The Relationship of Big-Picture and Long-Term Strategic Thinking to Business Leadership in Western Australia

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ABSTRACT

The high rate of business failures suggests that while strategic thinking is widely acknowledged in theory in Western Australia (WA), it may not be widely practiced. MBA students and business leaders in WA were surveyed using a questionnaire posing clear business choices. The students and leaders were equally proficient at strategic thinking although the extent could be increased. While strategic thinking profiles were similar, it was found that the two groups differed in their choices on 21% of the items. In order to increase the level of strategic thinking among potential and current business leaders in WA, a number of practical suggestions are made.

Key Words: Strategic Thinking, Business, Leadership, Western Australia

INTRODUCTION

For an organisation to perform as well as it can, all the elements (individuals and groups) of that organisation must be working together and heading in the same direction. It is the responsibility of the leader of the organisation to ensure that such a strategic focus is maintained. This means that the leader of that organisation must direct this effort with consistency; a task requiring strategic thinking in an instinctive way.

Smith and Marcum (2003: 37) have written that “almost 95 percent of new products fail . . . Sixty percent of all new businesses fail within the first six years of operation.” In addition, almost 90 percent of management consulting firms fail in their first 5 years of existence as a study conducted by Kumar, Simon, and Kimberley (2000) found. A paper focusing on the Australian business environment cited a federal government study which showed that 75% of all small businesses failed in the first 5 years of operation (Lawson, 2004). There are many reasons for failures of businesses and products. These alarmingly high statistics cannot be attributed to environmental factors entirely. Rather they may suggest that strategic thinking is deficient or even lacking completely among today’s business leaders. In short, understanding the thought processes of business leaders may be critical to understanding the factors that lead to success or failure in contemporary organisations.

There is a plethora of published literature which suggests a relationship between strategic thinking about the big picture and the long term on the part of individual leaders and organisational
performance (eg., Fisher, Sonka and Westgren 2004, Lippitt 2003, Suutari 2001, and Walker 2001). Kumar et al (2000) have shown in their research among management consultants that strategic capabilities are related to numerous success indicators. Clearly strategic thinking can assist how strategic capabilities are used as Hubbard et al (2003) have shown. Kavanaugh (2003: 60) writing about the success of specific Australian car and wine makers has observed “that exporters in other industries need to adopt the same long-term strategic thinking as car and wine makers. Too many Australian companies approach export in an opportunistic way.” Hogan (2003: 15) contends that business leaders need to focus on ”sustained momentum rather than surviving until the economy improves” so Sarros and Santora (2001) argue strongly against leaders focusing on short-term wins. Moutinho and Phillips (2002: 102), in their research conducted among 58 branch managers in two major Scottish banks, found that “the overall performance of the branch depends highly on both long-term thinking and innovation.” Schermerhorn et al (2004) take this a step further by arguing that today’s business leaders need to be both long and short-term oriented simultaneously. More will be said about this in the conclusion to this paper.

It seems plausible that one of the reasons for business failures is that strategic thinking is not uniformly practiced among the leadership. If business leaders today lack the propensity to think strategically, how is this deficiency created? Is it possible that educational programs are not sufficiently effective in preparing students for business leadership? This would especially be observed among MBA students, whose high level programs of study are aimed at developing business leaders. A second explanation is that, with the emphasis on immediate returns for shareholders, business executives are forced into favouring short-term gains over long-term performance. This research seeks to answer this question by examining the thought processes of a sample of business leaders and MBA students in WA.

**The Components of Strategic Thinking**

A strategic focus charts an organisation’s future. To develop one satisfactorily, an environmental assessment must be made (Andrews, 1996, Barney, 2002 and Viljoen and Dann 2003). The more comprehensive the environmental assessment is, the more useful the focus will be. Briefly,
then, strategic thinking requires of the individual (or strategic thinker) that a sufficiently broad view of the environment be held and that long-term effects be appropriately incorporated. Many authors have pointed out the critical nature of these elements; a sample of them is cited below.

**Broad view of the environment.** It is critical that the strategic thinker understand the “big picture.” This incorporates at least the following four elements: (1) focusing on the entity as a whole rather than its separate parts, (Andrews, 1987, Collins, 2001, and Mintzberg, 1994); (2) identifying and analysing a multiplicity of variables relevant in the decision-making environment, (Crowther, Kaagan, Ferguson, and Hann, 2002, Jasman, 1996, and Lucas and Markessini, 1993,); (3) recognizing a broad array of consequences in that environment, including second, third, and higher order effects, and (4) assimilating the pieces (the multiplicity of variables and the higher-order consequences) to guide actions, such as creating solutions or achieving innovations (Bennis, 1989a, Mintzberg 1996, Phelps, 1977, Pitcher 1996 and Shanteau, 1992). The strategic thinker would also recognize that most, if not all, of the people in the organisation should have these capabilities. As a result, this issue is related to leadership. For Davidson et al (2006), good leadership assures that an organisation is correctly aligned with its environment. In addition, Hubbard et al (2003) go so far as to say that a good leader of what they term a “winning organisation” will align all the elements in a business with each other and with the environment perfectly. Therefore this paper often refers to the relationship between leadership and strategic thinking.

** Appropriately incorporating long-term effects.** The word, “strategic,” has been traditionally seen in the management literature to refer to activities that should ensure that an organisation survives and thrives well into the future (Andrews, 1987). Three aspects comprise this dimension of strategic thinking; (1) grounding decision-making in the history of the environment and organisation, (Bennis, 1989a, Mintzberg, 1999, and Weick and Sutcliffe, 2001); (2) envisioning the future, (Bennis, 1989b, Crowther, Kaagan, Ferguson, and Hann, 2002, Howard 1974, Omae, 1982 and Weick and Sutcliffe, 2001); and (3) a capacity for making trade-offs between short-term and long-term goals (Collins 2001, Hamel and Prahalad, 1996, Jaques, 1976, Lucas and Markessini, 1993 and Wrapp, 1996).
The aim of our research therefore was to assess and compare the extent of big-picture and long-term strategic thinking among current and potential business leaders in WA.

METHOD

Questionnaire Development Process

The original version of the questionnaire was developed in 1990 based on interviews of people in top administrative positions in the Boise, Idaho, area (see Napier and LaCava 1990). Many of the propositions given in the management literature seemed to be supported by the leaders who were interviewed then. Over the years, it has been modified several times as a result of trials with students in Idaho at various levels — lower division undergraduate through MBA students. The questionnaire used for this study is a further modification aimed at better assessing the extent of strategic thinking in the Western Australian business climate of late 2004.

The questionnaire uses choices between two options. Some choices are driven by preferences between payoffs, while some focus on alternative courses of action. Each item can be linked to one or more of the components of strategic thinking discussed above.

All the questions in the questionnaire, other than two in the business leaders’ questionnaire, were closed-ended. The list of questions (Items #1 through #33) appears in the Appendix.

Questionnaire Administration Process

The final questionnaire, assessing the propensity for strategic thinking, was administered to MBA students and business leaders in Western Australia in the last quarter of 2004. The questionnaire sent to the business leaders also included two open-ended questions. These were included to learn their perceptions of the prevalence and the importance of strategic thinking in Western Australia.

First, a sample of MBA students at all four Western Australian universities were handed questionnaires. Lecturers in core MBA subjects at the four universities were approached in person or by telephone and their permission was gained to administer the questionnaires. The questionnaires were completed by the students just after the class ended. In all, 162 questionnaires were returned.
Second, the questionnaire was mailed to the top 300 senior business leaders in Western Australia. The database was obtained from a commercial organisation and leaders of companies with annual revenues of at least AU$20 million were sent questionnaires. Forty-seven (16%) replied. Seventeen of these responses were obtained after reminders were mailed. Because of the low response rate, not unusual in Australia currently (see, for example, Simon and Power, 2004), a comparative analysis of responses was conducted between respondents who replied before and after the reminders were mailed. This analysis showed that responses to questions were essentially the same. In order to make a case for construct validity (Zikmund 2004, p. 305) we selected items for inclusion in the survey instrument which were constructed from more than a decade of research in Idaho and have a theoretical base in the literature on long-term and big-picture thinking as will be shown shortly.

In both phases of the study, (assessing strategic thinking and comparing students and business leaders on this dimension) the data were used to produce descriptive statistics. All inferences were drawn using tests of a single proportion, tests of two proportions, or tests of two means. These simple statistical procedures were completed with spreadsheet software.

RESULTS

The analysis was undertaken to effect comparisons between the MBA students and the business leaders on three items. First, the performances of each group were examined on the basis of the selection of responses consistent with strategic thinking. Two issues were explored here: the first, how often each group, as a whole, selected the response more indicative of strategic thinking, and the second, determining if there was a difference in strategic thinking propensities between the MBA students and the business leaders. This latter comparison would be effected by analyzing the average scores of the students and of the leaders. The first issue was analyzed by tests of two proportions. The test of two population means was used for the second issue.

The second segment of the analysis focused on the agreement observed between the students and the leaders. These comparisons examined the propensity of each group to select the first of the two alternative responses. Simple tests of two proportions were used for each comparison.
Finally, the analysis compared profiles of each group by scoring each respondent on the questionnaire items which reflect big-picture thinking and on the questionnaire items which reflect long-term thinking. Average scores for the MBA students and for the business leaders were compared using tests of two means.

**Thinking strategically.** The percentages of each group’s selections of the responses more indicative of strategic thinking are given in Table 1:

<table>
<thead>
<tr>
<th>Item</th>
<th>MBA Students</th>
<th>Business Leaders</th>
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<tbody>
<tr>
<td></td>
<td>Proportion</td>
<td>H₀: ( \pi = .50 )</td>
</tr>
<tr>
<td>Number</td>
<td>Strategic</td>
<td>p-value</td>
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<tr>
<td>1</td>
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<td>2</td>
<td>.70</td>
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<td>3</td>
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<td>4</td>
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<td>5</td>
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<td>6</td>
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<td>7</td>
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<td>27</td>
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<td>28</td>
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Each sample was tested to determine if the true population proportions were equal to .50. The p-values for each of these tests are also given in Table 1. For the MBA student sample, in 26 (all but two) of the 28 items, the null hypothesis is rejected. No conclusions could be reached on student majorities: for preference for market share over profit (Item #3), nor for faster development of increased functionality of existing products over improving quality of existing products (Item #12). In 21 of the 26 remaining items, student majorities could be inferred for the more strategic alternative.

The sample of business leaders allowed the rejection of the null hypothesis in 22 (all but six) of the 28 items. The other six items sought preferences for: (a) training employees vs. buying equipment (Item#5), (b) tradeoffs between selling price and product quality (Item#9), (c) improving quality vs. faster development of new products (Item#12), (d) the benefits of more meaningful jobs for employees vs. a smaller workforce (Item#19), (e) when to admit mistakes (Item#30), and (f) counselling for an employee with a drinking problem (Item#33). In 17 of the 22 tests leading to rejection of the null hypothesis, business leader majorities could be inferred for the more strategic alternative.

Student majorities could be inferred for choosing the less strategic alternative on five items. Business leaders could also be inferred to prefer the less strategic alternative on six items. Four of the five were common to both the students and the business leaders: (a) preference for an in-house task force over outside consultants, (b) borrowing to maintain ongoing charitable contributions, and preferences among (c) dividends and (d) investment over charitable contributions. The students also would choose to wait to be confronted before admitting a mistake. Business leaders prefer profit over long-term market share.

The other comparison of the MBA students and the business leaders focused on the total scores for each respondent on the unambiguous items of the questionnaire. Out of a total score of 28, the MBA students averaged 18.19 (s = 3.10) with scores ranging from a low of 10 to a high of 25. The business leaders averaged 18.13 (s = 2.29) with scores ranging from a low of 12 to a high of 23.

Equal variances could not be assumed for these data (p-value = .018). From the test of two means assuming unequal variances, the null hypothesis of equal means could not be rejected (p-value
= .890). On average, MBA students and business leaders have similar propensities for strategic thinking, although not at the highest possible level. This will be discussed in more detail later.

Comparing responses. This portion of the analysis focuses on how often students and business leaders chose the same option. Table 2 shows the percentages of the MBA students and of the business leaders selecting the same alternatives on each item:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>MBA Students</th>
<th>Business Leaders</th>
<th>p-value (H₀:π₁ = π₂)</th>
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<tbody>
<tr>
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<td>.84</td>
<td>.78</td>
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<td>.37</td>
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n.s. – not significant.
The numbers reflect the proportions of each group which selected the first of the two options. All 33 items are included for analysis here, and tests of two proportions were employed.

Selections of the MBA students differed from those of the business leaders on eight of the items. The business leaders were less likely to change their choices in response to information on company goals (Item #2, p-value = .046). MBA students were more likely to accept the lower initial profit for higher initial market share (Item #3, p-value = .000). When choosing between investing in the plant or training employees, business leaders were more likely to invest in the plant with excess funds than the students were (Item #5, p-value = .011). Business leaders were also more inclined to invest in the plant than the students were when the alternative was to increase advertising (Item #10, p-value = .073), although this latter conclusion was only marginally supported. Business leaders are more likely to favour independent profit centers over one centralized organisation (Item #20, p-value = .015). In comparison to the business leaders, the MBA students were more inclined toward upward salary adjustments rather than increasing commissions (Item #25, p-value = .013). Business leaders were more supportive of admitting mistakes immediately (Item #28, p-value = .054). Finally, MBA students were not so averse to terminating an employee with a drinking problem (Item #31, p-value = .078).

Profiles. The final comparison between the samples of MBA students and business leaders required partitioning the questionnaire into those items which explored the breadth of the respondent’s view of the environment (16 items) and those which sought the respondent’s preferences for long-term payoffs (12 items).

The average score for the breadth profile (possible 16 points) for the MBA student sample was 9.82, (s = 2.09). For the business leaders, the average breadth profile score was 9.98 (s = 1.61). The two variances could not be assumed to be equal (p-value = .04). The test of two means, assuming that the variances were not equal, produced a p-value of .58; no difference could be inferred between the students and the business leaders.

Profiling preferences for long-term payoffs led to similar results. Student scores averaged 8.36 out of 12, with a standard deviation of 1.71. For the sample of business leaders, the average was 8.15,
with a standard deviation of 1.55. Assuming that the variances were equal (p-value = .22) in the test of two means, the null hypothesis could not be rejected (p-value = .44).

Overall, there was little difference between MBA students and business leaders although the students appear a touch more strategic impressionistically but not statistically.

Lastly, analysis of the responses by business leaders to the two open-ended questions add weight to the overall thrust of our argument and findings. This is because the leaders feel that strategic thinking is limited in WA, despite acknowledging its importance. The responses to the open-ended questions are provided below:

Open-ended question 1: The extent of long-term strategic thinking among business leaders in WA:
   a) It is limited (16, or 34%, said this)
   b) It is more pronounced in the better companies (12 or 26%)
   c) It is reduced because of pressure from shareholders for short-term results (9 or 19%)

Open-ended question 2: The way(s) in which long-term strategic thinking is related to organisational performance:
   a) It leads to success (28, or 60%, said this)
   b) It provides direction (15 or 32%)
   c) It leads to sustainable growth (8 or 17%)
   d) It helps companies cope with change (5 or 11%).

CONCLUSION

At the outset of this paper, a question was posed on the state of strategic thinking in WA. While we have not compared our results with other countries, observing an average score of 18.13 out of a possible 28 for business leaders, it is hard to accept the premise that the state of strategic thinking in Western Australian businesses is at the highest possible level it could be. In particular, 89% of business leaders expressed a preference for the short-term win in item 3. Increasing the level of strategic thinking may take some time to achieve because MBA students scored a very similar average.
of 18.19 out of the possible 28. While they fared better on item 3, still only 51% selected the long-term option.

Two possible explanations for the deficiency were suggested. By examining a sample of MBA students, the study sought to determine if the educational system was not sufficiently effective in ingraining strategic thinking in students. Currently, the typical MBA program in Western Australian universities might consist of leadership, management, and organisational behaviour; finance; marketing; ethical and environmental issues; quantitative methods; entrepreneurship and innovation; and, of course, strategy.

Students’ perspectives of the business environment should theoretically be broadened by this coursework. In particular, classes in management and organisational behaviour, finance, and marketing expand student awareness of the various aspects of these disciplines and how they impact on business performance. Quantitative methods would assist in developing skills of assimilating multiple dimensions of decision problems.

The remaining courses in the typical MBA program also broaden students’ perspectives. Entrepreneurship, leadership, and strategy focus primarily on long-term consequences. Issues often discussed in ethics’ classes not only highlight how broad the manager’s perspective has to be, but they comprise elements believed to be critical to long-term stability and productivity. So we would theoretically have expected the MBA students’ scores to be higher and certainly higher than those obtained for the business leaders who may be under greater pressure from shareholders.

Have business leaders been directed away from strategic thinking by the need for quick, positive returns on shareholders’ investments? In the open-ended question which addressed this issue, nine of the business leaders, 19% of the sample, offered the opinion that strategic thinking was impeded by such considerations. Recently news leaked that Telstra, has been pursuing a short-term strategy of “borrowing billions of dollars from its reserves to pay dividends” (Spencer 2005: 4). Obviously this led to a plunge in its share price. This example makes a case for the efficacy of broad and long-term thinking.

Returning to the MBA students, it should be noted that over 75% (122 out of 162) of them reported holding a variety of responsible positions in local companies. Another 17 reported their
in involvement in consulting. With such experience, could it be that the message from education falls on deaf ears. Can one be educated against his or her own experience?

In conclusion the responses to our open-ended questions suggest that most of the current business leaders acknowledge that long-term strategic thinking leads to success, provides direction and assists growth but its usage is limited in WA due to company stature or pressure from shareholders for short-term financial gains.

Because of this and the fact that the strategic thinking scores are not as high as they could have been, it behoves us to offer WA’s potential and current business leaders some practical suggestions for the future. To begin with, Hubbard (2004) recommends that in university courses, students need to be taught that the principles and concepts of strategy and strategic thinking are not the exclusive, sometimes even confidential, preserve of leaders. As we have seen, poor leaders can fall prey to overemphasizing short-term gains for shareholders. Graduates from such MBA programmes, who are headed towards senior leadership positions, could balance an over-emphasis on short-term profits by embracing the factors that enhance the long-term big-picture. In this way, it is argued, value is created for all stakeholders. What are these factors? Here we agree strongly with Hubbard’s view that a winning organisation will align all elements to one another (internal business processes) and to the environment perfectly and will also measure the efficacy of strategic thinking from the shareholder’s perspective (financial performance) as well as other stakeholders (eg., customers and staff and even society at large. Schmidt (2005) has described an approach currently being tested at Hewlett-Packard that emphasizes the long-term benefits of relationship-building when communicating with customers. Viljoen and Dann (2003) have added learning (see also for example, Senge 1992) and innovation (see also for example, Davidson et al 2006: 218-226) to financial, customer-related and internal process performance over the long term. Davidson et al (2006) also discuss corporate social responsibility. If WA business leaders implement these suggestions then we believe that their scores for strategic thinking in the future will be higher than those we obtained from our research in late 2004. So the focus should not just be on short-term financial gains but on thinking strategically about
the big-picture and over the long-term focusing on business processes, relationship-building with customers, the staff, learning and innovation and the wider society.

To end, it should be noted that our research has a couple of limitations. Firstly the response rate to our survey was low and secondly our study was conducted in WA. We intend to replicate and broaden the study in the eastern states of Australia.

REFERENCES


Appendix

1. In a new product introduction, which outcome would you prefer?
   ____a. 30% chance of achieving 19% of the market with a complementary 70% chance of achieving 16% of the market.
   ____b. 30% chance of achieving 22% of the market with a complementary 70% chance of achieving 6% of the market.

2. In the scenario of #1, would your decision change if the company’s goal for new product introductions was 20% of the market?
   ____Yes  ____No

3. In a new product introduction, which outcome would you prefer?
   ____a. $50,000 profit and 15% of the market
   ____b. $200,000 profit and 5% of the market

4. You have a problem on the production floor stemming from people issues. Which group is more likely to be the source of the problem?
   ____a. production line employees
   ____b. managers

5. For a small manufacturer with considerable funds to invest, which would you recommend?
   ____a. buying equipment
   ____b. training employees

6. You have made changes which have reduced production costs. Which would you implement?
   ____a. lowering selling prices
   ____b. investing the savings to improve quality

7. Creating a task force of managers involves little or no cost to the firm.
   ____True  ____False

8. You have a problem on the production floor. Which would you prefer?
   ____a. creating a task force of your managers
   ____b. hiring outside consultants

9. Your competitors are lowering prices. Which would you prefer?
   ____a. freezing prices and improving quality
   ____b. lowering prices and maintaining quality

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10. For a small manufacturer with considerable funds to invest, which would you recommend?
   ___a. investing in the plant
   ___b. investing in an increased advertising program

11. A company should strive for:
   ___a. faster development of new products.
   ___b. improving the quality of existing products.

12. A company should strive for:
   ___a. faster development of increased functionality of existing products.
   ___b. improving the quality of existing products.

13. One of your suppliers is having difficulty responding to your new needs for higher quality components. Which would you prefer?
   ___a. help the supplier improve the quality of the components
   ___b. change suppliers

14. For a small retailer with considerable funds to invest, which would you recommend?
   ___a. adding more inventory
   ___b. adding more capacity to the service department

15. Would you rather have managers whom:
   ___a. employees go to for help?
   ___b. employees admire?

16. Would you rather have employees who are:
   ___a. proud of the job they do?
   ___b. happy with their pay rates?

17. To deal with a severe, but short-term, cash restriction, which would you prefer?
   ___a. cutting back on charitable contribution
   ___b. borrowing from a lending institution

18. To deal with a severe, but short-term, cash restriction, which would you prefer?
   ___a. cutting back on employee training
   ___b. borrowing from a lending institution
19. The use of robotics is good because:
   ___ a. it allows employees to have more meaningful jobs.
   ___ b. it allows reductions in the work force.

20. In structuring a company, which would you recommend?
   ___ a. independent profit centres
   ___ b. one centralized organisation

21. Which of the following would you prefer as a new employee?
   ___ a. a graduate with a specific major in the areas of the position
   ___ b. a graduate from a general management programme

22. Your firm has experienced extraordinary profits for one period. Rank the alternatives given below from 1, for the most desirable, to 3, for the least.
   ___ Make a charitable contribution. (Corresponds to Item 22)
   ___ Reinvest in the company. (Corresponds to Item 23)
   ___ Declare a sizable dividend. (Corresponds to Item 24)

23. You are changing your employee compensation programme consisting of salary schedules and commissions. Rank the alternatives given below from 1, for the most preferred, to 3 for the least.
   ___ Increase commission rates. (Corresponds to Item 25)
   ___ Increase salary schedules. (Corresponds to Item 26)
   ___ Increase bonuses. (Corresponds to Item 27)

24. You are responsible for a major problem in your division, and you are taking steps to correct it. Three options available to you appear below. Rank them from 1, for most desirable, to 3 for least desirable.
   ___ Admit your mistake now. (Corresponds to Item 28)
   ___ Admit your mistake if you are confronted about the problem. (Corresponds to Item 29)
   ___ Admit your mistake when the problem is solved. (Corresponds to Item 30)

25. You have an employee whose spouse has a drinking problem which causes the employee to be absent frequently. Rank the alternatives below from 1, for the most effective, to 3 for the least.
   ___ Terminate the employee. (Corresponds to Item 31)
   ___ Arrange for counselling the employee about absenteeism. (Corresponds to Item 32)
   ___ Arrange for counselling the employee about the drinking problem. (Corresponds to Item 33)