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OPENING THE BLACK BOX:
APPLYING A PEOPLE PERSPECTIVE TO EXAMINE
THE ORIGINS OF UNIT PERFORMANCE

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Abstract

This paper sets out to identify the origins of performance differences between units within the same organizational and industry context. Building on and reconciling diverse research streams, it empirically tests the effect of strategic, individual and context factors on profit growth. The study complements traditional research in strategy by advancing a “people-oriented perspective”. More in particular, it centers on middle managers and emphasizes the importance of their actions aligned with strategy, their demographic characteristics, and their immediate competitive environment in stimulating performance. Data on 119 managers and units of a European financial services firm suggest that how managers enact strategy, who they are, and where they are significantly affect the performance of their units.

Keywords: Unit Performance, Enacted Strategy, Middle Managers, Demographics.

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Introduction

Explaining variation in (business) unit performance has a long tradition in strategy research. Studies adopting an economics perspective have attributed performance differences to industry effects or firm efficiency (McGahan and Porter, 1997; Rumelt, 1991; Schmalensee, 1985); others have emphasized organizational factors (Hansen and Wernerfelt, 1989; Howell and Avolio, 1993); very few have considered multiple dimensions and/or contingency effects (Gupta and Govindarajan, 1984; Slater, 1989). While these studies –often based on large samples– have contributed substantially to our understanding of differences in unit performance *across* companies and/or industries, we still know relatively little about what explains performance differentials between units *within* the same company.

This study aims at investigating why some units perform better than others even though they all share the same industry and organizational context. I build on diverse research streams to develop a framework that employs strategic, environmental and individual factors to assess inter-unit variance in profit growth over time. I empirically test this integrative framework using data on 119 units of a European financial services company and their managers. The main objective is to advance knowledge on the origins of performance within companies. I advocate a people-oriented perspective on strategy that reconciles existing views by emphasizing “strategy in action”, personal profiles and the specific competitive context. In other words, I propose that how managers enact strategy; who they are; and where they are significantly affects the performance of their units. In contrast to previous research, I argue that all three perspectives contribute to our understanding of intra-firm performance heterogeneity. Although prior studies took individual and environmental characteristics into account as antecedents of strategic behavior (Gupta and Govindarajan, 1984; Martinko and Gardner, 1990; Slater, 1989), they hardly treated them as direct determinants of unit performance. To emphasize the direct effect I contrast my model with a model that accounts for indirect effects of individual and environmental characteristics on unit performance.

In the next sections I first briefly review the relevant literature and lay out the theoretical arguments for applying three perspectives to elucidate unit performance. In a next step I summarize the research design and data analysis, and present the results of the empirical test. Subsequently, I compare the results of my model with an alternative model to illustrate the value of the approach proposed in this paper. To conclude, I discuss the main findings, contributions to the literature and managerial implications.

Theoretical background

The business unit is widely considered an important level of analysis in the field of strategic management (Hambrick, 1980; Van De Ven and Ferry, 1980). Yet, only a limited number of studies have looked explicitly at the determinants of superior performance at the unit level. The few existing studies mainly looked at diversified firms with businesses operating in various industries (Gupta, 1984; Gupta and Govindarajan, 1984; Slater, 1989). As a result we still know relatively little about performance differentials in single-industry companies or between units operating in the same industry.

Traditional strategy research is concerned with detecting the origins of performance. In particular, the role of strategic choice in determining superior results has received considerable attention. Although additional aspects such as organizational and environmental context or individual characteristics of the people involved have been considered, they are typically considered as control variables or antecedents of strategy and strategic behavior rather than as variables exerting a direct effect on performance. In other words, the firm or company is very often considered as a black box. According to traditional strategy research it is the entity that stimulates superior performance not the individuals that constitute the entity. This paper sets out to complement previous research and to open this “black box”. It integrates three perspectives and sets of variables in explaining variance in performance. Based on the idea that strategy is not detached from people, I address the phenomenon from the perspective of the middle managers in charge of the unit. I emphasize “realized” rather than “intended” strategy, introduce individual observable demographic characteristics, and take into consideration the specific competitive conditions these managers face at the micro–unit–level.

Strategy Matters – The Effect of Enacted Strategy on Performance

The notion that strategy affects performance lies at the heart of strategic management research (Rumelt, Schendel, and Teece, 1994). Empirical studies, however, vary substantially in their perception of strategy, making it difficult to empirically operationalize the concept of strategy. As a result, the findings remain ambiguous (Hambrick, 1980).

Mainstream empirical studies typically refer to “intended” strategy, formulated at the top of the organization (Robinson Jr. and Pearce II, 1988; Rumelt, Schendel, and Teece, 1994). Typically, these studies conceptualize strategy in terms of intentions and strategic behavior prioritized by top management (Robinson Jr. and Pearce II, 1988), but fall short of including actual behavior. Yet strategy needs to be enacted in order to achieve tangible results and make a difference. Along the same lines, strategy research on intentions devoid of behavior is neither very interesting nor productive (Mintzberg and Waters, 1982).

Based on the assumption that organizations are purposive institutions (White and Hamermesh, 1981), I conceive strategy as a creative and proactive process that goes beyond making decisions and includes taking action. Thus, this study centers on “realized” strategy, i.e., strategy that has been *enacted*. As Mintzberg notes, “the real problem has not been the lack of strategic planning, perhaps not even the lack of strategic thinking per se, but the lack of strategic acting” (Mintzberg, 1994, p. 256).

I operationalize enacted strategy in terms of *actual* behavior that is aligned with the strategy of the company. By emphasizing actual behavior the study complements previous research that has associated characteristics of managerial behavior (Gupta and Govindarajan,

1982), managerial roles (Slater, 1989) or management styles (Howell and Avolio, 1993) with performance. I explicitly focus on strategy enacted by *middle managers* since they are responsible for the results of the business units and are seen as key for translating organizational goals and strategy into concrete actions (Floyd and Woolridge, 1984; Uytendaele, 1972). Building on an “action oriented” perspective of strategy, I propose:

Proposition 1: A significant link exists between enacted strategy –actual behavior of middle managers that is aligned with the company’s strategy– and unit performance over time.

People Matter – The Effect of Demographics on Performance

If formulating and implementing strategy is crucial for performance, then the individuals responsible for decisions and actions and the characteristics of those individuals do matter (Gupta, 1984). Conventional strategy research –mainly emphasizing technological and economic aspects– has given little attention to the people involved (Hambrick and Mason, 1984). Individual characteristics have been used only sporadically to explain or predict performance (Child, 1974). One stream of research, rooted in clinical psychology, for example, suggests psychological attributes as critical antecedents of performance (Miller, Kets de Vries, and Toulouse, 1982). While appealing, the main drawback of this approach lies in the difficulty of assessing the independent variables. Organizational Demography (Pfeffer, 1983) and Upper Echelon Theory (Hambrick and Mason, 1984) provide alternative, more systematic and theory-based approaches for using individual attributes to assess performance. Both rely on demographic variables to predict organizational outcomes and behavior (Hambrick and Mason, 1984) and stress the methodological advantages of using observable and objective variables (Pfeffer, 1983).

This study builds on the theoretical thrust of demographic theories but departs in two points in order to enhance accuracy. First, while earlier studies mainly used groups (Hambrick and Mason, 1984) or dyads (Tsui and O’Reilly III, 1989) as demographic units, I use individuals (Waldman and Avolio, 1986). And second, instead of focusing on leaders (Howell and Avolio, 1993) or top managers (Haleblian and Finkelstein, 1993; Hambrick and Mason, 1984), I focus on middle managers responsible for units within the firm. By emphasizing the business unit as the level of analysis this study complements previous research that predominantly assessed the effect of demographic variables on outcomes measured at the firm (Priem, 1990) or industry level (Norburn, 1986).

Following the literature, I consider three categories of individual attributes (Lawrence, 1997): 1) immutable variables such as gender and age, 2) variables that characterize the individual’s relationship with the company such as background within the organization, and 3) variables that identify the individual’s position within society such as level of education. Conceptual and empirical findings indicate that a significant association between demographic variables and superior performance exists. With respect to *age* Hambrick and Mason (1984) and Norburn (1986) argue that younger managers do significantly better in triggering corporate growth. Some of the arguments underlying this proposition refer to young managers’ eagerness to seek information and employ new ideas, their physical and mental stamina and their readiness to take decisions (Child, 1974; Hambrick and Mason, 1984). Traditional strategy research has either ignored or proposed no significant direct effect of *gender* on firm or unit performance. Rather it has been argued that the relative proportions of men and women condition the form and nature of social

interaction and therefore influence job performance (Kanter 1977; Tsui and Gutek, 1984). The *functional background* of managers, in contrast, has received considerably more attention in predicting performance. The number of previous management functions has been positively associated with growth and financial performance (Norburn, 1986) and years of inside service are seen as exerting a positive effect in the context of stable industries (Hambrick and Mason, 1984). Finally, the amount of *formal education* has been positively associated with growth and financial performance (Hambrick and Mason, 1984; Norburn and Birley, 1988). Also (Slater, 1989) shows that the level of education is positively and significantly related to business unit performance, independently of the strategy pursued by the business unit. Thus, based on existing conceptual and empirical findings, I propose:

Proposition 2: A significant link exists between the demographic profile of middle managers and the performance over time of the units they are responsible for.

The Environment Matters – The Effect of Unit Characteristics on Performance

Strategic management research has a long tradition of incorporating environmental and situational factors as important determinants of organizational effectiveness and performance. While economics-oriented authors argue that market forces and the competitive position of the firm determine performance (Porter, 1980), sociologists (Lawrence and Lorsch, 1967) and organizational theorists (Burns and Stalker, 1961) argue that organizations are responsive to their environment and that the fit between context (environment) and structure of the firm is critical for performance.

Empirical studies following these research traditions emphasize the importance of differences in markets and organizational characteristics for explaining variance in performance between firms or business units operating in different industries. However, few studies show how these factors operate at the micro level. In other words, we know relatively little about how differences in environmental conditions—both market and organization-based—at the unit level affect variance in performance between units that not only share the same industry but also share the same overall organizational context, such as homogenous incentive systems, information systems, etc.

In this study I consider the effect of the competitive environment and situational characteristics at the micro—unit—level within the same organizational and industrial context. More specifically, I relate differences in size, geographical location, level of wealth and competitive situation to performance over time.

Michael Porter elaborated on the effect of *local rivalry*, the level of local *wealth* and *geographical position* on competitive advantage and superior results (Porter, 1980; Porter, 1990). Studies concerning the effect of size on performance have had mixed findings (see Dalton, Todor, Spendolini, Fielding, and Porter (1980) for a review). Child (1975), for example, predicts a positive effect on performance, while Kimberly and Evanisko (1981) suggest a curvilinear effect. Dalton et al. (1980) argue that a lack of consistency in measuring size has led to inadequate understanding of the role of size in influencing performance. In line with previous traditional work in strategy that has been informed by both organizational theory and industrial economics, I propose:

Proposition 3: A significant link exists between characteristics of the immediate micro-level business environment of business units and the business units' performance over time.

Methods

I limited my analysis to one company, which allowed me to explore variance between units in the same industrial and also organizational context. Furthermore, I was able to “control” for important determinants of performance at the firm level, such as organizational structure, incentive systems, corporate culture, and official information flow. Finally, applying an in-depth research design building on qualitative findings allowed me to capture not only the intended strategy, i.e. the strategy formulated by top management, but also how this strategy was “enacted” by middle managers.

Setting

The Dutch retail financial services sector in the late nineties was characterized by a high degree of concentration. Increasingly demanding customers, intensified competition from abroad and non-financial institutions, together with new and cheaper methods of distribution posed significant threats to the sustainability of profit growth. Moreover, it was widely thought that the structure of the financial services industry would continue to change unfavorably for large retail banks, as non-financial institutions such as retail chains gained momentum. As a result, the large retail banks had to think of innovative ways to increase efficiency. Fostering the cross-selling of life insurance and other high-value added products and services, re-thinking distribution platforms, redesigning branches, modifying sales incentive policies, and focusing on cost efficiency were seen as essential to ensure profit growth. However, while the large banks established broad efficiency targets at the corporate level, they became increasingly aware that implementation of these targets required the entrepreneurial effort of all employees. In other words, entrepreneurial behavior on behalf of all employees was considered as the key component of strategy.

In 1997, the board of ABN Amro—one of the three largest Dutch financial services companies—launched a new strategy promoting entrepreneurial behavior, and accordingly reshuffled its operations in the Netherlands. It split the domestic market into approximately 200 micro markets and appointed middle managers to take charge of each of these newly created independent units (areas). Area managers were expected to manage their unit in an entrepreneurial way and to diffuse the entrepreneurial spirit throughout the organization. In contrast to their tasks in similar positions before the launch of this specific project, area managers became increasingly accountable for the financial results of their unit. Furthermore, they enjoyed considerable autonomy in organizing their unit, in the way they approached customers and how they led and guided their employees. While the overall strategy (entrepreneurial approach to retail banking) was determined by the top management, it was left to the individual managers of the units to decide how the intended strategy should be enacted. In this study the actual strategic behavior of these middle managers, their profiles and their playground (immediate environment) for action represent the main variables to explain performance at the unit level.

Sample and Procedures

I relied on both objective and subjective sources to gather data. I used company archives to collect performance data on each unit for the period 1997-1999, as well as unit size, geographical location and some of the demographic variables. To assess the competitive environment of the units I used official data sponsored by the Dutch central bank. And finally, I conducted a survey to gather information on the remaining demographic variables and to assess enacted strategy.

Out of a total population of 207 area managers, 150 managers answered the questionnaire (response rate of 72%). To follow performance over time (1997 until the end of 1999) and to ensure comparability I delimited the analysis to the 121 middle managers that assumed their job with the launch of the new strategy at ABN Amro at the beginning of 1997. Two additional areas (units) had to be excluded from the analysis: the national airport because of its particularities with respect to both business and inhabitants, and one area where no performance data were available. Thus, the final sample (N) consisted of 119 areas (units).

I evaluated non-response biases by comparing regional distribution, size, and performance of the units in the “returned” sample with the ones in the “not-returned” sample. No significant differences were found. As suggested by the relevant literature, I eliminated social desirability effects as much as possible by clarifying introductions and accurate phrasing of questions (Rossi, Wright, and Anderson, 1983).

The sample of managers who returned the questionnaire and started their job in 1997 exhibited the following characteristics: 4% of all middle managers in the returned sample were female, and 71% of all respondents were less than 50 years old. The educational level was quite high: 77.3% had completed higher education (39% held university degrees). These results are consistent with the distribution in the overall population of middle managers working for ABN Amro in the Netherlands. On average, managers in the sample had been with the company for 22 years and were responsible for 59 employees. Depending on the size of unit, the latter number ranged between 14 and 217 employees.

Measures

Dependent Variable. Similar to performance at the firm level, there exists no consistent measurement for subunit performance. A very promising indicator to assess performance over time in the context of the banking industry is profit growth (Child, 1975; Wood Jr. and LaForge, 1979). Growth per se hardly represents an organizational goal in itself, and neither is it a guarantee for value creation (Canals, 2001). Profit growth, on the other hand, integrates growth and profitability, two of the main aspects of economic performance, and provides a more suitable point of reference for superior performance. It reflects a company’s ability to innovate, to stay in close touch with customers and markets, to enhance employee commitment, and attract investors (Canals, 2001), and is viewed as a viable indicator for organizational effectiveness, value creation, and sustained competitiveness (Stonham, 1995). Profit growth was assessed over a period of three years. The profitability dimension was captured by the financial results (income margin), while the growth dimension was captured by an index comparing the results of 1997 with those of the end of 1999 (1997=100).

Independent Variable. I built on interviews with middle (area) managers, subordinates, bosses and internal/external experts to develop indicators forming a context-specific instrument to measure enacted strategy, i.e., actual behavior aligned with the entrepreneurial strategy. Following the distinct steps suggested by the literature on scale development (Rossi, Wright, and Anderson, 1983), I generated different items and pre-tested the scale with a sample of middle managers. The final scale included questions about the extent to which middle managers engaged in particular entrepreneurial activities (1 “no extent”, to 7 “to a great extent”). The five items constituting the final scale (see Appendix) captured the entrepreneurial approach envisioned by top management and included activities related to renewing organizational processes and structure, guiding employees, and last but

not least, proactively approaching customers and markets. The scale demonstrated satisfactory internal reliability (Cronbach alpha = 0.77).

Demographic variables reflect gender, age, level of education, and professional background. I used dummy variables for all of these: gender (male/female), age (above/below 50), education (high: university or higher vocational education/secondary or primary school), and professional background (similar position as middle managers in same geographical location / another position within the domestic division).

To assess unit-specific characteristics I included variables reflecting the particular geographic region where the unit is located (south or north), the size of the unit, the level of wealth, and the competitive situation of the unit. I used dummy variables to indicate the geographical location of the unit; the number of full-time employees as a proxy for the size of the unit; the average prices of houses as an indicator for the level of wealth in the unit; and the ratio of ABN Amro bank branches divided by the total number of bank branches in the unit as an estimate for the competitive situation.

Control variables. To properly assess change in financial results (profit growth) I controlled for initial levels of financial results (Finkel, 1995). By controlling for the initial values, I took into account the likely negative correlation between initial scores on a variable and subsequent change, a phenomenon generally known as “regression to the mean”.

Data analysis and results

I used a structural equation approach to estimate the effect of various alternative independent variables on subunit performance. Following Anderson and Gerbing (1988) and Fornell and Larcker (1981), I chose a two-step structural modeling approach with latent constructs (1). Structural equation models are conceived as methodologically superior, in both exploratory and confirmatory stages of research as they have the potential to link theory construction and theory testing (Hughes, Price, and Marrs, 1986). Also, this approach allowed me to compare my model with an alternative model, which follows the line of traditional strategy literature.

To estimate the free parameters, I employed the standard method of maximum likelihood (ML). ML is the most common estimation method for structural equation models and it performs reasonably well in the case of small sample size data. I used AMOS 4 to test the structural equation models. AMOS has a unique graphical interpretation, and was specifically designed to make fitting structural equation models easier. In the case of single-item measures, I followed the standard approach and created a latent variable which is measured by a single indicator. The loading of each single-indicator must be specified with a value of 1 and the variance of its error must be specified as 0. The reliability of the construct *enacted strategy* was satisfactory. Its Cronbach alpha was 0.77, which is adequate given an acceptance cut-off level of 0.70.

Table 1 presents the Pearson correlation matrix for all variables. I checked for multicollinearity, which both indicated acceptable levels and did not compromise the theoretical and empirical validity of the study.

(1) A latent construct is not directly observable and is defined by the loadings of all indicators or manifest variables used to measure it.

Table 1. Correlations between latent variables

Latent Variable	Initial level of performance	Enacted strategy	Gender	Age	Education	Back-ground	Size	Level of wealth	Competitive situation
Initial level of performance									
Enacted strategy	.000								
Gender	-.069	-.032							
Age	.136	.034	.133						
Education	.209	-.143	.006	-.067					
Background	-.214	.040	-.030	.115	-.090				
Size	.850	.017	.002	.153	.145	-.301			
Level of wealth	.086	-.058	-.321	-.249	.003	-.141	-.041		
Competitive situation	.166	-.148	-.180	-.155	-.008	-.194	.113	.369	
Geo Location	.017	-.017	.118	.101	.044	.027	-.075	-.067	.084

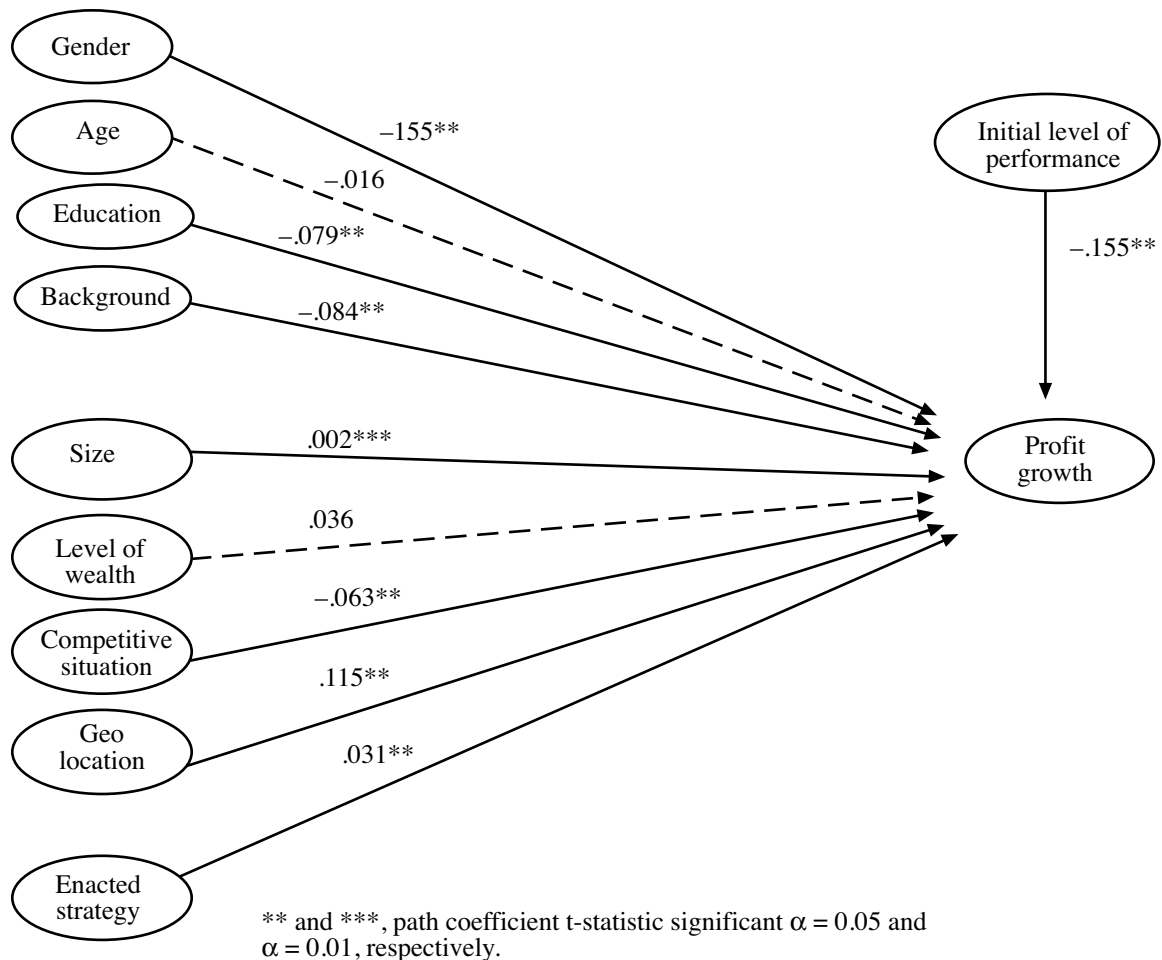
Figure 1. Results Baseline Model

Figure 1 illustrates the results of the integrative model put forward in this paper. The model suggesting a direct effect of three sets of variables explained 38% of the variance in profit growth. Two frequently used overall fit measures—measures determining the degree to which the model predicts the observed covariance and correlation matrix—namely, the goodness-of-fit index (GFI) and the adjusted goodness-of-fit index (AGFI), indicated a good fit (0.932 and 0.818 respectively) (2).

The three main propositions of the paper were supported: enacted strategy, demographic variables and characteristics of the micro-environment are significantly associated with performance measured over time. As proposed, enacted strategy was positively and significantly associated with profit growth (0.03, $p < 0.05$), suggesting that actual behavior aligned with the intended strategy positively affects performance.

With respect to the set of demographic variables, all variables but age exhibited a significant effect on profit growth. Gender had a significant negative effect on profit growth (-0.15 , $p < 0.05$), suggesting that units managed by female managers perform better than units managed by male managers. However, it is important to note that the number of female area managers is relatively small. Only 3.4 % of the managers in the sample were female. The level of education had a significant negative effect on profit growth (-0.08 , $p < 0.05$), suggesting that units managed by managers with university degrees or higher vocational training perform worse economically than those run by managers that merely enjoyed primary or secondary education. Finally, the professional background of middle managers also significantly affected profit growth. Managers who did not change position and location exhibited a significantly lower growth in profits (-0.08 , $p < 0.05$) than their colleagues who changed both content and place.

As expected, variables characterizing the unit-specific business environment also exerted significant effects on profit growth, with the exception of the level of wealth, which had a positive though non-significant effect. First, the geographical location of the area was significantly associated with superior results over time. Areas located in the south of the Netherlands, where many of the Dutch multinational companies such as Philips are located, did significantly better in achieving profit growth than areas in the north (0.12, $p < 0.05$). Second, areas with a high level of competitiveness among retail banks did significantly better than areas where the level of competition was lower (-0.06 $p < 0.05$), suggesting that competition spurs performance. Finally, size, measured in terms of full-time employees, was also positively and significantly related to profit growth (0.002, $p < 0.01$).

Alternative model

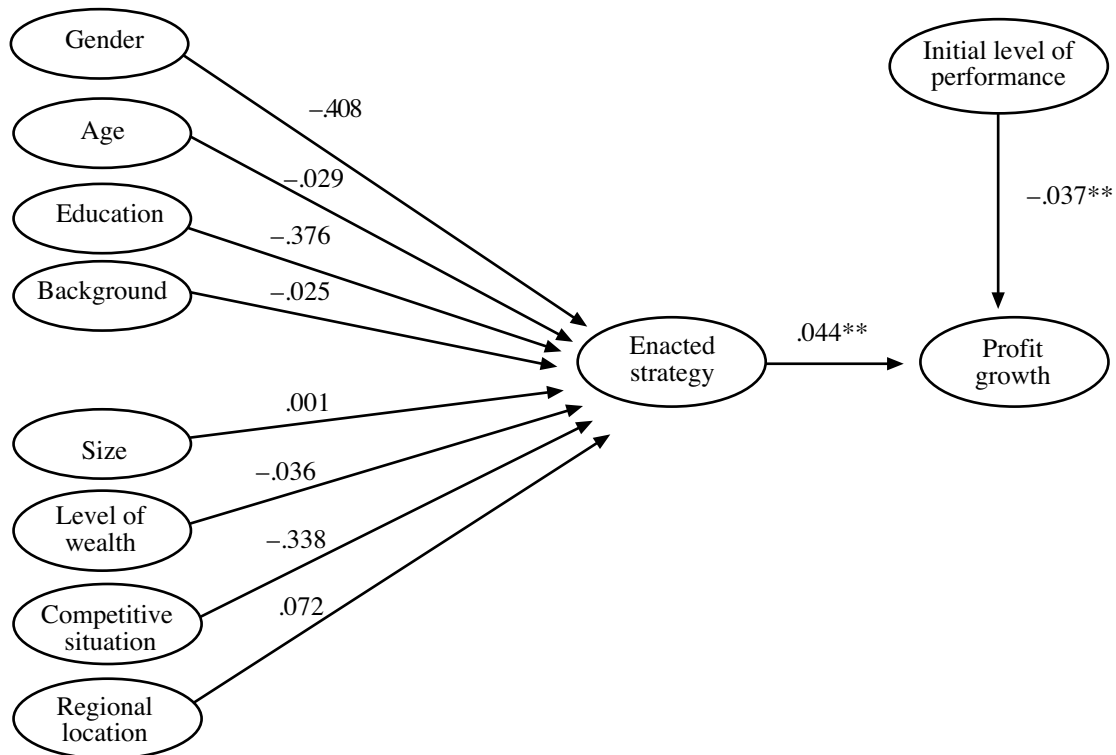
This paper argues that the way middle managers enact strategy; who they are; and where they act exert a direct effect on business unit performance. In contrast to earlier work in strategy I argue that all three sources of influence are important to understand variance in performance between business units. To emphasize this point I compare my model with a model that incorporates traditional strategy thinking, which conceives of environmental and personal characteristics as antecedents of strategic behavior and therefore as merely exerting an indirect effect on performance. Already Bower argued that strategic behavior of middle managers is importantly shaped by context and environmental conditions as well as by their individual characteristics (Bower, 1970). Martinko (1990) investigated how both

(2) The values for fit measures lie between 0 and 1, higher values indicating a better fit.

environmental and demographic variables affect managers' behavior and found that size, geographical location and level of education are significantly related to various categories of managers' behavior. Gupta (1984) established and empirically tested the link between functional background and the type of strategic behavior at the subunit level. And also Slater (1989) found that education and background significantly influence managerial styles.

Figure 2 summarizes the results of this alternative model based on indirect effects. The overall model explained only 8.8% of the variance in profit growth at the unit level and exhibited a lower overall fit than the model advocated in this paper (GFI= 0.899 and AGFI=0.775). While enacted strategy was significantly and positively associated with profit growth (0.044 $p < 0.05$), demographic variables and unit-specific characteristics exerted no significant effect on enacted strategy. In other words, the indirect influence on performance as suggested by traditional literature could not be supported.

Figure 2. Results Alternative Model



**path coefficient t-statistic significant $\alpha = 0.05$.

A comparison of goodness-of-fit measures of both models in accordance with the criteria suggested by (James, Mulaik, and Brett, 1982; Morgan and Hunt, 1994) further underlines the added value of the perspective advocated in this paper (see Table 2 for summary). First, the comparative fit index (CFI), a goodness-of-fit measure that helps compare one model to the fit of another model and assess the covariance matrixes, indicates a better fit of the baseline model (CFI=0.944) compared to the alternative model (CFI=0.852). Second, the percentage of the models' hypothesized parameters that are statistically significant is higher in the baseline model (80%) compared to the alternative model (20%). And finally, the ability to explain the variance in the outcome of interest, as measured by squared multiple correlations of the focal and outcome variables, also is considerably higher in the case of the baseline model (38%) than in the alternative model (8.8%).

Table 2. Summary and Comparison of Results

	Baseline Model	Alternative Model
	<i>Effect on profit growth</i>	<i>Effect on profit growth</i>
Enacted strategy	0.031 **	0.044**
		<i>Effect on Enacted Strategy</i>
Gender	-0.155**	-0.408
Age	-0.016	-0.029
Education	-0.079**	-0.376
Functional background	-.084**	-0.025
Size	0.002***	0.001
Level of wealth	0.036	-0.036
Competitive situation	-0.063**	-0.338
Geographical location	0.115**	0.072
Variance explained	0.380	0.088
Goodness-of-fit		
GFI	0.932	0.899
AGFI	0.818	0.775
CFI	0.944	0.852

** p < 0.05; *** p < 0.01.

Discussion

In a nutshell, the results suggest that a mix of factors determines superior performance at the unit level. My findings suggest that all three perspectives proposed are relevant to explain performance. First, the results reveal that middle managers' actions that are aligned with the company's strategy are positively and significantly associated with profit growth. This finding corroborates earlier claims that "strategy matters". Second, my data show that "individual characteristics matter". Supporting predictions of demographic theories, the results demonstrate that managers' level of education and background within the company are significantly related to performance. And third, the data also support the idea that "context matters", as all variables capturing the competitive and situational characteristics of the unit exhibit significant effects on performance. In summary, the results of the integrated model, taking into consideration three distinct views, emphasize the complexity and multidimensional nature of the origins of performance. Compared to a model in line with traditional strategy literature, which relies on strategy as the main predictor of performance, the amount of variance explained increases considerably (from 8.8% to 38%). This highlights the importance for the field of strategy to open the black box, include additional variables and examine them concurrently in its attempt to understand superior performance.

The study offers interesting insights, especially on the effect of demographic characteristics on performance, a link that has been largely ignored by previous strategic management research. According to my data, female middle managers –although representing only a small percentage of the overall population– do significantly better in

achieving profit growth in their units. The same holds for managers with a, relatively speaking, lower level of education. Managers holding only primary or secondary school qualifications seem to be more successful in triggering profit growth in middle management positions than their “highly” educated colleagues. One interpretation of this finding goes back to the “socially created” perception of the job of middle managers. Very often middle management positions are considered merely as “necessary” steps on the career ladder within large organizations. As, for many career-oriented managers holding university or comparable degrees, they represent a temporary placement on the way to the top (management), the relative effort put into managing the unit is moderate. On the other hand, for managers with a low educational background, middle management positions represent a superb opportunity to demonstrate their management competence. Furthermore, as these managers in general hold their positions for longer periods of time, they also tend to put in more effort and “care” more. The data also reveal a significant effect of middle managers’ professional background on profit growth, which suggests that changing the geographical location of managers stimulates performance over time.

Conclusion

The purpose of this paper was to explore the origins of performance differences within the same organizational and industry context rather than to test existing theoretically influenced paradigms. The paper offers a fresh look and deliberately stresses the importance of individual managers –their characteristics, their actions, and their immediate environment– in stimulating performance. It complements and reconciles existing strategy research by emphasizing realized strategy over intended strategy, by stressing the predictive power of individual attributes, and by identifying those situation-specific factors that are key in determining performance over time. Overall the results corroborate earlier claims that strategy and performance are not detached from the people involved (Gupta, 1984; Hambrick and Mason, 1984). More particularly, the findings advance existing research as follows. First, the study creates further impetus to integrate demographics-based theories such as Upper Echelon Theory in strategy research. While previous research on Upper Echelons mainly focused on top management (teams), this paper deliberately focuses on middle managers. Second, the study goes beyond abstract notions of managerial styles or roles and assesses the impact of “strategy in action”, i.e. actual behavior, on performance. Third, it complements prior traditional strategy research that predominantly focuses on the industry, strategic group or firm level of analysis. To examine variance in performance at the subunit level, this project emphasizes the importance of the competitive environment at the micro–unit–level. Finally, the findings of this study offer valuable insights for managerial practice, although caution needs to be applied when deriving specific implications for recruitment decisions.

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