# The muddled middle of management

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## EXECUTIVE SUMMARY

In management, there are rather simple principles that impact the work on an individual basis as well as simple principles on a large scale that define a company's organizational basis. Yet much available management material focuses on the activities at the scale of middle managers, though it is not entirely clear it creates the desired effect or pushes organizations in the right direction. Process changes aimed at the muddled middle incur costs to implement and often offer no clear indication that a benefit equivalent to the cost was realized. Such initiatives and corresponding data can bog down organizations.

Theoretical physicist Neil Turok offers that the universe is surprisingly simple when looked at from the smallest and from the largest scales. Searching for new subatomic particles using the Large Hadron Collider in Europe, scientists discovered the Higgs boson and nothing else. At the smallest of scales, the physics appears to be simple, with limited formulas that describe fundamental behaviors of subatomic particles.

At the scale of galaxies, again there are simple formulas that describe the behaviors of matter from the larger perspective. Thomas Kuhn supports this idea with his suggestion that chemistry is a mature subject. It may be difficult to isolate and "discover" a new element but it does not really surprise us anymore, especially if it fills a blank spot on the periodic table, suggesting it was simply a matter of proving what was already assumed to exist.

Turok suggests that even if the known universe is surprisingly simple on the largest and smallest scales, anyone with teenage children knows that in the scale we live, things are not predictable nor definable with only a few formulas, and is unlikely to ever be predictable. Turok calls this the messy middle.

We would like to adopt this concept to industrial management hoping to provide some inspiration on how to approach the day-to-day work of managers and help them from becoming bogged down in what we call the "muddled middle." Basically, the concept is that in management, there are rather simple principles that impact the work on an individual basis as well as simple principles on a large scale that define the organizational basis of the company. The financial statements from every organization look remarkedly alike, for example, and lenders evaluate debtors using simple ratios. In the middle, there are many initiatives that have unclear costs and benefits and make up the bulk of information presented to managers. Such initiatives and corresponding data can bog down organizations, and managers often become muddled – analogous to struggling through a muddy field.

A laborer in manufacturing may spend considerable time fastening parts with nuts and bolts. After watching the tightening of nuts with a hand wrench, it may seem reasonable to improve productivity by giving the worker a pneumatic impact wrench. We find the worker doubles their daily output. Often in operations management, we find simple fixes to simple situations.

For a real life example, at one plant we recently discovered simple plastic cable ties were being purchased in packs of 100. The purchaser, attempting to follow a just in-time policy, was placing 150 orders a year for these cable ties and workers were often running short if deliveries were delayed for any reason. By ordering a six months supply and buying in the more economical 1,000 pack, the company saved $6,000 a year in direct costs and eliminated 148 purchase orders the following year. Again, the concepts are simple and the benefits are clear.

Decades ago, a small fabrication shop we knew was developing bids with pencil and paper. One of the new hires noticed a computer in the office and wrote a program in BASIC to tabulate quantities. The time estimated to create the next bid was 150 man-hours. Using the new system, it took 10 man-hours and everyone had more confidence in the summed totals for required parts and labor.

On large scales, big impacts can come from simple changes. In 1951, newly appointed V.P. Brownie Wise was able to convince the Tupperware Corp. to change its focus from selling to retail outlets to direct-to-consumer marketing, thereby using the customers themselves as distributors. Dell Computers gained huge market share by deciding to only make computers to order after the cash is exchanged. In 2000, IBM, pioneer of the personal computer, decided to divest out of the highly competitive manufacturing business and turn to being a service provider. One-time giant XEROX attempted to follow IBM's example and saw profits evaporate. After the resignation of its former CEO, Anne Mulcahy refocused XEROX on product development and sales and profits rebounded.

At the extremes of scale, it appears easy to understand the changes made and to observe the outcomes. In the muddled middle, it often comes down to subjective opinion on what was actually done and what the outcome was.

In 2007, a $100 million turnkey project was completed by a firm familiar to the authors. The project involved three departments on three different continents. Due to how overheads were allocated, many meetings were held to discuss which branch contributed how much of the profit; the CEO even questioned if the project made or lost money if all relevant inputs could be considered. A clear answer to what should be a simple business number was never determined.

We have been involved in many exercises by a variety of firms aimed at changing the corporate culture of an organization. In many of the cases, a firm can see it is in financial trouble and may pursue new strategies and corporate projects to try and turn things around. Too often, however, they go bankrupt before the cultural change initiative is completed. In other cases, a commodity price change or macroeconomic event improves the firm's financial situation and it survives. Invariably the cultural change initiative slowly fades away and is forgotten.

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## Reflections on strategic change initiatives

Much publicity was generated by General Electric (GE) adopting Six Sigma in an initiative that consumed considerable resources, once estimated to cost the company $1 billion between 1995 and 2000. The benefits of the program appeared in academic publications.

Reviewing some of the research articles that detail the resulting benefits, the major outcome appears to be the accounting change of deallocating overhead costs at the department level and placing them at the home office level. That is, the gross profits of each departmental unit appeared to increase by

transferring costs to a higher level. This move improves the ability to determine the profitability of each department but does not actually change the overall income of the consolidated company.

Income attributed to Six Sigma implementation was negative the first year and small the second year. In subsequent years, the increased income attributed to the changes were more impressive. One author stated that this increase derived from encouraging employees to recognize and account for the benefits of Six Sigma (you get what you measure). However, overall net margin for GE did not vary much from the 9.4% it achieved in the year before Six Sigma implementation.

In some accounts on the success of the program, the conclusion offered was that additional income from the initiative represented a prevention of lost profits if the program had not been executed. This is where the concept of the muddled middle could apply. One could argue the plausible stance that Six Sigma prevented a decrease in margin at GE in the five years following 1995. But one could also argue the equally plausible stance that the $1 billion in extra expenditures prevented GE from realizing that additional income. And a third view, equally plausible, is that the program produced benefits equivalent to the costs and had zero impact overall.

As a manager, while the goal of achieving only 3.4 defects per million products appears very attractive, should you engage in such an intensive program with unclear net benefits?

Although much available management material focuses on the activities at the scale of the muddled middle, it is not entirely clear that any of it creates the desired effect or even pushes organizations in the right direction. Frederick Herzberg stated that despite all the attention his work on motivation was gaining, any benefits a company could derive from changing attitudes and empowering workers would pale in comparison to a few decisions made when the organization was formed. He suggested that real economic benefits

## Why do we keep slogging in the mud and getting nowhere?

The simple fixes or tweaks at the big and small ends of the scale are hardly anything to try and package a career in consulting or academia upon. The muddled middle is complex and provides an endless variety of issues and dreams for resolving.

At the turn of the 20th century, Frederick Taylor championed the idea that management should determine a prescription for how to perform work and the front-line worker simply follows these directives. Henri Fayol observed that management conflicts with our natural tendencies and we must be vigilant lest we revert to our comfort zone to the peril of the organization. Elton Mayo shortly afterward suggested that productivity is improved by paying attention to the employees and their interrelationships (someone suggested regular reorganizations at large firms are done mainly to create a change to spur productivity).

In the 1930s, Chester Bernard offered that if workers see management as great leaders, they will follow. (Notice how all the mission and value statements in boardrooms sound a lot alike?)

Until the 1950s and 1960s, management theory was developed mainly by people not trained in management. Taylor and Fayol were engineers. Mayo and Herzberg had degrees in psychology. Herbert Simon was a public administrator. Peter Drucker, Kenneth E. Boulding and Richard Cyert were economists. Herzberg in particular was popular with upper management because of his message that "money does not motivate" and offered hope that production could be increased without spending more on wages (decades later, Tom Peters would decree that bold financial incentives will drive success).

In 1960, management professor Douglas McGregor gave us the Theory X and Theory Y profiles of management style, but left it to others to decide if one was better than the other for operational performance (Theory X survives quite well 60 years later). Henry Mintzberg in the 1970s showed what managers do on the job has little in common with what the textbooks say they do, casting doubt on any theories about management work.

In 1982, Peters and Robert H. Waterman proclaimed that the middle manager is the key to organizational success, but Peters also subsequently pushed for eliminating bureaucracy (i.e., middle management) as the path to performance. Peters proclaimed that setting up key people for success will reap rewards with a three to seven times improvement in output depending on the job.

W. Edwards Deming, however, warned that most impacts on productivity are outside the control of the worker and individual performance measurement should be avoided. In 2001, Drucker offered that any worker who takes responsibility for their work should be viewed as "top management" and have the authority to execute their ideas (counter to what Taylor found).

Whereas Peters and Waterman warned that to be successful the organization had to "stick to its knitting" – do what they know how to do – at the same time Peters would stress that we have to continually explore and develop new niches. He said you have to listen to the customer and keep them happy.

Drucker says the important people are the ones who are not currently your customers and to try and think of a way to make them happy. Deming says it is rare that you will ever know why you lost a customer. Mintzberg says you are unlikely to gain from surveying your customers because if you know the right questions to ask, you probably already have a good understanding of the right answers.

It is noteworthy that MBAs are often a target for a few authors including Mintzberg and other academics who teach MBA programs for a living. J. Sterling Livingston declares that formal training in business schools is irrelevant to business practice. Anyone who works in or has visited an enterprise resource planning (ERP)-driven modern manufacturing facility can see that we have come full circle to Taylor in that the actions of the shop floor, and office workers are driven by what the computer screen is telling them is the next action to take. Having plodded through the mud, we may have gotten nowhere.

*– Dominic Desmarais, Donald Kennedy and Simon P. Philbin*

derive from key elements, such as design of facilities and products, skill of the sales force and impact of marketing campaigns. Herzberg humbly offered that real benefits of his ideas likely will come from the ethical perspective of improving happiness levels of the workforce and not necessarily any tangible monetary return.

Moreover, W. Edwards Deming stated that the most important role of a manager is the selection of new employees. He did not devote much on that topic because he stated the hiring of a new employee may not happen during a manager's time at that level of the organization considering how employees used to join firms for life. The obsolescence of Deming's view is notable, but the selection of new employees may still not deserve much attention for the opposite reason. With current high employee turnover rates, a bad choice, ironically, likely will soon resolve itself, while even a good choice may not stay for long.

As with the example of GE, the costs of addressing changes in the muddled middle can be significant. One firm familiar to us spent $30 million on a quality program, including establishing a new quality department. That department published an internally circulated monthly report outlining savings generated by the employee-inspired initiatives. In one case, a contract was renegotiated with the electrical utility and the resulting $1 million savings was attributed to the quality program (although it seemed a stretch to most of the employees reading the story). One executed initiative involved installing free flavored beverage coolers for the workers under the pretense that improved morale would generate value.

After two years, one executive noticed the reported cost of the program did not include the hundreds of thousands of hours the employees consumed while attending various quality meetings. All the reported savings publicized in the newsletter were insignificant compared to the wages of people attending the meetings. The unfortunate employees who were transferred to the quality department at the onset were subsequently let go when the initiative was abruptly canceled. The overall performance of the organization did not vary noticeably over the span of the quality initiative, or the preceding and following periods.

## Taking the long view on the cycles of organizational change

In another case, two mining companies operate within 20 miles of each other. Company A consistently has lower operating costs than Company B, which started operation five years after A. Because their combined output is small compared to global demand, the two companies cooperate on technology advances with the understanding that they will mutually benefit each other and that their profits are tied to the global price for the product that they do not influence, given their small output.

Over the decades, they have both initiated culture-changing initiatives to address a perception of suboptimal output from their employees. Company A has invariably produced better financial results over the decades. When looking at its operations, it can be observed that since Company A started first, it chose the best location for its facilities. The amount of earth A needs to extract is considerably less than Company B and the quality of the raw product is higher. This is the "secret" to its lower costs and no amount of retraining of the employees can affect that advantage. The annual reports for both companies fail to mention that simple condition.

A major hurdle in implementing change in the muddled middle is trying to discern what exactly one should be doing. There is a plethora of popular management books to offer suggestions, with the acknowledged first major success being Tom Peters and Robert H. Waterman Jr.'s *In Search of Excellence*. The volumes are typically entertaining reads with ideas appealing to common sense, but invariably fail to have backing in any

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controlled test to assure the suggestions will produce desired results. And if one reads enough, the suggestions often contradict previous ideas.

Peter Drucker maintained that typically there is nothing really "new" that happens in management. We can look to history to find examples that mirror the current situation. Drucker offered the printing press as a parallel to the advances in computers. Originally the talent in demand was for those who could run a printing press, but later they became a commodity and authors were sought to provide material to print. Likewise, computer hardware and the technicians who assemble it were the hot resource, initially. As hardware became plentiful, programmers and developers who could create commercial value for the hardware became the new scarcity.

For many decades, in contrast to Drucker, Peters championed that we are always entering new frontiers. Old ideas need to be abandoned and proven techniques will no longer work.

Many publications call for flatter organizations to solve many organizational woes. One company we dealt with eliminated many levels of middle management, changing from eight levels to five from front-line workers to CEO. Within a few years, the company discovered it had trouble recruiting new employees and had higher turnover. Job dissatisfaction stemmed from workers feeling uncertain on how to proceed and desiring more guidance from a superior. Longer-term employees could see that promotions were much less frequent with fewer positions to be promoted into. Potential recruits could see that employees spent 10 years "stuck" at the same level. The company now has 10 levels on its organizational chart.

There are many examples of how organizations go down a path and then reverse course when results are unsatisfactory. There may be a move to create "business units" whereby each major department creates its own support groups for human resources, safety, purchasing, sales, etc. This might be followed a few years later by a move to centralize activities, requiring people who perform similar work to form teams. Meetings are scheduled to increase communication; then meetings are canceled to increase productive time. And so on.

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The changes in the muddled middle invariably incur costs to implement, whether through consultants or lost productive time spent instead on the initiative. The examples we have looked at over the years offered no clear indication that a benefit equivalent to the cost was realized. Looking at the concept of the muddled middle graphically, we offer Figure 1 (Page 18).

The potential benefit and net cost is expressed as a percentage of the scale the work at that level entails. At the small scale, a front-line worker can implement a change that greatly increases output, or may simply switch to a job that better suits their skills. They can also produce little through choice or other factors (what Frederick Taylor called "soldiering") that results in a net cost to the organization.

At the large scale, a CEO or senior manager may make a go/no go decision that can greatly impact the organizational

performance positively or negatively. In the muddled middle, however, we offer that it is difficult to come out ahead given the internal politics and complexities of organizations. We suggest that status quo is likely the best outcome one can achieve at that level.

We are not suggesting that middle management does not play a critical role in an organization. Like cogs in a machine, middle managers assure the optimal operation of the enterprise and are needed to translate strategy and organizational goals to operations and targets. However, we are implying that the ongoing practice of jumping into the muddled middle to affect change is difficult to maneuver and one can easily spin wheels with a negative or neutral benefit.

We suggest the best use of resources are spent on the straightforward, logical and understandable initiatives. A manager's job is to secure the work done by others and hopefully not create unnecessary hurdles for subordinates. On occasion, we have heard managers talk about this as their goal and their subordinates express agreement.

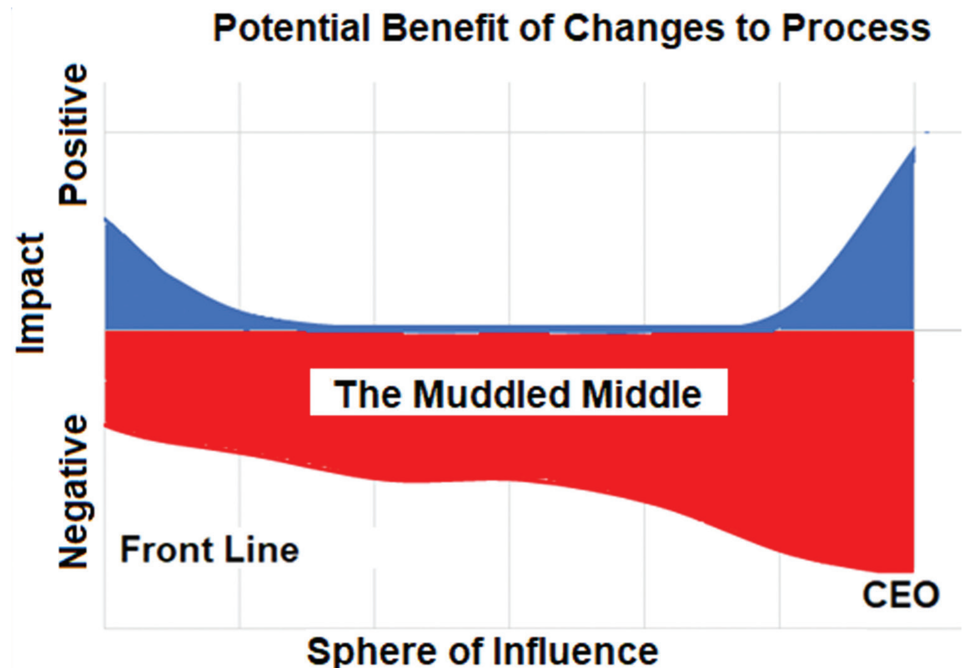
## Working in the muddled middle

Peters remarked that despite his messages being aimed at CEO-level decisions, his audience is predominantly people unable to use his advice because they are working in what we call "the muddled middle." Perhaps unfortunately for these managers, it is a reality that they lack both the hands-on work and the level of control that would enable the simple changes more likely to create value.

Based on our personal experiences and accounts of fellow managers in the muddled middle, we suggest that decisions in the complex region are often difficult to resolve from a pure scientific or economic basis. We are forced to draw on our sense of personal ethics and morals to make choices that balance competing priorities between the various stakeholders of the enterprise we are hired to serve.

## VARIED IMPACT

**Figure 1. How process changes from middle management have less effect than those from front-line workers or top executives.**




Here are some examples of muddled situations we frequently encounter. A manager in industrial construction reported being asked by a senior executive of his company to terminate staff (with their key knowledge and insight) before a major project was completed. This was driven by the executive's focus on controlling cost to protect short-term financial objectives. However, this will risk a detrimental impact to the company's ability to fulfill its contractual obligations, harming the company's and the manager's reputations.

The muddled manager had to navigate between going against the executive's expressed priority on the short-term income statement versus protecting the company's reputation, retaining valuable human resources and assuring future revenue by satisfactorily servicing the customer's priorities.

Another muddled manager was tasked with expending considerable resources to develop a strategy for a new pet product line some executives were keen on promoting to attract new customers. Based on company history, the manager believed at the completion of the plan there would be no interest in taking the new product to production.

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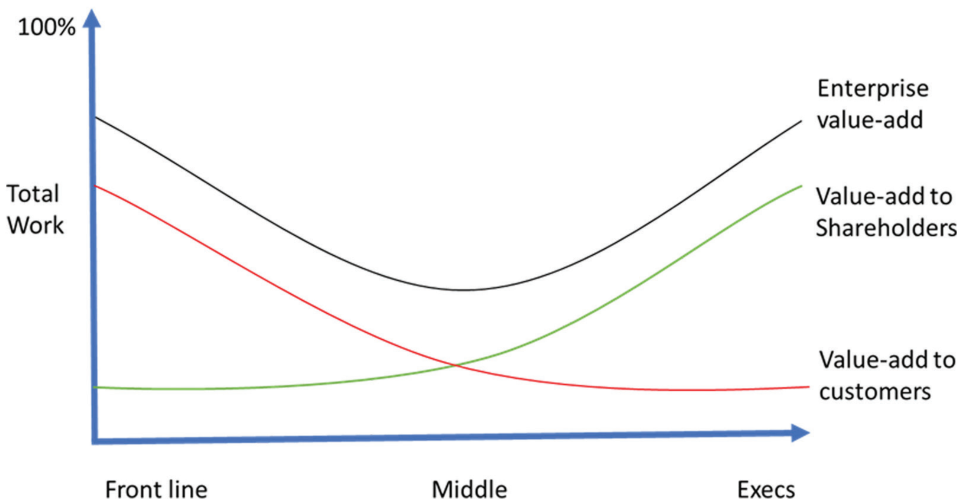
In a third case, an engineering manager was assigned to design a less durable (and untested) replacement product to reduce the cost of production. This manager expressed concerns over negative customer reactions to an inferior product, but was instructed to continue.

In each case, despite conflicting outcomes, an argument could be made for each alternative that it could be the best choice for the company. Managers have to fall back on some subjective basis to guide their path, often balancing perceived customer or shareholder benefits. As well, in each case, the time spent assessing impacts and negotiating is not something either customers or shareholders would regard as adding value.

At the front line, the workers would be addressing choices that would mostly concern customer priorities – delivery times, cost and quality as examples. At the executive level, the focus is on shareholder priorities – dividends, share price, financial stability, etc. Note that these are not mutually exclusive but at the same time, the focus can drive different decisions. The ability of the front-line

# CAUGHT IN THE MIDDLE

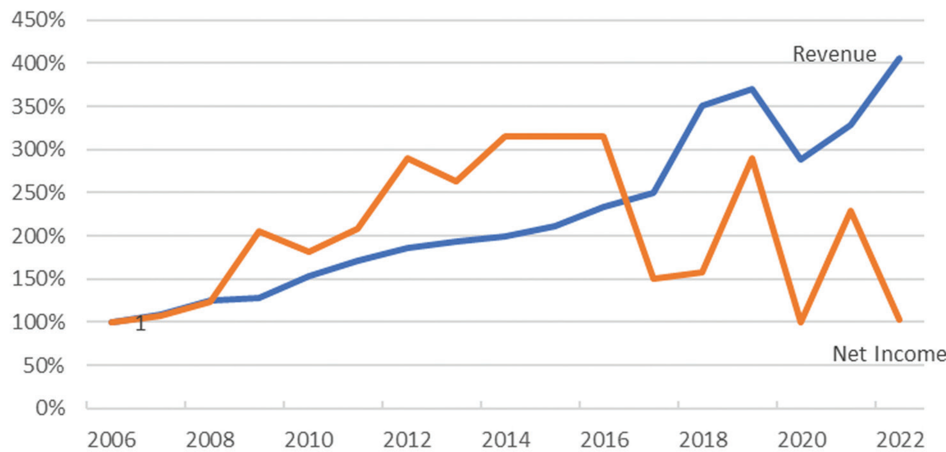
**Figure 2. Managers can find it difficult to make a change that would create overall value.**




# AVOIDING THE MUDDLE

**Figure 3. A company's performance based on focusing its efforts on straightforward and logical ideas with clear outcomes easily communicated to all stakeholders.**

Historical Performance of a Company that Stays out of the Muddled Middle




worker to influence shareholder value is limited, as is the ability of the executive to influence customer value. A shareholder would not be concerned about the color of a product and the customer would not buy based on the dividends the company pays out.

The managers in the middle are caught performing trade-offs in a sort of zero-sum exchange, making it difficult to make a change that would create overall value. The graph in Figure 2 attempts to illustrate this tug of war.

One outcome of this reality is the perception that the work in the muddled middle could be eliminated without much impact on the enterprise. Reengineering, zero-base budgeting and flattening the organization are examples of fads that follow this thinking. The rapid loss of interest in these exercises indicates the general success of their implementation.

However, as we presented in the chart on potential benefits by sphere of influence, the most likely outcome of a change in the muddled middle is neutral at best and negative more often than not. We have witnessed many struggling companies that undergo rapid reductions in staff only to find themselves top heavy with relatively high average salaries, lacking agility to take on new work.

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## Charting a path to avoid the muddled middle

To offer an example of a firm that appears to stay out of the muddled middle, we toured a publicly traded company that has been in business for 70 years offering supply services to the hospital and hospitality industries. The CEO earns a seven-figure salary and has been in that position for over 20 years. Figure 3 shows the company's revenue and earnings over that time. Revenue growth has been driven by expansions and acquisitions. Recent income was hurt by COVID-19's effects on markets and the supply chain problems affecting many companies. In all, the company has relatively stable performance.

In talking with executives, we learned the employee turnover rate is around 30% per year, which does not please senior management; at the same time, it is not an issue they want to spend money on to try and improve. The company does not invest resources in various strategic initiatives that comparable firms would engage in, such as team building, leadership training or external consultants to suggest improvements using work/time studies. Management keeps busy by managing, according to their core competencies. This demonstrates that results can be best achieved by focusing efforts on straightforward and logical ideas with clear outcomes that are easily communicated to all stakeholders.

On a pragmatic note, one manager stated it is wise to be seen to buy in to all such initiatives rolled out by those above to avoid being perceived as not being a team player. At the same time, the advice continues, do not be too associated with the program, thus avoiding being let go when the enthusiasm wanes. Success comes from not getting stuck in the muddled middle. ❖