Who Lives in the C-Suite? Organizational Structure and the Division of Labor in Top Management

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Abstract

Top management structures in large U.S. firms have changed significantly since the mid-1980s. The size of the executive team—the group of managers reporting directly to the CEO—doubled during this period. This growth was driven primarily by an increase in functional managers rather than general managers, a phenomenon we term "functional centralization." Using panel data on senior management positions, we show that changes in the structure of the executive team are tightly linked to changes in firm diversification and information technology investments. These relationships depend crucially on the function involved; those closer to the product ("product" functions, e.g., marketing and R&D) behave differently from functions further from the product ("administrative" functions, e.g., finance, law, and human resources). We argue that this distinction is driven by differences in the information-processing activities associated with each function and apply this insight to refine and extend existing theories of centralization. We also discuss the implications of our results for organizational forms beyond the executive team.

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