The rise and decline of managerial development

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Alfred D. Chandler’s work highlighted the complicated interplay between markets and firms, especially the arrangements created by firms to buffer and manage market forces. Arguably his most important work examines one aspect of firms, organizational structure, and how it changed in response to the competitive needs of growing businesses. Much the same approach can be applied to understanding other aspects of firms such as the structure of the most important jobs in corporations, executive positions, and how those positions have been filled over time. Here the interplay includes a different market, the labor market. The arguments that follow trace the evolution of executive roles from the early days of corporations, where executive jobs were largely shaped by the labor market, to internalized and bureaucratized arrangements consistent with the idea of an integrated “Chandlerian” firm after the 1950s, back to something much closer to the market-dominated approach following the 1982 recession. In large measure, the change seems driven by the different context that business faced and the interplay with labor markets that made internal development more difficult. The implications for the future of large-scale Chandlerian firms may be considerable.

1. Introduction

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includes a different market, the labor market. The arguments that follow trace the evolution of executive roles from the early days of corporations, where executive jobs were largely shaped by the labor market, to internalized and bureaucratized arrangements consistent with the idea of an integrated Chandlerian firm after the 1950s, back to something much closer to the market-dominated approach following the 1982 recession. In large measure, the change seems driven by the different context that business faced and the interplay with labor markets that made internal development more difficult. The implications for the future of large-scale Chandlerian firms may be considerable.

2. The beginning of executive jobs and executive careers

As Alfred Chandler described it, the typical firm through the mid-1880s was quite simple, a single-unit operation that performed only one function, such as selling insurance or making soap. Executive roles were equally simple: “At that time, nearly all top managers were owners: they were either partners or major stockholders in the enterprise they managed” (Chandler, 1977: 3). These firms were masters of the 1990s advice that companies should pare themselves down to their “core competencies”—those few tasks that they truly performed well—and either outsource or get rid of everything else. At the turn of the last Century, a company like DuPont did none of their own sales or distribution. It had 215 independent agents who managed the relationships for the company with merchants across the country. These agents were paid on the basis of commissions and in many cases represented more than one company.1 Some agents, such as those working for the McCormick agricultural implement company, were essentially franchisees with enough business to hire their own salesmen (Yates, 1989: 157). Even production tasks were outsourced to contractors who hired their own workers, paying them piece rates, and managing them however they saw fit.2 Some estimates suggest that as many as 50% of the manufacturing employees in the United States through the early part of the 1900s were employed by contractors, typically “inside” contractors who worked in the facilities of the client/operator (Clawson, 1980: 72–80). Other than the owners, there were few managerial positions in these companies because there was relatively little to manage.

With so little hierarchy and the fact that founders typically ran everything until they got too old to be effective (and even past that in many cases), the only real


2See Wiebe (1967), for evidence about the considerable autonomy that contractors had in their operations.
advancement opportunity for anyone who was not a family member of the owners was to leave and start their own business. Walter Chrysler and Charles Nash, for example, both left their jobs at General Motors to start their own car companies (see below); Henry Hyde left Security Mutual of New York to find the Equitable; several of the DuPonts left the original powder company to form their own companies—Lammot founded the Repauno Chemical Company (Chandler and Salisbury, 2000: 14), Pierre left to form a railway company in Dallas (ibid: 43) before coming back to the family firm.

Management jobs and how to fill them obviously did not become a serious concern until companies became complicated enough to require significant staff functions. Most observers saw that happening first with the railroad industry, in large part because the early railroads were the largest and most complicated operations that had yet existed. Standardized procedures had to be created in order to ensure coordination, and the important task of creating those procedures went to experienced experts in new management roles. One of the developments that came with this expansion of executive positions in railroads was the creation of modern administrative titles, and with them, corporate hierarchies. Important jobs at railroad headquarters were given Vice President titles, something that would spread in later decades to other industries (Cochran, 1960: 74). Someone had to decide how to implement and adapt standardized practices at locations remote from headquarters, and these were the “superintendents” who were given responsibility for entire geographic sections of the railroad. The superintendents functioned much like the heads of operating divisions in later models of manufacturing and had a wider range of operating decisions to make than any businessmen other than owners. In some cases, they were held to be legally and individually responsible for their decisions and were required to post bonds as protection against bad decisions.

To illustrate the greater scope of executive jobs in railroads, the Chicago, Burlington, and Quincy Railroad, a medium size railroad, had 191 executives in 1880 divided across geographic and functional titles (Zunz, 1990: 41). A typical manufacturing company in this period with the same revenue and roughly the same number of employees, in contrast, might have two or three executive jobs, held by owners.

An easy choice for an expanding railroad that needed a superintendent to handle a new region was to hire someone from the Pennsylvania Railroad, the largest and the pioneer in management practices, just as contemporary employers poach from leading companies like Procter and Gamble. The new employer not only got an experienced leader, but also learned and adopted some of the Pennsylvania’s practices. By the 1890s, job hopping across railroad companies had become quite common (Zunz, 1990: 48).

Outside of railroads, the greater scale of growing corporations also created the need for standardization and coordination. While these developments created more middle management jobs, for the most part even the largest companies continued to
operate with very few “executives,” typically the founder and a small team of two or three. That changed as companies grew large enough to have specialist functions. They needed someone to head those functions at headquarters, and the jobs that resulted had enough discretion to qualify as executive jobs. How to fill those positions was a new problem. When the American Tobacco Company established an auditing function, for example, they also created an executive position to run that function. Where to find the individual to run it? They hired an auditor away from the Pullman Palace Car Company. When the company created a Leaf Department to manage the buying of tobacco, it brought in someone who had been an independent tobacco buyer to head that function (Chandler, 1977: 385).

Some of the credit for the modern executive position goes to Andrew Carnegie, who transformed the modern corporation by adapting many of the operating procedures of railroads to the manufacturing context. Carnegie worked his way up from telegraph operator in the Pennsylvania Railroad to Superintendent of its Western Division, the most complex and important division in that railroad, before becoming a speculator and later owner in the steel industry. He absorbed many of the railroad’s elaborate operating principles, especially the notion that standards for performance could be created for every job and that every individual should be held accountable for their performance in their job. From the job of railroad Superintendent came the idea of an operating or “line” executive who had complete authority and responsibility for local operations. It was not a coincidence that the top job in a Carnegie steel mill and later in all steel plants would have the railroad title of “Superintendent” as that plant manager had the same kind of discretion and accountability that a railroad superintendent had over their region. Arguably Carnegie’s most famous executive, Charles Schwab, who would later head Bethlehem Steel, recalled that Carnegie had only one absolute rule: “Every man must have full responsibility for the complete performance of the work.” Because he eliminated overlapping responsibilities, it was very clear who got the credit—or the blame—for performance (System, 1922). The Superintendents of Carnegie mills operated them almost as if they were their own company.

Carnegie also believed in sorting out talent internally based on their performance, perhaps the area where he parted company most clearly from prevailing practices. As Schwab observed, internal promotion was the norm: “There was no question of any man being brought in from the outside, and all the workers knew this.” The competition for advancement was internal, and this meritocracy meant that someone might overtake you from behind. Comparing his management practices to those of his great financial rival J.P. Morgan, Carnegie noted that “Mr. Morgan buys his partners (outside hires), I raise my own.” (Ibid: 100). Few firms followed this internal approach to developing managers, however.

Arguably executive jobs as we know them now were created at the DuPont Powder Company. It had multiple products, in this case different types of explosives for different uses and targeted to different customers, all managed under a central
administrative structure. When Pierre du Pont took over the company through what was essentially a leveraged buy-out of the family interests (junk bonds in return for their stock), the first thing he did was reorganize it and create the first multidivisional organizational structure. He created a separate division for each line of explosives as each was associated with a different market. The divisions operated with considerable autonomy, almost as separate companies, and each division had a new “executive” position at its head. Where did companies get the talent needed for these new executive positions? The answer, as before, is that they brought them in from the outside, typically through acquisitions. The leaders of the acquired firm, almost always its founder, became executives in the new and larger merged operation. They also hired individual experts who had run similar operations elsewhere [see Chandler and Salsbury (2000) for the DuPont experience].

The DuPont Company had pools of talent to draw from because it had acquired 60 other companies in the space of 5 years, from 1902 to 1907. In this way, DuPont was certainly not alone. US Steel Corporation made 158 acquisitions over a similar period just a few years earlier (Kanter, 1977: 19). George B. Corless, Standard Oil’s advisor on executive development, described that company’s early approach to talent management as being similar: “Mr. Rockefeller Sr. recruited many of his executives by buying successful companies and then giving jobs to the former owners (Business Week, 1949c).” General Motors Corporation became the next important model for the modern executive career. Like the other giant corporations of its day, it was put together through acquisitions. And the new executives of the early General Motors Corporation had previously been the founders of these acquired companies. The first President of GM was Charles Nash, who had come to GM from the Durant-Dort Carriage company. He left in 1916 to form a company of his own, Nash Motors (Rambler), backed by James Storrow, a Boston investment banker who had directed GM’s finances. Among the other key GM executives were Charles Mott, who had founded his own axle and wheel company, Alfred Champion, the founder of the eponymous sparkplug company, and Alfred P. Sloan, an early employee and then President of the Hyatt ball bearing company. All three had been acquired by Durant on behalf of GM. Henry Leland Cadillac continued to build Cadillacs with considerable independence as head of that division within GM after selling them his company. Louis Chevrolet also came into the executive ranks of GM when his company was acquired. One of the few true inside executives in the company was Walter Chrysler, who was pulled up from one of the plants to become President of Buick. Like Nash, he would also leave to start his own car company (Sloan, 1963: 8–9). The leaders of Cadillac and Oakland (Pontiac) divisions—former owners of the companies that were now GM divisions—were paid no salary, just a percentage of company profits as if they were separate companies. (Chandler and Salsbury, 2000: 498).

Things changed dramatically once Durant was pushed out of the company by investors. The DuPont company had been a major investor in GM—it had made so much money selling explosives during WWI that it could not absorb all of its profits
internally. Du Pont had also moved into the paint business, and GM became its biggest customer. DuPont owned more than one-third of GM, Pierre duPont was appointed to the GM board, became Chairman during the fight between Directors and Durant for control, and stepped in as President in 1920 when Durant left. He set out to reorganize and modernize GM management based in part on the DuPont multi-divisional model and on an organization plan put forward by Alfred Sloan that created larger central or staff functions. As Sloan described the job description for these positions, “The responsibility attached to the chief executive of each operating division shall in no way be limited.” (Sloan, 1963: 53) What was new about this model was that the central or staff operations, which included oversight of the divisions, became just as important as the divisions. And who got these new and important staff positions? More outsiders: Donaldson Brown, DuPont’s treasurer, headed the financial staff, and John Raskob, the former DuPont Treasurer, handled outside finance; Norval Hawkins, hired away from Ford, headed sales and analysis; John Lee Pratt, head of DuPont’s Development Division, took on the same function at GM (Sloan, 1963: 54–56; Chandler and Salsbury, 2000: 499). And the very top executives, the operating committee of the corporation, were DuPont, Sloan, Raskob, and Haskell. As Alfred Sloan described them, “we were four amateurs” (Sloan, 1963: 56), not only outside hires into GM, but also executives with no prior experience in the car business.

With few exceptions, such as the Carnegie Steel Works, it is difficult to see many examples where corporations reached into their own ranks and elevated people into these new executive positions. Instead, companies acquired individuals to fill management but especially executive positions from the outside, especially from entrepreneurs through the acquisition of their companies. It is of course difficult to know with any certainty why something did not occur, but we can at least speculate as to some of the reasons why companies did not routinely promote managers from their own ranks into these executive positions. First, it was a substantial leap in requirements from the middle management jobs that already existed into the new executive jobs. The latter had more in common with running one’s own company than with the coordination functions of middle management. There was no way to assess the capabilities of the managers and predict who could handle an executive role, a problem with a remarkable contemporary feel. It was an easy choice to find someone who had already done the job elsewhere. Second, there was no clear model on how to develop managers who might have some but not all of the requirements for these executive jobs.

The creation of these new executive jobs therefore did not immediately lead to an internal career path for potential executives. Business historian Thomas Cochran noted that in this period, “Methods of (executive) selection remained largely rule of thumb, and as organizations grew bigger, success for the man without influential connections depended on recognition of his abilities by someone in top management, usually through a fortunate conjunction of circumstances”
The latter path required a healthy dose of luck—good fortune in associating with a powerful founder and then waiting until the founder had a good opportunity where one’s usefulness could be proved. Cochran noted that while many of the administrative problems of running large corporations had been solved by WWI, one important issue remained unsolved: “…how were men to be trained, selected, and inspired to undertake the task of coordinating and directing the enterprise as a whole” (Cochran, 1960: 70). Whether large, increasingly integrated corporations could continue to grow and prosper with this ad hoc, open-market approach to talent management was unclear.

3. The beginning of executive development and the organizational career.

The transformation of production jobs in the period around WWI has been well described. The War Manpower Commission set up by the government to help ensure that companies had the workers and skills needed to maintain wartime production required employers to forecast and report on their skill requirements, essentially mandating manpower planning in the process. One of their specific goals was to reduce turnover, including the “pirating” of workers by competitors that was ubiquitous in this period. Their main recommendation was to create “job ladders” for internal promotion, where workers saw a path for getting ahead that would build on advancing within the company as opposed to jumping to jobs elsewhere. Although some may have existed largely on paper, roughly 40% of larger employees had personnel departments by the end of the 1920s to execute workforce planning practices (Jacoby, 1997: 263 and 269).

On the management side, descriptions and explanations have been much less systematic, perhaps because things took much longer to change. The true “entry-level” job into the white collar hierarchy had been the “office boy.” These were essentially messengers and errand boys, and they were hired very young. Office boys were promoted to clerk jobs and then often into the ranks of managers.

An article describing practices for managing office boys in 1905 noted that “About 14 seems to be the best age” to hire them, complaining that older boys wanted more money. The businessmen interviewed noted that a big cause of unreliability among the office boys was that they would quit to go back to school (Hapgood, 1905). Advances in education requirements in the United States that kept students in school longer in the post-WWI period, putting them into the market when they were older and more skilled, helped regularize and standardize careers (Bowles and Gintis, 1976).

After WWI, companies began to established entry-level positions in a few functional areas, especially engineering, where they would hire high school and college graduates. William H. Whyte (1956: 112) describes his own experience as a new hire...
in the sales trainee program at the Vicks company in the early 1920s. New recruits were taken out in the field, given a short orientation, and expected to start selling Vicks products immediately. Thirty of the 38 people in his cohort were dismissed soon after being hired. The young employees had to prove themselves in a functional area first before there was a chance that they might be given opportunity for development and advancement elsewhere in the company. Trial and error still seemed to be the norm.

4. A new direction

In the economic expansion of the 1920s, some companies began to feel the pinch of finding enough qualified managers through the ad hoc processes of outside hiring or waiting to see who proved themselves qualified for promotion through performance in lesser jobs. In 1926, The President of Lehn and Fink Products, makers of Lysol and other cleaners, described an experiment that he began of hiring candidates with the deliberate intention of turning them into managers rather than functional specialists. The company looked for general leadership ability in college graduates as evidenced by their extracurricular activities, especially athletics. Once hired, the new recruits were put to work in low-level jobs in different areas of the business, including manual labor, moving them about every 6 months. In doing so, the company essentially discovered job rotation as a development device. The goal at the end of the training period was to have candidates who knew at least two functions well and who had demonstrated some leadership qualities along the way. So different was this arrangement that the company had to keep assuring the trainees that the rotational assignments were only temporary and gave them pay increases with each rotation to get them to stay. In a telling phrase of things to come in American industry, its President described the goal of the program: “We want organizational men first, specialists second” (Plaut, 1926).

Augustus D. Curtis, President of Curtis Lighting in Chicago, took the notion of developing managers a step further. He noted that because his company was growing quickly, “We could not wait for the average young man who comes to us haphazardly to ‘grow up with the business.’” He created a training-based development program where new hires would rotate through each of the company’s 10 departments and also receive along the way a plan of 100 lectures given by the department heads on aspects of their business. The goal, Curtis said, was not only to learn about the functions of the company but specifically to see how the work of the departments fit together (Curtis, 1926).

The Public Service Company of Northern Illinois, meanwhile, was pioneering another innovation in management development in 1926, a “high potential” program to identify the employees within the company who demonstrated the aptitude for more senior management positions. Britton I. Budd, the company President,
noted that any employee—even manual workers—was in principle eligible for the program. Good performance and evidence of leadership qualities were the criterion, and the program itself was designed to broaden the participants beyond their functional areas in part by giving them exposure to the different departments in the company. Once they completed the program, the participants went back to their old jobs and waited until management openings that would create the opportunity for them to advance (This Plan Uncovers Executive Talent, 1926).

5. The general electric career model and the rise of the organizational man

There were other examples of development experiences like those above in the mid-1920s, but most were small scale and ad hoc. A breakthrough in the development of managers came at the General Electric Corporation, where the scale of operations and the demand for talent was large enough to merit extensive investments in developing employees. General Electric (GE) had been created by the merger of the Edison and Thomas-Houston companies in 1892. The first years of the new company saw a pattern of outside hires much like the other corporations of the day. Its first President, Charles Coffin, had been a shoe salesman and then shoe manufacturer who had been hired into Thomas-Houston as its President when that company was created by merger. Its first research director, Willis Whitney, remained a faculty member at MIT while performing his tasks for GE. Its most famous scientist and then head of research for decades, Charles Steinmetz, came into the company through the acquisition of the Eickemeyer Company, where he had been employed in a similar capacity. The individual companies within GE operated with considerable autonomy in this period, much like the different car lines within General Motors. Formal committees of representatives from the individual companies were created to try to bring some coordination across them, and the company instituted two and three day conferences of the representatives to support coordination. The functional areas also operated quite independently, but like railroads, the executives who were in charge of each function at least had their offices close together (Chandler, 1977: 426).

Things began to change at GE when Gerard Swope became CEO in 1922. Swope was also an outsider, having worked for Western Electric. He had been hired away after managing the sale of some Western Electric businesses to GE (Loth, 1958). In what was a revolutionary approach to business organization, some 20 independent companies that had operated under the GE umbrella were liquidated and absorbed into a new, common enterprise. To meet the demand for talent in the growing

3Accounts of the early history of GE are provided in Loth (1958) and Warner et al. (1967).
company, GE also began to hire inexperienced workers directly from college not only into technical positions, but also to fill management jobs. New arrangements were created to transform this raw talent into GE employees. In these new arrangements, we can see the roots of modern employee development practices across the corporate world.

The new hires were sent to GE facilities on a one year program, either a business training track for the potential managers or a “test” engineering program for the technical jobs. (The term “test engineer” persists not just at GE but across industry to this day.) Both tracks had extensive classroom training and 3-month rotational job assignments to expose the trainees to the important parts of their business. After the 1-year assignment, the trainees essentially applied for jobs in functional areas of the business—marketing or accounting, say, for the business track and electrical engineering or manufacturing in the engineering track. The evaluation of these employees was, in its day, a very sophisticated process that was based on the assessments of three separate managers. Peer feedback (the origin of contemporary 360 degree feedback programs) was also part of the training process and was used primarily to rub the rough edges off people who don’t fit in (Whyte, 1956: 121). Part of the evaluation was a secret rating of the employees’ potential for higher management positions, a rating that the company used for promotion but that the employees themselves were not told. Promotions were almost always within the functional hierarchy and came relatively slowly. It was common to wait 10 or more years for a promotion (p. 212).

The company also developed some interesting informal arrangements for developing talent. GE had its own island on Lake Ontario, and in the summer all of its top executives as well as promising lower-level managers would show up for a week of camping that included socializing, indoctrination of new managers, and fun and games. These programs were seen as providing networking opportunities and, more generally, to cross-fertilize thinking among the functional areas of the company (Warner et al., 1967).

6. A pause to refresh talent management

These practices at GE and elsewhere were set back considerably by the Great Depression. The overall decline in business, which averaged ~25%, meant that companies had more than enough managers to meet their needs, and they had little inclination to invest in any more. A comparison of “administration” employees to production workers in US manufacturing companies, for example, finds that the ratio doubled from 1899 to 1929 but then declined slightly in the depression before rising again sharply after WWII (Melman, 1951). While the experiments in developing managers internally may not have stopped, there is no evidence that they progressed until World War II ended the Depression, rekindled business demand, and in the process, the demand for managers.
During the War, most of the candidates who might have been hired for entry-level positions were serving in the War effort, so here had been precious little management hiring and virtually no development programs for a decade. As a result, there was no new cohort of managers coming through the system at the War’s end. A study of companies that faced shortfalls of executive talent blamed the problem on the lack of development of managers in this period and, where there was development, on producing functional specialists rather than general managers (Chemical Engineering, 1953).

The demographic and experience imbalance caused by the lack of hiring from the Depression through the War meant that the senior executive ranks initially grew older. George L. Bach, Dean of the Graduate School of Industrial Engineering at Carnegie Institute of Technology, observed that while 56% of the top business leaders in the United States were over age 50 in 1928, that figure had risen to 64% by the mid-1950s. A big downside of having an older executive cadre in the early 1950s was that they tended to die in office. One-third of managers age 45 in this period were expected to die before age 65, and separations due to death and disability accounted for as much turnover as did retirement (Bach, 1952). Not only did companies lose a great deal of management talent this way, they lost it unpredictably. Without systems in place to identify successors and plan for succession, death and disability meant that companies faced endless talent crises. Ben Moreell, Chairman of Jones and Laughlin Steel Corporation, described how haphazard the succession process was: “When a great president retires, a vacuum is created. And into that vacuum is swept the nearest guy who has not had a coronary” (Janney, 1952).

7. A real talent shortage

The result of all this, George Bach noted, was that “American Industry is grossly short of well trained executive personnel...” (Steel, 1957). Business Week observed that companies across the country were facing a “serious bottleneck” in the supply of top managers (October 16, 1948: 19). The shortfall in the supply of executives had important implications for a range of business activities, many of which have a contemporary feel. One observer noted that, “A fairly high percentage of mergers are primarily due to the fact that the smaller companies, which are taken over by the larger companies, have never bothered to develop executive manpower to replacing aging and ailing top management men (Whitmore, 1952b).” And without a new generation of talent, they could not continue to operate independently.

The immediate response of employers to this shortfall of talent, as in previous generations, was to try to raid competitors for talent. In the retail industry, one executive noted that “to go to another store for assistant buyers, buyers, and other executives” was the approach that had been “almost universally used...” to fill vacancies (Carden, 1946). An important consequence of this interest in poaching...
talent from competitors was the rise of modern recruiting industry. A survey by the New York Association of Private Office Personnel Agencies, what were essentially “staffing” companies that found candidates for employers, indicated that only 2% of employers used them in 1940 but by 1948, 28% of employers used them consistently and 68% used them occasionally. These agencies maintained lists of people who were looking for jobs or who were looking to change jobs, but even these agencies were typically not good at helping employers find senior talent. Frank Zintl, Head of the Executive Employment Service in Philadelphia, noted that “There is definitely a shortage of men in the $25,000 bracket,” what we think of now as the Vice-President level (p.21). The inability to find senior management and executive talent through staffing agencies led companies to turn to management consulting firms for help. These firms would go a step further, search out qualified individuals who were not looking to move but who might be persuaded to do so. They consulting firms charged daily fees of $50–300 per day for this service, a princely sum at the time. As an executive from Booz, Allen & Hamilton described it, “The man we are looking for is usually employed at the present (Business Week, 1949a).” From this process, the modern industry of executive search was born. The management consulting firms eventually spun off their talent search business – Korn/Ferry was created from Booz, Allen & Hamilton, Heidrick and Struggles from McKinsey & Company (AT/Kearney was the exception in keeping its recruiting function) because of apparent conflicts of interest between their role as advisors and as potential poachers of talent.

But the ability to hire talent away from competitors was not able to meet the demand for senior managers and executives. As Business Week described the situation in 1949:

The normal result of a situation like this (the tight labor market), you’d think, would be a tremendous turnover rate among the second level of management, the rising men in their 40s and early 50s. They’d be leaving good jobs for better jobs, shifting from company to company, ending up in the places where they were needed most. Actually, it isn’t working out that way. In manpower terms, the mobility of executive labor is very low. (Business Week, 1949a)

There were several reasons why executives were not changing companies. First, pension plans were locking people into place because they had onerous vesting requirements: benefits went up the longer one stayed with the company but were lost if one quit. Second, marginal income tax rates after WWII were as high as 90%, which meant that executives at the top of the income distribution kept only 10 cents on every additional dollar they would earn from a new salary offer. Trying to use higher salaries to lure someone away was therefore difficult because it took a huge increase in salary to give them a modest increase in purchasing power (after the Revenue Act
of 1950 was passed, companies could shift compensation to stock, the appreciation of which would then be taxed as capital gains at a much lower rate). Third, observers note that housing was in short supply right after the War, especially houses of the sort that mid- and higher-level executives and their families might want. Potential recruits were often put off of the thought of changing employers by the difficulty of finding new housing. Finally, as the economy began to reshape itself for peacetime, a great many executives saw opportunities for advancement in their own, growing companies. Was it worth the risks and costs of changing companies, possibly locations as well, for the uncertain prospect of faster advancement?

And so companies began to look in other directions for talent. Initially, that search took them to look to new sources of candidates. A report on the shortage of executives in the early 1950s found that companies were hiring prodigiously from the military itself—generals, admirals and other officers, including those that had already retired in order to meet the need for executive talent (Whitmore, 1952b). An even more popular and more important avenue was college campuses, especially attractive after the War when former GI’s who already had some industry experience were completing their education with the help of the 1944 GI Bill, which contributed to an almost doubling of enrollment in post-secondary institutions between 1940 and 1950 (NCES, 2007). As Fortune Magazine described the scene in 1948, “Corporate men who work the college circuit for likely executive material—‘ivory hunting’ in the trade jargon—complain that the market has never been so unruly. Prices are up at least 100% over 1941, and students...are having a wonderful time playing hard to get.” In hiring frenzies not unlike those associated with the 1990s Internet Boom, corporations sent their most impressive executives to recruit students, sometimes offering country club memberships and limousine services to lure recruits (Fortune, 1948).

8. Learning from the armed forces

The difficulty in finding enough talent on the outside finally led companies, almost as a last resort, to look inside their own organizations and develop talent internally. This is where the War effort had its second major impact on corporate careers as companies looked back to the Armed Forces for lessons as to how to develop talent. Austin S. Ingleheart, the President of General Foods, described how that company shaped its programs for developing talent around those lessons. “During the last war, I spent some time in connection with the war effort, and was amazed at how the army could develop a program to develop men with the rapidity with which they did.” He found that 7500 of 12000 officers in the Army before 1938 had spent time at the War College where they studied not only their own functional area but how the different functions fit together into a unified whole. The approach he developed for General Foods and most other companies used as well borrowed explicitly the lessons
from the military. It focused especially on broadening potential executives through exposure through job rotations to the range of company functions (Ingleheart, 1947). What was particularly interesting is to see where the military got its lessons.

When the War began, the Armed Forces immediately recognized the need for a huge expansion in the officer ranks in order to lead the rapid wartime buildup. As WWII began to unfold, the Navy took the lead in developing a plan by looking to see what it could learn from business. The most significant outcome of this process was a document, “Personnel Administration at the Executive Level” produced by the US Naval Institute and based on the best management development practices drawn from 50 leading firms just before the War. The document begins with discussions of how to survey existing talent (a “personnel inventory”) and continues with how to develop promotion plans for each individual candidate, a process it calls “inventory control.” These plans would later become known as “replacement charts” that formed the basis of succession planning in companies. After the War, many employers used this Navy document as the basis for building their own development programs (Business Week, 1949a).

The emerging science of personnel psychology in the aid of management development received a tremendous boost from research on manpower conducted by the Armed Services, and the academic conversations among these psychologists spread some very practical lessons back to industry. For example, the practice of peer assessments of performance and potential began in the Navy during WWII. The Navy made extensive use of what they called “Buddy Ratings” in aviation squadrons: Every member of a squad of officer cadets assessed every other member of the group to predict their performance in combat. The psychologists discovered that these assessments were more accurate predictors of actual performance than were the ratings of superiors because, the scientists surmised, the peers had more time to observe behavior and more realistic contexts to do so (Hollender, 1964). These peer ratings would become important in the early years of industry development and expanded to allow subordinates to assess their bosses as well (Rupe, 1951). They would fade from the scene and then come back in the 1990s, presented as something new, in the form of 360 degree feedback systems.

Another prominent example of wartime lessons that made their way from the Services to industry was the use of forced ranking systems to assess individual performance. Before WWII, all officers in the Army were assessed twice a year by their commanding officer. When the War broke out, the Army found it had to promote a great many officers to more senior positions in order to staff its growing operations. But these performance assessments provided little information as they rarely differentiated among the candidates. (The lack of variance in performance appraisal scores remains a contemporary concern.) So the Army experimented with a forced ranking system where the commanding officers simply ranked their subordinates from best to worst to identify the candidates that should be promoted. The arrangement was tried with 50,000 officers and was found to be not only far simpler, but also more valid
than the previous arrangements (Sisson, 1948). The technique was picked up by industry after the War (see e.g. Bittner, 1948) and then, interestingly, the Air Force adopted it after the War, having seen it used in industry (Berkshire and Highland, 1953). Forced rankings, like buddy ratings, would also fade from the scene until Jack Welch championed them at GE in the 1990s, although they had been a lower-profile part of GE policies since the mid-1970s.

Systematic assessment of job applicants also moved from the armed forces into the managerial world. Robert McNamara, Secretary of Defense in the Johnson Administration and later President of the World Bank, describes his experience being hired into the executive ranks of the Ford Motor Company after the War. Following a stint as a professor at the Harvard Business School and important roles in the Army Air Corps during WWII, McNamara and 10 of his wartime colleagues went directly into the executive ranks at Ford, a company that he describes as desperate for talent: “Of the top 1000 executives at Ford Motor Company, I don’t believe there were 10 college graduates,” he noted.4

Despite the fact that Ford itself was not run by college graduates, it relied heavily on military-inspired tests of academic ability after the War to make its hiring decisions, the same kind of tests given in Officer Candidacy School. So despite the fact that the “Whiz Kids,” as they became known, had already been experienced wartime officers and were going to go directly into the executive ranks, the first thing the company did before hiring them was to put them through the same battery of entry-level psychology tests that every management trainee went through. As McNamara described the process through which he was hired, “They were going to give us tests, two full days of tests... intelligence, personality, you name it... This sounds absurd, but I remember one of the tests said, ‘would you rather be a florist or a coal miner?’ I put down coal miner, the reason should be obvious to you.” (The question was designed to identify “masculine” personality types, and in those days, the florist profession was seen as effeminate.)5

Among other innovations in career management in the 1940s were the following:

- The Studebaker Company became one of the biggest proponents of testing to select management trainees. After on-campus interviews, candidates were brought to the company where they were then given medical exams, IQ, vocabulary recognition, and math tests along with vocational interest/aptitude batteries, and finally standardized interviews (American Business, 1949). The medical tests were justified on the basis that it only made sense to make the substantial

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4 McNamara’s observations appear in the documentary, “The Fog Of War” Sony Pictures Classics, Inc. 2004. For more details on McNamara and his cohort of business leaders, see Byrne (1993). Ford may have been unusual in its lack of formally educated managers because of Henry Ford’s relative disregard for professional management.

5 Ibid.
investments in employee development for candidates that were likely to survive into middle age.

- The McCormick spices company created a “junior” board of directors made up of 17 promising junior executives to give these young executives the opportunity to wrestle with the same kind of business problems that the real board of directors addressed. Their recommendations were then considered by the company board. Sixteen of the 20 members of the company board of directors in 1949 had been members of this junior board. This technique, which became known as “multiple management,” was adopted by a number of prominent companies (Business Week, 1949b). McCormick also pioneered performance ratings by one’s peers on this junior board (Muller-Thym and Salveson, 1949).

- Harvard Business School, along with the University of Chicago, had been asked as part of the war effort in 1943 to develop coursework for management to help improve efficiency and business performance. Harvard’s Advanced Management Program created to meet that need was ready to be shut down in 1946 along with wartime activities. But Standard Oil and other large companies asked the University to keep it going, this time with employers paying the full costs for their managers to attend. By 1950, 300 companies were participating in the Harvard program, which ran 13 weeks in length and cost a bundle. It became a central component of senior management development in the United States (Business Week, 1950b).

- Standard Oil of New Jersey created jobs strictly for the developmental experience they offered. It also promoted candidates to positions, even when there was not enough for them to do, in order to give them development experience. Job rotations within the company as well as across affiliates of Standard Oil were common. The company also made extraordinary efforts to surface talent with an “Executive Development Committee” headed by division Presidents or Executive Vice Presidents on which all department heads sat. It maintained a “Personnel History Report,” which contained running record of every individual’s training and work experiences at the company (McKee, 1947; Kelley, 1947).

9. More formalization at GE

While many companies had innovative systems for developing managers in this period, the most significant programs were once again at those companies that were large enough to run them on a large scale. And once again, GE took the lead. GE’s Manufacturing Leadership Program governed the development of trainees, executives, and everyone in between. It was based on a model of increasing job responsibility, classroom work, and training carried out by line management, and individualized counseling, what we now call “coaching.” The first step in the process for recruits was classroom training in manufacturing fundamentals. The number of
recruits taken into the program would be based on personnel audits and manpower forecasts that predicted the number of future openings in the organizational hierarchy. Those who did well in the training would progress immediately into a program of job rotation that would take them across jobs and to two or three plants. Their performance record from supervisors, interviews, and a series of psychological tests —IQ, vocational interests, Rorschach and Thematic Apperception Test—were used to judge their potential for higher levels of management.

The most promising candidates would then go on to the Advanced Manufacturing Program, essentially an 18-month high potential program based on special project work, case study work, and recommended readings. The trainees had some influence over their assignments and were given real responsibility along the way. Because the goal of the program was to give them an overall exposure to the manufacturing area, there was a deliberate effort to avoid specialization. They also received counseling or individualized coaching about their performance, where they needed to make improvements, and how to do so (Feigenbaum and Tulloch, 1949).

By 1950, GE itself began to change. The process that Gerald Swope had begun of seeing the company as a single entity with collective needs, as opposed to a series of independent and autonomous operations, reversed direction under the leadership of Charles Wilson. He introduced a new organizational model that attempted to balance the tension between central control and local autonomy that Alfred Sloan first described at General Motors. The GE version of the multidivisional firm moved back in the direction of local control, creating a large number of independent product departments over which the General Managers in charge had almost complete freedom to operate as well as accountability for their performance. Each department had its own staff support as well as its own line managers. This more decentralized model would be fully in place by 1955.

The transition to the new model created a great demand for general manager skills. Ralph Cordiner, who took over as President from Wilson, described his frustration with the shortage of these skills: “We cannot govern industry today with nothing but a group of specialists at the top, unless we are prepared to call a committee meeting every time there is a management decision made (Whitmore, 1952b).” The complaint about an imbalance of functional talent and a shortage of broader skills has a remarkably contemporary ring to it. Like so many other companies and as it had done after WWI with its first foray into general manager roles, GE responded initially to this shortfall in general management talent by outside hiring. The typical white collar employee hired during the transition period to the new model, 1951–1955, was 50 years old (!), suggesting clearly that they were hiring experienced employees (Warner et al., 1967: 199). Soon after, however, the company returned to internal development as the means for filling management jobs. By the mid-1950s, the GE development model had advanced in some important ways. One significant change was to eliminate the open market “shopping” that had gone on after the first year training period. Instead of individuals choosing their jobs,
headquarters now made the decisions. Candidates were directed to the department where the company had the greatest need and thought that they would be the best fit. Perhaps the biggest change was that job ladders now included lateral moves. It was now possible to move across functional areas and across departments to climb to the top. Such moves were more difficult to accomplish in engineering but were still possible. The moves across departments but within functions—from engineering in lighting to engineering in engines, e.g.—were even easier. The goal of these lateral moves for the company was to move talent to where the greatest need was, as manifested by growth and new position openings, more so than for development. Although employees now had little choice over where they went, their goal was to find a job ladder that provided more opportunity for advancement, especially to a coveted general manager job and from there into the ranks of corporate executives.

To facilitate the movement of employees across functions and departments, the company required that hiring managers had to consider at least three candidates from outside their area when filling any management vacancy, and compliance with that requirement had to be documented. The company maintained “registers” that listed potential candidates interested in moving so that hiring managers could easily get qualified candidates if the managers could not come up with a list on their own (Warner et al., 1967: 215).

So deep was the management development process at GE that Ralph Cordiner required that succession planning for the company’s top jobs should extend down three generations into the company: Each top officer of the company should be responsible for evaluating a “second” team of candidates, two or three people who were 10 years younger than the current incumbents and who could be expected in 10 year’s to take over each of those jobs. That second team, in turn, should evaluate a “third” team of candidates, two or three candidates 10 years younger than the second team who could be expected to take over each of the positions currently held by the second team. This led to succession plans 30 years deep (Cordiner, 1950).

In 1956, GE hired what was then a record 1800 new college graduates, and 85% of them went directly into one of ten standing training programs. That same year, the company also created its Management Research and Development Institute, an off-site training facility for top executive programs. The facility was in Ossining, New York, a town that at the time was best-known as the home of the infamous Sing Sing prison. The expression, being “sent up the river” was used to describe the trip prisoners took from New York City up the Hudson River to the Sing Sing prison, and GE’s management trainees used to joke that they were also being sent up the river when they went to programs at the Institute. Not appreciating the joke, the Institute adopted the address of nearby Crotonville, NY instead, and it became known from then on as “Crotonville” (this incident is described in Steel, 1957). Other companies developed similar centers, and their effect was to bring formal, classroom training into the development process for both managers and executives.

Figure 1 above is taken from a GE management manual and documents the planned movement of employees up the management hierarchy, beginning with Section Heads, one step below the General Management level. These movements were projected out 10 years in advance, and the plans were incredibly detailed—there would be precisely 193 individuals promoted from level four to level three over the next 10 years, e.g. What is perhaps most interesting about this flow chart is that there are no outside hires at any of these levels. All the positions are filled internally from the level below. Of the 709 managers expected to be promoted to Section Management positions between 1952 and 1962, for example, most (454 or about 65%) could expect to move around and advance within the Section Management level, but only 193, or about 27%, were promoted to the General Manager level. At the next level, promotions got even tougher: Only 28 or about 14% were promoted to Division Management.
The new GE model placed control over the careers of individuals in the hands of the corporation at headquarters. Before, companies had training programs with the goal of developing candidates to make individual contributions. The new GE program, in contrast, was designed to develop candidates with the explicit goal of managing the work of others.

While the most sophisticated development programs were located in multidivisional, industrial companies like GE where the demand for general managers was the greatest, development programs were also an integral part of other industries. The extent of these programs in retailing is perhaps the most surprising because the flat organizational structure of retailing required relatively few managers and because the skills required in retailing management are now neither seen as particularly sophisticated nor especially unique across companies. But a study of 51 major retailers in 1953 found that 80% had formal development programs for new executives, and 70% of those were longer than 3 months. These programs were limited to candidates younger than age 34, and one-third of them required medical exams to ensure that candidates would live long enough to make good use of the investment. The companies screened carefully for admission into those programs—28% did specific aptitude tests on candidates, 24% IQ tests, and 22% personality tests. The programs themselves included “action learning” (25%) based on special projects for the company, job assignments designed for development experience (33%), role playing exercises (25%), and “personal conferences,” which were the equivalent of coaching sessions (37%). Ninety-six percent of the companies reported that they were committed to a policy of promotion from within, and 70% reported that the training programs were explicitly for advancement and promotion (Fraser, 1953).

Sears, Roebuck and Company was a pioneer in employee development not just in the retail sector but in all of business. The University of Chicago helped Sears develop tests of management potential, and the company gave a standard battery of six ability and aptitude tests to 10,000 of its managers during the 1950s. Based in large measure on these tests, 5000 managers were placed in a “reserve group,” what was essentially a high potential group. “Once a man is put in the reserve group,” Business Week noted, “he has started up the ladder.” Five hundred of these managers were then selected into a “senior reserve group” for an even faster track that pointed directly to senior management (Business Week, 1951).

Sears also recognized that part of the cause of their talent shortage was the reluctance of senior executives to develop junior ones. It was asking a lot to have an executive develop someone junior to take over his job, so the company pioneered mandatory retirement policies to clear out the older executives and the career path. T.V. Houser, Vice President of Merchandising at Sears, Roebuck, said that mandatory retirement was done “entirely to keep the lines of advancement open.” Without those opportunities, he noted, the best young managers would leave for other companies: “The very minute they make a mark, some other company begins making
overtures to them.” Mandatory retirement was therefore a retention strategy for younger managers (Whitmore, 1952b).

10. 1950s’ best practice models

By the mid-1950s, the importance of developing management and executive talent was clearly understood. A Harvard Business Review article in 1953 interviewed 204 corporate presidents and concluded that the biggest problem they faced going forward was a lack of internal development of talent. Part of the pressure for focusing more attention on internal talent in the 1950s was simply recognizing that executive talent was now coming almost exclusively from inside the firm. Without improvements in internal development, the study’s author observed, companies would be forced to go back to hiring top executives from outside. And the only place to find executives to hire, he feared, would be smaller companies where the skill set would be quite different and inadequate for running a large, complex corporation (Elliott, 1952).

A 1955 survey of the Young President’s Organization found that the worst business mistake its members made in the previous year, the one that hurt the company the most, was the failure to get the person they needed into a particular job. “In many companies where clerical, secretarial, sales, and production help are carefully chosen through batteries of tests and interviews,” the study noted, “the top jobs are filled by guess, by gamble, and by hunch…” (Mandell, 1957). The advice the authors of the Harvard Business Review study offered companies for developing their executives draws on the programs at companies like GE and seems remarkably similar to what is offered now 50 years later: rotational assignments, a mix of staff and line experiences, an opportunity to run an operation, attendance in advanced management programs, and psychological counseling or coaching (Elliott, 1952). A great many companies appear to have taken that advice. In 1955, a Conference Board study showed that 60% of companies with 10,000 or more employees had a program in place to develop executive talent. Twelve years earlier, in contrast, the Conference Board could not find enough companies with these programs to even put together a study on them (O’Brien, 1955). A study by the American Management Association found that the size of personnel departments in proportion to the rest of the organization had been growing rapidly across US companies in the 1950s—up to 30% in 1955 alone over the previous year (American Business, 1955). And they were spending a lot of money on it. One oil company official noted that it cost them $10,000—the equivalent of an executive’s salary for a year—just to find out whether an individual had management potential (Whitmore, 1952b).

As companies addressed the need for management development, their programs got more sophisticated and more innovative. For example, Lockheed, like many companies, had its own program to develop leaders within each functional area.
Groups of 12–15 trainees each year were taken from the ranks of the functional areas, given extensive training in a range of skills from management to public speaking, and sent to the Harvard Business School for educational programs. In addition to these functional programs, Lockheed developed a special “reserve” candidate pool drawn directly from college. They went through a 2-year training program designed to produce leaders with general skills that could be applied to any function, the equivalent of a modern “talent pool.” And they were assigned anywhere in the company where there were shortfalls in talent (Linsley, 1951).

Monsanto was another innovator, basing its development program around an annual assessment of every manager that included not only an appraisal of their performance (conducted by two senior executives), but also an assessment of their health, their retirement plans, and other characteristics that were used to estimate precisely how long they would remain in the company. Monsanto pioneered interpersonal skills training and coaching. They claimed to hire the very best chemists and engineers, “some of whom are actually so brilliant,” noted a company official, “they annoy everyone associated.” So the company set up extensive interpersonal skills training and individualized counseling, provided in part by outside consultants, that went well beyond the typical executive coaching we see now (Whitmore, 1952a).

The Marconi Company of Canada added innovations in the area of assessing individual performance. They created questions that were specific to actual tasks the candidate performed, what are now known as “behaviorally anchored” questions, to reduce the subjectivity of assessments; they had the person being assessed and their boss answer the same questions, and then a team of four experts would go over both reports to reach a consensus as to true answers. Training and counseling to improve performance would follow subject to the results (Finlayson, 1955).

Standard Oil of California developed a sophisticated model for internal staffing and career development. It maintained a “Personal Experience Record” for each management employee that included a report on their experiences and skills and a new “Section 14, Concerning His Future,” that made projections about the candidate’s potential in management. Section 14 content included shortcomings and remediation that would be necessary to achieve that potential. The company’s Office of Executive Development maintained these records on computer files. When a vacancy opened, the officials processed the files to come up with a short list of candidates and recommendations that were then reviewed with the hiring department (Samuelson, 1952).

An important development in the supply of talent for managerial careers was the rise of engineering as the field of choice for executive candidates. A study conducted at Virginia Polytechnic Institute in 1953 found that one-third of the largest corporations were headed by executives who had graduated with engineering qualifications; another at Columbia at the same time found that 40% of all the managers in industrial companies were trained as engineers. In previous generations, the studies found, bankers and lawyers had been the most common fields for producing executives.
As one observer noted, engineers were “frequently bewildered” by executive positions because those jobs were fundamentally about overseeing people. As a result, the movement of engineers into the executive ranks created a big demand for training and development in the area of managing people (Nevis, 1957).

11. The rise of personality as the criteria for advancement

The most important manifestation of the new science of talent management came with the identification of “talent” that had the potential to become an executive. The development programs and experiences outlined earlier were huge investments for companies to make, and they were lost if a candidate who went through them did not turn out to have the raw material to be an effective manager or executive. It was important to make those investments in a sensible and objective manner. That meant being able to predict who had the right stuff to be an executive. The descriptions noted earlier of progressive employers described how they used selection tests, typically IQ and vocational interest instruments, as the basis for hiring employees. Companies like Sears, Roebuck, and Standard Oil of California went much further in an effort to use standardized tests to determine which of their current employees could succeed as executives. And others, like Procter and Gamble, tried to predict who would get to the top ranks of the company when hiring entry-level employees. Once selected into the management development track right out of college, Procter and Gamble candidates had a predictable schedule for their advancement that went right into the senior ranks of the company. As Business Week described it, “P&G picks its executive crop right out of college” (Business Week, 1950a).

What did companies look at to predict who would succeed as a manager? The Chairman of the American Brake Shoe Company said that they relied on interviews that asked candidates about their family life and their parents. They also considered heavily the extracurricular activities that candidates were involved in as students (Given, 1956). First National Bank of Chicago was interested especially in the personality of candidates and relied on interviews to assess that. It also relied heavily on their record of extracurricular activities, including involvement in fraternities and social clubs. As one of their Assistant Vice-Presidents noted, “As to marks received in school, we don’t even look” (O’Brien, 1955). GE, one of the leaders in employee management, relied explicitly on what are known as “trait-rating” psychological scales for assessing individual candidates for managerial development. The traits they were trying to identify are now thought of as personality, but at the time, they were described as character, the raw material that was crucial for executive leadership (Kellogg, 1955). My former colleague Ernest Dale was troubled by this reliance on traits and personality assessments in management, and he poked fun at it in 1957 by presenting readers of the New York Times with the following comparison between two evaluation systems. One, he noted, came from a corporate personnel
department, and the other was a report card from a local kindergarten. Could readers
tell the difference?

11.1 System A
Rank candidates on a scale of...Very Satisfactory—Satisfactory—Unsatisfactory
* Dependability
* Stability
* Imagination
* Originality
* Self-expression
* Health and Vitality
* Ability to plan and control
* Cooperation

11.2 System B
Rank candidates on a scale of...Satisfactory—Improving—Needs Improvement
* Can be depended upon
* Contributes to the good work of others
* Accepts and uses criticism
* Thinks critically
* Shows initiative
* Plans work well
* Physical resistance
* Self-expression
* Creative ability

The fact that they look so similar was not accidental. Both were designed to assess
character traits that were seen as central to one’s potential. The only difference was
that in one case, the candidates were mid-level executives, and in the other, they were
starting a little earlier at age four. (The kindergarten report card was System B.) His
study of corporate practices concluded that, beginning around 1950, companies had
begun to focused almost entirely on personality and character traits in assessing their
managers and executives and that there was essentially no role for job performance in
these systems. Nothing in the System A scale above explicitly measures performance.
What concerned him was that assessments like these were rarely based on hard
science—few companies bothered to validate which traits actually predicted future
career success—and they could be manipulated and biased relatively easily (Dale and
Smith, 1957).

In 1954, 63% of large corporations were using standardized tests of personality for
hiring decisions, and 25% of the companies used them as part of their promotion
process to assess potential for leadership positions. The famous psychologist Otis 
Binet at Stanford (creator of the Stanford-Binet aptitude test) proposed that the 
record of executives, including all their credentials, scores on aptitude and person-
ality tests, etc., be coded on a card that they could carry with them from job-to-job, 
like a passport. The Westinghouse Company took up this idea and instituted the 
lyrically named “Management Development Personnel Code Card 24908” for all its 
executives (Whyte, 1956: 173).

Exactly what type of personality was desirable for these corporate roles is the 
subject of some debate, but Peter Drucker and others argued that the new generation 
of future managers, worried about another Depression, suffering from the vicissi-
tudes of WWII and then the deployment of the Korean War, craved security and 
stability in all things (Drucker, 1953).

12. New executive careers and the Chandlerian firm
As corporations grew bigger after WWII, the demand for managers grew as well. 
Companies like GE needed a predictable supply of management human capital to 
sustain their plans for growth. As they developed more complicated organizational 
forms, new kinds of management skills were needed to operate those systems. The 
“M” form or multidivisional corporate structure, for example, created new “execu-
tive” jobs running those divisions that required a cross between the autonomy and 
entrepreneurship of an owner and the organizational savvy of a corporate staff man-
ager. As corporations grew more complex, expanding into other industries and 
businesses with the conglomerate form in the 1950s, simply understanding the 
unique systems behind each company’s operations required knowledge and skills 
that took a career to develop.

The human capital requirements needed to fill these roles could not have been 
met through outside hiring. The amount of managerial talent required was arguably 
too vast to be developed in the market, and the firm-specific knowledge needed to 
run these large corporations could only be developed inside them. The internaliza-
tion of management talent was arguably a necessary condition for the sustenance of 
these new corporations.

But the move to internalizing the development of management talent was far from 
ieveritable. At the entry level and indeed well through middle management, the skills 
that were developed through managerial training and development programs were 
highly general and useful elsewhere. One of the most basic principles of labor eco-
nomics is that employers typically cannot fund such general skills training because 
outside hiring leads either to the loss of such investments or the bidding up of 
wages that makes it impossible to recoup the original investment (Becker, 1964). 
The widespread poaching of managerial talent one saw at the end of WWII suggests
that a model where employers developed and paid for these general skills might not have been sustainable.

What made the internalization of talent possible and, in turn, may well have been a necessary condition for the development of the more complex corporate forms that required huge amounts of management talent, was a unique constellation of events following WWII. The first was the massive shortage of managerial talent that made it impossible for most firms to continue, let alone grow, while relying on outside hiring or ad hoc arrangements for internal advancement. The restrictions on labor mobility created by the housing shortage and especially by confiscatory marginal tax rates that restrained the opportunities for bidding wars for talent contributed as well. Experience with the military’s internal development systems, which were clearly compatible with corporate needs (having been drawn from them) and the fact that so many managers were intimately familiar with them after the War provided a blueprint for a new direction. And, as noted above, the notion of a career within the same company, as opposed to one cutting across companies, provided the security and stability that the younger managers desired.

But arguably the most important factor making the practice of internal development possible was that so many of the large corporations turned to internal development at the same time, an apparently uncoordinated move that nevertheless had the effect of reducing the opportunity for poaching. If even a few large players had persisted in the practice of poaching talent from competitors, they could easily have decimated the programs of internal development: Wait until competitors had incurred the sunk costs of identifying and then developing young managers, then hire them away with modest salary increases. That did not happen, perhaps because no individual company saw it as a credible option.

13. Careers and career planning

By the mid-1950s, the landscape of US corporations had changed dramatically. If the corporate scene at the earlier part of the Century was a dynamic landscape populated by entrepreneurs and new firms, the picture at mid-century was one of huge and stable enterprises run by professional managers. Forty percent of all the business assets in the United States in the mid-1950s were owned by just over 200 corporations. In terms of jobs, manufacturers with more than 1,000 workers in 1951 employed 34% of all employees, in contrast to 1909 when only about 15% of all employees worked in such firms (Gouldner, 1954). Forty percent of all the workers in the United States were employed by only one half of 1% of all the enterprises in the country. These companies grew ever larger in part by mergers and acquisition, with roughly half of all the industrial companies in the United States being involved in a merger or acquisition every year (Warner et al., 1967). Advancement in business meant advancing inside these large corporations.
A survey of college graduate job seekers after WWII, the cohort that would come to populate the ranks of management, found that their number one interest was advancement prospects, followed closely by job security (Jurgensen, 1948). Large corporations offered both along with the overall stability that Peter Drucker and others argued this generation craved.

Careers advanced inside organizations because companies no longer brought in talent from the outside. The American Management Association surveyed employers about the extent of their outside or lateral hiring in 1956. They found 15% of companies did no outside hiring at all at the executive level, 43% filled fewer than 10% of vacancies from the outside, and larger firms did less outside hiring. It is worth keeping in mind that what counts as an executive hired from the outside meant only that they had been hired at some point from another firm, not that they were brought in from the outside as an executive. The AMA study noted that companies rarely pursued or “poached” an employee away from another company: “Some companies regard it as unethical and will consider such an applicant only when the man approaches on his own” (Steel, 1957) If one wanted to advance in a career, it had to come from within.

Mabel Newcomer’s study of corporate executives across generations found that half the leaders of large businesses had been hired from outside their corporations in 1900, but by 1950, 80% had been developed from within. In 1950, 47% of Newcomer’s sample retired in office, as opposed to only 11% in 1900. Of those who retired in office, 40% had been with their firm more than 40 years in 1950, in contrast to 21% in 1925 and only 5% in 1900 (Newcomer, 1955).

While managers were much more likely to stay in the same company, they found themselves moving much more frequently within those companies. The GE model described earlier of movement across functions to get to the General Management position was now commonplace. Eugene Jennings studied this phenomenon and noted how the norms concerning movement in the organization had changed: “The new generation finds that mobility brings competency whereas the pre-mobility generation believed that competency brought mobility (Jennings, 1967: 97).”

The typical management job inside a company in the 1960s lasted only 18–21 months before the employee would move on. The purpose of these job movements was to maximize learning in order to prepare the manager for advancement later on. The assumption was that 80% of the learning took place in the first 20% of the time that employees had typically stayed in jobs before, so the way to maximize learning was to move people through jobs faster. And 18 months was a guess as to the time it would take most candidates to learn about 80% of what there was to know about their job. Greater mobility also played itself out at the very top of the company: Presidents stayed in their jobs on average about 10 years in 1948–1953, but by the mid-1960s, 5 years were typical (Jennings, 1967). This greater turnover makes sense if one remembers that the previous generation of corporate leaders was made up of founders and owners who did not have to retire and could not be fired, at least
without a huge fight. The new Presidents, in contrast, were employees who were subject to mandatory retirement policies and had to leave. As noted earlier, companies like Sears, Roebuck instituted these mandatory retirement policies precisely to create vacancies that would speed advancement through the ranks.

In the previous generation, when the head of the company was replaced, most of the management team went out the door as well: The founder left and with him went his inner circle that had run the company. The actions of the company rested heavily on the day-to-day decisions of the leader and were shaped by his own views and priorities. The new leader therefore wanted a staff that was loyal to him and would execute his own directions. By the mid-1950s, when the top guy left, it was much more of a non-event. Virtually everyone else stayed in place. The reason was that the management of the company was now governed by rules and procedures, not by individuals, and the systems remained in place even when the head of the company did not. So there was no need to replace the people who would execute company policies. The company would operate more or less the same way.6 Mabel Newcomer’s study of top executives found that in 1950, the outgoing head of the company played a key role in “naming his own successor...” (Newcomer, 1955: 20). By the 1960s, the processes of executive succession had taken away even that influence and transferred it to a system of succession planning.

In the early 1950s, sociologists Norman Martin and Anselm Strauss took on what was at the time the novel question as to what explained the career advancement of individuals inside a company (Martin and Strauss, 1956). Their key points in the pattern were jobs that occur at junctures, where an individual could advance up the hierarchy or move laterally. Martin and Strauss noticed that these jobs at junctures were often quasi-training positions, such as assistant managers, where superiors were watching to decide where the next career move will be and to base that decision on job performance: Good performance leads to promotion and a move up the vertical path; uncertain performance creates the need for more training or evaluation and a move along the horizontal path; and serious failures will lead to the end of the career, typically being frozen in one’s current job. In their model, there were clear pathways up the organization as well as paths that put careers on hold. The senior managers, typically with guidance from human resources, acted like station masters in a train yard, flipping switches that sent management candidates down different pathways.

Outside the United States, the talent management practices of large corporations often followed similar bureaucratic principles. In describing the stability of jobs in large UK corporations in the 1960s, Cyril Sofer (1970: 24) observed that the situation was remarkably like the Japanese practice of lifetime employment. The time lag in establishing the bureaucratic employment model in the United Kingdom meant that internal career paths were still somewhat unclear. Three quarters of the employees

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6For evidence, see Jennings (1967).
surveyed in the late 1960s reported that they had no idea what their prospects for advancement were, and the lack of understanding of those prospects was a considerable source of dissatisfaction (Sofer, 1970: 6). Some observers counseled managers that they would have to manage their own careers until the managerial labor market inside companies became better organized (Clements, 1958).

At the end of the 1960s, a study of management development practices conducted for the Committee for Economic Development found that the companies they examined were focused on talent management as a crucial issue for their company. In particular, they were worried about the supply side, making good hires and developing them fast enough to meet the demand: “Most top managers believe that a shortage of executive talent exists and that consequently there is plenty of room at the top for a good man” (Glickman et al., 1968).

The practices of talent management based on internal development that were developed after WWII were solidly in place in corporations through the 1970s. GE summarized its company view of talent management and managerial development in 1973 with the following statement, one that could have been a best-practice statement for any of the large corporations of that period:

**Statement of GE Management Development Philosophy:**

**What Year Was This?**

- Assuring the development of managerial excellence in the company is the CEO’s most important responsibility.
- Managers at all levels must be similarly responsible and must “own” the development system.
- Promotion from within – for its motivational value – will be the rule, not the exception.
- A key step in planning the development of managers is the review process.
- Managerial abilities are learned primarily by managing. Other activities are valuable.
- Control of the selection process is essential in order to use openings developmentally.
- The company can tolerate and needs a wide variety of managerial styles, traits, abilities, etc.
- Several different managerial streams and development planning systems are needed to accommodate the company’s size, diversity, and decentralization.
- Occasionally, it may be necessary to distort otherwise sound compensation practice and/or to change organization structure to achieve developmental results.
- Staff must add value in these processes, but their roles are secondary to the managerial roles.
GE still maintains something close to these practices, but almost no other companies do now.

14. Making sense of the change in practices

Talent management practices made a 180 degree turn since the early days of corporations. Open markets for talent and the absence of internal development for top jobs in the earliest days of corporations reflected the small scale of executive functions, an absence of a clear understanding of what such jobs required, and an implicit sense that the only way to get management skills was to find someone who already had them. The growing complexity of corporations vastly expanded the demand for executive talent, but the preference for external hiring persisted even though at least some knowledge about the alternative approach of internal development was available from the mid-1920s on. In part what restrained the internal development of talent was the incomplete contract aspect of open labor markets, the same issue confronting employers today: the best way to avoid the risk of investing in managers who could leave, taking that investment with them, is to avoid making the investment in the first place.

After WWII, several factors came together to create a different model. The unique labor market circumstances that followed the War, noted above, played a key role: Sky-high marginal tax rates made it unattractive to change jobs just for a higher salary, newly created and generous executive pension plans with onerous vesting requirements tied employees to their employers over the long term, and the overall buoyant economy and benign competitive environment for individual businesses meant that prospects for internal advancement were good everywhere.

A third factor was the rise of a new engineering-based paradigm for business, based on the principles of operations research, which suggested that long-term planning in all aspects of business could secure current and future performance. This paradigm was also applied to the management of talent. Now that candidates were less willing to move, it was possible to develop them and retain the benefits from those development costs. And the engineering-based, planning paradigm as applied to managers created the “Organization Man” model (Whyte, 1956) of long-term, predictable careers matched to long-term business plans.

The Organization Man was a central attribute in the “Chandlerian” firm of large, complex, and integrated business operations. The lifetime career model based on decades of socialization and training made possible the strong organizational cultures, which in turn helped companies standardize and control even far-flung operations. The competencies required to get anything done in these large, complex organizations were complex, and the extensive training and development associated with the Organization Man model made it possible to develop those competencies.
An interesting question for speculation is to what extent that lifetime career model in turn shaped the business organizations. It is easy to imagine how being tied to a firm for life might affect the decisions of the executives who ran such firms, taking less risk, for example, or engaging in practices like conglomerate forms to stabilize business fluctuations and make long-term careers more predictable and stable. This connection is a potentially promising topic for future research.

The Organization Man practices were less within the control of the individual firm than most other aspects of the Chandlerian firm, however. To make the enormous investments in talent possible, the incentives to job hop had to be broken, and that was made possible not just by the broader economic conditions noted above by through seniority-based pay, lucrative pensions that tied employees to firms, and promotion-from-within policies that reduced the demand for outside hiring.

15. The decline of management development

The reign of the Organization Man did not last long, however. What brought about its demise were changes in the way business operated, not surprisingly changes that were the opposite of the factors in the post WWII period. US firms experienced a sharp decline in the need for managerial talent following the 1981 recession, and the subsequent processes of “reengineering” led to wholesale layoffs of managers and lower-level executives (see Cappelli, 1999: Chapter 4). These layoffs undermined several aspects of the old model. First, they broke the social contract with employees, suggesting very clearly to them that in their next job (if there was one), expectations of mutual commitment—job security for loyalty—would be gone. Second, for the employers, layoffs raised the specter that future investments in internal development might not pay off because the demand for them could not be assured. Third, the layoffs created pools of surplus managers who were now readily available to be hired by any other employer. The extent to which the surplus management talent helped create the start-up phenomenon that began in the early 1980s is an important and unanswered question. It is clear that the transfer of talent from large corporations in the information technology industry—IBM in particular—helped fuel the explosion of Silicon Valley and other IT start-up companies (Lazonick, 2007). These firms and the use of stock options they helped pioneer, in turn pulled current employees out of the larger corporations as well. And the corporations in response abandoned practices such as defined benefit pension plans and their vesting requirements in order to become more attractive to new hires who now feared being tied to a single employer for life.

The most important changes in business operations, however, had to do not only with responding to more competitive product markets associated in part with
deregulation of those markets, but also with rising international competition that brought faster changes to those markets. The premium for companies shifted from planning on the basis of stable markets to responsiveness in the face of an uncertain environment.

There is no single measure of the Organization Man approach because that model is made up of a series of separate practices. But several surveys suggest how the difference components of the long-term planning and lifetime employment model began to decline after the 1970s. A study in 1984 surveyed large and mid-sized employers on their management development practices and compared the results to a similar survey that had covered practices in the late 1970s, roughly 6 years before. There was a sharp decline in that short period in sophisticated programs for forecasting talent needs. The percentage of employers who used statistical regression models to forecast talent needs declined from 30 to 9%; Markov Chain models fell from 22 to 6%; and sophisticated tools in general declined from use in 23% of employers to only 4.5% (Greer et al., 1989). By 2004, an IPMA–HR survey of employers found that 63% of employers did no workforce planning of any kind. Another recent survey of CEOs at large companies found that only 25% did any talent planning more than two levels below the CEO, that is, past the Senior Vice-President level (Cohen et al., 2005). This is in contrast to a mid-1960s study of personnel departments, which found that 96% did thorough enough planning to maintain a dedicated manpower planning function (Allen, 1966).

The 1984 study above also found a statistically significant decline in the percentage of companies that had succession planning practices in place as compared to 6 years previous. The problem they saw driving the decline in succession planning was a lack of precision in company business plans—inaccurate forecasts. But 66% of employers still did succession planning in 1984 (Greer et al., 1989).

By 2005, a similar survey found that only 29% of employers had succession planning programs (Fegley, 2006). Only about 19% of public accounting firms, where human capital is the only real asset, now do any planning for succession events (Dennis, 2005).

The most important change in practices had to do with the exploding use of lateral or experienced hiring to fill key vacancies especially in the management ranks. Businesses that had to respond quickly to changing markets typically needed new competencies to do so, and hiring experts and seasoned managers from the outside was the easiest way to do that. The 1956 study cited above found that only 43% of employer filled more than 10% of their total vacancies from outside hires in 1956, presumably all at the entry level. In contrast, a recent survey of large

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7The range of factors behind this change is too extensive to review in detail here, but they include new business models (e.g. outsourcing), shorter production cycles that squeeze fixed costs, the shorter-term financial orientation of the shareholder value movement, etc. See Cappelli (2008: Chapter 3) for a review.
employers found that roughly two-thirds of all the job vacancies in large employers were now filled by outside hires (Crispin and Mehler, 2009). Employers in the 1950s were intensely committed to promotion from within, especially in the management ranks—witness the 96% even of flat organizations such as retail companies reporting that they were committed to internal development. In contrast, the large companies surveyed by IACPR reported that retained search firms had been engaged to fill 54% of the executive-level vacancies paying above $150,000 between 2001 and 2003 (IACPR 2003 survey), a serious commitment to outside hiring (retained search firms are paid up front, before candidates are found). One interesting proxy for the growth of outside hiring is the fact that the revenues from corporate recruiting firms who perform outside searchers for companies tripled during the mid-1990s (see Cappelli, 1999: 215).

A study in the late 1990s surveyed recruiters and found a sizeable increase in the proportion of employers who now sought experienced workers even for entry-level jobs, those positions that traditionally were filled by new entrant, college graduates with no work experience (Rynes et al., 1997). Evidence from Deloitte Consulting suggests that the average US employer now spends about 50 times more recruiting an average middle manager with a salary of $100,000 than they spent on training their average employee (Deloitte Development LLC, 2006). No equivalent figures are available for the earlier period because middle managers were almost never recruited from the outside.

The increase in outside hiring extends to the very top of the organization. Outside hires represented 30% of all CEOs in the late 1990s (Murphy and Zabojnik, 2004). A recent study found that world-wide turnover of CEOs in the 2500 largest publicly held corporations broke records in 2004 and again in 2005 with more than 15% of CEOs leaving, a figure 70% higher than in the previous decade (Lucier et al., 2006). A comparison of top executives in Fortune 500 companies between 1980 and 2001 found sharp declines in the percentage of these executives who had been lifetime employees and even sharper declines in tenure—in part also because executives were now advancing more quickly: Only 17% of the top 10 executives were lifers in the younger companies (<30 years) versus 52% in the older companies (>30 years), and average tenure in the younger companies was about 9 years versus 18 in the older ones. What this suggests is that the newer companies and the growing companies have experiences that are not at all like those of the Academy companies (Cappelli and Hamori, 2007).

Outside hiring and layoffs contribute to declines in tenure with employers, which is one of the better markers available of the changing model of management employment. While early studies showed stability in tenure for the workforce as a whole, more recent results using data from the mid-1990s find declines in average tenure especially for managerial employees and for older, white men in particular, the group historically most protected by internal labor markets. For example, for men approaching retirement age (58 to 63) only 29% had been with the same employer
for 10 years or more as compared to a figure of 47% in 1969 (Ruhm, 1995). The percentage of the workforce with long tenure jobs, ten years or more, declined slightly from the late 1970s through 1993 and then fell sharply through the mid 1990s (Farber, 1997). The rate of dismissals also increased sharply for older workers with more tenure, doubling for workers age 45 to 54. The finding that tenure declined for managerial jobs is especially supportive of the arguments for the erosion of internal career systems. The average tenure of managers and executives also declined in response to outside hiring but also to layoffs, something that was unthinkable in the earlier period (Farber, 2003).

The most powerful of the studies of changes in job stability compares the experience of young men from 1966 to 1981 to a later group from 1979 through 1994. In the earlier period, about 16% of workers had stable job histories, as defined by having one or two employers over their career; in the later period, the percentage fell to 11%. Fifteen percent of the workforce had seven or more employers in the earlier cohort, a figure that rose to 21% for the latter group. When comparing equivalent workers, the odds on leaving a job—being dismissed or quitting—after 2 years was 43% greater in the latter cohort (Bernhardt et al., 1999). Another study indicates that the more recent cohort experienced considerably greater changes in their jobs and occupations than did the previous generation even when they remained with the same employer (Hollister, 2006). A third study finds workers in the more recent period changing industries and occupations more frequently than in the previous generation. We cannot easily tell from these studies whether the changes were instituted by the employer or the employee. Either way, though, they suggest the instability that makes long-term investments in employees and in career planning difficult to achieve.

The move from outside labor markets to internal, bureaucratic practices, back to a reliance on outside markets reflects the response of corporations to a changing economic environment. Internal development is a complex undertaking that requires significant organizational resources and also involves significant business risk for the employer. They are making investments in employees and hoping to earn a return on those investments well into an uncertain future. Companies are obviously set up to take on business risks, but in virtually all cases, they are organized to take those risks in product markets. Taking them in labor markets represents quite a different set of competencies that are not necessarily present in the basic business enterprise. Given this, it might be reasonable to assume that most companies would have some

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8See Polsky (1999) for this result. The other two studies are Bernhardt et al. (1999), and Valetta (1996).

reluctance to get into the business of internal development, at least in the systematic and large-scale way that employers did so after WWII. The period of internal development associated with the post WWII period, therefore, might best be seen not as the typical arrangement but instead as a kind of exceptionalism that is unlikely to be repeated in the foreseeable future. Talent management practices arose in response to the business challenges that employers faced. The rise of the Organization Man model for internal development of talent came about because of a unique set of circumstances on the demand side—where stable markets made long-term planning possible, where corporations grew ever larger and the skills needed to run them were unique to each company—and on the supply side—where outside hiring no longer worked and talent had to be developed internally.

The move back toward a more open marketplace for talent advantages start-up firms, which can more easily secure management and executive talent, as well as firms that have a shorter-term perspective and a more frequent need to rearrange their competencies through outside hiring. It raises serious problems for firms that take a longer-term perspective and that have competencies that are unique to them. These are attributes associated with the large, complex, multi-divisional firms described by Chandler. Such firms find that it is difficult to retain talent in the face of competitors who may be able to pay higher wages at some point in a candidate’s career and, in turn, difficult to generate the unique competencies their management and executive jobs require. The immediate implication of such a situation is that these complex corporations end up hiring on the outside market and securing more generic skill sets, which then are reflected in the decisions of those managers and executives. Whether that more generic approach to management in turn leads to significant differences in the way those firms operate seems likely but is a topic best left to empirical investigation.

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