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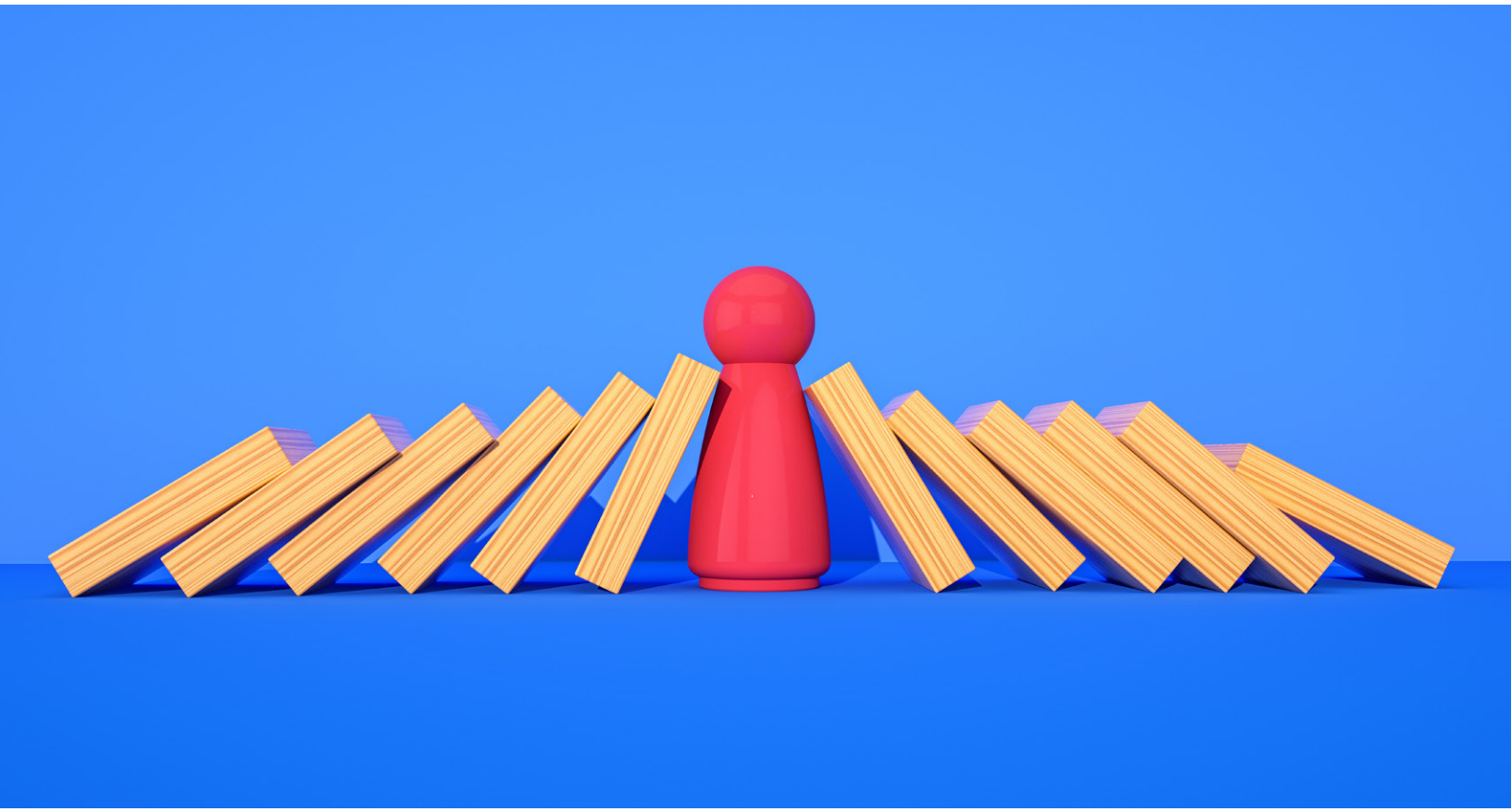
People & Organizational Performance Practice

Investing in middle managers pays off—literally

New research shows that having more top-performing middle managers leads to much better financial outcomes. Here are five actions that can set managers and their organizations up for success.

by Emily Field, Bryan Hancock, Stephanie Smallets, and Brooke Weddle



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Middle management. It's far from the most cherished slice of an organization these days, since many companies stopped meaningfully investing in this group decades ago. And the job itself can be tough. McKinsey recently conducted a survey of middle managers that revealed how often they find themselves mired in administrative tasks rather than focusing on the work that makes an organization run: nurturing talent.

Despite these obstacles, the role remains one of the most important in any company. Top-performing middle managers create strong relationships that enhance team performance and drive effective operations. They help turn an organization's vision and strategic goals into reality, and they are on the front lines of the competition for talent. Middle managers are an integral part of organizational health, which years of McKinsey research shows is linked to strong performance.

In a new analysis, we found that strong middle managers aren't just nice to have for all the reasons we note; they are a business imperative. Organizations with top-performing managers yield multiple times the total shareholder returns (TSR) of those with average or below-average managers over a period of five years (see sidebar, "Our Methodology").

This strong link to shareholder returns reflects the monetary value at stake—and reveals the immense opportunity organizations and leaders have to invest in middle managers. Focusing on this group's role becomes even more pressing in volatile times that require both resilience and shifts in organizational operating models. A 2023 report by the McKinsey Global Institute found that companies that invest in their human capital yield more consistent earnings through times of crisis.

In this article, we look at which manager behaviors are most closely correlated with an organization's financial performance, and we explore five actions organizations can take to support the development of these behaviors among middle managers and create a distinctive advantage for this group.

Stronger managers, higher value

To understand how middle managers can affect financial performance, we first isolated the impact of high-performing manager behaviors. Of the nearly 40 practices measured in McKinsey's Organizational Health Index, there are 11 that relate directly to manager behaviors:

Our methodology

The sample used for this research leveraged matched data from companies' Organizational Health Index (OHI) from 2017 to 2022 with change in TSR from 2017 to 2022 (n = 50). TSR was calculated as the dividends-adjusted share price in 2017 subtracted from the dividends-adjusted share price in 2022 divided by price in 2017. TSR values used the dividend-adjusted share price on the last day of 2017 and November 8, 2022. Consistent with our typical OHI methodology, we conducted linear regressions to investigate the predictive value of the frequency of manager practices.

- We created a composite score of frequency of manager behaviors, including all 11 manager practices into one score.
- We found significant relationships between manager practices and TSR: R-squared = 0.13, Spearman correlation = 0.28 with p-value = 0.046.
- Importantly, we cannot claim causation in this analysis, only correlation. However, we attempted to build in some element of directionality by only investigating financial metrics that were measured after taking the OHI survey.

Our sample for the manager cohesion analysis included 205 OHI surveys from 2016 to 2020. We defined manager cohesion as the average correlation between rank of managerial practices (in relation to all practices) and overall Organizational Health score. The correlation is 0.14, significant, with p-value = 0.047.

— *creative and entrepreneurial:* supports innovation and creativity

— *open and trusting:* encourages honesty, transparency, and candid dialogue

— *operationally disciplined:* emphasizes productivity and efficiency

— *authoritative:* focuses on hierarchy to get things done

— *challenging:* encourages people to do more than they thought possible

— *consultative:* empowers employees through communication and delegation

— *supportive:* builds a positive environment characterized by team harmony

— *inspirational:* encourages through guidance and recognition

— *employee involvement:* engages people on the direction of the organization

— *personal ownership:* drives individual accountability and responsibility

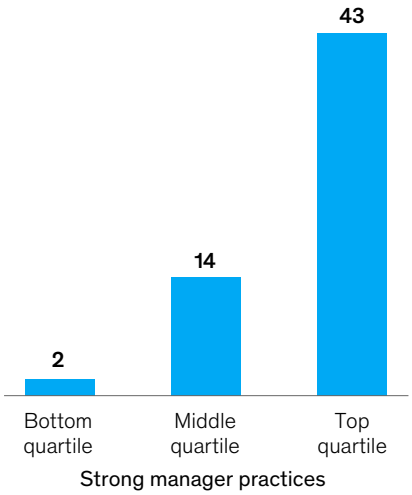
— *talent development:* provides coaching for knowledge and skills

We then mapped out the organizations with top-quartile managers—that is, those whose managers perform these 11 practices more frequently than 75 percent of other organizations in the sample. The data show that organizations in the top quartile realize from three to 21 times greater TSR over five years compared with those whose managers are in the other three quartiles (Exhibit 1).

Exhibit 1

Organizations whose managers exhibit strong behaviors realize better bottom-line performance.

Change in total shareholder returns over 5 years by frequency of healthy manager practices, %



Source: Organizational Health Index database (2017–22; n = 50); CPAT database (n = 50)

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This suggests a direct correlation between strong middle managers and better bottom-line performance. CEOs and other C-suite leaders who are surprised by the magnitude of this effect could consider the decades of organizational research finding that managers are one of the biggest factors—if not the biggest—in employees' experiences and satisfaction at work. Strong managers can truly revolutionize the way employees show up to work, how they perform, and how the organization performs as a whole.

Our analysis also found that consistency matters. Organizations with high manager "cohesion," where managers within and across business units behave similarly, have almost twice the organizational-health score of those with low manager cohesion. When managers march to the beat of the same drum, everyone wins (Exhibit 2).

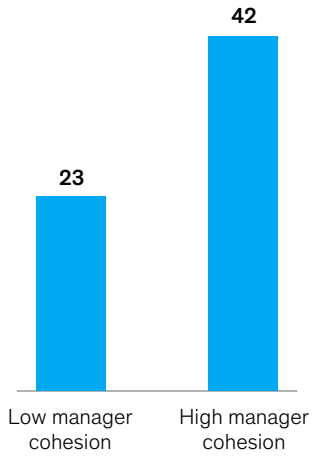
However, managers do not wake up and automatically know what great looks like, nor do they learn through osmosis. Instead, managers exhibit these behaviors when multiple factors are present: they have clear expectations, are given targeted training, understand why their actions matter, see inspiring leaders behaving similarly, and have support systems in place such as structure, role design, and rewards.

When any number of these factors are in place, strong managers can reduce attrition, support talent acquisition, and buoy employee well-being and psychological safety, which are all extremely important and meaningful outcomes, particularly as the battle for talent wages on. And yet, according to our recent manager survey, only 20 percent of respondents strongly agree that their organizations help them to be successful people managers.

Exhibit 2

When managers within and across business units behave similarly, organizational health rises.

Share of organizations with top-quartile health by level of managerial cohesion,[1] %



[1]Managerial cohesion defined as average correlation between business unit rank of managerial practices and overall organizational rank of managerial practices.
Source: 2020 Cohesion Research OHI sample, n = 205 surveys from 2016–20

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Creating the right atmosphere for middle managers to be the 'force multipliers' they are meant to be is not a trivial endeavor.

Five steps to help strengthen middle-manager performance

Creating the right atmosphere for middle managers to be the "force multipliers" they are meant to be is not a trivial endeavor. What actions can leaders and organizations take to create more top-performing managers and, in turn, increase the value they bring? Unleashing the power of the middle starts with organizational structure and role design. While this may seem surprising, the rationale is simple. We cannot expect managers to start acting as inspirational leaders and strategic thinkers if they are constantly juggling competing demands and simply do not have the time to step back and think big. Once managers are set up for success structurally, capability building, improvements in experience, and accountability mechanisms can follow.

Step 1: Optimize the organization's 'spans'

In organizational design, many companies focus on finding the right "spans"—the magic number of employees a manager can oversee to achieve optimal effectiveness and efficiency. There are two common challenges to this approach. Overly large spans create a massive strain on managers' time, leaving them with little opportunity to give meaningful coaching or spend sufficient time on strategy. Too-small spans indicate areas where talented experts are "rewarded" with people leadership responsibilities (even if they did not want them to begin with) that take them away from the individual-contributor work they would prefer to continue doing.

By systematically reviewing an organization's structure, leaders can identify where their managers are not set up to succeed and create value. One biotech start-up went through this process and found that over half of its managers had three or fewer direct reports. The company optimized its structure by creating healthier manager spans and transitioning some people managers into expert roles that were better suited to their strengths and aspirations. These shifts improved the efficiency of more than 200 teams, with no reduction in head count.

Step 2: Reset manager roles

Middle managers may have a reputation for being bureaucratic, but in reality they aren't so much the cause of bureaucracy as a barometer for it. In our recent manager survey, nearly half of respondents said bureaucracy was the most negative aspect of their jobs. Managers' roles should be reset with this in mind. Leaders and organizations can conduct a thorough review of manager roles (using, for example, focus groups and calendar analysis) and categorize management tasks based on whether they add value or not. Then they can look for ways to automate rote tasks, ban unnecessary meetings, and eliminate as much bureaucratic work as possible—for instance, administering forms, complex approvals, and reports that are not necessary for people development and safety.

This is where emerging technologies like generative AI can help. One multinational financial-services company, for instance, is using ChatGPT to assist its employees with finding information in the company's massive knowledge and insights system. And a US utility company has deployed an AI-supported scheduling system in its service centers. In both cases, seemingly small moves are making a big

difference in helping managers focus on supporting their people and investing in strategy.

Step 3: Pivot to capability building

Once the organization has given managers a fighting chance of spending time on what matters, it can define what great looks like, clearly communicate the vision, and provide any related upskilling. Above, we shared 11 manager behaviors that, combined, are linked to greater financial performance. However, it is unlikely that companies will want to focus on all 11 at one time, since taking on too much at once can lead to frustration and failure.

Business strategy and values together are the first lens through which to prioritize these manager behaviors. The focus should be on which practices allow the organization to best unleash business impact and live up to its commitments to employees, stakeholders, and society. A baseline assessment of the current frequency of these behaviors can then draw attention to the areas that have the greatest opportunity to improve. For instance, organizations focused on flawless execution may want to prioritize operational discipline, challenging leadership, and personal ownership to deliver on their business strategy, whereas those looking to innovate could prioritize managers that encourage their teams to be creative, entrepreneurial, open, and trusting.

Once leaders identify priority behaviors and managerial groups (that is, managers who create outsize business value and have the greatest opportunity to improve), they can take the next step of building customized learning journeys to close gaps.

One global consumer giant embarked on an end-to-end manager capability-building program by first defining an integrated vision for its talent and business strategies. It then clarified and communicated to managers the concrete behaviors and expectations for which they would be held accountable. Finally, it rolled out customized learning journeys catered to managerial job level, from front line to just below senior leadership. With these moves, the consumer company built a robust management and leadership pipeline to stave off some of the negative effects of the Great Attrition.

Step 4: Drill down into manager experience

Research shows that middle managers are the most burned-out job level across organizations,[1] and that there is a huge purpose gap, particularly between frontline managers and executives. Given the vitality of middle managers to organizational success, their workplace experiences should be ruthlessly protected and prioritized.

The first three actions we've outlined should meaningfully enhance important elements of the manager experience, such as balance and well-being, but additional pieces warrant attention.

Increase purpose. The middle-manager role requires a rebrand. First, encourage employees

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[1] *Executives feel the strain of leading in the 'new normal,'* Future Forum Pulse, October 2020.

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to see the role as a destination, rather than a waystation for bigger and better things. Removing the stigma and highlighting all the benefits of the role can help drive feelings of purpose. Second, ensure the connection between the manager role and multiple sources of meaning is crystal clear, including the organization's overall purpose.

Foster inclusion. In 2022, for every 100 men promoted to managerial roles, only 87 women, and 82 women of color, were promoted. Women and people of color remain underrepresented in managerial roles, and organizations could do more to prioritize their inclusion. Programs to facilitate the mentorship, apprenticeship, and sponsorship of managers, particularly those from underrepresented backgrounds, can have a meaningful impact on their experience in the role.

Offer development opportunities. There is plenty to keep managers feeling engaged and "comfortably stretched." Whether taking on larger, more complex teams, managing a team with different skills aimed at a new outcome, or providing mobility to manage in a new location, opportunities to grow abound within the middle-manager role. Indeed, managers are excited about these opportunities: our research shows that increased responsibility and the opportunity to learn are valued more highly than job perks.

Step 5: Build in accountability mechanisms

The final step is to build accountability mechanisms to help reinforce what great looks like and to give middle managers continuous progress updates on how they are doing. The greatest formal mechanism is an organization's performance management system, from goal setting to continuous feedback, performance review, and consequence management. There should be a tight connection between what leaders want managers to do with respect to thinking strategically and coaching others and how they are rewarded.

One global bank clarified the manager behaviors that supported its new business strategy, provided capability building for these practices, and then embedded them into its performance management system. Managers were required to set goals linked to the behaviors at the beginning of the year, and a feedback framework was instituted for peers and direct reports to weigh in as well.

The bank also launched a yearly pulse survey that asked direct reports to assess their managers on the critical behaviors. Survey results are displayed through a transparent, digital dashboard so that all managers can see one another's results—creating a sense of robust competition. Managers are encouraged to use their results to guide conversations with their teams about what is going well and how they can meaningfully improve. The bank saw its organizational health skyrocket from the third to first quartile in just two years, in part because of the clear accountability mechanisms it built for managers.

Companies can no longer afford to overlook their middle managers, who are key contributors to both organizational health and financial performance. Our new research shows that it pays to actively invest in managerial ranks by taking five steps to strengthen managers' performance. Leaders, take note: top performers will not only be better equipped to nurture the talent that is the foundation of a healthy workplace but could also help back that investment by directly adding to the bottom line as measured by TSR. That's a win–win.

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