A New Social Contract: Middle Management in a Post-Covid-19 World

You don't have a "middle" problem. You have a "muddle" problem.

By James Allen

BAIN & COMPANY

James Allen is a senior partner in Bain & Company's London office and coauthor of *The Founder's Mentality*. He formerly led Bain's Global Strategy practice and helps lead our CEO Forums and Founder Summits, all of which have moved to virtual support.

Borrowing a metaphor from Tomas Pueyo, the long "dance" has begun—we've entered the challenging period between full lockdown and widespread vaccination for the Covid-19 virus. Many Western countries are relaxing stay-at-home policies. Meanwhile, some Asian economies are reopening, albeit haltingly. I write from London, where Boris Johnson has told us we'll soon be gingerly coming down the mountain.

Reopening brings yet another set of challenges for CEOs. Over the past few weeks, we've outlined the CEO agenda for navigating the crisis. Their goal is to thrive in the new post-pandemic world by retooling their firms to compete with scale *and* speed. To do so, CEOs must make choices—on what stays the same, on what changes. Winning companies must become far more adaptable and resilient to continue to meet their customers' changing needs.

As CEOs "power up" their firms from lockdown, they want to avoid a "snapback" to old ways of working. Everything communicates: Either they will signal the firm's new ways of working, or they will accommodate their employees' desire for a return to normalcy by endorsing old routines and behaviors. Under lockdown, they've thrown out the "rules, tools and fools," or needless friction and complexity. They've connected directly with the organization's front line and doers. This has led to an explosion of energy, creativity and results. Many CEOs have shared some variant of the following: "With many initiatives, we've accomplished more in eight weeks than the past eight months. We just got on with it, shutting down endless debates." They want to preserve the best practices from lockdown, including more bottom-up experimentation, smaller teams and less governance.

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On the other hand, CEOs know this burst of creativity carries an organizational cost. There's been too much variance, or experimentation, and not enough selection, or coordination and prioritization. There have been more direct conversations between the CEO and frontline teams, but not enough alignment and buy-in with all of the managers in between. In many cases, the right people haven't been in the room for decisions. As Stanford Graduate School of Business professor Hayagreeva "Huggy" Rao points out: "Just because only six people can fit on two rows of Zoom doesn't mean that the missing seventh person won't be critical to project success."

To address the need for balance, CEOs can commit to a new social contract. They will face big challenges—and perhaps the most difficult issue of all will be addressing the "middle" of the organization. How can firms preserve the energy emanating from the connection between the C-suite and the front line, and still ensure that the right people are in the room for important decisions? Or in traditional business terms, what happens to all the span breakers and layers?

Suchi Mukherjee, the founder of Limeroad, an online marketplace for affordable fashion, offered some guidance: "As I navigate our organization through the Covid-19 crisis, the new vocabulary to reframe known management problems is really valuable. It injects a fresh perspective, a new way of looking at an issue, which tends to trigger new solutions from our teams. When I frame issues using traditional vocabulary, I tend to get traditional thinking." To that end, leading CEOs will change the mindset and vocabulary they use to describe old problems. They will reframe: It's not a middle problem, it's a muddle problem.

Change the mindset and vocab: From "middle" to "muddle"

One CEO described the problem of the middle: "Our agenda has exploded with the crisis. We have too much to do and don't have enough talent. I need to solve the problem of middle management—not from a cost perspective, but from a revenue perspective. How do I get all those leaders away from over-managing the existing business and on to business-building tasks?"

As this CEO noted, the organization's issue isn't management excess. It's a talent shortage. Shifting this mindset is critical. From there, CEOs can continue to reframe the issue using a new vocabulary.

Consider, for example, that every firm has a **"delivery agenda."** It propels most of the organization's day job, which is to execute on the existing promises of the existing business. Ideally, the objectives and playbooks clearly define what they need to do and how they need to do it. The guidelines are non-negotiable; the decision rights are unambiguous. Results depend on flawless execution. Execution is hard, but the tasks are knowable. There's no vast experimentation, and therefore no need to coordinate and prioritize multiple ways of working. The core wheel is invented and it's good enough—there's no need to reinvent. Local teams are empowered to do whatever it takes to serve customers, within the established guidelines. They don't go to the global center for approval. Nor do they argue against or violate the guidelines.

Every firm also has a **"development agenda."** It involves tackling the unknown part of the firm's strategy, where leaders need to test and learn their way to the right answers. Employees develop a new set of initiatives, where the means and ends are unclear. They can't commit to numbers yet, because too much is unknown. They are building, not running, businesses. It's all about experimentation, coordination and prioritization. A major part of the agenda involves adapting the existing core business for the new world. But it also involves building new businesses outside of the core.

Unfortunately, this isn't how leaders actually manage most businesses today. Instead, the delivery and development agendas are all muddled together. Even though they are two radically different activities, which require different ways of working, there is little distinction between them. Moreover, the delivery agenda actually isn't codified and the playbooks aren't clear. And the development agenda is underfunded: The organization needs new widgets, but endless variations of the wheel hold up the resources.

It's no surprise then that middle managers are overwhelmed—they spend every day bouncing between running the business and building through experimentation. As a result, the delivery agenda of the core business is over-managed, because managers waste their energy in three roles:

- **Negotiator/mediator:** Since the delivery agenda has never been perfectly articulated and stabilized, managers spend a significant amount of time negotiating and clarifying. Everything is up for grabs. The organization is inventing more wheels. It reconsiders routines and behaviors in every meeting. Managers endlessly debate alternative ways of working.

- **Aggregator:** Thoughtful aggregation can be helpful in the delivery agenda. In some cases, bringing teams together to talk adds considerable value. Global companies meet at the national market level to compare notes and share lessons. For example, all the Nigerian teams meet to talk about the "Nigerian strategy." Similarly, there is often good aggregation at the global product level: All teams working on one brand of deodorant meet to discuss their shared experience, be it similar consumers across markets or similar competitors. But there's also bad aggregation. It occurs when the same people run both the unclear delivery and development agendas. There are "Asia-Pacific" aggregators, for example, who lump together Australia and New Zealand with Japan and Korea, and Vietnam—even though there is no commonality among these markets beyond rough time zones. The span breakers are justified because a CEO can't manage hundreds of markets.

- **Selector/coordinator:** There's too much variance where people need simplicity. Local teams are free to deliver results within known playbooks. But CEOs are not asking them to launch multiple experiments that need to be coordinated or prioritized. Instead, the firm relies on too many managers who are coordinating multiple experiments or selecting winners and losers.

For many CEOs, the crisis revealed that firms don't have a "middle" problem. They have a "muddle" problem. Lockdown temporarily cleared up the delivery agenda: We have to do X now, and this is how we'll do it. Because leaders couldn't afford the time to debate, the firm got things done fast. CEOs ignored many aggregators and went directly to the folks who would get the job done. Through these new activities and ways of working, they realized how the delivery agenda *should* be.

At the same time, during lockdown, the organization needed to experiment with different solutions and build something new. And CEOs found that most of their managers lacked business-building skills. They often couldn't focus on the "failure point." The best founders know that there are hundreds of issues to resolve when building a new solution. With each iteration, the key is to solve the next big potential problem that could derail the initiative. Managers also often lack scaling skills. They can come up with a good idea (which we call "winning"), but they don't create playbooks to deploy the solution across the company (or "scaling").

In the absence of strong business builders, CEOs had to intervene directly. They realized that just as their delivery agenda is over-managed, their development agenda is under-resourced and under-skilled. They face a resource allocation problem.

By eliminating all negotiations and variance in the delivery agenda, CEOs can shift resources to business building. They can create and train on the playbooks needed for flawless execution. And with a clearer delivery agenda, CEOs can free up aggregators for new roles.

And with stable playbooks, they can eliminate the need for any experimentation and selection—save it for the development agenda. By giving leaders the opportunity to add initiatives to the development agenda, CEOs send an important signal: "Of course, you can raise issues and areas where we can improve on existing routines and behaviors—you are best positioned to do so. But day to day, stick with the playbooks we have and, at the right time, when we focus on our development agenda, we'll consider fundamental improvements." All organizations can improve. But they can't flawlessly execute playbooks that aren't fully established—endlessly rewriting routines kills good execution.

The clear delivery agenda will radically simplify managers' roles: There will be no need for negotiators, aggregators or selectors. As part of the new social contract, CEOs will solve the muddle issue and liberate their people to pursue more critical roles.

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Liberate the delivery team, build the development team and reimagine the firm as a learning organization

By redefining the middle issue as the muddle issue, CEOs can open the floor to three specific conversations. These conversations can help create a new social contract that embraces the best of lockdown: experimentation, learning and the critical ability to get stuff done.

1. How can we liberate our delivery teams to run the existing business faster and smarter?

CEOs can remove all of the "unknowns"—things that still require experiments, testing and learning—from the delivery agenda. The firm's center will be small, but strong. Local teams, aided by clean playbooks and guidelines, will be empowered to serve customers as they see fit. There will be few, if any, aggregators between the senior leadership and the front line, between the executive committee (Exco) and core markets, brands and products. The market, brand and product jobs are big. But the delivery organization will be a lean, mean machine. It will need much less management, which is a great thing, because the firm needs those freed-up leaders elsewhere.

2. How can we strengthen our development teams and turn them into business builders?

The liberated delivery teams, who will have no time to mess around with variance, will toss many initiatives over the wall. The development teams will then need to rack and stack all those initiatives against other priorities coming out of the Covid-19 crisis.

Once the development agenda is set and approved, leading CEOs will find the right talent to deliver it. We've worked with more than 1,000 founders over the past eight years, learning about the best business-building talent. We've found that every firm has a major shortage of two types of leaders.

First, development teams need **scalers**—those armed with playbooks who are uniquely able to turn innovative ideas into new businesses. Scalers work with the firm's executors, who lead the delivery agenda and flawlessly execute playbooks to serve customers. Scalers also act as a bridge between the executors and the disruptors, who bring creative ideas to products and services, business processes, and occasionally, the business model itself. As CEOs establish the development agenda, they'll find they don't have enough scalers (for more on how to find and develop them, see "How to Identify Great Scalers").

Development teams also need **level-5 experts**. Experts operate throughout the organization, but most work on the delivery agenda. They are specialists in IT, logistics, supply chain and more. Every time the organization launches a special project, everyone wants the same 10 experts to support it. And every time the organization wants to do something new, it comes at the expense of an existing initiative. CEOs scratch their heads, because they have thousands of people, but everyone wants "Bob."

The "everyone wants Bob" problem hampers business-building efforts. Working with The Chemistry Group, a London-based research company, we've studied the qualities of great business builders. The Chemistry Group measures behaviors on a five-level scale. Levels one to four range from novice to master of a particular behavior. But level five is different. A "five" is only assigned to someone who can transform their behavior into an institutional capability, meaning their teams can carry on, even when they aren't in the room.

When we apply this scale to experts, we find that most HR systems have rewarded Bob for quickly progressing to level four—they want him to be a master of his craft. But HR never encourages Bob to move to level five—they've rewarded Bob for making himself indispensable. The problem isn't a shortage of Bobs. It's that HR systems reward Bob incorrectly. To nurture business builders, CEOs can redesign their HR rewards and start to solve their expertise shortage.

Unlike the old hierarchy, which locks talent into a career lane, the learning organization will celebrate these transitions. And when the time comes to update a playbook, CEOs will look to its best flawless executers—recognizing that they are the right people to challenge it and identify where it needs changes.

3. How do we reimagine the firm as a learning organization?

Once the firm is full of teams focused on the delivery and development agendas, how can CEOs create an organization where people can grow and learn? It starts with establishing a growth mindset: Leaders must approach every day with a desire to learn and change, shedding the need to defend old ways of working.

The agendas will also create new career paths. Careers will be learning journeys, where talent will rotate between delivery and development teams. Unlike the old hierarchy, which locks talent into a career lane, the learning organization will celebrate these transitions. And when the time comes to update a playbook, CEOs will look to its best flawless executers—recognizing that they are the right people to challenge it and identify where it needs changes.

To foster this new environment, CEOs will need to initiate training across several areas. Building a learning organization will be critical to thriving in the new world—and we'll continue to revisit the training agenda in the coming weeks.

Give your leaders the chance to audition for new roles

Let's go back to January 30, 1969. We're on the roof of Apple Studios with The Beatles. At the end of the final song, "Get Back," John Lennon concludes the band's last live performance by saying to the cheering crowds below, "I would like to say thank you on behalf of the group and ourselves and I hope we've passed the audition."

Of course, the organization wants to "Get Back" to normalcy. But leading CEOs won't let them snap back to old roles. As they start conversations about the new social contract, there will be auditions for new performances. But, like any audition, the roles are not guaranteed. In a learning, agile organization, the CEO can create greater opportunities to move around, but the "market" will ultimately decide who gets the leading roles.

Who is the market? In this case, it's the team leaders. Every day, the organization will mobilize and demobilize teams to pursue the development agenda. The Exco will be clear: The firm needs to shift its resources to support business building. To facilitate the process, the firm will set up training and support for managers. It will also provide a chance for managers to work on one development team. But after that, the team leaders will decide. They will seek the best scalers and experts to help them.

This isn't as brutal as it sounds. In all great meritocracies, the market ultimately speaks. Leaders give their people chances to audition for the roles that suit them best. Teams pull in people with great track records and avoid underperformers. As part of the new social contract, leaders can provide managers with opportunities and support and—to paraphrase Lennon—"hope they pass the audition."

As we "power up" our companies from lockdown, we will turn to the hardest old chestnuts in business. The old ways of working have been around for ages, supported by traditional mindsets, vocabulary and thinking. To avoid snapback, leading CEOs will start a new conversation using a new language. They will reframe the middle problem as the muddle problem.

The new social contract is a huge opportunity for resource shifts. It gives your best people a chance to audition for critical roles, including business builders who will adapt the firm to your customers' changing needs. Your people will be central to winning the global battle for customer relevance. This is your moment. This is their moment, too.

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