

BUSINESS SIZE AS A FACTOR IN BUSINESS LEADER MOBILITY

STUART ADAMS¹

Human Resources Research Institute, Maxwell Air Force Base, Alabama

This paper deals with the relationship between origins of business leaders and the size of the organization under their control. Two tasks are undertaken: (1) the description of the association between the number of employees in a business firm and the occupational origin of its principal executive, and (2) the analysis of the significance of this association for the recruitment of business executives in future decades. The latter task is one aspect of the general problem of analysis of trends in social stratification in this society.

PROCEDURE

The subjects of this study are 220 business leaders - owners or chief executives of firms employing 100 or more workers - located in four U. S. cities. These individuals were respondents in a sample of 510 executives drawn at random from directories of business in Springfield and Worcester, Massachusetts, and Columbus and Toledo, Ohio. Data on the economic and social histories of the respondents and their fathers were obtained in part by mailed questionnaires, and in part by interviews with a one-third sample of prospective respondents who failed to return the questionnaire in two of the cities. The final returns consisted of 178 questionnaires and 42 interview records. Occupational origin was defined as the "principal occupation of the respondent's father." To facilitate quantitative analysis, a numerical value for occupational origin was obtained by scoring the father's occupation on the North-Hatt (1947) scale of occupational prestige. The mean occupational origin of the 220 respondents was 77.7 points on the 100-point scale. For purposes of comparison, it may be noted that the mean occupational prestige of all male workers in the U. S. in 1925 is estimated at 61.0 North-Hatt points. These figures indicate that the occupational origin of the average business executive of today is considerably higher than that of the average gainfully employed male.

There were no significant differences in occupational origins of respondents between the four cities or the two geographical regions. The means for the Northeast and Midwest samples were 77.3 and 78.2, respectively. The corresponding standard deviations were 6.55 and 6.70. The interview returns yielded occupational-origin means which were significantly lower than the questionnaire means, and it is estimated that if interview data had been obtained in the Midwest as well as in the Northeast, the regional means would have been approximately 77 North-Hatt points in each instance.

OCCUPATIONAL ORIGINS BY BUSINESS SIZE

Table 1 shows the relationship between size of business, measured by number of persons employed, and the occupational-origin scores of the respondents. The businesses have been grouped arbitrarily into size categories on the basis of inspection of the scatterplot of the two variables on a semilogarithmic graph.

Several points in table 1 are worthy of note. First, the distribution approaches the normal curve, with the highest occupational origins occurring among leaders of businesses in the 500-1000 employees range. Second, the range of recruitment, as indicated by the standard deviation of the origin scores, is sharply restricted in the

¹Present Address: Department of Sociology, University of California, Berkeley.

middle portion of the distribution and widely dispersed on both ends. Third, the means of the extreme groups are significantly lower than the means of Group IV.

The configuration of the means curve is affected only slightly by the bias in the questionnaire returns. If the interview returns are weighted to compensate for their underrepresentation in the Northeast sample, the principal result is a depression of the ends of the curve. The center of the distribution remains virtually unaffected. This result reflects the fact that the mailed returns were biased in the direction of respondents of higher occupational origins.

In general, the data in table 1 appear to indicate that business leaders vary significantly in occupational origin when compared across business-size categories. The lowest origins are found in the leaders of the largest businesses, while the highest origins are found among owners or executives of middle-sized concerns. Leaders of the smaller businesses tend to come from approximately the same occupational origins, in terms of North-Hatt scores, as those in the largest businesses. There are, however, some differences between the two latter groups in terms of religious affiliation, nationality of parents, and political party.

TABLE 1

Relationship between size of business and occupational origins of business leaders

Group	Number of Employees	Number of Business Leaders	Mean North-Hatt Rating of Fathers' Occupations	Standard Deviation of Mean North-Hatt Rating
I	100-149	72	76.4	7.5
II	150-299	47	77.0	9.7
III	300-499	38	77.7	6.0
IV	500-999	30	82.1	4.6
V	1000-4999	26	79.1	6.1
VI	5000-30000	7	72.8	10.9

A hypothesis suggested by these data is that the criteria of business-leader selection vary quantitatively and also qualitatively with business size. In particular, competitive behavior appears to control admission to executive positions more effectively at the lower and upper extremes of the range examined here. Entry into one extreme rather than the other appears to be largely a matter of possession of more or less of acumen, experience, or drive. The criteria of entry into the middle-sized businesses appear to be more stringent, possibly because of the presence of qualitatively different factors. Entrance into the leadership of these concerns may be based less upon open competition and more upon the meeting of traditional standards such as group membership or lineage.

CHARACTERISTICS OF THE BUSINESSES

Inspection of the characteristics of the businesses in Group I and II reinforces the suggestion that membership in these groups is the outcome of intensive competition. One evidence is the relatively large percentage of high-risk industries and businesses such as textiles, clothing, plastics, novelties and the like. Another is the relatively great heterogeneity of parental nativity, political affiliation and religious affiliation among the respondents in these businesses. The latter suggests recruitment from a wide group of potential members, while the former indicates a need for continual struggle to remain within the group.

At the upper end of the size range, the respondents are executives of well-established corporations or regional branches of national enterprises. The mobility pattern is one of having risen through the concern, or of having been brought in from another business of a similar character. The process, like that for

the smaller business leaders, connotes success in a competitive situation, since the present position appears to have been won on the basis of demonstrated ability. At the same time the criteria of selection appear to have been more standardized. There is greater homogeneity of parental nationality and of political and religious affiliation in the two groups than in the two lower.

The businesses in Group V and VI are for the most part capital goods or heavy industries, manufacture of machinery, electrical equipment, the processing and fabrication of metals, and engineering and construction services. The businesses in Group IV are essentially like those in V and VI.

Ownership of business is most common among respondents in Group I, with Group IV next in order of frequency. No business owners are present in Groups V and VI. The higher percentage of owners among the respondents in Group IV as compared with II and III suggest that the middle-sized businesses may employ lineage as a selection criterion more extensively than the contiguous groups. This would help to explain the higher occupational origins in this group. It should be observed, however, that the percentage differences in ownership between Group IV and the two groups preceding are not statistically significant.

SIGNIFICANCE FOR RECRUITMENT TRENDS

The pattern of mobility shown in the foregoing data appears to have meaning for the recruitment of business executives in future decades. The significance lies in the apparent relationship between these mobility differentials and several dynamic tendencies in contemporary economic life. This significance can perhaps best be explored in relation to three generalizations, namely:

- (1) The practices which govern the selection of executives in the largest businesses are tending to become more widespread in this society.
- (2) Businesses in the middle-sized group are becoming a smaller proportion of the economy.
- (3) There is a continuing tendency for business organizations to shift from individual to corporate control.

Since the practical significance of these generalizations rest upon their validity, their status in current economic thought is a matter of interest. It is impossible to consider this point in detail, but some references to the pertinent evidence and its implications for executive selection can be made here.

Trends in executive selection procedures. Regarding the first generalization, the diffusion of recruitment criteria and procedures characteristic of large business seems assured in view of the dynamics of the process—the drive toward rationalization, i.e., increasing the efficiency of the economic organization. Particularly relevant here is the growing use of objective criteria for selection of individuals to head large business concerns. The broad movement for the study of leadership in business and industry (Fortune, 1950), and even the practice of subjecting wives of prospective executives to scrutiny (Whyte, 1952) illustrate this tendency.

The rationalization process has produced two general policies which objectify succession to business leadership (Drucker, 1949). One of these is the increasing practice of moving "staff" people to top management positions, thus availing the concern of experience gained in long years of service in a succession of administrative positions. The other is the growing tendency toward the development of "crown princes," promising young men who are selected and trained from the beginning for eventual leadership roles.

Illustrations of these and related tendencies are commonplace. The head of Grace and Company, in discussing recruiting practices, reports that his concern has stopped the "habit" of hiring "rich men's sons from swanky colleges" in favor of "hungry, brainy young men who are eager to knock themselves out" (Time, 1952). Similarly, the president of Bethlehem Steel states that one policy of his company

"prohibits the sons of executive officers from working for the company" (David, 1953).

Not all these "hungry, brainy" men will achieve the position of principal executive in their organization. Yet their presence in the organization indicates a shifting pattern of thought regarding leader succession. The changed climate alone would encourage the progression of some able men to top positions despite low occupational origins. In addition, the new recruitment policies facilitate upward mobility in the larger concerns by placing relatively more such men in strategic positions, and giving them familiarity with the expected behaviors.

Trends in business size. The generalization regarding the declining proportion of business in the intermediate categories is more difficult to substantiate. It may be noted that since the classic study by Berle and Means (1933) there has been wide acceptance of the belief that business concentration is continuing in this society. This belief has been strengthened by the disclosures of the Temporary National Economic Committee (1941) and the Federal Trade Commission (1947).

The significance of these findings becomes apparent when they are considered in relation to other data. Slichter (1948) observes that the average business firm has about the same number of employees today as in 1900. In addition, he points out that for the last four decades the number of non-agricultural business concerns has been increasing faster than the population. If there is simultaneously a tendency toward concentration, a maintenance of the same number of employees in the average concern, and an increase in the number of businesses, then there is a definite possibility that intermediate businesses are diminishing relative to small and large businesses.

This possibility has been described as actuality by Galbraith (1952) in the case of particular industries. He points out that the number of businesses tend to reach its maximum in a new field within a few years of initial opening up of the area. After that, there is likely to be a steady decline in number, stabilizing around a "handful of massive survivors, and usually a fringe of smaller hangers-on." Explanations of this process by failure to develop an effective managerial organization in many intermediate firms, or in terms of the high costs of management in these firms have been advanced by Gardner (1949) and Drucker (1949).

The relevance of an increase in the number of larger businesses at the expense of intermediate businesses is that it places a greater proportion of executive positions in locations where they are likely to be filled by persons chosen without regard to origin. The positions shift, in other words, into an area of the social structure where selection is more rational and impersonal. The role of ascribed status diminishes, and the role of achieved status increases proportionately in the recruitment of leaders to fill these positions.

Trends in business ownership. The decline of individual ownership of the larger and intermediate businesses is a well-established fact in this society (Berle, 1952). Its significance for the recruitment of business executives is that it too produces modifications in selection procedures. It encourages a tendency toward objective selection, focusses primarily upon the qualities pertinent to effective management of the enterprise and to the securing of profits. Because it is the largest businesses which are the most likely to pass out of one-family ownership, this tendency should be noted earlier and more clearly in the larger businesses.

The extent to which the tendency toward corporate ownership is a continuing one in this society is conjectural. Whatever its future course, its past effect appears to have been the shifting of the locus of the highest occupational origins among business executives from the larger to the intermediate businesses.

SUMMARY AND CONCLUSIONS

A study of 220 business leaders, sampled by mailed questionnaire and by subsequent interview of a fraction of the non-respondents, showed significant

variation in occupational origin of respondents in businesses of different size categories. The lowest mean origin was found among leaders of the largest businesses. Next lowest were those in the smallest-size category. The highest origins were found in businesses of intermediate size.

The trend in origin means for the several groups suggests that rational criteria and competitive selection procedures are most pronounced in the selection of leaders for the larger and smaller businesses. Traditionalistic criteria appear to govern most effectively in the intermediate businesses.

The observed mobility differentials may be interpreted as indicating that occupational origins of business leaders have declined in recent decades and will continue to decline in the future. This inference is supported by (1) the belief that objective leader-selection practices are likely to diffuse in this society, (2) an apparent decline in relative numbers of businesses in the traditional-criterion group, and (3) a possible continuation of the shift toward corporate ownership of business. Each of these tendencies appears to increase the likelihood that achieved rather than ascribed statuses will be the focus of attention in the recruitment process.

ACKNOWLEDGEMENT

The writer wishes to acknowledge his indebtedness to the Development Fund of the Ohio State University for assistance which made possible the field work for this study.

REFERENCES

- Berle, A. A., Jr.** 1952. Our capitalists—Soviet view and the reality. *N. Y. Times Mag.* Sept 21: 12.
- , and **G. C. Means.** 1933. *The modern corporation and private property.* Macmillan Co., New York.
- David, S. V.** 1953. AP press release. Aug. 22.
- Drucker, P.** 1949. *The new society.* Harper and Bros., New York.
- Federal Trade Commission. 1947. *The concentration of productive facilities.* U. S. Government Printing Office, Washington, D. C.
- Fortune Magazine. 1950. The tests of management. July: 92.
- . 1953. The crown princes of business. Oct.: 150.
- Galbraith, J. K.** 1952. *American capitalism.* Houghton-Mifflin Co., Boston.
- Gardner, B.** 1949. Ability held need in small business. *N. Y. Times*, Apr. 24.
- North, C. C., and P. K. Hatt.** 1947. Jobs and occupations: a popular evaluation. *Opinion News* Sept. 1: 3-13.
- Slichter, S.** 1948. *The American economy.* Knopf, New York.
- Time Magazine. 1952. Sept. 15: 103.
- Temporary National Economic Committee. 1941. *Final report and recommendations.* Document 35. U. S. Government Printing Office, Washington, D. C.
- Whyte, W. F.** 1952. *Is anybody listening?* Simon and Schuster, New York.