

SALES LEADERS AS SENIOR LEVEL MANAGERS: A CONCEPTUAL FRAMEWORK FOR EXAMINING UPPER ECHELON THEORY

By Michael Rodriguez

This paper introduces a conceptual framework, upper echelon theory, and its link to executives who possess unique characteristics that allows them to deliver the leadership needs of an organization. Specifically, the paper suggests that sales experience may be a better indicator of success for firms who pursue high growth ambitions. Two propositions are introduced: (1) the association between the executive's output-function experience and the delivery of the organization's strategy and (2) the link between executive job demands and the sales executive's characteristics. The purpose of this paper is to assist firms and their boards to select future leaders and executives who can best deliver the strategic goals of the firm.

Introduction

A recent trend has been the increased turnover in organizations at the executive level. In Booz Allen's study of CEOs, the consulting firm found that annual CEO turnover had grown 59% from 1995 to 2006 (Lucier, Wheeler and Habbel, 2007). In 2006 alone over 1,112 chief executives exited the "corner office", according to Chicago consulting firm, Challenger, Gray and Christmas. Table 1 provides a small sample of executives that left their respective organization and their tenure at the position. As shown, only two executives served in their position for over two years.

Numerous reasons explain the short tenure of recently departed executives: increased market competition, shareholder impatience, and/or lack of strategic fit. The survey conducted by Booz Allen found that CEO turnover was most related to poor performance. Viacom's former CEO and 26 year veteran, Tom Freston, for example, was fired due to Viacom's lagging stock price. Freston had served as CEO for only eight months. There has been previous research describing the phenomenon of executive turnover, but very limited research explains the reasons for corporate leaders' departures.

One can argue that the executive's background may not have been an ideal fit for the strategic direction of the firm. That is, C-Level executives may have lacked the background, skills, or experience that would have enabled them to meet their organization's expectations. Firms looking to implement significant change such as a new strategy need outgoing leaders, who can take risks and initiate change in order to make an immediate impact within their respectful organization.

This paper analyzes and discusses a specific characteristic many C-Level executives do not possess: sales experience. The fundamental purpose of this discussion is to introduce and examine upper echelon theory and its link to executives who have the unique characteristics to lead and achieve the needs of their organization. The upper echelon perspective "states that organizational outcomes – strategic choices and performance levels – are partially predicted by managerial background characteristics" (Hambrick and Mason, pg. 193, 1984). This leads to an important question: is there a positive link between CEOs with sales experience and an organization's success?

This paper also considers the aspect of executive job demands and its relationship to

TABLE 1

<i>Company</i>	<i>Executive</i>	<i>Tenure</i>	<i>Background</i>
Ford	Anne Stevens	11 Months	Marketing
Airbus	Charles Champion	13 Months	Engineering
Wal-Mart	Lawrence Jackson	10 Months	Operations
Sears	Craig Monaghan	5 Months	Finance
J.C. Penny	Catherine West	7 months	Operations
Tom Freston	Viacom	8 months	Advertising
Henry McKinnell	Pfizer	5 years	Finance
Roger Deromedi	Kraft	3 Years	Economics and Marketing

executives with sales experience. Hambrick, Finkelstein and Mooney, define executive job demands “as the degree to which a given executive experiences his or her job as (being) difficult or challenging” (pg. 4, 2005). This paper proffers a framework to aid practitioners, serving on company boards and committees, better select future business leaders based upon their strategic fit with the firm.

THEORETICAL BACKGROUND AND LITERATURE DISCUSSION

Upper Echelon Perspective

The CEO's role in creating competitive advantage and gaining exceptional performance has been a major focus for many academic researchers (Carmelli, 2006). Hambrick and Mason (1984) state: “organizational outcomes – both strategies and effectiveness – are reviewed as reflections of the values and cognitive bases of powerful actors in the organization” (pg. 193). For instance a senior level manager with an operations background may be an ideal fit for a firm seeking a cost-reduction strategy. However, what about firms that need to shift the corporate strategic direction to high growth and increased shareholder value? Those firms would need to implement a strategy that can be fraught with significant change and risk.

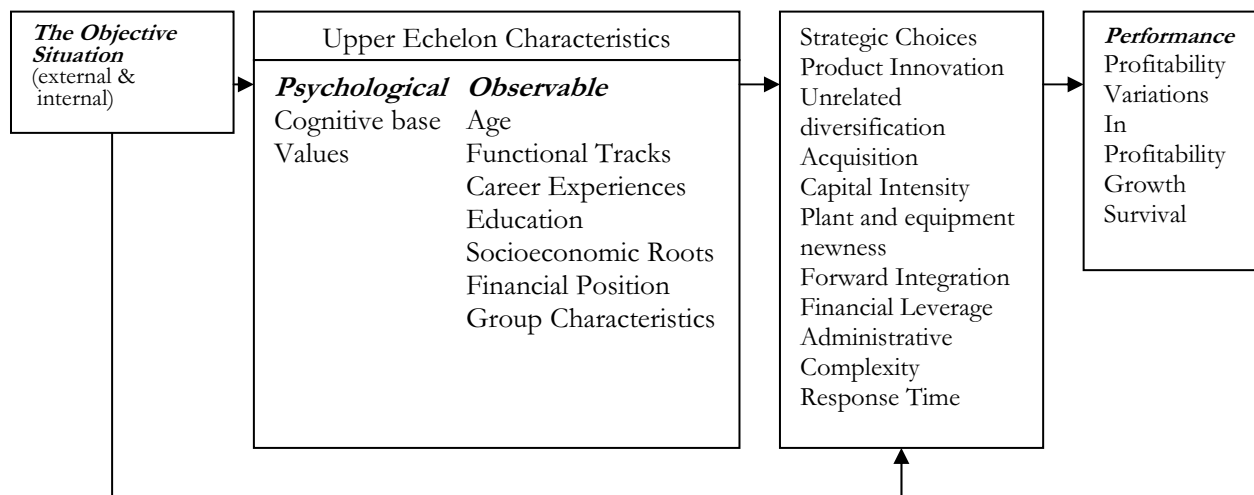
“...Willingness to take risk is important because changing firm strategy involves risk: established ways of conducting business are abandoned in favor of making commitments to strategic directions for which the payoffs are not guaranteed” (Wiersma and Bantel, 1992, pg. 92).

In Wiersema and Bantel's study, they provide evidence that a relationship exists between the demographic background of top management teams and corporate strategic change. There are two important contributions made by their research. First, through their strategic decisions top management teams have an important influence on the direction of firms (Child, 1972). Second, the demographic characteristics of top management teams have a significant relationship with a strategy-related organizational outcome (Wiersema and Bantel, 1992). Both contributions support upper echelon theory that states that organizational outcomes are often predicted by managerial background characteristics (Hambrick and Mason, 1984). Based upon these findings, companies seeking strategic change that involves high growth and increased shareholder value should seek top managers who possess a background and expertise delivering aggressive results and meeting high-level expectations.

In the development of upper echelon theory, the focus is on executive background

characteristics rather than on psychological dimensions of the executive (Hambrick and Mason, 1984). The theory states that the organizational outcomes can be predicted by the professional background of management. Figure 1 below describes the overall Upper Echelon Perspective.

Figure 1 – An Upper Echelon Perspective of Organizations



The model suggests that upper echelon characteristics are a reflection of the situation faced by the organization. Hambrick and Mason's model begins with the objective of the firm. The specific objective or unique situation directly relates to the values and characteristics of the upper echelon. These values and characteristics are then determinants of the overall strategic direction of the organization. The dependent variables listed--profitability, growth, and survival--measure performance and are linked to the upper echelon's characteristics (Hambrick and Mason, 1984). Said differently, corporate leaders play a crucial role in the strategic direction of the organization. The authors also develop a number of propositions that describe associations between the characteristics of the executive and the organization. One that is of particular interest is the proposition regarding functional track. There are three functional track categories:

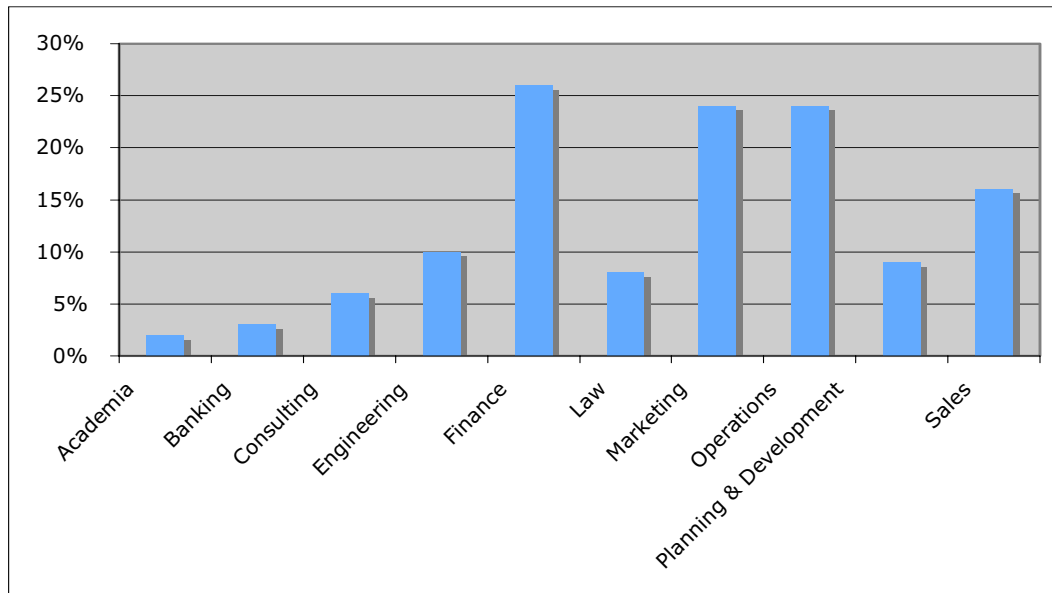
1. Output Functions – marketing, sales, and product research and development (Miles and Snow, 1978).

2. Throughput Functions – focused on improvement in efficiency such as production or operations.

3. Peripheral Functions – Finance and law (Hayes and Abernathy, 1980).

In 2002, Hermann and Datta conducted a study of 126 CEO successions. The study examined successor characteristics and discovered that all new CEOs possessed throughput functional background versus output functional background. In other words, new CEOs possessed neither sales nor marketing experience. Spencer Stuart, a leading global executive search firm, also published a study detailing background and career characteristics of leading S&P 500 CEO's. Their study reported that the three most common-held functions were finance, operations, and marketing with finance being the most common among CEOs since 1997 (see Figure 2 below).

The report concluded that newly appointed CEOs implemented strategies with which they were most familiar and comfortable. As a

Figure 2 - Most Common Career Functions – SpencerStuart, 2004

result, new CEOs in the early stages of their tenure are risk averse and avoid strategies that may jeopardize their career (Hermann and Datta, 2002). “In addition, the early years of a CEO's tenure are typically characterized by limited task knowledge, making it more difficult for CEOs to endorse risky strategic options” (Hambrick and Fukutomi, 1991, pg 724).

In today's economic landscape, organizations are not giving CEOs much time to deliver results. These firms need leaders who can deliver performance and execute the goals set by management. Why do firms, looking to implement growth strategies, continue to hire individuals with throughput and peripheral background versus that of output functions like sales and marketing? The next section discusses the characteristics of output function-related experience and the potential impact on company performance.

Characteristics of Sales Leaders

Organizations that look to achieve revenue growth, increase customer satisfaction, or deliver a new product to the marketplace search for professionals with specific skills,

characteristics, and experience delivering performance. Existing theoretical paradigms, like learning theory, suggests that specific work experience has a positive relationship with job performance (Fu, 2009; Weiss, 1990). Based on past research, it is reasonable to expect that an executive that possesses experience in obtaining new clients and generating revenue may be a strategic fit for firms with aggressive organizational goals. These firms should consider individuals with sales experience since salespeople are responsible for generating revenue, profits, customer satisfaction, and achieving quota within defined timeframes.

“The salesman is responsible for developing and maintaining a satisfactory business relationship between his customers and his company...the salesman must have the ability to anticipate and adapt to different social situations and must have a need for the prestige and recognition that come from successfully representing often opposing viewpoints” (Lamont and Lundstrom, 1977, pg. 521).

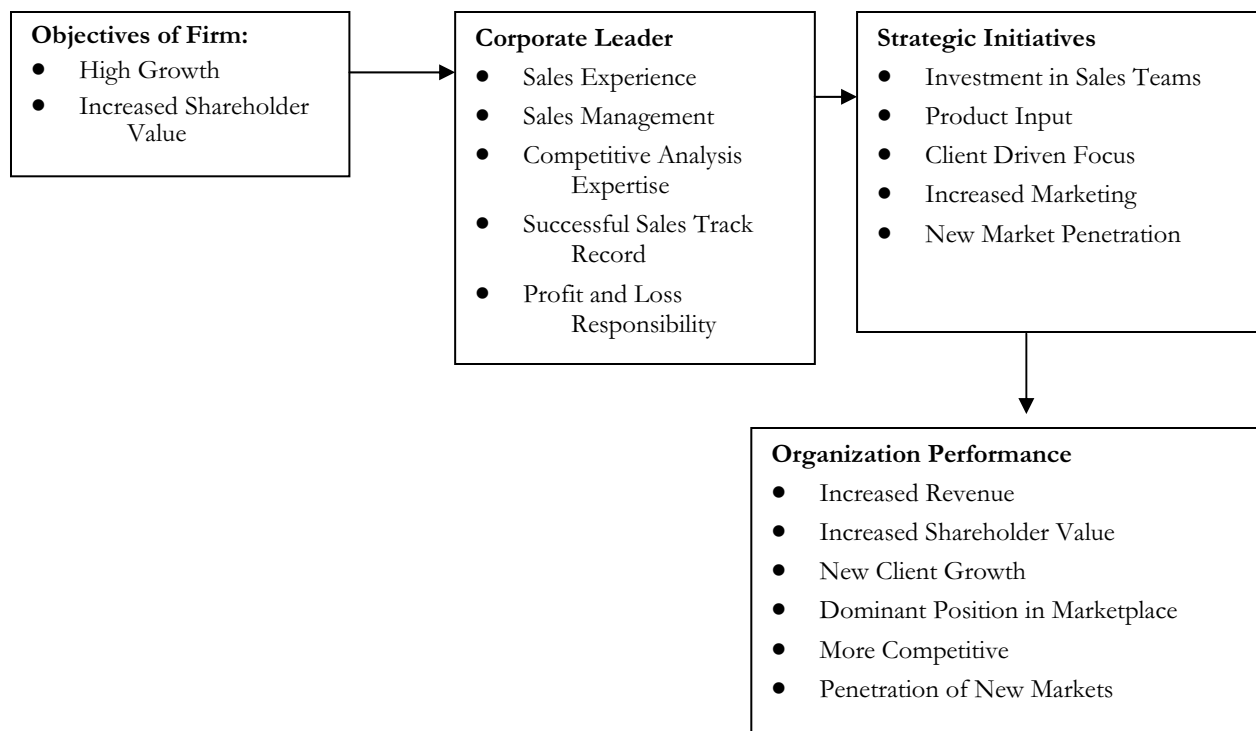
To reiterate, upper echelon theory, states “*there will be a positive association between the degree of output-function experience and the extent to which the firm emphasizes outputs in its strategy*” (Hambrick

and Mason, 1984, pg.199). Therefore proposition one as an extension of upper echelon theory is developed:

Proposition 1: Firms seeking increased growth and shareholder value will find a positive relationship between organizational performance and an executive's background in sales.

ability to scan the environment and develop adaptive responses (Mintzberg, 1973; Miles and Snow, 1978). Top Management Teams (TMT) need to have the necessary skill set to analyze both internal and external factors. Understanding external environments, such as competition and regulation, may mean the difference between winning or losing a client.

Figure 3 – Conceptual Framework for Examining Upper Echelon Theory and Sales Characteristics



Executive Job Demands

Prior research has primarily focused on the effect of individual job demands related to performance, satisfaction, and personal stress (Hambrick, Finkelstein, and Mooney, 2005). Limited research has been conducted regarding job demands at the executive level. Another research gap is the absence of the effect external environment has on senior-level executives. For example, CEO's may have the expertise to analyze internal strengths and weaknesses, but often lack an

Thus, understanding the external environment is crucial for organizational leaders seeking higher growth and increased shareholder value. Hambrick, Finkelstein and Mooney (2005) describe in their paper "that the level of job demands depends on the degree to which the executive's capabilities are appropriate for the situation" (pg. 8). Also, understanding the fit between organizational strategy and managerial characteristics is essential to the concept of meeting executive job demands (Edwards & Cooper, 1990; Gupta, 1984; Gupta & Govindarajan, 1984).

Three factors determine executive job demands: task challenges, performance challenges, and executive aspirations (Hambrick, Finkelstein and Mooney, 2005). CEOs, while highly motivated, may vary in their drive to perform for the organization. Executive aspirations may correlate differently in relation to their personality factors, stage of career, and alignment of executive awards (Hambrick, Finkelstein and Mooney, 2005). Additional research in this area is crucial for successful future selection of company executives. For example, understanding a specific candidate's aspiration may enable firms to determine if he or she will be able to meet or pursue specific organizational job demands. Firms that seek both increased growth and shareholder value requires an executive that can handle high job demands. According to extant research, executives who are exposed to such job demands are "boundedly rational" in their strategic decision-making (Cyert & March, 1963). As a result of bounded rationality, executives rely on past experience to make decisions.

"Executives who face high job demands will economize in their strategic decision making by relying on their experiences to search for and interpret information, as well as to select among options" (Hambrick, Finkelstein and Mooney, 2005, pg. 478)

Therefore, an executive's past experience in a specific area is a crucial aspect in the strategic direction of the organization and decisions made by executives who are under significant job demands will closely reflect their backgrounds (Mischel, 1977) – their functional backgrounds (Kimberly and Evanisko, 1981). Senior sales executives, for example, are constantly under pressure to meet quotas, exceed management and client expectations, win competitive battles, and deliver revenue to the firm. These individuals are bounded rationally every day and must rely on past experiences that have led them to success in similar stressful situations. An organization achieves competitive advantage by

"implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses" (Barney, 1991, pg. 100).

Sales executives are likely to align their strategic choices based on both internal and external analysis. They will leverage the strength of their organization in a sales opportunity but at the same time understand the threats to that opportunity emanating from competitors, substitutes, or government regulation. Sales professionals operate as boundary spanners in multiple ways within their respective firm. Sales leaders must work effectively internally with their peers as well as with customers and partners outside the company (Ingram et al. 2005; Tanner, Honeycutt, and Erffmeyer 2008).

C-Level managers are faced with different challenges and job demands. Similarly, sales executive are faced with a number of distinct and highly stressful objectives. Sales executives that understand how to compete, handle stressful situations, and can draw upon successful experiences from the past will be able to deliver results for their organization. Based upon the above discussion it is proposed that:

Proposition 2: For an organization with greater job demands, a positive relationship exists between an executive with sales experience and the delivery of strategic choice for the organization.

MANAGERIAL IMPLICATIONS

This paper discusses how organizations need to consider sales experience as a qualifying characteristic for future CEOs. Empirical testing of the propositions should be conducted to confirm the relationship between sales experience and the organization's strategic fit. Based upon the conceptualization of upper echelon theory and sales background, there are several implications that are important for

practitioners and researchers to consider.

First, this paper raises an issue regarding increased turnover at the executive level. Choosing a CEO is never an easy task. However, prior to identifying potential candidates for a C-level position, board members and senior executives should clearly define the skills and expertise needed not only to lead their company but that are also consonant with the firm's future strategic direction.

Second, the paper theorizes that CEO turnover and decreased tenure may be due to the "gap" between an executive's background and organizational objectives. As previously noted, many CEOs' past background experience was gained in peripheral or throughput functions like operations and/or finance. Firms with growth objectives need CEOs that are growth oriented. These CEOs must be able to meet the executive job demands of the organization, execute the firm's strategy, and deliver performance. In sum, today's firms need executives with functional output experience gained through a sales and marketing background.

Third, the conceptual model presented extends upper echelon perspective as it applies to the fit between the firm's strategic direction and a manager's background characteristics. When firms pursue an aggressive strategic direction, the job demands for the CEO are more intense and more challenging. Organizations require the necessary leadership and expertise not only to sustain but to deliver exceptional growth, increased revenues, and sustained competitive advantage (Porter, 1985). Firms looking to achieve these objectives should strongly consider candidates with sales experience, a successful track record in relationship management, and competitive analysis expertise. Sales executives are accustomed to handling the executive job demands of companies with high expectations due to the very nature of their stressful job

function and therefore deliver results as a member of senior management.

A principal benefit of upper echelon theory is a firm's ability to better select executives (Hambrick and Mason, 1984). By requiring a successful sales background as a characteristic for a future CEO, firms are better able to replace a retiring executive for a firm with a high growth strategy. Another benefit of upper echelon theory, as it applies to this conceptual discussion, is the ability of top leaders to surround themselves with qualified executives. A CEO with finance or operations background may not be the best scanner of the environment but can hire an individual with this specific skill set and whose background matches the strategic fit of the organization.

FUTURE RESEARCH DISCUSSIONS AND SUMMARY

In order to gain a better understanding of the phenomenon of senior management departures, researchers can implement a number of research methodologies.

Archival Research

Researchers can study information from existing records of companies (Graziano and Raulin, 2004). This approach would be to look at companies whose senior management departed after a short tenure (less than 12 months). The next step would be to explore the functional background of those corporate leaders: output vs. throughput function (Miles and Snow, 1978). This research may be able to draw a correlation between those departed and whether or not they lacked output functional background, such as sales.

Differential Research Methods

Another method of research is to follow companies who replaced the former CEO with an executive whose background and expertise were more sales focused. Differential research compares two or more groups that are differentiated on the basis of a

pre-existing variable (Graziano and Raulin, 2004). This research has the potential to gauge the extent to which dependent variables, like revenue growth or client retention, increased under a CEO whose background was sales focused.

Case Study Research

A popular approach in field research is the utilization of case studies, which enable researchers to make extensive observations of a single group (Graziano and Raulin, 2004). A potential study can look at a company whose strategic direction is high growth and increased shareholder value. The firm would have a CEO with a non-sales related background who was replaced by an executive with sales related expertise. This study can potentially offer insight about the company's performance under two CEOs with contrasting backgrounds.

In summary, it appears that many CEOs and senior level executives possess backgrounds that have focused more on throughput functions such as operations or finance. The current trends in CEO turnover and shorter tenures suggest these corporate leaders were not a proper fit for their firms. Would a senior manager with professional expertise in sales be a better fit? Should organizations look more closely at sales executives to lead their company? Can a sales executive who lacks a finance and operations background lead an organization in the long-term? Additional research on upper echelon perspective and executive job demands, as it applies to senior sales managers, can provide answers to these questions.

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