan, & Hughes, 1998; Hoad & Rosko 1964; Mayer & Goldstein, 1961; Williams, 1986).

However, this general link between education and higher levels of productivity, competitiveness and income has not been universally accepted or demonstrated, and has been challenged by a number of empirical studies (e.g. Maglen, 1990; Maglen, McKenzie, Burke, & McGaw, 1994; Strober, 1990). More specifically, and in regard to management development, there are dissenters in Australia who argue that, although the precise value added by management education is difficult to ascertain, Australian management education is ineffectual and does little to contribute to individual and organisational effectiveness (e.g. Billett & Cooper, 1997; Delahaye, 1990; Mission, 1998; Mukhi, 1982; Smith, 1989).

This study set out to determine the impact of managerial educational levels on organisational performance in the Non-profit sector. The results, summarised here, were generally quite consistent with the literature with one notable exception, that of financial management.

## **METHOD**

The Hoy and Miskel (1987) framework was operationalised using measurement tools from the literature for the performance construct. This self-assessed framework was represented by organisational effectiveness, objective fulfilment, job satisfaction, and central life interests, while the education and training construct was also self-assessed using an ordinal scale with education of less than year 10 represented by a '1', and with a higher degree (doctorate) represented by a '10'. The overall measure of organisational effectiveness was compared to confidential "ratings" provided by the Commonwealth Department of Health and Family Services.

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The sample of 566 comprised the total population of Queensland disability sector organisations.

Response rates are as shown in Table 1.

*Table 1* Questionnaire response rates

Respondents		
Managers	222	(26% of all managers)
Staff	565	(28% of all staff)
Organisations	129	(23% of all organisations)

## RESULTS

Table 2 shows that agencies with managers having an average of undergraduate degree qualifications or better, outperformed all other agencies on all four performance measures. Agencies with managers with an educational average of year 10-12 performed poorly on all criteria although the numbers are very small in this latter category and may have affected the results.

*Table 2* Descriptive statistics for average education levels of managers by individual measures of organisational performance (Organisations [n=129])

Average education levels of management		Org. effect-iveness	Obj. fulfil-ment	Job satis-faction	Central life interests
Post graduate degree n=14	Mean St. Dev.	4.054 .439	4.196 1.235	4.015 .389	2.568 .615
Graduate certificate/diploma n=47	Mean St. Dev.	4.192 .711	3.863 .568	3.643 .613	2.693 .415
Undergraduate degree n=38	Mean St. Dev.	3.995 .549	3.687 .598	3.641 .412	2.766 .358
Tertiary non degree n=26	Mean St. Dev.	3.587 .623	3.619 .258	3.458 .673	2.238 .554
High school year 12 n=3	Mean St. Dev.	2.361 .761	2.122 .623	2.289 .286	1.834 .222
High school year 10 n=1	Mean St. Dev.	2.865 n/a	1.876 n/a	2.203 n/a	2.455 n/a

Table 3 shows that agencies with managers having an average of business undergraduate degree qualifications or better, outperformed all other agencies on all four measures.

*Table 3* Descriptive statistics for average business education levels of managers by individual measures of organisational performance (Organisations [n=96])

Average business education levels of management		Org. effectiveness	Obj. fulfilment	Job satisfaction	Central life interests
Post graduate degree n=6	Mean St. Dev.	4.761 .672	4.320 .215	4.123 .256	3.76 .612
Graduate certificate/diploma n=15	Mean St. Dev.	4.351 .623	3.547 .312	3.802 .356	2.784 .413
Undergraduate degree n=27	Mean St. Dev.	3.912 .763	3.752 .682	3.285 .502	2.563 .547
Tertiary non degree n=48	Mean St. Dev.	3.543 .463	3.154 .631	3.232 .495	2.388 .365

Overall organisational effectiveness was measured using a modified version of Mott's (1972) model. Internal reliability for the index was .92 and the alpha coefficient of reliability for each of the dimensions ranged from .66 to .88 (see Table 4). The mean was 3.9 (out of 5). This measure of organisational performance was validated by comparing survey questionnaires completed by employees from the same agencies as the managers.

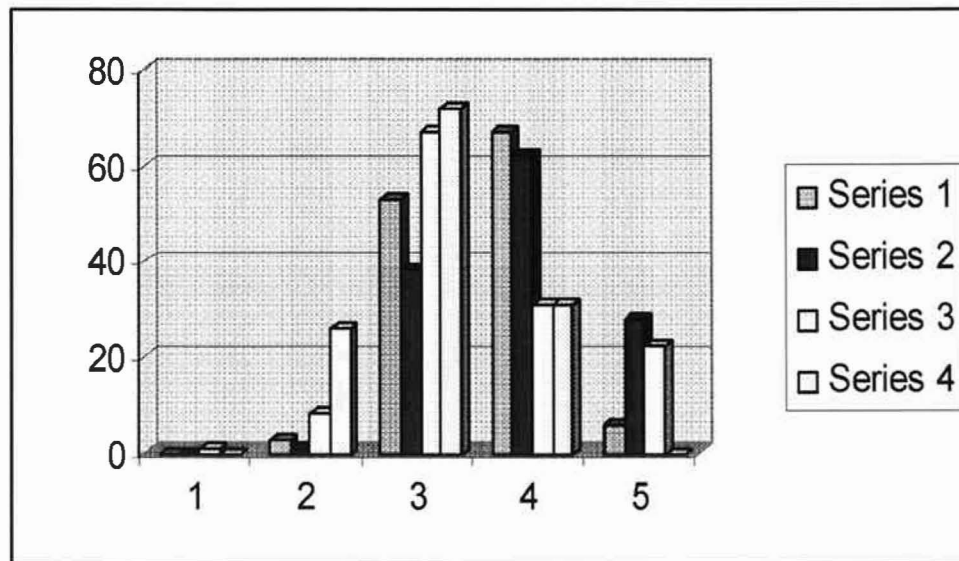
*Table 4* Alpha coefficients of reliability: Performance measures

<i>Index</i>	<i>Alpha Score</i>
Index of organisational effectiveness (Mott, 1972)	
Productivity	.8799
Adaptability	.8428
Flexibility	.6610
Index of objective fulfilment (Ramanujam et al., 1986)	.9212
Index of job satisfaction (Miskel, 1982)	.5102
Index of central life interests (Hoy & Miskel, 1987)	.7137

The correlation between the two sets of survey questionnaires was computed as a test of the validity of the subjective measure. The correlation was .16,  $p = .09$ . This measure was also validated by comparing the scores obtained from managers and employees with those obtained from interviews with staff of the Commonwealth Department of Health and Family Services. The correlation between the managers' scores and those from the Commonwealth Department of Health and Family Services on the three measures was .10,  $p = .20$ . The correlation between the employees' scores and those from

the Commonwealth Department of Health and Family Services was .12,  $p = .12$ . The alpha coefficients of reliability for the objective fulfilment, job satisfaction, and central life interests indexes were .92, .51 and .71 respectively, and are shown in Table 4. Also see Figure 1 for a histogram of these measures.

*Figure 1* Histogram of Organisational Performance Measures



*Series Legend*

- Series 1 Index of organisational effectiveness (Mott, 1972)
- Series 2 Index of objective fulfilment (Ramanujam, Venkatraman, & Camillus, 1986)
- Series 3 Index of job satisfaction (Miskel, 1982)
- Series 4 Index of central life interests (Hoy & Miskel, 1987)

*Horizontal Legend*

- 1 = Very Low/Poor
- 2 = Fairly Low/Fairly Poor
- 3 = Fair/Average
- 4 = Fairly High/Fairly Good
- 5 = Very High/Very Good

The final measure of organisational performance used in the study was profitability. Managers from only 77 agencies provided a profitability figure at all, and of these, 48 reported a zero profit result. Of the 77 that did respond, the mean profit (income less expenditure) was 2.2 per cent. Many comments were made on the survey questionnaires relating to this item. Comments such as 'we don't have to make a profit', 'we are not a business', 'we are a non-profit organisation', 'we don't have to worry about costs', 'all our money is from the government', and 'we spend all we get', were common. This

measure of organisational performance was validated by comparing survey questionnaires completed by employees from the same agencies as the managers. The correlation between the two sets of survey questionnaires was computed as a test of the validity of the subjective measure. The correlation was .414 (significant at the .079 level of confidence).

The profitability measure was also validated on a subset of 20 agencies for which accounting data were available for the most recent complete year. The correlation between these two sets of data was also computed as a test of the validity of the subjective measure. The correlation was .214 (significant at the .016 level of confidence). Profitability was excluded from further analysis due to the low meaningful response rate.

### *Correlations*

Although the correlations were weak, there were also significant ( $p = .01$ ) correlations between all of the various measures of organisational performance. Overall organisational effectiveness was positively correlated to objective fulfilment ( $p = .01$ ); job satisfaction was positively correlated to objective fulfilment ( $p = .01$ ); and central life interests were positively correlated to job satisfaction ( $p = .05$ ).

The education construct was found to be significantly correlated with organisational performance in a number of respects (see Table 5). Overall education and training was found to be significantly correlated with organisation effectiveness ( $p = .01$  – explaining 18 per cent of the variance in one another); with objective fulfilment ( $p = .01$  – explaining 7 per cent of the variance in one another); and with job satisfaction ( $p = .01$  – explaining 5 per cent of the variance in one another). Management education and training was found to be significantly correlated with organisation effectiveness ( $p = .01$  – explaining 15 per cent of the variance in one another), with objective fulfilment ( $p = .01$  – explaining 12 per cent of the variance in one another) and with central life interests ( $p = .05$  – explaining 4 per cent of the variance in one another).

*Table 5* Relationship (Spearman's rho correlation) between managers' education and organisational performance

<i>Organisational performance</i>	<i>Education and training (overall)</i>	<i>Education and training (management)</i>
Organisation effectiveness	.422**	.393**
Objective fulfilment	.263**	.341**
Job satisfaction	.226**	
Central life interests		.207*
** <i>p</i> = .01, 2-tailed		* <i>p</i> = .05, 2-tailed

## DISCUSSION

The key finding of this research is that managerial education levels in disability-based organisations is positively linked to organisational performance, as measured by (self assessed) overall organisational effectiveness, objective fulfilment, job satisfaction, and central life interests, with higher qualifications associated with higher performance. This finding is consistent with the Karpin Report's (1995) views on the importance and influence of education and training on managers, and with the notion that formal education, including business education, is positively linked with a firm's development of its capabilities (Bureau of Industry Economics Small Business Research Unit, 1991; Cosh, Duncan, & Hughes, 1998; Hoad & Rosko 1964; Mayer & Goldstein, 1961; Williams, 1986).

The financial management finding was contrary to expectations. The financial management 'business' perspective of disability-based organisations seems lacking. Clearly this aspect of organisational performance reflects an unrealistic perspective in an environment where such organisations are being held more financially accountable by their stakeholders. Although the organisations involved in this current research are Non-profit by nature and, by definition may not operate according to the profit motive, the general absence in this research and the literature of profitability as a measure of the effectiveness of education and training is noticeable. Although the human capital 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). However, that is not to say that earning a 'profit' is not a goal (and a desirable goal at that - Goldsworthy, 1999), but rather that there is a requirement to balance the tension between the need for business services to pursue profitable business activities, while at the same time providing support services to consumers (Mumane, 1994). And this is not to say that Non-profit means no-profit. Non-profit simply means that the excess of revenues over expenses goes back into the organisation and are not distributed outside the organisation (Sandler & Hudson, 1998).

## CONCLUSIONS

In common with studies relating management development to improved performance in for-profit organisations, this research suggests that these two variables are positively related in Non-profit organisations. As an agency's commitment to training emanates from upper management, the positive relationship in this research between education and training and organisational performance should reinforce such a commitment, and build on the Karpin Report's (1995) finding which identified the targeting of skills and education relevant to the particular sector as a critical component for effective intervention. Both for-profit and disability qualifications are relevant in this context.

Apparently, profitability is not related to organisational performance in the disability sector due to the prevailing 'Non-profit' approach by organisations in the sector. This management approach does not represent sound management. For policy makers and administrators, the challenge is to reward innovation and good management rather than penalise it.

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