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The CEO's Path to the Top: How Times Have Changed

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When Edward D. Breen was named chairman and CEO of scandal-plagued Tyco International in July 2002, one national magazine reasoned that he had taken on a job that would make "lesser CEOs quake in their wingtips." But Breen's footsteps to the top were not just steady; they also tracked a new pathway to the executive suite, one no longer dictated by the older, company-trained, academic-elite candidates. Breen was 46, a graduate of a non-Ivy League school and, to everyone's relief, had moved up the corporate ranks of another company entirely, never holding a job at Tyco until he was named CEO.

As one of the top human resource executives at EDS, Tracey M. Friend found that her entrepreneurial background was a plus when she interviewed for the job of portfolio manager for recruitment services. A graduate of the University of Florida, the 35-year-old Friend had already built and sold her own Internet recruitment and training company and worked for two competing technology companies before joining EDS last August. "Skills and capabilities open the doors, not degrees," she said.

And when Ed W. Flowers, 48, was named senior vice president for human resources at Russell Corp. -- the Atlanta-based apparel company -- in July 2003, he had no reservations about joining the executive ranks of a company where he had never worked. "People advance in their careers today based on performance," said Flowers, a graduate of the University of North Carolina at Charlotte who had previously been global head of HR for the Merisant, a Chicago-based maker of table sweetener products. Advancement is "not based on an entitlement mentality."

Good-bye, Organization Man.

In a new study that compares Fortune 100 executives in 1980 with their counterparts in 2001, Peter Cappelli, director of Wharton's Center for Human Resources, and Monika Hamori, a professor at Instituto de Empresa in Madrid, have documented what business people like Breen, Friend and Flowers, along with many others in the corporate and recruiting worlds, have no doubt already witnessed: The road to the executive suite and the characteristics of the executives who get there have changed significantly over the last two decades.

To summarize: Today's executives are younger, more likely to be female, and less likely to have Ivy League educations. They make their way to the executive suite faster than ever before (about four years faster than their counterparts in 1980), and they hold fewer jobs along the way. They spend about five years less in their current organization before being promoted, and are more likely to be hired from the outside.

What's more, the Organization Man, the lifelong corporate employee who worked his way faithfully and slowly up the executive ladder, appears to be headed out the door -- increasingly nudged, apparently, by women. According to Cappelli and Hamori's *The Path to the Top: Changes in the Attributes of Corporate Executives 1980 to 2001*, not a single woman held a top management job in the Fortune 100 in 1980. In 2001, 11% of the Fortune 100 top executives were women. Compared to men, the women executives are younger (47 vs. 52); move into executive positions faster (21 years vs. 25 years), and are less likely to be lifetime employees (32% vs. 47%).

"From the 1950s through the 1970s, American executives looked a lot alike," write Cappelli and Hamori. "They tended to be model organization men who stuck faithfully with the companies that first hired them, and they climbed methodically up the corporate ladder until, at last, they retired. The dominant notion during this time was that a business career ran its course*inside* a corporation."

According to Cappelli, *Fortune* magazine editor William H. Whyte put the phrase "Organization Man" on the map when he wrote a book by that title in 1956, posing what was then viewed as a novel question: "Why would executives ever leave their firms?" Further studies answered that question: In the Organization Man era, executives only left the fold if a company didn't deliver on its promise of upward mobility. But, write Cappelli and Hamori, "there were hints throughout the 1970s that things were changing ... Our research puts executive careers under the microscope once again."

In a recent interview, Cappelli acknowledges that he is still unsure what to call this new corporate executive model. But he is definitely convinced of two things. First, the new model "is here to stay, through the conceivable future." Cappelli points out that by focusing on the more conservative, larger Fortune 100, the study utilized companies "most likely to be able to retain the traditional model of organizational careers." So if these august, institutional business models have experienced change over the last 20 years -- as they have, according to this research -- then "it's likely that the changes we measured would be [even] greater in smaller corporations," Cappelli writes. And even though 45% of executives in 2001 are still classified as "lifers" -- those who spend their entire careers in one company -- the percentage is down from 54% in 1980. Also, the number of "lifers" in young companies (those existing for 30 years and less) is only 17%.

Second, the new model clearly underscores that "different skills are being rewarded, and that a new type of executive will benefit from this trend," says Cappelli. "The businessman in the gray flannel suit -- the person who was nameless and had no independent profile but fit into the organization -- that person clearly suffers in this model. People who can promote themselves clearly win. It's tempting to say that people with more merit get ahead now, although I'm not exactly sure that this is true because it's hard to judge real merit. But the people who appear to have merit clearly have the advantage in this model."

In *The Path to the Top,* Cappelli and Hamori also report:

· Changes in size, age and management structure of the Fortune 100 companies, as well as the list's industry concentration, contributed to executive career evolution. Only 26% of companies in the 1980 Fortune 100 list were also in the 2001 list. "The changes in the Fortune 100's makeup dramatically highlight the continuing shift in the United States toward a service economy," Cappelli and Hamori write. 'The decline of the manufacturing sectors on the list (from 17% to 1% of the total) and the rise of financial services (from zero to nearly 17%) are especially striking."

· Corporate hierarchies are flattening. "We measured a considerable change in the distribution of executives by job responsibility between 1980 and 2001. Not all companies have exactly the same hierarchy of titles, but most have three tiers -- CEO and chair level, EVP level and VP level ... We found that the percentages in the top and middle tiers declined (27.8% to 22.8%, and 65.1% to 59.3% respectively), while the percentage in the lower tier expanded substantially (from 7.1% to 17.8%), again supporting the perception that corporate hierarchies have become flatter."

· Different types of firms offer different prospects for advancement. "It's clear, for instance, that there are huge advantages to working in a growing firm. Executives are much more likely to be promoted in firms with healthy growth rates than in stagnating companies ... Other things being equal, younger firms offer faster advancement, perhaps because of their tendency to have flatter hierarchies." Also, "the youngest firms -- presumably the fastest growing -- do the most recruiting of outside talent."

· The "speed to the top" depends on the industry. This report and previous work suggest that "companies in fast-growing industries offer better prospects for advancement. For example, the two industries offering executives the fastest paths to the top in 2001 were wholesale trade and financial services -- two industries that had no companies big enough to be in the Fortune 100 in 1980." But Cappelli found one finding particularly surprising: In both 1980 and 2001, executives reached the top more quickly in industries that were undergoing structural change. In 2001, for instance, the steel industry offered one of the fastest paths to the top (just over 23 years). "It makes sense because turmoil creates opportunity," Cappelli said of an industry wracked by consolidations and restructurings. "One of the reasons you get to the top faster is that people are being jettisoned quickly."

· Changes have also taken place along the "inside track" to the executive suite. Through the 1970s, "marketing was the preferred track into the executive suite, but the results here suggest that finance now offers by far the best path (it offered the best path in 1980, too, but consulting and human resources were close behind). The finance track will remain the dominant path to the top job as long as the investor community wields a powerful influence on corporations."

· Increasingly, graduates of non-Ivy League institutions have worked their way up the corporate ranks. "The top executives of powerful companies once shared the common bond of elite education," Cappelli and Hamori write. "Between 1980 and 2001, the percentage of Fortune 100 top executives with Ivy League undergraduate degrees fell by four points (to nearly 30%) while the proportion from public schools increased by 16 points (to 50%) ...The results for second degrees suggest an even greater change. There is something of an increase in the proportion of second degrees, principally MBAs and law degrees, among these executives by 2001, and the decline in the percentage that came from Ivy League institutions was much greater than for undergraduate degrees. It's unclear whether this means corporations were becoming less elitist and more open to students from all levels of society. A possible explanation is that the Ivy League produced a smaller fraction of graduates over time, especially in the exploding area of professional degrees."

According to Cappelli, executive search firms play a role in this changing path to the top, but he's not sure to what degree. "Head hunters are a big part of the story. They both benefited from and caused" many of the changes during the last 20 years. "Whether they were driving it is an interesting question. I would say that they responded (to the trend), and once they got in there, they facilitated the move very quickly. Ironically, one of the complaints that you hear from executive recruiters today is that it's difficult to find people to move around because no one has any experience any more. How do you assess talent without a proven track record? It's hard to get objective measures when you are trying to decide, 'Is it the steak or the sizzle?'"

When presented with these findings, executives from several search firms had different reactions. "I certainly tell people that staying with one company is a negative," says Franklin D. Marsteller, an executive search consultant with Spencer Stuart in Philadelphia. "I think that the movement between companies is a plus. A progressive resume does make people look very valuable."

But Marsteller believes that recruiters played no role in the changing market. "We really only respond to our clients' trends. We don't generate trends," he says. "I think the bigger issue over the last 20 years has been clearly not pedigree, but performance. The 1980s were the transition years away from the Ivy League and the country club set to performance and results, and the faster the better. Ed Breen, the new Tyco CEO, is an example. He was a rising star at Motorola before we recruited him."

Kenneth L. Kring, a senior partner with Heidrick & Struggles who founded the executive search firm's Philadelphia office in 1997, isn't sure whether search firms played a role in the changing path to the top. "But what I do know is that people move quicker, and the requirements of leading organizations have gotten harder," says Kring. "The skill sets required are less developmentally traceable. The learning curves are steep and people fail in jobs like they have never failed in before because organizations are measuring things differently and have less patience."

Cappelli agrees that not only has the path to the CEO's office changed, but the role of the CEO has changed along with it. "Management jobs today are really very much about projects," he says. "They are hiring CEOs and executives to do certain things -- not to fill a job but to do X or Y. They are hiring them as a substitute for doing strategy. And the person that they are looking for becomes the strategy."

In conclusion, Cappelli and Hamori write: "Overall, there may be something of an 'Is the glass half full or half empty?' issue in interpreting these results. Despite all the discussions about corporate job-hopping and an open labor market for executives, one might say that almost half of these top executives in 2001 were still in the company where they held their first job, and the average executive had been there 15 years. There is clearly some stability in the careers of top executives in 2001. On the other hand, these are the largest companies in the world with the biggest internal labor markets and the strongest policies oriented around promotion from within. If more than half their top executives now come from the outside, roughly half their careers have been spent elsewhere, and both the percentage of lifetime careers and average tenure are falling significantly, then something is clearly different about how executive careers operate now. The 'Organization Man' model has clearly eroded."

