

Literature Review

Student's Name

Institution



INTRODUCTION

In the field of research, there has been continued argument on the importance of education for the organizational leaders. Different scholars and researchers have made their contributions supporting either side of the argument. However, one can only conclude on whether educational qualifications are vital for the decision making abilities of the leaders through conducting research and reviewing the findings of other researchers. For instance, Barker & Mueller states that various studies have suggested that top corporate leaders who have high educational qualifications possess greater capacity to process information, and they are also innovative than their counterparts with low educational qualifications. In addition, such leaders are believed to focus the organizational resources towards research and development. It is also suggested that the leaders who have high education qualifications are also able to create and maintain close ties with other business, and government leaders, which may also boost the performance of the corporate. The qualifications of the managers and their major in education are vital factors to understand when analyzing the impact that leaders have on the performance of their organizations. Researchers have stated that some of the majors, such as, law and engineering are vital for leaders that are in given fields of business. In order to understand the views of other scholars and researchers, this chapter will review several scholarly

works related to the research topic.

EDUCATION AND LEADER QUALITY

Historical Trends of Leaders' Educational Background

Koyuncu, states that the trends of the preferred managers and CEOs' functional backgrounds have varied significantly in the past years. It has been due to the contingencies that have existed in the environment that different firms operate. The managers and CEOs who possess operational background experience were more preferred for these positions between 1925 and 1950, than their counterparts who possessed law, finance or marketing backgrounds. It is during this period that majority of the CEOs had backgrounds in operational related educational courses. Priest & Rothman conducted a study in which they focused on the preference of CEOs with given educational backgrounds. Their study focused on the time period between the 1940s and 1955, and they concluded that there was a reduction in the predilection towards the CEOs who possessed educational qualifications in law. However, this changed and their numbers began rising between 1955 and 1970. Priest & Rothman explained this change through the use of the organizational theory because at the time firms were facing problems relating to securing their markets, coordination, and other issues of litigation, and the CEOs who possessed legal background were qualified to handle these issues. This view had been earlier reflected by Perrow, stating that at the

time, the corporations were entangled in a sophisticated web of legal issues.

Fligstein also conducted a research on the preference of the CEOs and top management members, and stated that the educational backgrounds of these individuals related to the fields that the companies envisioned to pursue. At the time, corporations were transforming fast from being single operating units into numerous outlets and offices throughout the world, and this required a leadership team that could adapt and adopt these changes swiftly. Ocasio also added to the discussion by stating that the leaders with educational background in finance gained popularity in the USA in the 1970s, and this was due to the increased attention to control and strategy, which are common skills among individuals with finance background. The focus of the firms at the time was to ensure that they made short-term term profits, and they also focused on possible merger and acquisition opportunities.

Education Improves Leadership Qualities

The quality and competence of leaders has been roughly measured through analyzing their educational achievements by many social scientists. Bai & Zhou state that there is an assumption, among scholars, that educated people are likely to be better leaders than their uneducated counterparts. Numerous studies have suggested that the educational qualifications of the leaders do not have an impact on their leadership qualities or the performance of their firms. However, it has been suggested that some decisions such as hiring and dealing with people tend to be well done by leaders who have attained high educational

levels. In a way, it is some of these decisions that affect the overall performance of the organizations. It is also expected that with higher level of educational qualification a leader will have added understanding of the theoretical operations, which is also important in the performance of individual leaders, and ultimate organizational performance. However, this has not been empirically ascertained, which means that it may be proved otherwise through research.

Barro & Lee states that there have been various studies that focused on the impact that the educational background of the top leaders in organizations have on their behavior. The upper-echelon theory is cited as arguing that high level of education among the top management of firms is associated with high capacity of information processing, open mind-ness, and adaptability and adoptability of change. It is a position that has been confirmed by Wood & Michalisin as part of their study associated the social composition of the top leadership teams in corporations, and their ability to adopt innovations. They suggested that when the top management is constituted of members with high educational qualifications, they tend to develop technical innovations. In addition, Wood & Michalisin also stated that the area of specialization of the individual members is also critical, as it impacts on the decision making models of a company. Bhagat, Bolton, & Subramanian added that members of the top management team of any firm who possessed high education qualifications were more likely to implement significant changes in the organizational strategy.

Various studies have also shown that there is a significant relationship between the educational backgrounds of the top leadership in firms, and

the firms' research and development activities. Barker & Mueller found out that the top management teams that had background in technical education were likely to be attentive to the benefits that would emanate from potential technological alliances. In addition, the research and development budget of such firms was high because top management constituted of individuals with technical degrees in the educational background. Hermann & Datta stated that the top leadership teams that possessed qualifications from institutions of higher learning. The findings indicate that the notion that individuals with high education qualifications have superior information-processing capabilities, improved flexibility, and openness to change lead to the executives giving preference to global diversification. Graham & Harvey (2002) conducted a study on the managerial behaviors of CEOs and they found out that the CEOs who held Masters Degrees in Business Administration were more likely to employ their learned techniques, such as, the payback criterion, when valuing their projects.

Bertrand & Schoar conducted a study and they found out that it was possible to explain the managerial style by the age and MBA graduation. In their explanation, they stated that the older CEOs had a more conservative approach of decision making, while the CEOs who were MBA graduates used aggressive methods in their decision making. In a study conducted by Malmendier & Tate, the researchers provided ample evidence to support their notion that the CEOs who held degrees in engineering exhibited higher sensitivity towards investment cash flow, than those whose educational background was on finance had low sensitivity. Frank & Goyal added to the literature that supports that the level of education of a CEO has an impact on the firm's performance by

stating that the leverage of the firms was higher for the CEOs with Master's Degree in Business Administration or Law degree. Cohen, Frazzini & Malloy discussed the influence that CEOs with higher education had on their firms' performance. They stated that the CEOs who had higher education qualifications were also influential in the society, and they had social connections with other highly education counterparts and influential people, which had the potential to influence the performance of their firms.

Graham, Harvey & Puri stated that the educational qualifications of a corporate leader could be used as an indication of various things related to the leader. An individual who has a good educational background has valuable knowledge. However, they also added that there was a conservative approach to the same as students who had eagerness to succeed would hardly find it necessary to get an MBA. Ge, Matsumoto & Zhang took a different perspective as their focus was on the ability of the CFOs to conduct their tasks, as financial leaders in firms, and they concluded that the CFOs who had obtained an MBA degree expressed aggression as they made their accounting decisions. As such, it is evident that there is significant research that shows that the educational qualifications of the leaders are essential in their abilities to perform duties.

Education Level Does Not Improve Leadership Qualities

Gottesman & Morey conducted a study in which they related the educational background of several participating CEOs to the financial

performance of the organization. They also conducted an empirical analysis on the compensation of the CEOs applying the use of EXECUCOMP data, and they concluded that the educational qualifications of the CEOs do have correlation to the financial performance. The researchers calculated the scores of the schools that the CEOs went to, and there was no evidence that those who schooled in prestigious schools outperformed those who went to less prestigious schools. In addition, their study did not show any evidence to show that the firms that were led by leaders with postgraduate qualifications performed better than those whose qualifications were masters or undergraduate degrees. Gottesman & Morey also showed that the organizations whose leaders had MBAs did not have any better performance than those whose leaders were not holders of any non-liberal arts degrees, or law degrees. However, one of their findings showed that the companies that were led by individuals who did not hold MBAs or law degrees performed slightly better than other market players.

In a similar, but differently conducted study, Subramanian, Bolton & Bhagat experimented on the educational backgrounds of leaders, and analyzed how it impacted on the leaders' replacement and firing of workers, and the performance of their companies. They insinuated that educational qualifications cannot be used as proxies to assess the abilities of CEOs. In their results, it became evident that the education background of the leaders had an impact on their hiring practices, but it did not control the performance of the organizations on a long-term basis. In addition, the two variables were unrelated. Ayaba analyzed the impact that the education qualifications of leaders in the IT and manufacturing

sectors. It was evident that the level of educational qualifications do not impact on differences noted on the performance of the firms. As such, Ayaba concluded that there was no evidence that the firms that were led by individuals with post graduate qualifications did not outperform those whose leaders had only undergraduate qualifications.

Although Barker & Mueller suggested that the leaders with high educational qualifications in technical fields allocated more investments in research and development, they also added that there was no evidence of any significant relationship between the research and development expenditure, and the amount of formal education that a leader possessed. Lindorff & Jonson conducted a study on the relationships that exist between the CEOs' business education of 200 of Australian companies, and their firms' performance. In their conclusion, they stated that there was no correlation between the academic qualifications of the CEOs and the financial performance of their firms.

Institutions of higher learning are always stressing on the importance of degrees, masters, and PhDs, as well as, MBAs for the people with work experience but little academic qualifications. In addition, when the companies advertise for new job openings, they state that the applicants must have high academic qualifications. In a way, it makes people think that high education adds value to the performance of the organizations. However, as earlier indicated not all studies have agreed on the importance of educational qualifications for the CEOs and its effect on firm performance. Some scholars and researchers have questioned on the importance of the educational performance of a CEO on the performance of their organizations. Among the different issues that have been raised

is the educational qualification of some of the world renowned CEOs whose companies have been successful, including Steve Jobs, Mark Zuckerberg, and Richard Branson among others. These individuals dropped out of the university to pursue their entrepreneurial ambitions, and have developed their firms to some of the most profitable companies globally.

CONCLUSION

A corporate leader has massive impact on the decision making processes of an entity, and the daily operations. They are critical in the performance of an entity, which makes their educational qualifications also vital. The level of education of the leaders and its impact on their performance has been a source of interest in the scholarly world. Various researchers and players have conducted studies to identify the correlation between educational qualification and firm performance, as well as, the leadership qualities of these individuals. Most of the findings indicate that the leaders' level of education does not impact on the leadership qualities of individuals. When all is said in done, there is a measurably huge and opposite relationship between leader's educational level and firm budgetary execution. That implies a higher instructive level for CEOs will not enhance firms' execution but instead decline it. The significant purpose behind this incomprehensible result is accepted to be identified with the presumptuousness inclination. Since higher instructive level of the CEOs will likely prompt a higher chance for them to be presumptuousness, this will; therefore, deteriorate the firm performance.

The literature reviewed has indicated various issues opposing and supporting the importance of education for organizational leaders. Further research is necessary in order to identify fields that are ideal for given educational specialized CEOs.