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Middle Management Excellence

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What is the single most important thing a CEO can do to maximize his or her company's performance?

The answer is to creatively, aggressively, and systematically build the capabilities of the company's middle management team: the vice presidents, directors, and managers.

Regardless of what high-potential initiative the CEO chooses for the company, the middle management team's performance will determine whether it is a success or failure. And if the middle management team is performing in high gear, the managers themselves will generate the right initiatives, and constantly adapt and improve them during implementation.

I recall several years ago reading a description of one major U.S. automobile company's middle management team. The phrase that stuck in my mind was "the frozen middle." The essential idea was that whatever initiative top management decided the company would pursue, it would be slowed to a standstill by the unwillingness and inability of the company's middle management team to carry it out. Ultimately, this company lost enormous market share to foreign competitors, and even now struggles to recover.

In education, it is well known that the quality of a school system is largely determined by the quality of the principals. If a school has a good principal, it will perform well. If the school has good teachers, but a poor principal, performance will suffer. In all sectors, middle management makes all the difference.

Initiatives or capabilities?

Try this mental test. Think about a typical three-month period for your company. What proportion of your company's top management time is spent on each of the following three activities: (1) new strategic initiatives; (2) managing the company's operations; and (3) building middle management capabilities? In most companies, the time spent on the first two dwarfs the time spent on the third.

Yet, building middle management capabilities is the underlying key to succeeding in the other two activities. This occurs for two reasons.

First, virtually all major strategic initiatives have to be carried out by the middle managers. Their flexibility and leadership skills will determine how able they are to tailor and adapt initiatives to the company's changing circumstances.

Second, a strong middle management team will produce outstanding operational results, easing the need for top managers to oversee and intervene directly in day-to-day operations. A well-functioning middle management team also will proactively create a constant stream of new initiatives to remedy problems and seize new opportunities. Middle management excellence is the key leverage point for great performance.

The problem is that middle management excellence, like leadership, is a difficult concept to pin down. (See The Essence of Leadership.) Consequently, it is very difficult to specify a systematic program to build middle management capabilities.

In some companies, middle management development takes the form of disjointed short courses, either in-house or outside, that cover important aspects of management. These usually are helpful, but are not enough. Many managers find themselves "too busy" to dedicate much time to their personal development, especially if they regard the content as weakly relevant. A few fortunate managers get to attend lengthier, comprehensive executive education courses.

Mostly, it seems that top managers simply assume that management experience coupled with constructive progress reviews will be enough for middle managers to “get it.” While the most able managers can thrive in this situation, more simply settle into a routine of managing "business as usual," accompanied by occasional initiatives when big problems arise.

It doesn’t have to be this way. If you look carefully at the great companies of our day, like GE, middle management excellence is in fact one of top management’s very highest priorities. Even after GE managers leave the company, they most often have the "look and feel" of GE’s management team: a focus on systematically teaching their subordinates to analyze and improve the businesses, and on teaching them to pass this skill on to their own management teams.

The core of middle management excellence

A number of years ago, when I was a doctoral student at Harvard Business School, I was privileged to take a course in teaching using the case method. The course was taught by the late Professor C. Roland Christensen, HBS’s legendary teacher of teachers. In the course, he said something that has remained with me to this day, and is one of the organizing principles of my teaching, research, writing, and consulting.

Professor Christensen noted that a great course was like a great musical. If the audience leaves a musical whistling two or three tunes for the rest of their lives, it was a great success. Similarly, if a class leaves a course with a deep understanding of the two or three most important ideas in the field, and with the ability to apply them capably for the rest of their lives, the course was a great success.

The biggest challenge in developing a course is always to identify clearly the two or three most important underlying concepts. With this understanding in mind, a teacher can organize all of the course material in a way that amplifies, explains, and enriches the students’ understanding of these underlying ideas. At the end of a great course, the students will indeed "whistle" the course’s "two or three tunes" for the rest of their lives.

The "two or three tunes" principle applies to management as well. What are the most important two or three tunes that create middle management excellence? Here are my three candidates: (1) managing at the right level; (2) coordinated profitability management; and (3) managing as teaching.

Managing at the right level

If you look carefully at companies, their business activities generally reflect a combination of what was needed three to five years ago, what is needed today, and what will be needed three to five years from now. In my experience, many companies’ activities reflect 40 percent past needs, 40 percent present needs, and 20 percent future needs, at most. This is a critical failure, because it takes up to five years to develop and implement the major initiatives needed to adapt a company to succeed in the future.

The root cause of this problem is a lack of systematic middle management leadership. An essential trait for a successful middle manager is the ability to see which company activities reflect which needs, and to be able to shift these activities from the past to the future. (I described this process in my column Manage Paradigmatic Change.)

As managers progress up the business hierarchy, their focus must increasingly shift from managing the company as it is, or as it was, to building the company of the future. (I described this in more detail in my column Managing at the Right Level.)

In a nutshell, first-line managers should focus on producing great results and improving day-to-day operations. Directors should focus half on structuring the work of their departments and coaching their managers’ performance, and half on change initiatives that require coordination with their counterparts. Vice presidents should focus almost entirely on building the company of the future, both by visualizing what the company will need to be, and by coaching their directors in innovation and change management.

Hence, at each level, middle managers should increasingly learn and practice change management and leadership so they are masterful by the time they reach the vice president level.

Coordinated profitability management

In almost every company I’ve researched or worked with over the past two decades, 30-40 percent of the business is unprofitable by any measure, and 20-30 percent not only produces all the profits but also cross-subsidizes the losses from the unprofitable part of the business.

There is a pervasive assumption in business that if each functional area is well run, with sales maximizing revenues, operations minimizing costs, and so on, the company will be as profitable as possible. In fact, nothing could be further from the truth. This has been a key theme of my columns from the first one (see Who's Managing Profitability?).

It is essential that middle managers, primarily at the director level, develop a broader view of the business. They must learn to coordinate with their counterparts in order to understand which parts of the business are profitable, which are not, and which are somewhere in between. This can be modeled using a PC in a few months (see The Hunt for Profits), and it has vast positive implications for a company's culture and performance.

With insightful profitability analysis, the middle management team can create a set of coordinated, high-impact initiatives that will (1) radically increase current profitability and (2) reposition the company for the future. The first priority is to lock in the most profitable business before the competitors identify and go after the best customers and products. The second priority is to get more business like the most profitable. After that, the middle management team can develop measures to improve the profitability of the marginal business, and when all else fails drop the residual.

All this requires a high degree of interdepartmental coordination at the middle management level. Some sales dollars are profitable, some are not. The best way to increase operations and supply chain productivity is to bring in business that fits the company's operating capabilities. This is the true secret to Dell's historical success. (See Dell Manages Profitability, Not Inventory.) As the company's markets change, profitability maximization becomes a moving target.

Profitability models are a critical core component of this process because they give the whole middle management team: (1) a shared perspective on how they can coordinate to affect profitability, how each manager's activities affect the others', and (2) a foundation for creating a joint, apolitical action plan.

In the absence of this shared view and shared agenda, the company's departments usually create competing initiatives, with all the counterproductive politics that this situation entails. And, politically-charged competing initiatives can indeed "freeze a company's middle," bringing the company's progress to a dead stop.

Managing as teaching

The essence of great management is great teaching. You can only create new innovations and advance in the hierarchy if your managers are capable of operating on their own. If you find yourself constantly pulled into day-to-day issues, the underlying problem probably is that you haven't succeeded in teaching your managers to manage.

As a manager ascends the company hierarchy, his or her management emphasis must shift from managing toward teaching and developing managers. The CEO, except in a few very successful companies like GE, typically doesn't do this, so it has to happen at the vice president level and below.

This is so important that it actually defines the true vice president role: vice presidents should be *at most* 50 percent managers, and 50 percent or more developers of managers. At lower levels, the teaching component is probably 25 percent at the director level, and 10 percent at the manager level.

Great teaching doesn't happen overnight. Even at first-rate universities with engaged, capable students, it takes a semester or more for students to learn a subject. Yet there are some cornerstones to great teaching that apply to managers as well as professors.

- **Clarity on the essentials.** Like professors, managers must not only know their field, but also know how to teach it. The essential first step is identifying the "two or three tunes" that are the key to great performance. These generally are the "whys," not the "hows."
- **Enriching the understanding.** In a great course, the bulk of the course material is organized to amplify and illustrate the two or three underlying concepts. In this way, the more detailed knowledge enhances the learner's ability to work with the core ideas, while making the whole body of knowledge more memorable.
- **Active learning.** Productive learning often takes place in stages. First, the learner is exposed to the core concepts, and then he or she tries to apply them and finds that he or she needs to understand them better. This makes the learner more receptive, and so the process repeats itself. Most effective courses are structured this way. Periodic tests help highlight progress and areas where more work is

needed. By contrast, all too often in business, subordinates are simply instructed and left largely on their own.

Teaching managers to manage

The highest calling in management is teaching your managers to manage. Middle management performance is the single most important element in corporate performance. Yet how many top management teams view this not only as a high priority, but also as a core business process subject to rigorous analysis and constant improvement?

Middle management excellence, resting on managing at the right level, coordinated profitability management, and managing as teaching, can be systematically developed and constantly improved. It is the ultimate point of leverage for all corporate performance.

See you next month.

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