

# **A Business Case for Management Development**

Maggie Frantz  
OD Interventions II  
May 9, 2006

Over the past 15 years, the business climate in the United States has undergone significant change. The rise of globalization, quickly developing technology, and volatile customer demands have all transformed the way American corporations do business. Increasingly, companies have begun to turn to their managers as their biggest assets in the battle to stay competitive. Many organizations are adopting the belief that “long term competitiveness depends on fully developing and using all of the expertise and talent in the organization”<sup>1</sup> . Management Development (MD) programs in particular are becoming a prevalent way to develop this expertise and talent, as they offer solutions on a number of levels. First, MD programs can be aligned with a company’s business strategy in order to make managers an integral part of meeting organization-wide goals and objectives. MD programs can also be tailored toward making managers more effective in the international marketplace – both by increasing cross-cultural competence, and by instilling a set of enduring values to guide how business is conducted across the globe. Finally, MD programs can provide a way to cultivate a new generation of leaders in-house, thus ensuring that organizations will always have strong leadership that espouses their core values – a hallmark of successful, enduring companies. In this paper I will make a business case for management development based on all of these examples, and profile how MD programs are helping organizations invest in their employees as one of their best resources. I will also explore typical objections to management development, and discuss the way that formalized MD programs have changed over time. Finally, I will argue that a well-structured Management Development program is not just a peripheral, “nice to have” element of an organization, but rather a critical part of a company’s efforts to build and sustain a competitive advantage in today’s business environment.

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<sup>1</sup> Burack, Hochwarter, and Mathys. (1997). The New Management Development Paradigm. Human Resource Planning, vol. 20 (1), p. 16.

## I.

Since the early 1990's, scholars and corporate leaders alike have noted that certain environmental factors have brought to the forefront new challenges for U.S. organizations looking to stay competitive: "Internationalization of American corporations, changing customer needs and rapid technological changes [have] provided organizations a business climate that is dynamic and filled with uncertainty"<sup>2</sup>. Business in the United States no longer happens in an isolated, contained market – companies are increasingly expanding across the globe, and their products and services are constantly under demand to be more innovative and flexible. Given this volatile business environment, many companies are changing the way they approach the issue of staying competitive and profitable. They are realizing that such a fast paced, demanding environment requires a level of innovation, flexibility, and ingenuity that cannot be achieved by simply creating a good product at a fair price and marketing it well. Rather, they are beginning to see that investing in an organization's people is critical to achieving their aim of staying competitive:

...decision-makers no longer see technological ability, pricing differentiation, and product perceptions as the sole forms of competitive advantage. Successful firms have come to the conclusion that someone has to do the work. Technological knowledge is of little help if it isn't utilized and improved. Similarly, a pricing advantage offers little if firms cannot get the product to the consumer in a timely fashion. Finally, a product advantage isn't one unless someone can produce it. In essence, many [successful firms] are finding that a true competitive advantage is internal to the organization, not external as was once thought.<sup>3</sup>

Innovative company leaders are beginning to focus on developing and fostering the human capital in their organizations as a central part of their strategic planning. More and more, employee knowledge, talent and expertise are directly linked to business objectives and thus are

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<sup>2</sup> Burack, Hochwarter, and Mathys. (1997). The New Management Development Paradigm. Human Resource Planning, vol. 20 (1), p. 15.

<sup>3</sup> Ibid., p. 15.

essential investments, on the same level as traditional investments such as company infrastructure, or product research and development. There is a movement toward viewing employees as one of the most, if not *the* most, important commodities of an organization.

Management Development (MD) programs are at the center of this movement because, as theorist Mikko Luoma has suggested, the act of management itself is far-reaching in nature and touches all parts of an organization:

As the act of managing, according to our dominant paradigms of conducting business, is the primary source of both success and failure, then everything we do increase managerial expertise affects the competitiveness of an organization. Based on this... MD has frequently been mentioned as a key organizational process and as a potential source of competitive advantage<sup>4</sup>.

When organizational managers and leaders gain competencies from MD programs, they bring these competencies to the work they do, to the people they supervise, and to the colleagues with whom they collaborate. Thus MD programs have a way of spreading influence throughout an entire organization and increasing the capacity of a wide range of employees.

So how specifically can Management Development programs contribute to an organization's competitiveness in today's volatile business environment? Perhaps the most powerful and prevalent way is through their direct alignment with corporate / business strategy. In a 1998 survey conducted at Pennsylvania State University of 300 organizations with Leadership and Management Development (L & MD)<sup>5</sup> programs, respondents indicated that one of their top two reasons for having an L & MD program was to directly promote and further their strategic business goals: "It is the need to match the right leader to the right task that makes a

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<sup>4</sup> Luoma, Mikko. (2006). A Play of Four Arenas: How Complexity Can Serve Management Development. *Management Learning*, vol. 37 (1), p. 102-103.

<sup>5</sup> The author of the study defines L & MD in basically the same terms I am using for MD in this paper – as a program that is "a systematic effort to train, educate and develop individuals to influence other people in positive ways" that "encompasses management training, education, and development" (p. 6-7). So I am reading the acronyms to be basically synonymous in this example.

planned L & MD program particularly interesting to top managers, who are chiefly responsible for formulating and implementing strategic plans”<sup>6</sup>. So MD programs allow an organization to train and develop employees in ways that support and advance their business goals. This is a fluid and continually changing process, however, for as strategic planning must adjust to the volatile and shifting business world, so organizational leaders must adjust management training accordingly. Sam McClelland refers to this use of business strategy as a guiding force for management development programs as “Strategic Management Development”:

By consistently monitoring organizational plans, Strategic Management Development identifies which specialized management development activities will be needed to ensure maximum managerial performance and efficiency. For example, it may make good business sense to have a smaller number of competent managers trained to assume a wider variety of tasks and roles which may be required by a flexible competitive strategy... cross-functional training and developmental activities could [also] assist in maintaining a competitive posture, even with limited resources.<sup>7</sup>

Organizations thus develop a set of core competencies based on current their corporate / business strategy – and set about to instill these competencies in their managers through their MD program. Although company strategies differ, certain competencies arise consistently in most MD programs that aim to align with business goals, such as flexibility, change management, and innovation. It makes sense that these would consistently be important in the current business culture, which as previously discussed, is characterized by its “dynamism, connectivity, non-linearity and emergent properties”<sup>8</sup>. As scholars Michael Obaldeston and Kevin Barham describe, these core competencies speak to the idea that “more and more, effective managerial

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<sup>6</sup> Rothwell, William. (1998). Building In House Leadership and Management Development Programs. Westport, Connecticut: Quorum Books. p. 7-8.

<sup>7</sup> McClelland, Sam. (1994). Gaining Competitive Advantage through Strategic Management Development (SMD). *Journal of Management Development* vol. 13 (5), p. 4.

<sup>8</sup> Luoma, Mikko. (2006). A Play of four Arenas: How Complexity Can Serve Management Development. *Management Learning*, vol. 37 (1), p. 101.

performance involves learning to handle complexity, diversity and ambiguity”<sup>9</sup>. So as business strategies adjust to the changing environment, MD programs provide managers with the tools to navigate this environment – and better yet to take charge and succeed within it.

AT&T is a company that aligned its MD programs with business strategy in the late 1980’s to turn around their business. In response to technology that was quickly changing and increased industry competition, they developed the “HR Professionalism Program,” a Management Development program for HR professionals that taught them the skills to “contribute strategically to the company’s goals”. Their Vice President of HR was explicit about his philosophy for the program as being directly tied to competitiveness: “[All managers] are called upon to exercise a new level of professionalism, designed to enable AT&T people to compete more effectively in today’s marketplace.”<sup>10</sup> The HR Professionalism Program began by looking at the company’s business goals, and identifying the competencies necessary for HR managers and leaders to support those goals, such as results-orientation, strategic thinking, customer focus, and the ability to lead and facilitate culture change<sup>11</sup>. It then specified the skills and behaviors that would be associated with these core competencies, and HR managers assessed their capabilities against these models. Then each individual manager was guided through the development of an action plan to obtain the competencies they needed through training and development activities<sup>12</sup>. So Management Development in this case served to fully integrate the competencies, skills and abilities of HR managers with AT&T’s business goals of developing new technologies, implementing strategic changes when necessary, and continually developing

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<sup>9</sup> Obaldeston, Michael and Barham, Kevin. (1992). Using Management Development for Competitive Advantage. *Long Range Planning*, vol. 25 (6), p. 19.

<sup>10</sup> Connor, Jill and Wirtenberg, Jeana. (1993). Managing the Transformation of Human Resource Work. *Human Resource Planning*, vol. 16, p. 20.

<sup>11</sup> *Ibid.*, p.19.

<sup>12</sup> *Ibid.*, p. 23.

creative solutions. That decade A&T went on that decade to not only survive the onslaught of major competition, but to remain an industry leader.

The Coca-Cola Company is another organization that reaped the benefits of aligning an MD program with business and corporate objectives in the 1990's. Their senior leadership began by analyzing the current business challenges the company was facing and anticipating future challenges – then, like AT&T, they developed set of competencies that managers would need to deal with these challenges. Based on these competencies they designed a Management Development program called “Maintaining Competitive Advantage” (MCA), which was characterized by the following features:

(1) Objectives and content of the management courses were driven by current business issues. (2) Cases were written to describe the present. (3) Managers attended as organizational units. (4) Through the process of working with others, managers were able to assess their knowledge and skill base... and manage their own development.<sup>13</sup>

Coca-Cola's MCA program was extremely hands-on, offering managers real world experience in addressing the business challenges of the greater company. It also focused on educating and engaging management teams, as opposed to individual managers – this cultivated more collaboration and creativity. The content of the program always centered on “the organization's vision, its operating strategies, and short-term objectives”<sup>14</sup>, and consistently promoted the competencies to support them. Throughout the decade Coca-Cola went on to see great success by creating a group of highly skilled managers who were able to “make decisions about how they

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<sup>13</sup> Berry, John K. (1990). Linking Management Development to Business Strategies. *Training and Development Journal*, vol. 44 (8), p. 22.

<sup>14</sup> *Ibid.*, p. 22.

[could] more effectively manage their operating units in order to achieve corporate business objectives”<sup>15</sup>.

In addition to furthering business / corporate strategy, Management Development programs also contribute to organizational success by creating internationally savvy managers. An undeniable factor of the current business climate is the increasing amount of globalization, and the increasing size and fierceness of the international market. MD programs can be critical in helping organizations stay competitive in this diversified environment:

In order to compete globally, organizations must not only have experienced managers who can recognize and adapt to changing markets, they must also depend on those same individuals to identify new and potentially more profitable markets and have the ability to mobilize internal resources so as to capitalize on any and all growth opportunities.<sup>16</sup>

Just as they can be tailored to strategic objectives, MD programs can also be customized to develop the personal competencies managers need to conduct business in the global marketplace. The key qualities and skills of change management, cultural sensitivity, flexibility, and strategic thinking can all be cultivated by MD programs and brought to the global marketplace. In fact, creating internationally savvy managers not only can help a company in its global marketing goals, but it also has a side effect of creating high quality managers, which are increasingly in demand. If an organization can keep and motivate its best people, it immediately has a valuable asset that its competition lacks. Scholars Lei, Slocum and Slater see this as a strong competitive advantage in and of itself: “Cultivating managerial talent is as salient as investment in physical plant and equipment... a well-conceived management development program helps a global

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<sup>15</sup> McClelland, Sam. (1994). Gaining Competitive Advantage through Strategic Management Development (SMD). *Journal of Management Development* vol. 13 (5), p. 11.

<sup>16</sup> *Ibid.*, p. 4.

company circumvent the ultimate scarce resource: qualified people”<sup>17</sup>. Japanese companies like Matsushita, Sony and Toshiba all strongly believe in this credo, to the extent that they start developing managers very early in their careers, and put them into positions around the world specifically to further the company’s growth: “These companies have emphasized the development and promotion of high-quality managers as the linchpin of future growth and the ability to run far-flung subsidiaries and operations around the world”<sup>18</sup>. These Japanese companies see MD programs as a way of extending managerial skill and competence to remote locations, by sending individuals around the world who are uniquely qualified and talented to meet the demands of an international business climate.

In the global arena, Management Development programs can create still more competitive advantage for an organization by disseminating a set of corporate values throughout the company that are shared by managers across the globe. These core values then serve as a guiding light for managers in making business decisions, and forge a sense of identity and loyalty within the organization:

Shared and consistent values are the primary ingredients that management development programs aim to instill in their managers. Well-defined, long-standing values have the special characteristic of serving as an organizational “lubricant” and “mortar”. Such values transcend some of the inevitable problems that formal organizational structures cannot solve, particularly under rapidly changing and globally diverse conditions.<sup>19</sup>

Shared values bring people together and give them a sense of community within the organization, and they also serve as a set of guidelines that help even remote managers make decisions that further the company’s business strategy – even while their environment changes quickly. For example, when Xerox was threatened by competition from Japanese companies the

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<sup>17</sup> Lei, David, Slocum, John, and Slater, Robert. (1990). Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture. *Organizational Dynamics*, vol. 19 (2), p. 34.

<sup>18</sup> *Ibid.*, p. 35.

<sup>19</sup> *Ibid.*, p. 36.

late 1980's, it turned its business around by focusing its management development on a distinct set of shared values. After calculating that Japanese competitors had product quality ratings of 99.5% compared to Xerox's 95%, and that Xerox's overhead was twice as large as their competitors', CEO David Kearns decided to create a Management Development program called Leadership Through Quality<sup>20</sup>. This program was at the center of Kearns' new business strategy, and focused on the values of "dedication to customer satisfaction, constant product innovation, strict levels of quality control, and internal development of new technologies and skills at all levels"<sup>21</sup>. These shared values became the guiding light of the business, which ultimately rebounded by 1990, when its quality was literally award-winning. So here in the case of corporate values, just as for business strategy at Coca-Cola and AT&T, an MD program became a key element of driving business success in a global marketplace<sup>22</sup>.

Finally, Management Development programs can help build a competitive advantage in one last fundamental way – by nurturing a base of in-house talent to provide leadership for an organization's future. In Built To Last: Successful Habits of Visionary Companies, Jim Collins and Jerry I. Porras identify "Home-Grown Management" as one of the fundamental elements of a "visionary" company, which they define as an organization that is profitable and enduring over many years: "...Visionary companies prosper over long periods of time, through multiple product life cycles and multiple generations of active leaders... they are more than successful. In most cases, they are the best of the best in their industries, and they have been that way for

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<sup>20</sup> Kearns, David T. and Nadler, David A. (1992). *Prophets in the Dark: How Xerox Reinvented itself and Beat Back the Japanese*. New York, NY: Harper Collins. p. 121-122.

<sup>21</sup> Lei, David, Slocum, John, and Slater, Robert. (1990). *Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture*. *Organizational Dynamics*, vol. 19 (2), p. 36.

<sup>22</sup> It's worth noting that in the case of all three companies, it's likely that corporate values and business strategy worked hand-in-hand – sometimes they could have even been one in the same.

decades.”<sup>23</sup> Nearly all of the visionary companies that Collins and Porras examine include a Management Development program and succession planning efforts that work to “preserve the core” of their organization:

... it is not the quality of leadership that separates the visionary companies from the comparison companies. It is the continuity of the leadership quality that matters – continuity that preserves the core. Both the visionary companies and the comparison companies have had excellent top management at certain points in their histories. But the visionary companies have had better management development and succession planning – key parts of a ticking clock. They thereby ensured greater continuity in leadership talent grown from within than the comparison companies in fifteen out of eighteen cases.<sup>24</sup>

So MD programs play a critical role in developing a set of in-house talent that has internalized the organization’s core values and that can provide “continuity of leadership excellence” by continuing to espouse these values when they are promoted. As shown by the statistics on visionary companies, these types of future leaders have a vastly higher success rate than leaders who are brought in from outside an organization, who may stray from core ideology and cause rifts within a company<sup>25</sup>. In fact, the authors present overwhelming evidence that developing in-house talent is basically mandatory if an organization is to become a visionary company:

“Simply put, our research leads us to conclude that it is extraordinarily difficult to become and remain a highly visionary company by hiring top management from outside the organization”.<sup>26</sup>

One of the great examples of a visionary company who has embraced “home-grown management” through MD programs over the years is Procter & Gamble. Collins and Porras describe how in the 1920’s, the company faced the dilemma of appointing its first non-family successor. Unlike Colgate (P&G’s biggest competitor, who faced the same problem in the same

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<sup>23</sup> Collins, Jim and Porras, Jerry. (1994). *Built to Last: Successful Habits of Visionary Companies*. New York, NY: HarperCollins. p. 2-3.

<sup>24</sup> *Ibid.*, p. 173-174.

<sup>25</sup> *Ibid.*, p. 183.

<sup>25</sup> *Ibid.*, p. 183.

<sup>26</sup> *Ibid.*, p. 183.

decade), P&G had a CEO who began grooming an insider for his job years before he retired. In 1930, Richard Deupree took over the job of CEO from Cooper Procter, and the company continued to thrive – in fact Deupree stayed for 18 years, and the company developed another insider to take his place when he left<sup>27</sup>. In contrast, Colgate did not prepare successors for the family business in the 1920's, and instead merged with Palmolive-Peet and absorbed their CEO, Charles Pearce. From 1928 – 1933, Pearce “severely breached Colgate’s core ideology of fair dealing with retailers, customers and employees”, and the company’s average return on sales dropped by more than a half.<sup>28</sup> Throughout the years Colgate continued to have “tumultuous transitions” of leadership, and still today they have never caught up to P&G in growth and profits<sup>29</sup>. In contrast, P&G continues to be industry leader, and is world-renowned for its innovative practices of developing inside management talent and grooming successors.

## II.

Although there is clearly a strong argument to be made for Management Development programs, many organizations still do not have them – and a business case on the subject would be incomplete without addressing this point. Several companies still seem to see MD programs as expendable – they are “nice to have,” but not necessary. I would argue that this assumption is based on an older, more traditional model of MD that focuses exclusively on improving individual competencies, and that exists entirely separately from the core business functions of an organization. Coca-Cola’s Director of Executive and Organization Development John K.

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<sup>27</sup> Collins, Jim and Porras, Jerry. (1994). *Built to Last: Successful Habits of Visionary Companies*. New York, NY: HarperCollins. p. 176.

<sup>28</sup> *Ibid.*, p. 176.

<sup>29</sup> *Ibid.*, p. 176.

Berry describes this traditional model of Management Development as relying heavily on “broad-based education” that “targets individual instead of organizational effectiveness”.<sup>30</sup> This type of MD program treats all managers as if they have the same problems, and managers are not held accountable for integrating new skills or behaviors into their work lives afterwards.

On the contrary, the new or “emerging” model of Management Development that I’ve outlined in this paper is altogether different. This paradigm puts MD at the center of core business functions by aligning with business / corporate strategy and focusing on organization-wide success. Berry describes how this model allows him to circumvent criticisms of ineffectualness Coca-Cola: “I find an organization-based model [of MD] easy to defend because it is linked to company strategy. If people ask why we are doing a specific program right now, we can point to specific priorities set by management. We have stopped worrying about what we will do next year because our company’s business strategies will dictate what we should do next”<sup>31</sup>. So MD programs shift from being peripheral to aligning directly with a company’s business strategy, and thus becoming critically relevant.

Another typical objection to Management Development programs is that they are too expensive – they are seen as “a luxury companies cannot afford”. To address this issue I would refer back to the story of Procter & Gamble versus Colgate – where Colgate not only fell behind P&G because of a lack of management development, but actually saw a 60% decline in their average return on sales during the tenure of their first “outsider” CEO Charles Pearce. (During the same time, which happened to be during the Great Depression, P&G’s sales actually increased slightly). Moreover, in the decade that followed, P&G grew twice as fast and made

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<sup>30</sup> Berry, John K. (1990). Linking Management Development to Business Strategies. *Training and Development Journal*, vol. 44 (8), p. 22.

<sup>31</sup> *Ibid.*, p. 22.

four times the profits as Colgate<sup>32</sup>. So while there were certainly other economic and business factors involved at the time, management development undeniably contributed to P&G's profitability (and still does) – and the lack of management development contributed to Colgate's grave losses. Taking this example, a company cannot afford *not* to train its managers – refusing to have a Management Development program may be very costly in the long run. Moreover, some companies may see MD programs as a good investment in the beginning, but when the economy takes a downturn or when a financial crisis hits, they are suddenly too expensive. However, an MD program is often a key component in helping a company survive and even thrive during difficult times – both by creating managers who can further its competitive interests, and by developing successors who keep a company's core values intact so it can weather the storm.

A final common criticism of MD programs is that they do not produce measurable results. It is never easy to clearly measure how changes in human behavior relate directly to profitability, so this remains an ongoing challenge. However, the new paradigm of management development at least helps with the dilemma: if an MD program develops managers' competencies in a way that directly supports a company's success, one can more easily build measures into a job to gauge how individual work is contributing to that success. As John Berry describes, new MD programs can actually hold a manager accountable for implementing what is learned in Management Development training: “The immediate measure of success [of an MD program] determines to what degree managers change behavior on the job. The long-term measure determines to what degree the organization is able to compete more effectively”<sup>33</sup>. So

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<sup>32</sup> Collins, Jim and Porras, Jerry. (1994). *Built to Last: Successful Habits of Visionary Companies*. New York, NY: HarperCollins. p. 176.

<sup>33</sup> Berry, John K. (1990). Linking Management Development to Business Strategies. *Training and Development Journal*, vol. 44 (8), p. 21.

the new MD paradigm goes a lot further toward creating tangible results, first in how an employee changes behavior in their individual job – and secondly on an organization-wide scale, where organizational success can in part be a gauge for the effectiveness MD training. In addition, the ways that MD programs and succession planning have created and sustained successful leaders in visionary companies can also be viewed as a long-term measurable result, especially when compared to similar companies without such programs and planning.

### III.

So management development can clearly be an integral part of an organization's livelihood – in contrast to a “nice to have” element on the periphery of the business. In fact, as the current business climate continues to diversify and change, some theorists believe that management development is becoming the *only* real way to stay competitive:

The blurring of industry structure – a blurring that results from new technologies and global competitors – has rendered traditional measures of competitive strength (such as production, automation, and marketing skills) potentially obsolete. Consequently, the only arena in which companies can hope to outperform their competitors on a worldwide basis and sustain a unique advantage over them is through managerial quality. If a company's managerial quality is superior to that of its competitors, this differential can be expected, over time, to yield superior performance.<sup>34</sup>

As technology changes and the international market grows more competitive, talented and skilled managers are becoming the only asset that cannot be imitated by competitors. If organizations are forward-thinking enough to see the potential in investing in their managers, they can begin to develop this competitive edge – and prepare to meet the challenges that will only get tougher as time goes on.

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<sup>34</sup> Lei, David, Slocum, John, and Slater, Robert. (1990). Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture. *Organizational Dynamics*, vol. 19 (2), p. 34.

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