American (U.S.) Management 2

Every day an American banker working in Paris gets requests from French firms looking for Frenchmen "with experience in an American corporation." The manager of a German steel mill hires only staff personnel "having been trained with an American firm." The British Marketing Council sends 50 British executives to spend a year at the Harvard Business School—and the British government foots the bill. For European firms, so conservative and jealous of their independence, there is one common denominator: American methods.

—J.-J. Servan-Schreiber (1969, p. 35)

In the 20th century, the United States emerged as a mecca of management theory, practice, consulting, and research. Nowhere else was management so widely viewed as a unique and vital function and an academic and professional discipline. Early on, productivity engineer Frederick Winslow Taylor (1911) wrote *Principles of Scientific Management,* which can be called the world's first book focused on management. Other pathbreaking manager–authors included Chester Barnard, CEO of New Jersey Bell (*Functions of the Executive,* 1938), and Alfred Sloan, who led General Motors between 1923 and 1946 (*My Years at General Motors,* 1964). Management doyen Peter Drucker called the latter "the best book on management ever" (1990, p. 145). The United States produced the first large management consultancies (e.g., Arthur D. Little, McKinsey & Co.), executive recruiters (e.g., Korn/Ferry, Heidrick & Struggles), buyout equity firms (Kohlberg Kravis Roberts, Forstmann Little & Co.), and merger and acquisition specialists (investment banks such as Goldman Sachs and Morgan Stanley). It bred corporate business schools (e.g., General Electric's Crotonville Institute, IBM's Sandpoint School, and Motorola University). Today, management books and articles abound and U.S. business schools draw professors and students from around the globe.[1] Meanwhile, prominent American firms dominate global rankings of the most respected companies.[2]

This chapter examines some prevailing patterns in U.S. management and the setting (polity, economy, culture) that has shaped them.

Chapter Objectives

- To broadly describe the U.S. managerial macroenvironment
- To profile the personal backgrounds, pay, and career paths of American CEOs
- To note some distinctive U.S. management patterns and practices

The U.S. Macroenvironment

POLITICAL AND LEGAL SYSTEM

The U.S. government and political system are grounded in democracy, pluralism, and the rule of law, striving to balance the civil, economic, political, and other liberties of diverse constituents (e.g., business, consumers, employees, investors, workers, taxpayers, and public interest groups). An aggressive legal profession and inquisitive independent journalists keep managers alert to prevailing ethical standards, law, and the public interest. For business, government has been neither close partner nor adversary, offering less financial support than do other advanced industrial countries (except for the defense sector). There are few government-owned businesses.[3] Antitrust and investor and consumer rights rules are more forcefully protected than in most countries, as are individual civil rights in the workplace. There is more extensive disclosure of financial information by publicly held companies, required by the stock exchanges and securities market regulators.

The political voice of business is expressed through company public affairs offices, sponsored research groups, paid lobbyists, sectoral trade associations (e.g., Semiconductor Industry Association, Textile Manufacturers Institute), and broader spokesgroups (e.g., National Association of Manufacturers, Business Roundtable, Conference Board, and the U.S. and local chambers of commerce). These groups aim to inform and influence public officials, legislators, voters, the media, and others about pending legal and regulatory change. The political views of business are not uniform and can vary by sector, size, location, and other factors. For example, the textile industry has regularly sought protection from import competition, whereas most electronics firms haven't. Big steel wants restrictions, whereas small steel (mini-mills), specialty steel (niche steel makers), and steel buyers (machinery makers and car companies) are less likely to do so. Although trade protectionist pressures regularly surface in Congress (especially in the House of Representatives), proponents of freer international trade have generally prevailed over protectionists on most major trade policy initiatives (e.g., the creation of the North American Free Trade Agreement, General Agreement on Tariffs and Trade and World Trade Organization trade negotiations, and acceptance of China into the World Trade Organization).

These and other broad features of U.S. government and politics are listed in Table 2.1.

Table 2.1 U.S. Political and Legal Environment

Long-standing constitutional democracy that tries to balance the executive, legislative, and judicial powers of government.
Arm's-length relationship between business and government (neither preferential nor adversarial); less corporate welfare (subsidies, bailouts, preferential purchasing) than in other advanced industrial countries.
Orderly political succession; low political risk for business (legal and regulatory ground rules don't change without extensive debate and deliberation).
Political pluralism accommodates diverse viewpoints and interests (e.g., consumer, labor, environmentalist, business); leading business spokesgroups include the Business Roundtable, Business Council, National Association of Manufacturers, American Business Conference, Chamber of Commerce of the USA, National Federation of Independent Business, National Small Business Association, and many sectoral trade associations.
Common law legal tradition (roots in the English legal tradition).
Adversarial legal framework; proportionally more lawyers and lawsuits than in most countries; high incidence of class-action lawsuits; stiff negligence liability penalties (tort law).
Much business law is the domain of state and local government rather than national (federal, central) government; aggressive federal (central) government protection for individual civil rights in the workplace and for free and fair competition (antitrust rules).
An independent and active corps of press and television journalists keeps public officials, politicians, and business leaders alert to ethical and responsible behavior.
Less extensive and less intrusive federal labor law than in most countries; fewer legal restraints on laying off employees for economic reasons; more protection for equal opportunity in the workplace.
Political clout of unions has been weaker than in most advanced industrial countries.
Though mainly adversarial, union–management relations are much less confrontational than in the past.
Less unionized workforce than most countries; in 2008, about 12% of wage and salary employees were union members (vs. 36% in 1983) and less than 8% in the private sector;[4] fewer labor disputes than in most other advanced industrial countries (see Figure 2.1).

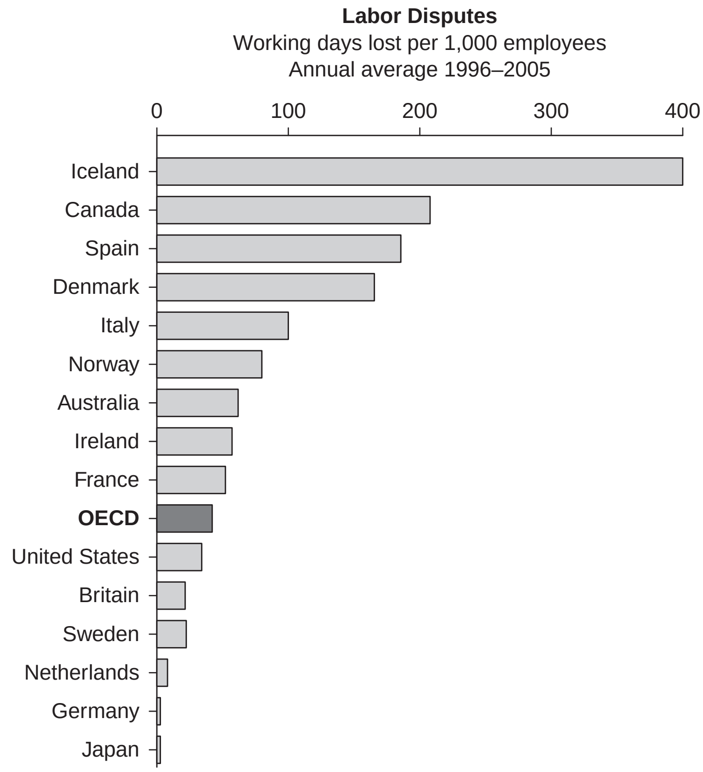

Figure 2.1 Labor Disputes

SOURCE: "Economic and Financial Indicators: Labor Disputes," *The Economist*, May 5, 2007, p. 121. Used by permission.

OECD: Organisation for Economic Co-operation and Development

Although most business law is the domain of state and local government, there is notable federal labor regulation (Table 2.2), although it is less burdensome than in most countries. U.S. managers have more liberty than peers abroad to determine labor relations policy and practices internally, whether unilaterally or in consultation with employees.

THE ECONOMY

The U.S. economy is based predominantly on private property and initiative; its internal markets for labor, goods, and capital are freer than those in most of the world.[5] It generates about one fourth of the annual gross world product with one twentieth of the world's workforce. Job creation and destruction have been high. Government taxation and

Table 2.2 U.S. Federal Government Involvement in Employer–Employee Relations

National Labor Relations Act of 1935 (Wagner Act)	Established rules for union organizing, collective bargaining, and the resolution of labor disputes
Social Security Act of 1935	Created a centrally administered retirement income security program funded by employee and employer payroll tax charges
Fair Labor Standards Act of 1938	Established a national minimum wage and required time-and-a-half pay for work beyond 40 hours per week
Civil Rights Act of 1964 (Title VII)	Banned discrimination in employment based on race, religion, gender, ethnicity, and national origin
Age Discrimination Act of 1967	Banned forced retirement until age 65 (was later raised to age 70)
Occupational Safety and Health Act of 1970	Workplace health and safety rules
Employee Retirement Income Security Act of 1974	Guidelines for investment of employee retirement funds and government insurance for private defined-benefit pension plans (Pension Benefit Guaranty Corporation)
Worker Adjustment and Retraining Notification Act of 1988	Guidelines for written advance notice in cases of large-scale layoffs and plant closings
Family and Medical Leave Act of 1993	Requires up to 12 weeks of unpaid personal annual leave for medical emergencies, newborn children, or child adoption

spending have been lower relative to national income than in most advanced industrial nations (Table 2.3).

Government employment (federal, state, local) has been low in relation to overall employment, accounting for about 16% of all jobs in 2008. These and other broad features of the U.S. economy are highlighted in Table 2.4.

CULTURE

Although U.S. society has become ever more diverse in ethnicity and culture, its dominant sociocultural tendencies draw much from Europe,

Table 2.3 Burden of Government as Percentage of Gross Domestic Product, 2006: United States, Western Europe, and Japan

	Total Government Expenditures	Total Government Revenues
United States	33.1%	36.6%
France	50.8	53.4
Germany	44.0	45.7
Italy	45.6	50.1
Spain	40.3	38.5
Sweden	57.6	55.5
United Kingdom	42.2	45.0
Japan	31.7	38.1

SOURCE: Data from *OECD in Figures 2007,* available at http://oberon.sourceoecd.org/vl=5391416/cl=12/nw=1/rpsv/figures_2007/en/page26.htm

Table 2.4 Profile of the U.S. Economy

High output and income per capita.
Mature economy (2%–3% average annual gross domestic product growth in recent decades); mild business cycles.
High incidence of business start-ups, buyouts, mergers, bankruptcies; high job creation and destruction.
Shrinking number and proportion of lower-skill manufacturing jobs; growth in knowledge-intensive service sector employment (e.g., education, health care, financial services, information technology).
High level of economic freedom and business competition; very flexible labor market.
Growth rates of U.S. trade have outpaced the overall economy. Exports have been high in monetary value but lower than in most other advanced industrial countries in proportion to output and population. No country hosts as much inward foreign investment or invests as much abroad. Since the late 1980s, the cumulative book value of foreign-owned assets in the United States (direct investment, portfolio investment, bank loans and deposits) has been greater than the value of U.S. assets abroad.[6]

Fluid financial markets; more shareholder-owned companies than in any other country.[7]
High value of securities (stocks and bonds) in proportion to gross national product; high ratio of equity (stock) relative to debt in corporate financial structures.
High turnover of share ownership; share purchases ever more the domain of institutional investors (mutual funds, pension funds); more than half of U.S. households directly or indirectly own corporate stock.
Predominantly stockholder-oriented capitalism; enterprise is more attuned to the interests of shareholders relative to other stakeholders (e.g., employees, lenders, bondholders, communities), although these others are by no means ignored.
Extensive public disclosure of corporate financial information.
Low price inflation (2%–4% per year on average, 1990–2008).
Public (government) spending and taxes have been lower in relation to national income than in most countries; minimal government ownership of business.
Government employment (federal, state, local) has been low in proportion to overall employment (16% of total jobs in 2008).
Home to the world's largest and most active venture capital investment community.
Much inequality in family wealth and income.
More privately run retirement and health insurance programs than in most countries.

from whence came most of the earliest U.S. immigrants, a trend that continued until after World War II. Since then, most immigration has come from Asia and Latin America. In 2008, about 13% (slowly rising) of the population was foreign-born.

Americans value personal independence (score high on Hofstede's individualism) and have high tolerance for risk and change (low uncertainty avoidance). That pattern draws partly from the early immigrants who fled social, political, and religious constraints in Europe. Driven by survival instincts and a strong work ethic, many persevered as workers, independent farmers, and small business owners. An ever-expanding westward frontier brought continual opportunity to start anew.

In general, Americans value equality of opportunity more than equal wealth and income. This brings less social and political pressure than in Europe to redistribute wealth and income through government taxation and social spending.

These and some other broad features of U.S. culture are listed in Table 2.5.

Table 2.5 Prevailing Sociocultural Tendencies in U.S. Society

Emphasis on individual rights, freedoms, and responsibilities.
Independence and self-reliance are valued.
Desire to be unique.
Belief in equality, but more in equality of opportunity rather than material equality.
At work, competence (how well you perform) matters more than social or family background; nepotism and favoritism have negative connotations.
High social and occupational mobility; weak loyalty of employee to employer (and vice versa); employer–employee relations have been more contractual than personal.
High acceptance of social, religious, and other diversity; less antagonism toward immigrants than in most countries.
Less stigma attached to failure (e.g., in school or business) and much opportunity to begin anew.
Extensive involvement of women in the workforce, including nontraditional roles such as management, although they are underrepresented in senior management in large companies.
High level of voluntarism on behalf of social, political, philanthropic, environmental, and other causes.
Optimism.
Ethnocentrism.
Openness, informality.
Friendships form quickly but without deep or long-term personal commitment.
Materialism.
Protestant ethic (strong achievement drive, thrift, diligence, orderliness, high tolerance for work).
Low-context culture; directness in personal communication.
Impatience (time is a resource; punctuality is valued).
Bias toward action (often just for action’s sake).
In conversation, low threshold for silence (uncomfortable with silence).

On Hofstede's cultural variables, a general profile of

- Low power distance
- Very high individualism
- Moderate to high masculine-associated values (aggressiveness, assertiveness, competitiveness)
- Low uncertainty avoidance (i.e., high tolerance of risk and change)
- Short-term time orientation

The following section describes the personal backgrounds and pay of senior U.S. managers relative to their peers abroad. The description obviously won't fit all managers but rather highlights prevailing tendencies among senior executives in large firms. Additional comparison with peers abroad occurs in other chapters.

The U.S. Manager

Recent and historical evidence reveals several characteristics of contemporary U.S. CEOs. They include the following:

- Predominantly male and from middle- and upper-middle-class background
- A bit younger traditionally than peers in Europe and Japan
- Well educated but more likely than counterparts abroad to have been enrolled in business studies while in higher education
- More inclined to view management as a profession; high mobility between employers
- Very highly paid, and much of it tied to performance
- Less international life experience

PERSONAL BACKGROUND

Fortune magazine data from the mid-1980s portrayed the U.S. CEO in Fortune 500 firms as a well-educated male, median age 58, with an average of 8 years in office (McComas, 1986). Surveys from the 1990s showed all but three corporate chiefs in the BusinessWeek 1000 to have been male, mean age 56, with 8.5 years' tenure ("Corporate Elite," 1992, 1993). Their mean age at time of appointment to CEO was about 48–50 years, but some were notably younger, such as John Reed (Citicorp, age 44), Jack Welch (General Electric, 45), Michael Eisner (Disney, 42), and Richard Wagoner Jr. (General Motors, 45). The 1993 "Corporate Elite" included at least 10 CEOs in their 30s. According to executive recruiter Spencer Stuart (2004, 2006), the average CEO age in the largest 100 of Standard & Poor's (S&P) 500 companies fell from 59 to 56 years between 1980 and 2007. The median age (52 years) for new CEOs was lower than the S&P median for all 500 CEOs (Spencer Stuart, 2007). However, despite ever younger average age, only one S&P 500 CEO in 2007 was younger than 40 (Spencer Stuart, 2007). Median tenure (2007) was 6 years (Spencer Stuart, 2007). Whereas in 1980 a majority (51%) of the Fortune 100 CEOs were age 60–69, in 2006 a majority (68%) were age 50–59 (Spencer Stuart, 2006). Of those 100, about 2% were age 49 or younger in 1980, rising to 11% by 2005.

In regard to socioeconomic background, 46% of the Fortune CEOs (1986 Fortune 500) had come from upper-middle-class and wealthy households. Forty-four percent were from middle-class and 10% from less affluent families (McComas, 1986). About 45% were from rural or small-town settings, and 55% were from big cities or city suburbs. Fathers of 1 in 10 had been CEOs at the same company, either as founder or direct descendant of a founder. Half of the fathers had been businessmen (e.g., executive, manager, small business owner). Another one sixth had professional careers (e.g., law, medicine), and about one fourth had been in clerical, skilled or unskilled labor, or farm occupations.

Although most large-company CEOs are from wealthy and upper-middle-class backgrounds, their presence has lessened proportionally over time. As one indication, the percentage of S&P 500 CEOs who had bachelor's degrees from private Ivy League universities declined from 15% in 1998 to 9% in 2006 (Spencer Stuart, 2005, 2006). In 2005, there were equal numbers of CEOs (13 each) in the S&P 500 from the public University of Wisconsin and the private Harvard University (Spencer Stuart, 2005).

Few women have led large U.S. companies, but their numbers have been rising slowly. In 1996, only one woman led a Fortune 500 company. In 2007, several well-known large firms had female CEOs, including eBay, Avon Products, Xerox, Time Inc., Archer Daniels Midland, Sara Lee, and Pepsico (Benner, Levenson, & Rupali, 2007). Also, more women than men have been earning university bachelor's degrees, including those in business administration. At the MBA level, women earned 42% of degrees in 2004–2005 (U.S. Department of Education, 2007). Thus, there are now more female candidates than ever in the promotion pipeline.

FORMAL EDUCATION

Senior managers in large U.S. companies have substantially more formal higher education (measured in academic degrees) than does the general public. In 2007, about 10% of the U.S. population over age 25 held a master's degree or higher (U.S. Census data), compared with 67% of Fortune 500 CEOs (Spencer Stuart, 2007). Ninety-eight percent of the latter held bachelor's degrees (in diverse disciplines but above all in engineering [21%], economics [15%], and business administration [13%]) (Spencer Stuart, 2007). For postgraduate degrees, the MBA was the most prevalent (40%), followed by law degrees (10%). About 21% of non-MBA advanced degrees were PhDs. In 2003, the proportions of Fortune 100 and Fortune 700 CEOs holding MBA degrees were 37% and 35%, respectively. By contrast, in 1999, about 11% of European CEOs in comparably large firms held MBA degrees, a figure that has probably risen modestly since then.

Management is more widely accepted as an academic discipline in the United States than elsewhere. Nowhere else has there been so much higher education for business nor so much of it linked to universities. In 2004–2005, about one fifth (22%) of the 1,439,264 U.S. university undergraduate degrees and one fourth of the 574,618 master's degrees were in business or management (U.S. Department of Education, 2007). Formal higher education for business and management evolved more slowly in Europe, with enrollment there lower than in the United States, but growing (Antunes & Thomas, 2007).

Most of the premier U.S. graduate business schools offer doctoral studies in management, and many call themselves schools of management rather than schools of business administration, such as Yale (School of Organization and Management), UCLA (Anderson School of Management), MIT (Sloan School of Management), Northwestern (Kellogg School of Management), Case Western (Weatherhead School of Management), and Michigan State (Eli Broad School of Management). Undergraduate-level providers are more likely to be called schools of business administration.

In education, training, and development, a notable U.S. development was the "corporate university." Though not true universities, these learning centers offer in-house education and training (some delivered by internal staff and some outsourced) mainly for employees but often also for others. There were about 2,000 such institutions in 2007 according to the Corporate University Xchange (http://www.corpu.com). Some examples include Caterpillar University, Boeing Leadership Center, Motorola University, Hamburger University (McDonald's), Ingersoll Rand University, and Sears University.

MANAGEMENT AS A PROFESSION

The perception of management as a profession is more evident in the United States than elsewhere. A profession typically is a career field with a well-established body of knowledge, requires certification of mastery (e.g., medical exam for doctors, bar exam for lawyers, CPA exam for accountants, theological exam for clergy), and often has a profession-bound code of ethics (e.g., Hippocratic Oath for medical doctors). By these criteria, management isn't a true profession. As noted in Chapter 1, management knowledge is eclectic and multidisciplinary, and there is no consensus about what knowledge to master, much less about whether, when, or how to certify mastery.

Nonetheless, Peter Drucker (1973) once observed that management is "professional . . . a function, a discipline, a task to be done; and managers are the professionals who practice the discipline, carry out the functions, and discharge these tasks" (p. 6; see also Stone, 1998). He described managers as professionally accountable to their constituencies (e.g., owners, employees, customers, suppliers, society). In family businesses, a professional salaried manager is commonly brought in when enterprise size and complexity transcend the interest or ability of founder-owners to continue managing. Correspondingly, ownership becomes separated from management, a pattern that occurred earlier and more broadly in the United States than elsewhere (Berle & Means, 1932; Chandler, 1962). There are also professional associations that foster management education, training, and development, such as the American Management Association, the American Management Foundation, and the Society for the Advancement of Management. The Academy of Management (http://www.aomonline.org) encourages professionalism in management education and produces five professional publications.[8] Though oriented mainly toward professors, it also has some business representation (8% of members in 2008).[9]

Managerial professionalism is also reflected in the high mobility of U.S. managers between employers.

MANAGERIAL MOBILITY

> If you look at the resumes of 28- to 30-year-olds today, they've got three jobs listed already. Ten years ago someone with three jobs was a "job hopper." Today someone who is 30 and has had 10 years with one company, you ask if they're too conservative. (42-year-old U.S. executive Scott Adams, as quoted in Lublin & White, 1997)

In theory, a competent manager could lead any organization, and it is not unusual for seasoned U.S. CEOs to change employers. Many Fortune 500 CEOs have held similar posts at two or more companies, and some at three or more.

External hiring (as opposed to promotion from within) has become increasingly common, in tandem with shortening CEO tenure. In Fortune 500 companies, externally recruited CEOs reached a record high 43% of the total in 2005, up from 34% in 2004 ("Record-Breaking Churn in 2006"). In the S&P 500, 40% of new CEO hires in 2005 were external hires (Spencer Stuart, 2006).

Some past and present examples of this mobility include Thomas Graham, former chief at Jones & Laughlin (steel), who previously led U.S. Steel. Mark Hurd moved to Hewlett-Packard from NCR in 2005; Ed Zander at Sun Microsystems left for Motorola in 2004; Lou Gerstner of IBM (1993) previously led American Express and RJR Nabisco; Raymond Gilmartin moved from Becton Dickenson to Merck in 1994. AT&T's Michael Armstrong previously led Hughes Electronics. James McNerney (3 Com) went to Boeing (2005), and Michael Capellas (First Data Corp.) moved to Compaq Computer (2007).

There is occasional interim crossover from industry to government (e.g., Robert Rubin, cochairman of Goldman Sachs & Co., became treasury secretary in the Clinton administration). Former corporate CEOs who worked for President George W. Bush (2000–2008) included his vice president, Dick Cheney (Haliburton); treasury secretaries Paul O'Neil (Alcoa; International Paper), John Snow (CSX), and Henry Paulson (Goldman Sachs); and defense secretary Donald Rumsfeld (G. D. Searle; General Instruments). However, there is almost no crossover from a high-level government career to becoming CEO of a major company, as can happen in France and Japan.

Before 2001, U.S. CEO succession turnover was higher than in Western Europe, but they have been roughly equal since 2002 (Table 2.6). Their turnover rates have been lower than those in Japan because CEOs there are much older when they attain their positions and thus have less opportunity for long tenure.

Table 2.6 Worldwide Comparison of CEO Turnover (All Types of Succession, by Region), Including Regular (Normal, Planned), Performance-Related, and Merger-Driven Successions

	Percentage of CEOs Who Departed								
	1998	2000	2001	2002	2003	2004	2005	2006	2007
North America	10.6	17.9	13.4	11.0	10.1	12.9	16.2	15	15.2
Europe	6.2	9.8	8.2	11.4	10.0	16.8	15.3	15	17.6
Japan	12.5	14.5	17.1	9.7	13.5	15.5	19.8	15	10.6
Rest of Asia Pacific	2.3	3.7	1.9	9.1	5.6	17.2	10.5	10	—

SOURCE: Karlsson, Neilson, and Webster (2008); Lucier, Kocourek, and Habbel (2006); Lucier, Wheeler, and Habbel (2007); figures for 2006 are approximate (from reading a bar chart).

NOTE: Rates based on the world's 2,500 largest public companies ranked by market capitalization.

High U.S. managerial mobility is due partly to high personal acceptance of change (e.g., tolerance for restructurings, mergers, acquisitions) and high individualism. Managers are more driven by their personal goals than by loyalty to their employer. In addition, an active executive search and recruitment profession (headhunters) emerged earlier in the United States and is more well established than in other countries. In 2007, four of the world's five leading executive recruiters based on fee revenue were U.S. firms Korn/Ferry, Heidrick & Struggles, Spencer Stuart, and Russell Reynolds ("Hire and Hire," 2007, p. 16). In 2007, about 42% of global executive search market revenue was from the United States (Association of Executive Search Consultants, http://www.aesc.org/article/pressrelease2007111301/).

In 2006, *Fortune* magazine profiled a dozen U.S. companies that have been high-profile incubators of senior management talent that migrated to other firms. Table 2.7 lists the top five providers, some of their alumni, and destination employers.

CEO CAREER PATHS

The careers of future CEOs often follow specific business functional paths, some being more common than others. *Fortune* magazine data from the 1980s showed the career paths of Fortune 500 CEOs (industrial and service firms) to have been predominantly in marketing (32% of CEOs), production or operations (20%), and finance or accounting (27%) (McComas, 1986). In 2005, executive recruitment agency Spencer Stuart found in the S&P 500 that the finance function was most prevalent (27%), followed by operations management (25%) and marketing (24%) (Spencer Stuart, 2005). It also found that the proportion of CEOs who had stayed in one functional specialty throughout their careers fell from 25% in 2000 to 9% in 2006 (Spencer Stuart, 2006). In 2007, however, operations (33%) replaced finance (30%) as the most common path, followed by marketing (27%). Only 8% followed a purely "general management" path throughout their career (Stuart Spencer, 2007).

PAY

U.S. CEO pay in big companies has been much higher than in other countries. Consultancy Pearl Meyer & Partners reported average pay in the 200 largest U.S. companies (2005) to be $11.3 million, about 2.5 times that of the largest 100 companies on the FTSE index of the London Stock Exchange (Brush, 2006). For mid-sized businesses, Towers Perrin reported average U.S. CEO pay (year 2005) for firms with at least $500 million in sales to be $2.16 million, compared with $1.2 million, on average, in the United Kingdom, France, Italy, and Germany. (See Table 2.8; for additional CEO pay comparisons, see Tables 3.4, 6.9, 7.5, 8.11, and 8.12.)

Table 2.7 Notable Producers of CEO Talent

Source Company	Alumnus Name	Destination Company	Destination Title
Procter & Gamble	W. McNerney Jr.	Boeing	Chairman/ president/CEO
	Gerald Johnston	Clorox	Chairman/ president/CEO
	Douglas Baker Jr.	Ecolab	President/CEO
	Stephen Sanger	General Mills	Chairman/CEO
	Paul Charron	Liz Claiborne	Chairman/CEO
	Steven Ballmer	Microsoft	CEO
	W. Kiely III	Molson Coors Brewing	President/CEO
	Stephen MacMillan	Stryker	President/CEO
	Ronald DeFeo	Terex	Chairman/ president/CEO/COO
	Mark Ketchum	Newell Rubbermaid	Interim president/CEO
General Electric	Kevin Sharer	Amgen	Chairman/ president/CEO
	Barry Perry	Engelhard	Chairman/CEO
	Robert Nardelli	Home Depot	Chairman/ president/CEO
	David Cote	Honeywell International	Chairman/CEO
	Mark Frissora	Tenneco	Chairman president/CEO
	Lawrence Johnston	Albertsons	Chairman/ president/CEO
	W. McNerney Jr.	Boeing	Chairman/ president/CEO
	Matthew Espe	Ikon Office Solutions	Chairman/ president/CEO
	Christopher Kearney	SPX	President/CEO

(Continued)

Table 2.7 (Continued)

Source Company	Alumnus Name	Destination Company	Destination Title
General Motors	George Buckley	3M	Chairman/ president/CEO
	John Finnegan	Chubb	Chairman/ president/CEO
	José Alapont	Federal-Mogul	Chairman/ president/CEO
	Michael Burns	Dana	Chairman/ president/CEO
	Stanley O'Neal	Merrill Lynch	Chairman/ president/CEO
	Lewis Campbell	Textron	Chairman/ president/CEO
IBM Corp.	John Chambers	Cisco Systems	President/CEO
	Patricia Russo	Lucent Technologies	Chairman/CEO
	Jeffrey Joerres	Manpower	Chairman/ president/CEO
	Steven Reinemund	Pepsico	Chairman/CEO
	Michael Cannon	Solectron	President/CEO
	Paul Curlander	Lexmark International	Chairman/CEO
McKinsey & Co.	Miles White	Abbott Laboratories	Chairman/CEO
	Kevin Sharer	Amgen	Chairman/ president/CEO
	Gregory Case	AON	President/CEO
	W. McNerney Jr.	Boeing	Chairman/ president/CEO
	Michael Jordan	Electronic Data Systems	Chairman/CEO
	John Malone	Liberty Media	Chairman/interim CEO
	William Foote	USG	Chairman/CEO

SOURCE: Partial list adapted from Colvin (2006); other firms mentioned in the *Fortune* magazine coverage (from a longer list) included Eastman Kodak, Chase, Exxon, General Mills, Pepsico, Ford, and AT&T.

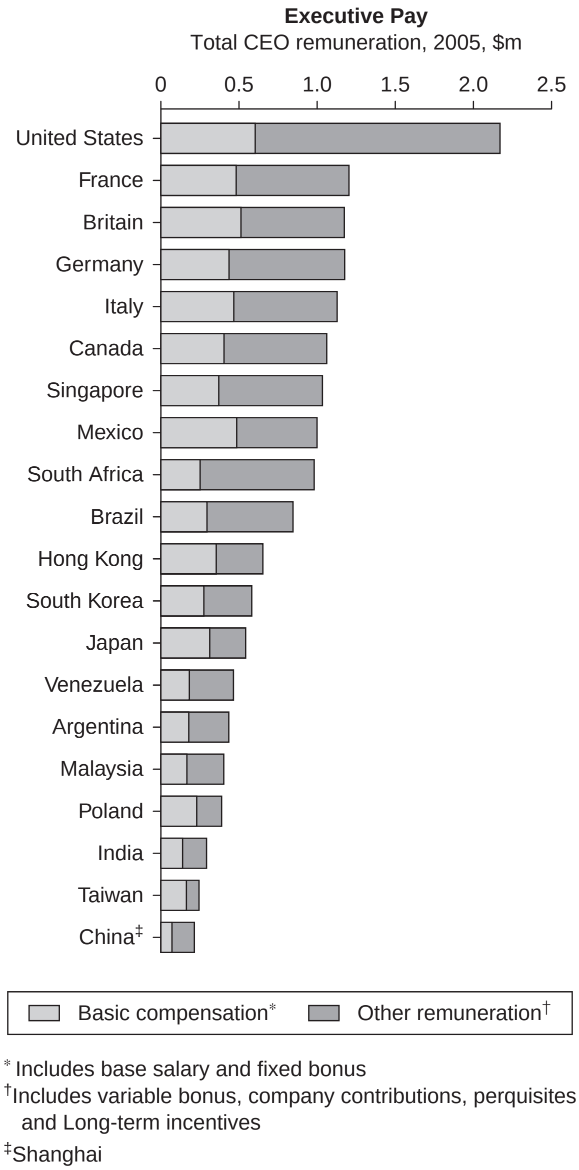

Figure 2.2 Executive Pay

SOURCE: "Real Pay," *The Economist,* January 21, 2006, p. 102. Used by permission.

The pay gap evident in Figure 2.2 is not mainly from base salary differences but rather from supplemental performance pay (e.g., cash bonuses and stock-based incentives) such as the following:

- *Stock options:* The right to purchase a specified number of employer shares at some future date at a price set today; until 2005, stock options in the United States didn't have to be expensed on enterprise financial reports, thus contributing to their use. They remain common but less so than previously.

- *Stock purchase:* Opportunity to buy employer stock either at cost or at a discount.
- *Grants of stock:* Direct gifts of company stock; shares typically vest (become salable) at some conditional future date.
- *Restricted stock:* Grant or purchase of employer stock that vests on some conditional future date.
- There can also be *phantom stock* and *stock appreciation rights* (SARs), bonuses that reward employees based on an increase in the value of the company's stock, the dividend performance of the stock, or both. Pension benefits offer opportunity for additional compensation.

One reason for the high nonsalary component of U.S. CEO pay is a $1 million annual cap (since 1993) on the tax deductibility (to the U.S. employer) of individual salary payouts. The cap doesn't apply to nonsalary compensation. The form and amount of the variable pay can depend on the individual hiring contract, and the amount is typically higher for a person hired from outside the company than for someone promoted from within. For an external hire, the employer needs to at least match the person's prior pay and perquisites plus a suitable raise and incentives.

Though much publicized and frequently criticized, high CEO pay in the United States hasn't generated the same level of public criticism as it has in Western Europe.

INTERNATIONAL EXPERIENCE

U.S. CEOs generally have less international work, travel, and study experience than their European peers. For instance, in one study comparing U.S. CEOs (Fortune 100) with British CEOs (FTSE 100), one third of the Americans and two thirds of the British had lived or worked abroad (Guerrero & Pimlott, 2007b, p. 21). This experience is less often required in the United States, as noted by corporate recruiter Elisabeth Marx of Heidrick & Struggles:

> Many U.S. companies do not have a policy requiring executives to have had international experience in order to obtain a senior position. In the U.K., the better companies make it a requirement to have one or two. (Guerrero & Pimlott, 2007a, p. 21)

In a study of the perceived importance of previous travel and international relocation, 27% of European executives saw this to be extremely important (compared with only 15% of their North American peers). Also, 54% of North Americans (compared with 31% of the Europeans) said it wasn't at all important ("Executives Hold Traditional Values," 2007).

Another survey sought executive opinion about learning foreign languages, finding that "nearly 85% of [executive] recruiters in Europe, 88% of recruiters in Asia and 95% of recruiters in Latin America either 'strongly agreed' or 'somewhat agreed' that being at least bilingual is critical to succeed in today's business environment. Among recruiters in North America, the percentage was just 34%" (*Executive Recruiter News,* 2005).

Few Americans lead large firms in non-English-speaking countries.[10] Reasons include their more limited international backgrounds, legal restraints abroad on hiring of noncitizens, and lower pay. Also, large firms elsewhere are more likely to remain family owned longer, and are less inclined to hire outsiders, either local or foreign, for senior managerial posts. American-born CEOs of firms in non-English-speaking settings have included Frederick Reid (Germany's Lufthansa), Jeffrey Katz (Swissair), Peter Schutz (German-born, American-raised, former head of Germany's Porsche), John Mack (co-CEO, Credit Suisse), John Brock (Interbrew, Belgium), James Schiro (Zurich Financial, Switzerland), Thomas Middlehoff (Bertelsmann, Germany), Nancy McKinstry (publishing house Wolters Kluwer, the Netherlands), Simon Kukes (Yukos, Russia), Steven Theede (Yukos), Ben Lipps (Fresenius, German medical care firm), Gordon Riske (Deutz, German motor manufacturer), and William Amelio (Lenovo, Chinese firm based in Singapore).

By contrast, it is far more usual to find foreign-born leaders heading U.S. companies. Some examples in the present and recent past include the following CEOs: Antonio Perez (Spain) at Eastman Kodak, Sam Gibara (Egypt) at Goodyear Tire & Rubber, Indra Nooyi (India) at Pepsico, Rono Dutto (India) at UAL, Fernando Aguirre (Mexico) at Chiquita Brands, Roberto Goizueta (Cuba) and Douglas Daft (Australia) at Coca-Cola, Anthony O'Reilly (Ireland) at Heinz, David O'Reilly (Ireland) at Chevron, Alex Trotman (Scotland) and Jacques Nasser (Lebanese-born Australian) at Ford, Eric Benhamou (France and Algeria) at 3Com, Durk Jager (Netherlands) at Procter & Gamble, Andrew Grove (Hungary) at Intel, Rajat Gupta (India) at McKinsey & Co., Eckhard Pfeiffer (Germany) at Compaq Computer, Michael Spindler (Germany) at Apple Computer, Rakesh Gangwal (India) at U.S. Airways, Enrico Pesatori (Italy) at Tandem Computer, and Piers Marmion (United Kingdom) at Heidrick & Struggles. Others include Fred Hassan (Pakistani) at Schering-Plough, Michael Patsalos Fox (Greek-Australian) at McKinsey & Co., Robert Bishop (Australian) at Silicon Graphics, Charles Bell (Australian) at McDonald's, E. Neville Isdell (Irish) at Coca-Cola, Sidney Taurel (Spain) at Eli Lilly, and Alain Belda (France and Morocco) at Alcoa (for additional examples, see Story, 2007, p. A1).

It is noteworthy that U.S. CEOs' international experience has been rising. For instance, *Chief Executive* magazine reported that prior work experience abroad was at 37% and 30%, respectively, for Fortune 100 and Fortune 700 CEOs in 2003 (Martin, 2004). For the S&P 500, the number was 37%, up from 21% in 2002 (Spencer Stuart, 2006), but dropped to 34% in 2007 (Spencer Stuart, 2007). For 2007, among CEOs of the largest 100 S&P firms, 47 had experience abroad (Spencer Stuart, 2007).

U.S. Managerial Tendencies

Some notable managerial patterns, pressures, and practices (general tendencies) have characterized bigger U.S. business in recent decades. The descriptions here draw from diverse sources, including the business press, academic researchers, consultancies, data gatherers, and opinions of practicing managers. The management process (i.e., the functions of planning, controlling, organizing, and directing) frames the discussion. Additional comparisons with other countries and regions appear in other chapters.

PLANNING

The process and function of planning focuses on organization purposes and objectives and possible paths to achieve them. Plans themselves can be broad (long term, strategic) or narrow (short-term budgets and operating plans). The planning process can be formal or informal, decentralized or centralized, or continuous or discontinuous. It can be done individually or by groups. It may or may not involve outsiders (e.g., customers, consultants, suppliers). Plans can be put in writing or remain mental maps in the minds of managers (for a comprehensive conceptual overview of the planning process, see Steiner, 1969).

History shows the following tendencies in large U.S. companies compared with their counterparts in Western Europe and East Asia:

- More formalized long-range planning
- More recourse to external consultants
- More willingness to accept change

Formal Planning

The "professional" general manager dotes on long-range planning. He will probably set up a staff for it, then hire consultants to reinforce the staff. He

> will encourage the preparation of a planning manual and a proliferation of forms to be filled out by many different units in the organization. He will stress the preparation and analysis of the numbers that summarize his plans and then demonstrate his mastery of the numbers in presentations to corporate management and the board of directors. (Wrapp, 1979, p. F16)

Compared with peers abroad, U.S. managers historically have been more likely to formalize their long-term planning. That pattern dates back to the early 20th century, when American industrial engineers sought ways to increase production efficiency (e.g., Frederick Taylor's push for scientific management) and new ways to formally track projects, such as the Critical Path Method at the DuPont Co. (mid-1950s) and the Program Evaluation and Review Technique. The latter was developed in the late 1950s for the Polaris submarine program, involving Lockheed Corporation, the U.S. Navy, and consultancy Booz Allen & Hamilton (Wren, 1972). When companies grew larger and more complex, their internal budgeting systems became more formal.

In 1969, corporate planning expert George Steiner observed that many large U.S. companies pioneered comprehensive formal long-range planning systems after World War II. He attributed this to increased environmental uncertainty, rapid technological change, organizational complexity, and ever longer time horizons needed for resource commitments. Many large U.S. firms created planning departments, detailed planning manuals, and planning flow charts. By the early 1960s, about 60% of the 500 largest American industrial firms (SRI study) and 85% of 420 large firms (National Planning Association study) had created formal planning systems. Steiner (1969) concluded that these numbers were "unquestionably far higher than comparable figures for West European countries" (p. 15).

That legacy gave rise to many books and articles on corporate planning and, in academia, to a related professional association (the Strategic Management Society). When U.S. firms spread aggressively into Europe in the 1960s, their planning systems were seen as superior to local ones (Servan-Schreiber, 1967/1968). Although Japanese firms also introduced long-range planning systems after World War II, Kono (1984) saw these to be less formal than American ones.

Canadian Professor Henry Mintzberg (1994a) has described the U.S. managerial bias for formal planning:

> That the relationship [of planning to culture] exists is hardly open to question. . . . America is where the planning school first took root and grew; it is where the General Electrics and the Texas Instruments led the way with action planning, where ITT led the way with performance control. . . . It is America that has generated the vast majority of the vast planning literature, . . . given rise to the huge planning societies, . . . [and] spawned most of the strategic consulting boutiques. (pp. 414–415)

Over the years, attention shifted to strategic planning to more systematically address organization mission, purpose, long-term objectives, and strategic direction (Ackhoff, 1970; Ansoff, 1965; Hofer & Schendel, 1978; Steiner, 1969). That attention focused on questions of location, timing, size, and scope of operations. This brought more systematic assessment of pertinent political, economic, technological, social, and other forces and analysis of internal corporate strengths and limitations (and those of competitors). By the 1980s and 1990s, strategic planning was seen as integral to managing. A planning consultancy profession sprung up. At U.S. universities, the capstone business policy course was repackaged as "strategic management." Strategy has become an academic discipline in its own right (Hambrick & Chen, 2008).

Evolution of Corporate Planning	
1950s and 1960s	Formal long-range planning
1960s and 1970s	Attention to strategic planning
After 1980	Strategic management

Despite much formality in planning, U.S. company performance was often disappointing. Critics saw a failure to involve plan implementers enough in the planning process. According to Bartlett and Ghoshal (1994),

> As companies grew larger and more complex . . . senior executives needed elaborate systems and specialized staff to ensure that headquarters could review, influence and approve the strategic plans of specific business units. Over time, the workings of increasingly formalized planning processes eclipsed the utility of the plans they produced: sterile generalities to which frontline managers felt little affinity or commitment. (p. 80)

Mintzberg (1994a) observed that corporate strategic planning came to resemble strategic programming, with too little strategic thinking, noting that strategy should coalesce incrementally, less formally, and more intuitively (see also Mintzberg, 1994b; Hamel & Prahalad, 1990).

The scale of formal corporate planning in the United States fostered (and is fostered by) the world's largest management consultancy profession.

Recourse to Consultants

Modern-day management consultancies date back to the time-and-motion studies of late 19th-century industrial engineers, which eventually extended into other areas of information and expertise. Larger consultancies emerged earlier in the United States than elsewhere, including Arthur D. Little (1886), Booz-Allen & Hamilton (1914), and McKinsey & Co. (1926). Later (after 1960) came strategy consultancies such as the Boston

Consulting Group (1963), Management Analysis Center (Harvard and MIT professors), and Bain & Co. (1973). By the early 1970s, the major accounting firms (e.g., Arthur Andersen, Ernst & Young) were offering management advice to supplement their tax, audit, and financial advice.

Over the years the growth of consultancy revenue (strategic and other consulting) has outpaced the U.S. economy (Wooldridge, 1997). The global consulting market was estimated to have exceeded $300 billion in 2007 (Kennedy Information, 2008, p. 2). According to one source, 10 of the top 12 most prestigious consultancies in 2008 were based in the United States (Vault Europe, 2008). Kennedy Information reported that 11 of the 15 largest consultancies (by revenue) were American ("Largest Consulting Practices," 2007, p. 1).

Big U.S. consultancies now engage actively abroad and have large international staffs. In 2007, for instance, McKinsey & Co. had 90 offices in 51 countries, and more than half of its partners were non-U.S. nationals.

In other countries, the consulting profession emerged more slowly. One reason was less intense business competition. Also, big companies there tended to stay family controlled longer. In general, family firms are more conservative, less inclined to pay for external advice, and more skeptical of that advice.

Attraction to Change and Fads

> Could fadless management be the next fad? ("Instant Coffee," 1997, p. 57)

> We love panaceas, the quick fix which can solve everything. . . . One always pays the price for quick fixes. (P. Drucker in Poe, 1983, p. 37)

U.S. managers show high acceptance of change and new ideas, as reflected in a high level of entrepreneurship, rapid emergence of new industries, and high managerial mobility across firms. The pressure of competition forces managers to consider change in order to survive. Table 2.8 presents a partial list of change-oriented practices and buzzwords introduced by educators, consultants, trainers, and others offering help, hope, and hype for business (see also Abrahamson, 1996; Carson, Lanier, Carson, & Guidry, 2000; Colvin, 2004; Hilmer & Donaldson, 1987; Micklethwait & Wooldridge, 1997).

CONTROL

Managerial control assesses whether organizational objectives are being met and calls for corrective action (or maybe a change in objectives) when needed. Control can be both broad and narrow. Very broadly, enterprise is controlled by its external product, capital, and labor markets. For example, if sales and profits fall (or are expected to fall), company share price and debt rating normally fall, making new funding more costly until performance improves.

Table 2.8 Help, Hope, and Hype in the Management Jargon Jungle

Activity-based cost accounting	Kanban	Relationship investing
Boston Consulting Group matrix	Knowledge management	Scenario planning
Boundary spanning	Lean organization	Self-managed teams
Boundaryless organization	Lean production	Six Sigma quality control
Business process outsourcing	Learning organizations	Strategic framing
Competitive benchmarking	Leveraged buildup	Strategic management
Continuous improvement	Leveraged buyout	Strategic partnering
Core competencies	M-form organization	Strategic planning
Corporate culture	Management buyout	Strategic visioning
Cross-functional teams	Management by objectives	Strength analysis
Cross-impact analysis	Management by walking around	Stretch targets
Customer relationship management	Managerial grid	Supply chain management
Cycle time reduction	Mission and vision statements	System 4 leadership
Delayering	Modular corporation	Team building
Downsizing	Networked companies	Theory Z organization
Employee empowerment	Niche strategy	Time-based competition
Employee involvement program	Open-book management	Total quality management
Employee stock ownership plans	Organization culture	Total time management
Gainsharing	Performance-based pay	Transformation management
Game theory	Portfolio planning	Value-added chain
Hierarchy value analysis	Process mapping	Value engineering
High-performance workplace	Process reengineering	Value migration
Integrated diversity	Process teams	Virtual corporation
Internal customers	Quality control circle	Zero-based budgeting
Intrapreneurship	Quality-of-worklife program	Zero defects
Job enlargement	Reengineering	
Job enrichment	Relationship contracting	

Boards of directors normally are empowered to control management (e.g., hire, advise, counsel, evaluate, reward, persuade, or remove managers) on behalf of owners, and they do so with varying effectiveness. Internal control systems (e.g., financial controls, budgeting systems, quality control, supervision) are also part of the control process.

Some control tendencies in large U.S. companies (relative to peers abroad) include the following:

- Broader and more transitory shareholder base that is more inclined to flee (sell their holdings) rather than fight (engage with managers) for change
- More attuned to shareholder interests relative to other stakeholders
- More vulnerable to buyout and takeover pressures
- More focused on quantifiable performance criteria
- Shorter-term time orientation
- More bottom-up appraisal of managers

Broad (and Transitory) Shareholder Base

> U.S. rules that protect investors don't just sustain market liquidity, they also drive a wedge between shareholders and managers. Instead of yielding long-term shareholders who concentrate their holdings in a few companies, where they provide informed oversight and counsel, the laws promote diffused, arms-length stockholding. (Bhide, 1994, p. 131)

More than half of U.S. households own corporate stock (either directly or through their mutual fund and pension fund holdings). However, few investors are inclined to engage much with management when disappointed with performance. Instead, they sell their shares and look elsewhere. These fluid shareholdings contrast with the more closely held and more engaged equity of Europe and Japan (La Porta, Lopez-de-Silanes, & Schleifer, 1999).

One reason is a very large U.S. equity market, which offers more liquidity for investors than do most markets abroad. Firms abroad rely more on debt financing (bonds, loans), and proportionately fewer go public. Shareholding tends to be more concentrated (La Porta et al., 1999), and more large companies remain longer in the hands of founders. There is also more cross-shareholding between firms. With less dispersed and less liquid holdings, block shareholders (blockholders) are strongly inclined to engage directly with management when displeased with performance. In the United States, by contrast, this "relational investing" is seen mainly in venture capital, private equity buyouts, investment holding companies, and large institutional investors unable to sell their holdings without causing a drop in share price. Examples include large hedge funds, big mutual funds (e.g., Fidelity

Magellan), and giant pension funds. For example, CALPERS, the huge California public employee pension fund ($245 billion in assets in early 2008), maintains a list of laggard companies (low-performing stocks) and regularly pressures their CEOs and boards for change. So does TIAA-CREF, the world's largest retirement and financial service firm (more than $435 billion in assets under management as of January 2008).[11]

Priority of Shareholder Interests

> [The CEO is] . . . an employee of the stockholders, and *profit* is a shorthand term for the interests of . . . stockholders. . . . A really competitive enterprise can't sacrifice profit [to pursue social goals] unless he has some monopolistic power. (Milton Friedman in "The 'Responsible' Corporation," 1973, p. 56)

American managers and directors tend to be less oriented toward non-shareholder constituents (e.g., employees, creditors, suppliers, government, communities) than their European and Asian peers. Although these other interests are by no means ignored, shareholder value (share price appreciation and dividend payout) gets first attention. One explanation is that managerial pay bonuses are often tied to share price appreciation.

By contrast, in Japan, job security for employees and long-standing relational ties with suppliers usually take priority over dividend payout to shareholders (see Chapter 7). European managers and boards are more directly obliged, both socially and legally, to respond to other interests. For example, employees and creditors sometimes sit on company boards of directors (more discussion in Chapter 3). Also, governments there occasionally have partial equity stakes even in predominantly private firms.

High Exposure to Buyout and Takeover Pressures

Wider share ownership and higher share turnover expose U.S. managers to more buyout pressure than occurs abroad. A potential acquirer, whether welcome or not, may pursue a buyout or merger for strategic reasons. In some cases, firms are acquired by their own managers (management buyouts).

Buyouts and takeovers are commonly financed by exchange of stock or other assets or by borrowing (e.g., loans, bonds). Pressures intensified with the emergence of private buyout equity partnerships and associations in the 1970s (e.g., Kohlberg Kravis Roberts & Co., Forstmann Little, Blackstone Group, Carlyle Partners).[12] These groups mobilize substantial capital from diverse individual and institutional sources (endowments, pension funds, hedge funds, investment banks, insurance companies, sovereign investment funds) to buy underperforming firms they hope later to sell or take public for significant gain.

In Western Europe, similar buyout pressures were slower to emerge. Takeover attempts there are less often hostile than in the United States and often blocked by dominant shareholders. In some cases outsiders can own only nonvoting shares, and governments occasionally block acquisitions when the suitor is foreign. The high-risk "junk bonds" popularized in the United States to finance buyouts have been less available abroad and in some settings are illegal.

Attention to Numerical Performance Indicators

> The difference between well-managed companies and not-so-well-managed companies is the degree of attention they pay to numbers, the temperature chart of their business. How often are the numbers reported up the chain of command? How accurate are those numbers? How much variation is tolerated between budget forecasts and actual results? How deep does management dig for its answers? . . . Does one set of numbers match the other? Is the actuality above or below the company's expectations? If it is either, what are you going to do about it? (Geneen, 1984a, p. 78; see also Geneen, 1984b)

For purposes of planning and control, managers commonly monitor and analyze indicators of earnings, profitability, productivity, sales, market share, and costs for their overall business and subunits thereof. Numerical indicators gained particular attention in the 1920s when the DuPont Corporation popularized a return-on-investment (ROI) approach to measuring and comparing performance (Davis, 1950).

In the late 1990s, additional indicators became popularized, including economic value added (EVA), market value added (MVA), and total shareholder return (TSR). EVA is the amount by which a company's return on its overall capital (equity and debt) exceeds the cost of that capital. Put differently, it is the company's operating profit after income taxes, interest, and dividend payout to investors.[13] MVA is the difference between the total funding (at book value) that stock and bond investors have put into a company and its current equity market value, a reflection of wealth created.[14] TSR is the sum of holders' share price appreciation (capital gain) and dividends earned.[15] Some companies tie changes in these and similar indicators to CEO pay bonuses.

In the opinion of some observers, U.S. managers give numbers more credence and attention than warranted. As Hayes (1985) noted, "Quantitative goals . . . tend to drive out non-quantitative goals. It is easy to believe . . . that anything non-quantitative is not important" (p. 113). In the same vein, Michael Porter (1992a, 1992b) concluded that fixation with numbers had become a significant barrier to efficient allocation of capital and suggested that American managers needed to focus more on grasping the assumptions underpinning their numbers. For other critics, the problem hasn't been the numbers per se but rather the short-term time horizon for tracking them.

Short-Term Performance Orientation

> Too many public company managers are still chasing the wrong bottom line. They run their companies, make their investment decisions, and pay their subordinates according to short-term accounting numbers. (Rappaport, 1990, p. 99)

> Management is a balancing act between the short term and the long term, between different objectives at different times. You have to have performance concepts and measures that enable you to do different things at different times. And the present stock market and the constant pressure to make next quarter's numbers are a severe impediment to achieving that balance. (P. Drucker, in Schlender, 1998, p. 170)

Compared with peers abroad, U.S. firms tend to rely more on equity financing in proportion to debt (loans, bonds) and face more pressure to report higher earnings every reporting cycle. Hayes and Abernathy (1980) remarked that the tendency "to fix on profit centers necessitates, in turn, greater dependence on short-term financial measurements like return on investment (ROI) for evaluating the performance of individual managers and management groups," declaring that "maximum short-term financial returns have become the overriding criteria for many companies, [resulting in] inordinately market-driven (and insufficiently innovation-driven) business strategy" (p. 68; for a similar view, see Jacobs, 1991). Some reasons for short-termism include overmeticulous tracking and reporting of expected earnings by management (the so-called guidance provided to financial analysts). There is also much daily and weekly attention in the business press to small, near-term stock price fluctuations. Individual stockholders (and investment fund managers) seem to do more short-term trading rather than long-term investing. For example, between 1960 and 2002, the average holding period for a share of common stock in the United States dropped from 8 years to less than 1 (Porter, 1992a; see also Bhide, 1994).

> Indeed, between 1945 and 1965 annual portfolio turnover averaged a steady 17 percent, suggesting that the average fund held its average stock for about six years. . . . Compared to that earlier . . . standard that prevailed for some two decades, the average stock is now held by the average fund for an average of just eleven months. . . .
>
> If a six-year holding period can be characterized as long-term investment and if an eleven-month holding period can be characterized as short-term speculation, mutual fund managers today are not investors. They are speculators. (Bogle, 2005, p. 4)

Mutual fund and pension fund managers face constant pressure to report ever better near-term financial results, and stockbrokers generate more fee income when share turnover increases. Also, the growth of online stock trading has fostered a shorter-term trading mentality by many individual investors.

A short-term time horizon is also reflected in surveys about expected recovery time for new capital investment. For example, in response to a *Wall Street Journal* survey about their investment abroad, North American CEOs expected a payback period of 4.3 years, on average, compared with

5 years for European and Pacific Rim managers (apart from Japan) and more than 6 years for Japanese managers. When asked whether they were willing to consider a longer time period, only 32% of North American CEOs were so inclined, compared with higher numbers for their Pacific Rim (42%), European (49%), and Japanese (63%) counterparts ("Surveying the CEOs," 1989, p. R21).

In a similar survey of 300 large U.S. and foreign companies, 21% of U.S. respondents declared their investment projects to be long term, compared with 47% and 61%, respectively, for their Japanese and European counterparts (Porter, 1992a).

Short-term time orientation is attributable partly to high managerial mobility. Attainment of near-term profit goals can draw the attention of executive search firms and bring a new job offer at higher pay and more challenge or prestige with a different employer. Managers can also be motivated to postpone longer-term investment in order to report higher near-term earnings. Also, grants of executive stock options become valuable only when company share price rises. If these stocks vest too soon, they can bring about a short-term mind-set.

More Peer and Bottom-Up Performance Appraisal

Along with the traditional top-down review (e.g., by supervisory higher-ups and boards of directors), managers can be evaluated by their colleagues and even by subordinates (see Grote, 2005). In one survey, 32% of U.S. firms used bottom-up reviews to complement their top-down reviews (Seglin, 2001). The internal evaluations sometimes include forced ranking of all employees (e.g., at General Electric, Cisco, Hewlett-Packard, Sun Microsystems, Intel) (Grote, 2002). At General Electric, for instance, people ranked in the bottom 10% have been strongly encouraged to pursue other employment.

> General Electric, a company whose management techniques are closely followed, has long evaluated its managerial and professional employees on a curve. . . . Each year, individuals complete a long form in which they lay out their contributions and list both strengths and weaknesses and areas needing improvement. . . . Their supervisors use similar forms to evaluate their employees and to comment on the employee's own assessments. . . . The supervisor will also solicit the opinions of peers and subordinates. (Abelson, 2001, p. A1)

ORGANIZING

Organizing is concerned with the integration and coordination of resources and effort and the flow of information and authority. It considers what activities to decentralize and whether company structure should focus around business functions (e.g., marketing, finance, manufacturing), or around product group, geographic region, processes, projects, or some hybrid approach (e.g., a matrix). The preferred choice can depend on circumstances (e.g., organization size, strategy, performance, technology, people, goals). For example, a smaller business, or one with a narrow product line, will normally structure itself around the business functions. But if it grows or diversifies, then changing to a product or geographic area orientation can enhance coordination and integration of operations (see Chandler, 1962; Stopford & Wells, 1972). External factors (e.g., intensity of competition) can also influence change. High acceptance of change in American culture makes organizational change more welcome than in most cultures.

Two organizational tendencies in large U.S. corporations (relative to counterparts abroad) are as follows:

- More likely to decentralize authority (i.e., to delegate key tasks and decision-making authority to subordinates)
- More frequent organizational change

Decentralization of Authority

Decentralization (i.e., the delegation of decision-making authority to lower organizational levels) was necessary in the early nationwide expansion of American business. In that regard, the DuPont and General Motors pioneered so-called federal (multidivisional) structures in the 1920s (decentralized product divisions, each often a separate profit center, with autonomous revenue and cost accountability) (Chandler, 1962).

In Japan, by contrast, societal culture long favored more centralized authority. Businesses there were less likely to diversify quickly, so there was less pressure to decentralize. When expanding abroad, they were more likely to keep tight control at headquarters, ceding less autonomy to their foreign units. By contrast, U.S. firms were quicker not only to diversify but also to make structural changes during their surge into Europe in the 1960s (Servan-Schreiber, 1967/1968). They were quicker than Europeans to use cross-national structures within Europe (Franko, 1976). Dyas and Thanheiser (1976) found a tendency for French and German firms to stay organized around business functions even when circumstances (e.g., product and market diversification) favored a divisional structure (see Dyas & Thanheiser, 1976, pp. 299–303). By contrast, European competitors were slower to decentralize their operations, preferring closer "mother–daughter" ties between headquarters and regional subsidiaries (Franko, 1976). In that era, Servan-Schreiber (1967/1968) noted the following:

> An American firm can change its methods in almost no time, compared to a European firm. . . . These U.S. subsidiaries have shown a flexibility and adaptability that have enabled them to adjust to local conditions. . . . One by one, American firms are setting up headquarters to coordinate their activities throughout Western Europe. This is true federalism—the only kind that exists on an industrial level. (p. 36)

A willingness to decentralize organizations can also be influenced by cultural factors. For example, in low power distance cultures (e.g., the United States) managers are more likely to cede authority to subordinates, and there is more ready acceptance of delegated authority by the subordinates. Conversely, where social class structures are more rigid (e.g., high power distance settings as in Asia, Latin Europe, and Latin America), there is generally less delegation and more reluctant acceptance of delegated authority by subordinates.

Frequent Organizational Change

The open U.S. economy and intense business competition contribute to many change-driven actions, such as mergers, acquisitions, split-ups, organization development interventions, structural reorganization, spin-offs, buyouts, startups, and bankruptcies. As one broad indicator of change over time, of the 500 U.S. companies in the S&P 500 index in 1957, only 74 remained in 1997 (Foster, 2001).[16]

Most of the world's biggest merger and acquisition (M&A) advisors (e.g., investment banks), and equity buyout firms originated in the United States. For years, their U.S. activity was much greater than in Europe, but the M&A gap is now largely eroded.

One practice conducive to U.S. mergers and acquisitions has been high severance payouts (golden parachutes) to senior managers displaced by change in ownership. According to one source, 60% to 70% of large U.S. firms had such parachutes in 1999, compared with only 15% of British ones and even lower numbers on the European continent. Also, the prevalence of managerial stock options has been conducive to organizational change and risk taking. These options have high potential for personal financial gain if change is successful but little risk if it isn't. Another contributing factor is broad U.S. cultural acceptance of change (low score on Hofstede's uncertainty avoidance).

DIRECTING

The managerial function of directing involves guiding, commanding, nudging, exhorting, and inspiring subordinates, colleagues, superiors, and others to higher performance. This requires skills of leadership, communication, and motivation, in turn influenced by culture.

Among some general tendencies of U.S. managers and subordinates (relative to many counterparts abroad) are the following:

- Much directness in interpersonal communication
- Aversion for authoritarian leaders
- Motivation mainly from money, ego gratification, and personal challenge (and less from loyalty and personal relationships)

Broadly speaking, U.S. managerial (and other) communications tend to be direct and straightforward, a defining trait of a low-context culture. As Edward Hall (1976) noted,

> Context and communication are intimately interrelated. In some cultures, messages are explicit; the words carry most of the information. In other cultures, such as China or Japan or Arab cultures, less information is contained in the verbal part of the message, since more is in the context. That's why American businessmen often complain that their Japanese counterparts never get to the point. The Japanese wouldn't dream of spelling the whole thing out. To do so is a put-down; its like doing your thinking for you. (p. 64)

In a similar vein, Peter Lawrence (1996, p. 64) pointed out the following:

> In the American meeting, rank and hierarchy differences will intrude less than say in France or Britain (though they are present). Power play will be more direct. Nothing that needs to be said will be unsaid for reasons of delicacy or interpersonal restraint. . . .
>
> American meetings move things on. At the end of the meeting you know:
>
> - What is going to be done
> - Who is going to be responsible for what actions
> - When it is going to be done

This directness can be seen in the highly detailed business agreements (formal written contracts with carefully crafted contingency clauses), detailed employment contracts, and performance appraisals.

Effective leadership style can depend on the people involved, the tasks at hand, and other situational factors. The low power distance and low uncertainty avoidance of U.S. culture are not conducive to an authoritarian or paternalistic leadership style.

U.S. CEOs are attracted to high pay and personal challenge but are less driven (than most foreign peers) by loyalty to family, colleagues, owner, or boss. As noted previously, CEO pay in large companies is very high by world standards, and the pay packages are more personalized. For many managers, the issue isn't so much the level of pay but rather how it compares with that of peers both inside and outside the company, a reflection of personal self-worth.

Chapter Summary

For decades, the traits, triumphs, and troubles of U.S. management have attracted global attention. The United States has contributed much to the emergence of management thought and theory, consulting, recruitment, education, and research; nowhere has there been so much dialog and debate about managerial topics.

U.S. managerial tradition and practice draw from a distinctive political, economic, and sociocultural setting that shows the following features:

- Business–government relations are more neutral than in most countries, so there is less government ownership, less public assistance for business, and more economic freedom. However, antitrust rules and civil rights are generally more protected; labor unionism and union political power are weaker than in Europe.
- In general, the U.S. economy has been more free, productive, and competitive than most. There is more entrepreneurship and employee mobility; the overall tax burden is lower in relation to income; unemployment and inflation have been low; corporate shareholdership is broad-based.
- U.S. culture reflects high individualism and high tolerance for risk, change, and diversity; power distance is low; equality of opportunity is valued more than material equality; the culture is predominantly low context, oriented toward direct (explicit) communications and an orderly view of time (life, including work life, is scheduled; punctuality is valued) and formality in business agreements (carefully worded contracts).

In regard to managers and management in large companies,

- U.S. CEOs are more mobile and higher paid than peers in Europe and Japan, but have less international experience than Europeans; the pay gap comes not mainly from salary but from supplemental pay (bonus and performance pay) and commonly includes employer stock and stock options.
- U.S. managers have been more likely than foreign peers to formalize their long-term planning activity; they rely more on external consultants, are more accepting of change, and are drawn more quickly to new ideas and fads.
- Managers rely heavily on numerical performance indicators and face more intense pressure from investors to improve near-term financial results; there is more exposure to external takeover tries and more attention directed to stockholder interests (shareholder value) relative to other stakeholders (employees, creditors, suppliers, communities).

- There has been a stronger tendency in the United States than abroad to decentralize organizations and to effect organizational change (acquisitions, mergers, restructurings, managerial mobility).
- Leadership, communication, and motivation style conform with the low-context nature of U.S. culture; in general, people prefer nonauthoritarian leaders; directness and frankness are valued in personal communication, including in performance evaluations; pay, public esteem, and personal challenge are stronger motivators than is loyalty to an employer.

Terms and Concepts

equity buyout (private equity) firm
executive headhunter
golden parachute
hostile takeover
management buyout
management performance indicators
multidivisional organization structure
performance pay
professional management
Protestant ethic
shareholder capitalism
stock option
total shareholder return

Study Questions

1. Describe what is distinctive about the American managerial macroenvironment (economic, political, sociocultural, demographic, educational). What features differ the most from those of another country or culture with which you are familiar? In your judgment, is the U.S. macroenvironment changing? Explain how this could influence managerial practice and performance.
2. Investigate the personal background of the CEO of a large U.S. company. Find out as much as possible about the person's age, education, family background, career path, time in rank, international experience, and the like. To what extent does the profile conform with the prototype presented in this chapter?
3. Describe prevailing patterns, pressures, strengths, and criticisms of contemporary U.S. managers and management.
4. By global standards, U.S. managerial pay has been substantially higher than in other countries. How can this be explained? Discuss the following opinion: In the continuing, probably everlasting debate about managerial compensation, most CEOs seem to believe they are worth every dollar they get. By contrast, many investors think executive pay is unfair, has little relationship to performance, and is out of control.
5. From a managerial perspective, discuss trade-offs (advantages, disadvantages) between a company going public or remaining privately held.

Exercise 2.1

Investigate what is distinctive about the U.S. system of higher education for business management in comparison with that of another country or world region.

Exercise 2.2

Investigate and discuss the corporate governance guidelines enacted by the U.S. Congress in 2002 (Sarbanes–Oxley Act). In your judgment, have the guidelines contributed to improved corporate governance and performance? Discuss.

Case Study

Board of Directors

In U.S. stock exchange–listed companies, boards of directors typically are empowered (by law and company bylaws) to counsel and oversee management on behalf of stockholders.

Critics of boards sometimes note that directors tend to rubber-stamp the plans, actions, and decisions of the CEO. This has been attributed partly to having too many "inside directors" (executive directors). Even though outsiders usually outnumber insiders, it is not unusual for a U.S. CEO, or a recently retired one, to chair the board and to set and control meeting agendas, filter information, and influence the nomination of directors. Also, some directors are (or have been) CEOs of other firms and may be likely to protect management more than shareholder interests when these interests diverge. It is alleged that this bias contributes to the high pay of American CEOs compared with their peers abroad. Some firms pick directors whom they also tap for professional services (e.g., consultancy, legal advice, loans), triggering potential conflicts of interest.

Questions

1. In your view, what are the traits of an ideal company board of directors in terms of its size, director selection process, composition, experience, tenure, and director pay?
2. Investigate the board of directors of a specific company. If you were hired as an independent external advisor, what changes would you to suggest to its board, and why? Many company Web sites provide director biographies. For information on a particular corporate board, check the site for headings such as "investor relations" or "corporate governance."

Notes

1. About 624,000 non-U.S. students were enrolled in U.S. higher education in 2007–2008, with about 1 in 5 concentrating on business and management studies (Institute for International Education, http://opendoors.iienetwork.org/?p=131534).

2. See "World's Most Respected Companies" (2005); in 2007, 8 of the world's 10 most admired in a *Fortune* magazine global ranking were U.S. firms (Fisher, 2008, p. 67).

3. Examples of U.S. government corporations include the U.S. Postal Service, Eximbank (export loan guarantor), Overseas Private Investment Corporation (political risk insurer for some U.S. direct investors abroad), Amtrak (rail transport), and the Tennessee Valley Authority (electric power generation).

4. U.S. Bureau of Labor Statistics (n.d.). http://www.bls.gov/news.release/union2/nr0.htm.

5. The United States ranked fifth on the 2008 Heritage Foundation/Wall Street Journal Index of Economic Freedom (O'Grady, 2008), behind Hong Kong, Singapore, Ireland, and Australia.

6. U.S. foreign investment figures are reported annually in the August issue of *Survey of Current Business* (U.S. Department of Commerce).

7. In February 2008, about 7,000 companies (some of them non-U.S.) were listed on the New York, American, and Nasdaq stock exchanges (the 3 largest of 12 U.S. stock exchanges); U.S. securities market regulation (Sarbanes–Oxley Act of 2002) has contributed to a gradual reduction in listings.

8. The five publications of the Academy of Management are the *Academy of Management Review, Academy of Management Journal, Academy of Management Perspectives, Academy of Management Learning & Education Journal,* and *Academy of Management Annals.*

9. Other academic professional associations include the Academy of Business Education, Academy of Business and Administrative Sciences, American Society of Business and Behavioral Sciences, Academy of International Business, and Institute of Behavioral and Applied Sciences.

10. Examples (past and present) of U.S. CEOs leading foreign firms in other English-speaking countries include Solomon Trujillo (Telstra, Australia, 2005), Robert Diamond Jr. (Barclays, UK, 2005), Marjorie Scardino (hired by The Economist Newspapers, Ltd., in 1993 and in 1996 picked to lead its parent firm, Pearson PLC, UK), Ann Iverson (Laura Ashley, UK, 1996), Richard Brown at Britain's Cable & Wireless PLC (1996), Jonathan Ornstein (Virgin Express, UK, 1996), Richard Giardano (BOC, UK, industrial gases), Gene Lockhart (Midland Bank, UK), Paul Anderson (Broken Hill Proprietary, Australia), Robert Joss (Westpac Banking Corp., Australia), Don Voelte (Woodside Energy, Australia), Tom Glocer (Reuters, UK news agency), and Nancy McKinstry (Dutch publisher Kluwer).

11. TIAA-CREF serves mainly educational and research institutions; see http://www.tiaa-cref.org/newsroom/quickfacts.htm1;TIAA-CREF.

12. More information on buyout equity investors can be found at the Private Equity Council Web site (http://www.privateequitycouncil.org/); see also "Kings of Capitalism" (2004).

13. EVA was conceived and popularized by New York consultancy Stern Stewart & Co. See Lieber (1996) and Topkis (1996).

14. *Fortune* magazine published annual EVA and MVA rankings for large U.S. corporations for a few years beginning in 1993.

15. See the *Wall Street Journal* annual shareholder scoreboard (since 1996), an annual ranking of 1,000 major U.S. companies according to "total stockholder return" for 1-, 5-, and 10-year time periods (http://www.wsj.com).

16. If a firm is dropped from the S&P 500 large-cap stock index, it hasn't necessarily disappeared because the index is picked and readjusted by committee. Also, a few firms in the index are non-U.S.

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