

Exploring the Determinants of Unit Performance

THE ROLE OF MIDDLE MANAGERS IN STIMULATING PROFIT GROWTH

JOHANNA MAIR
IESE Business School

This article sets out to identify the origins of performance differences between units within the same organizational and industry context. Building on and reconciling diverse research streams, it empirically tests the effect of strategic, individual, and context factors on performance over time. The study complements traditional research in strategy by advancing a middle manager perspective. More specifically, it highlights the importance of middle managers' actions aligned with strategy, their demographic characteristics, and their immediate competitive environment in stimulating performance. Data on 119 managers and units of a European financial services firm suggest that how middle managers enact strategy, who they are, and where they are significantly affect profit growth in their units.

Keywords: enacted strategy; business unit performance; middle managers

Explaining variation in (business) unit performance has a long tradition in strategy research. Studies adopting an economics perspective have attributed performance differences to industry effects or firm efficiency (McGahan & Porter, 1997; Rumelt, 1991; Schmalensee, 1985); others have emphasized organizational factors (Hansen & Wernerfelt, 1989; Howell & Avolio, 1993); and a very few have considered multiple dimensions and/or contingency effects (Gupta & Govindarajan, 1984; Slater, 1989). Although these studies—often based on large samples—have contributed substantially to our understanding of differences in unit performance across companies and/or industries, we still know relatively little about what explains performance differences between units within the same company.

Correspondence concerning this article should be addressed to Johanna Mair, IESE—Business School of the University of Navarra, Barcelona, Spain; phone: +34 93 253 6504; fax: +34 93 253 4343; e-mail: jmair@iese.edu.

Group & Organization Management, Vol. 30 No. 3, June 2005 263-288

DOI: 10.1177/1059601104269113

© 2005 Sage Publications

This study investigates why some units perform better than others even though they all share the same industry and organizational context. I build on diverse research streams to develop a framework that employs strategic, environmental, and individual factors to assess interunit variance in performance over time. I empirically test this integrative framework using data on 119 units of a European financial services company and on their managers. The main objective is to advance knowledge on the origins of performance within companies. This article adopts a middle manager perspective and reconciles existing views by emphasizing strategy in action, personal profiles, and the specific competitive context as important influencers of performance. In other words, I propose that how middle managers enact strategy, who they are, and where they are significantly affect the performance of their units. In contrast to previous research, I argue that all three perspectives contribute to our understanding of intrafirm performance heterogeneity. Although some earlier studies took individual and environmental characteristics into account as antecedents of strategic behavior (Gupta & Govindarajan, 1984; Martinko & Gardner, 1990; Slater, 1989), they rarely treated them as direct determinants of unit performance. To emphasize the direct effect, I contrast my model with a model that accounts for indirect effects of individual and environmental characteristics on unit performance.

In the following sections, I first briefly review the relevant literature on determinants of unit performance and middle managers and then present the theoretical arguments for applying three perspectives to elucidate unit performance. In a next step, I summarize the research design and data analysis and present the results of the empirical test. Subsequently, I compare the results of my model with an alternative model to illustrate the value of the approach proposed in this article. To conclude, I discuss the main findings, contributions to the literature, and managerial implications.

BACKGROUND

The business unit is widely considered an important level of analysis in the field of strategic management (Hambrick, 1980; Van De Ven & Ferry, 1980). Yet only a small number of studies have looked explicitly at the determinants of superior performance at the unit level. The few existing studies mainly consider diversified firms with businesses operating in various industries (Gupta, 1984; Gupta & Govindarajan, 1984; Slater, 1989). Consequently, we still know relatively little about performance differentials in single-industry companies or between units operating in the same industry.

Traditional research also typically considers strategy as a top management issue. However, although top managers very often shape strategy, it is the managers in the middle who translate strategy into tangible outcomes. This article sets out to bring to light the origins of performance by adopting the perspective of middle managers.

Research on middle managers has a long tradition in the field of strategic management. Previous (mainly process-oriented) research has shown that middle managers play an active role in both strategy implementation and strategy formulation (Floyd & Woolridge, 1992). On one hand, they translate organizational goals and strategy into concrete actions (Uyterhoeven, 1972), and on the other they convert autonomous managerial action into strategic intent (Burgelman, 1983a). Managers in the middle ensure efficient allocation, transfer, and sharing of resources and capabilities, exerting upward, downward, and sideways influence (Bower, 1970; Ghoshal & Bartlett, 1998; Nonaka, 1988), and their commitment and support is critical for the success of organizational and strategic change processes (Huy, 2001).

Several researchers have emphasized middle managers' role in fostering entrepreneurial initiative within established organizations (see Hornsby, Kuratko, & Zahra, 2002, for a review). Middle managers are seen as vital to convert entrepreneurial initiatives developed at the front into organizational outcomes (Burgelman, 1983b). Entrepreneurial middle managers not only seek and pursue opportunities, but they also bring them to life (Kanter, 1982). They actively promote ideas, build support, overcome resistance, and ensure that the innovative ideas are implemented and followed through (Howell & Higgins, 1990).

Although in recent decades we have gained a comprehensive understanding of the nature of middle managers' activities, we still know relatively little about how those activities translate into tangible performance. The few existing empirical studies typically focus on abstract categories of activities and assess performance implications at the organizational level. Wooldridge and Floyd (1990), for example, relate middle managers' activities, measured in terms of their involvement in strategy making, to performance, assessed at the organizational level. Little empirical research has looked at how middle managers' actions to realize strategy influences sustained performance, or better, at how enacted strategy influences sustained performance, at the subunit level.

Traditional strategy research has given considerable attention to the role of strategy and strategic choice in determining superior results. Although additional aspects such as organizational and environmental context or individual characteristics of the people involved may be taken into account, they usually are considered as control variables or antecedents of strategy and

strategic behavior rather than as variables that have a direct effect on performance. In other words, the firm or company very often is treated as a black box. Thus, in the traditional strategy perspective, it is the entity, not the individuals who make up the entity, that stimulates superior performance. This article sets out to fill this gap in previous research by integrating three perspectives and sets of variables to explain variance in unit performance. First, I emphasize how middle managers enact strategy. Second, I introduce individual, observable demographic characteristics of the middle managers in charge of the units. And third, I take into consideration the specific competitive conditions these managers face at the micro (i.e., unit) level. It is important to point out that this study is exploratory in nature. It aims to provide a basis for future theory-building rather than an arena for theory-testing. In the following sections, I will set out arguments for linking the proposed three sets of variables to unit performance.

STRATEGY MATTERS: THE EFFECT OF ENACTED STRATEGY ON PERFORMANCE

The notion that strategy affects performance lies at the heart of strategic management research (Rumelt, Schendel, & Teece, 1994). Empirical studies, however, vary substantially in their perception of strategy, making it difficult to empirically operationalize the concept of strategy. As a result, the findings remain ambiguous (Hambrick, 1980).

Mainstream empirical studies typically refer to intended strategy formulated at the top of the organization (Robinson & Pearce, 1988; Rumelt et al., 1994). Typically, these studies conceptualize strategy in terms of intentions and strategic behavior prioritized by top management (Robinson & Pearce, 1988) but stop short of including actual behavior. Yet, strategy needs to be enacted to achieve tangible results and to make a difference. Strategy research that considers only intentions without looking at behavior is neither very interesting nor very useful (Mintzberg & Waters, 1982).

Based on the assumption that organizations are purposive institutions (White & Hamermesh, 1981), I conceive strategy as a creative and proactive process that goes beyond making decisions to include taking action. This study therefore centers on realized strategy (i.e., strategy that has been enacted). As Mintzberg (1994) notes, "The real problem has not been the lack of strategic planning, perhaps not even the lack of strategic thinking *per se*, but the lack of strategic acting" (p. 256).

I operationalize enacted strategy in terms of actual behavior that is aligned with the strategy of the company. By emphasizing actual behavior, the study complements previous research that has associated characteristics of

managerial behavior (Gupta & Govindarajan, 1982), managerial roles (Slater, 1989), or management styles (Howell & Avolio, 1993) with performance. I explicitly focus on strategy enacted by middle managers because they are responsible for their business units' performance and are seen as key for translating organizational goals and strategy into concrete actions (Uyterhoeven, 1972). Following the common thrust that strategy positively affects performance, I propose,

Proposition 1: Enacted strategy—actual behavior of middle managers that is aligned with the company's strategy—has a positive and significant effect on unit performance over time.

PEOPLE MATTER: THE EFFECT OF DEMOGRAPHICS ON PERFORMANCE

If formulating and implementing strategy is crucial for performance, then the individuals who decide and act, and the characteristics of those individuals, matter (Gupta, 1984). Conventional strategy research—mainly emphasizing technological and economic aspects—has given little attention to the people involved (Hambrick & Mason, 1984). Individual characteristics have been used only sporadically to explain or predict performance (Child, 1974). For example, drawing on clinical psychology, some authors name psychological attributes as critical antecedents of performance (Miller, Kets de Vries, & Toulouse, 1982). Although this approach is appealing, its main drawback is the difficulty of assessing the independent variables. Organizational demography (Pfeffer, 1983) and upper echelon theory (Hambrick & Mason, 1984) provide alternative, more systematic, and theory-based approaches to using individual attributes to assess performance. Both rely on demographic variables to predict organizational outcomes and behavior (Hambrick & Mason, 1984) and stress the methodological advantages of using observable, objective variables (Pfeffer, 1983).

This study builds on the theoretical thrust of demographic theories but departs from them in three respects to enhance accuracy. First, whereas earlier studies mainly used groups (Hambrick & Mason, 1984) or dyads (Tsui & O'Reilly, 1989) as demographic units, I use individuals (Waldman & Avolio, 1986). Second, instead of focusing on leaders (Howell & Avolio, 1993) or on top managers (Haleblian & Finkelstein, 1993; Hambrick & Mason, 1984), I focus on middle managers who head units within the firm. Finally, by emphasizing the business unit as the level of analysis, I fill the gap in previous research, most of which has assessed the effect of demographic variables on outcomes measured at the group level (Frink et al., 2003), firm level (Priem, 1990), or industry level (Norburn, 1986).

Conceptual and empirical findings in the domain of organizational demography and upper echelon theory indicate that there is a significant link between demographic variables and superior performance. Accordingly, I put forward the following general proposition:

Proposition 2: A significant link exists between middle managers' demographic profile and the performance of the units they manage over time.

Following the literature, I consider three categories of individual demographic attributes (Lawrence, 1997): (a) immutable variables such as gender and age; (b) variables that characterize the individual's relationship with the company such as background within the organization; and (c) variables that identify the individual's position in society such as level of education.

With respect to age, Hambrick and Mason (1984) and Norburn (1986) argue that younger managers do significantly better in triggering corporate growth. Arguments supporting this proposition include young managers' eagerness to seek information and employ new ideas, their physical and mental stamina, and their readiness to make decisions (Child, 1974; Hambrick & Mason, 1984). Also, Waldman and Avolio (1986) report a decrease in job performance at higher ages. Therefore, I propose,

Proposition 2a: The age of the middle manager in charge of a unit has a significant effect on the unit's performance over time. Young middle managers perform better than their older colleagues.

Traditional strategy research has largely neglected the effect of gender on firm or unit performance. Rather than relating gender directly to firm or unit performance, prior research mainly examined the relationship between gender composition of the workforce and performance at the group or organizational level (see Frink et al., 2003, for a review). Focusing on the middle management level, Tsui and Gutek (1984) claimed that the relative proportion of men and women conditions the form and nature of social interaction and therefore influences job performance. Overall, however, gender studies with a focus on middle managers are still rare. Yet, as the percentage of female top managers is still very low, one might assume that it is at this level of the organizational hierarchy that comparative studies would contribute most to our understanding of gender effects. We lack empirical and theoretical evidence to argue that middle manager positions call for skills and management styles that are more readily attributable to specifically male or specifically female ways of managing. It would therefore be purely speculative to hypothesize as

to the specific direction of the effect of gender on performance. However, to stimulate discussion, I propose,

Proposition 2b: The gender of the middle manager in charge of a unit has a significant effect on the performance of that unit over time.

Unlike age and gender, the functional background of managers has received considerably more attention as a predictor of performance. A number of empirical studies have linked various aspects of functional and industrial experience to performance measured in terms of growth (Eisenhardt & Schoonhoven, 1990), financial performance (Michel & Hambrick, 1992), or strategic outcomes (Wiersema & Bantel, 1993). In sum, previous (management) experience has been positively associated with growth and financial performance (Norburn, 1986). Managers who change function and/or geographical location are typically viewed as being less committed to the status quo and therefore more willing to change structures, procedures, and people, which is a requirement for enhancing performance (Hambrick & Mason, 1984). Thus, I propose,

Proposition 2c: The background of the middle manager in charge of a unit has a significant effect on the performance of that unit over time. Middle managers with a variety of work experience perform better.

Finally, the formal education of top managers has been positively associated with organizational growth and financial performance (Hambrick & Mason, 1984; Norburn & Birley, 1988). At the business unit level, Slater (1989) showed that the level of education is positively and significantly related to business unit performance, independent of the strategy pursued by the business unit. Thus, based on existing conceptual and empirical findings, I propose,

Proposition 2d: The educational level of the middle manager in charge of a unit has a significant effect on the performance of that unit over time. Middle managers with a high level of formal education perform better.

THE ENVIRONMENT MATTERS: THE EFFECT OF UNIT CHARACTERISTICS ON PERFORMANCE

Strategic management research has a long tradition of considering environmental and situational factors as important determinants of organizational effectiveness and performance. Whereas economics-oriented authors argue that market forces and the firm's competitive position determine

performance (Porter, 1980a), sociologists (Lawrence & Lorsch, 1967) and organizational theorists (Burns & Stalker, 1961) argue that organizations are responsive to their environment and that the fit between context (environment) and structure of the firm is critical for performance.

Empirical studies following these research traditions emphasize the importance of differences in markets and structural or organizational characteristics for explaining variance in performance between firms or business units operating in different industries. However, few studies have shown how these factors operate at the micro level. In other words, we know relatively little about how differences in environmental conditions, both market and organization based, at the unit level affect variance in performance between units that not only share the same industry but also the same overall organizational context such as homogeneous incentive systems, information systems, and so forth.

In this study, I consider the local environment—that is, the competitive and structural characteristics at the micro (i.e., unit) level—as the determinant of unit performance.

More specifically, I build on traditional research in competitive strategy that adopts a deterministic perspective and that suggests that the origins of competitive advantage and sustained superior performance lie not only in the individual firm but also in the firm's local environment (Porter, 1994). Accordingly, I propose,

Proposition 3: A significant link exists between characteristics of a business unit's immediate micro-level environment and the unit's performance over time.

Porter (1980a, 1990) identifies local rivalry, socioeconomic conditions, and geographical location as important variables for explaining variance in performance at the level of the firm, industry, and nation. I build on this thrust and apply the insights of this stream of research to the micro (i.e., unit) level to explain variance in performance at the subunit level.

According to Porter (1994), local rivalry provides an incentive for firms to improve and innovate and thus stimulates competitive advantage and superior results. The proximity of local rivals speeds up the information flow that is crucial for firms to innovate and develop unique features and competitive capabilities. Whereas Porter (1980b, 1986, 1990) investigated the effect of local rivalry on the competitive advantage and performance of nations, industries, and companies, I contend that local rivalry also critically affects the performance of business units:

Proposition 3a: A significant link exists between the intensity of the rivalry a business unit faces from local competitors and the unit's performance over time. Units that encounter a higher level of local rivalry perform better than units facing only limited rivalry.

The need to consider the socioeconomic characteristics of the business environment as factors explaining performance and organizational effectiveness has been pointed out repeatedly (Dhar & Mishra, 2001). The socioeconomic conditions a firm or business unit faces directly affect demand conditions (Porter, 1990) and so influence the performance potential. For example, the level of wealth in the local environment might affect consumers' propensity to spend and might limit a firm's ability to grow. Therefore, I propose,

Proposition 3b: A significant link exists between a business unit's socioeconomic environment and the unit's performance over time. Poor socioeconomic conditions in the unit's business environment will negatively affect its performance.

Geographical location matters not just for the performance of multinational companies. Porter (1990, 1994) provides evidence that successful companies tend to be geographically concentrated. This finding has been supported by research on regional clusters and by the theory of new economic geography (Krugman, 1994). According to Porter (1990, 1994), the phenomenon can be observed at various levels (national, regional, and municipal) and helps to explain variance in performance between firms. Applying Porter's insights at the micro-level, I suggest that the geographical location of business units affects their performance over time. As the direction of the relationship is, of course, context-dependent, I propose,

Proposition 3c: A significant link exists between a business unit's geographical location and the unit's performance over time.

This study aims to explore variance in performance between units that share the same organizational context (i.e., units that are exposed to the same corporate culture and the same incentive and control systems). Under this assumption, one can control for many explanatory variables at the organizational level. One of the few organizational or structural variables that differentiate units is the size of the unit. Studies of the effect of unit size on unit performance have had mixed findings. In an extensive review of the effect of size, Dalton, Todor, Spendolini, Fielding, and Porter (1980) report evidence of an inverse effect of size on performance at the subunit level. At the organizational level, however, evidence was mixed: A number of the studies

reviewed found a positive or zero effect on performance, whereas others predicted a curvilinear effect, with medium-sized companies outperforming both large and small companies. The authors argue that a lack of consistency in measuring size has led to an inadequate understanding of the way size influences performance (Dalton et al., 1980). At the subunit level—the focus of this article—it could be argued that small units have an advantage over large units. They tend to be less bureaucratic and to have more direct contact with customers and markets and thus tend to be more proactive in generating business, which has a positive effect on sustained superior performance. In line with previous empirical evidence, I propose,

Proposition 3d: A significant link exists between a business unit's size and the unit's performance over time. Small units perform better over time than do their larger counterparts.

METHOD

I limited my analysis to one company, which allowed me to explore variance between units in the same industrial and organizational context. It also allowed me to control for important determinants of performance at the firm level such as organizational structure, incentive systems, corporate culture, and official information flow.

SETTING

The Dutch retail financial services sector in the late 1990s was highly concentrated. Increasingly demanding customers and intense competition from abroad, together with new and cheaper methods of distribution, posed significant threats to the sustainability of profit growth. Moreover, it was widely expected that the structure of the financial services industry would continue to change unfavorably for large retail banks as nonfinancial institutions, such as retail chains, gained momentum. As a result, the large retail banks had to devise innovative ways to increase efficiency and ensure sustained superior results. Fostering the cross-selling of life insurance and other high-value-added products and services, rethinking distribution platforms, redesigning branches, modifying sales incentive policies, and focusing on cost efficiency were seen as essential to ensure profit growth. However, although the large banks established broad efficiency targets at the corporate level, they became increasingly aware that implementation of these targets required the entrepreneurial effort of all employees. In other words, entrepreneurial behavior by all employees was considered the key component of strategy.

In 1997, the board of ABN Amro, one of the three largest Dutch financial services companies, launched a new strategy promoting entrepreneurial behavior and reshuffled its operations in the Netherlands accordingly. It split the domestic market into approximately 200 micromarkets and appointed middle managers to take charge of each of these newly created, independent units (areas). Area managers were expected to manage their units in an entrepreneurial way and to diffuse the entrepreneurial spirit throughout the organization. In contrast to their tasks in similar positions before the launch of this specific project, area managers became increasingly accountable for their units' financial results. Furthermore, they enjoyed considerable autonomy in the way they organized their unit, the way they approached customers, and the way they led and guided their employees. Although the overall strategy (entrepreneurial approach to retail banking) was determined by the top management, it was left to individual unit managers to decide how the intended strategy should be enacted. In this study, the actual strategic behavior of these middle managers, their personal profiles, and their playground for action (immediate environment) are the main variables used to explain performance differentials at the unit level.

SAMPLE AND PROCEDURES

I used both objective and subjective sources to gather data. I used company archives to collect performance data on each unit for the period of 1997 to 1999, as well as to collect data on unit size, geographical location, and some of the demographic variables. To assess the units' competitive environment, I used official data sponsored by the Dutch central bank. Finally, I conducted a mail survey to gather information on the remaining demographic variables and to assess enacted strategy.

Out of a total population of 207 area managers, 150 managers answered the questionnaire (response rate of 72%). To follow performance over time (1997-1999) and to ensure comparability, I limited the analysis to the 121 middle managers who took up their jobs at the time of the launch of the new strategy at ABN Amro at the beginning of 1997. A further two areas (units) had to be excluded from the analysis: the national airport, because of its peculiarities with respect to both business and inhabitants, and one area for which no performance data were available. The final sample (*N*) therefore consisted of 119 areas (units).

I evaluated nonresponse biases by comparing regional distribution, size, and performance of the units in the returned sample with that of the units in the not returned sample. No significant differences were found. As suggested by the relevant literature, I eliminated social desirability effects as much as

possible by ensuring clear introductions and accurate phrasing of questions (Rossi, Wright, & Anderson, 1983).

The sample of managers who returned the questionnaire and took up their job in 1997 exhibited the following characteristics: 4% were female, and 71% were under 50 years old. The educational level was quite high: 77.3% had completed higher education (39% held university degrees). These results are consistent with the distribution of the overall population of middle managers working for ABN Amro in the Netherlands. On average, the managers in the sample had been with the company for 22 years and were responsible for 59 employees. Depending on the size of unit, the latter number ranged between 14 and 217 employees.

MEASURES

Dependent variables. As for performance at the firm level, there is no consistent measure for subunit performance. A very promising indicator for assessing performance over time in the banking industry is profit growth (Child, 1975; Wood & LaForge, 1979). Growth per se is hardly an organizational goal in itself nor does it guarantee value creation (Canals, 2001). Profit growth, on the other hand, combines growth and profitability, two of the main aspects of economic performance, and provides a more suitable measure of superior performance. It reflects a company's ability to innovate, to stay in close touch with customers and markets, to enhance employee commitment, and to attract investors (Canals, 2001) and is viewed as a viable indicator of organizational effectiveness, value creation, and sustained competitiveness (Stonham, 1995). Profit growth was assessed over a period of 3 years. The profitability dimension was captured by financial results (income margin), whereas the growth dimension was captured by an index comparing the results of 1997 with results at the end of 1999 (1997 = 100).

Independent variables. I built on interviews with middle (area) managers, subordinates, bosses, and internal or external experts to develop indicators forming a context-specific instrument to measure enacted strategy (i.e., actual behavior aligned with the entrepreneurial strategy). Following the distinct steps suggested by the literature on scale development (Rossi et al., 1983), I generated different items and pretested the scale with a sample of middle managers. The final scale included questions about the extent to which middle managers engaged in particular entrepreneurial activities (1 = *no extent*; 7 = *to a great extent*). The five items constituting the final scale (see the appendix) captured the entrepreneurial approach envisioned by top management and included activities related to renewing organizational

processes and structure, guiding employees, and, last but not least, proactively approaching customers and markets. The scale demonstrated satisfactory internal reliability (Cronbach's alpha = 0.77).

Demographic variables reflect gender, age, level of education, and professional background. I used dummy variables for all of these: gender (male vs. female), age (above vs. below 50), education (university or higher vocational education vs. secondary or primary school), and diversity of professional background (similar position in the same geographical location vs. different position in a different geographical location).

To assess unit-specific characteristics, I included variables reflecting the particular geographic region in which the unit was located, the size of the unit, the level of wealth, and the competitive situation of the unit. I used dummy variables (south vs. north) to indicate the unit's geographical location, the number of full-time employees as a proxy for size, the average house prices as an indicator of the level of wealth in the area, and the ratio of ABN Amro bank branches to the total number of bank branches in the area as an estimate of the competitive situation (intensity of rivalry).

Control variables. To properly assess change in financial results (profit growth), I controlled for initial levels of financial results (Finkel, 1995). By controlling for the initial values, I took into account the likely negative correlation between initial scores on a variable and subsequent change, a phenomenon generally known as regression to the mean.

DATA ANALYSIS AND RESULTS

I used a structural equation approach to estimate the effect of various alternative independent variables on subunit performance. Following Anderson and Gerbing (1988) and Fornell and Larcker (1981), I chose a two-step structural modeling approach with latent constructs. A latent construct is not directly observable and is defined by the loadings of all the indicators or manifest variables used to measure it. Structural equation models are considered methodologically superior in both exploratory and confirmatory stages of research as they have the potential to link theory construction and theory testing (Hughes, Price, & Marrs, 1986). Also, this approach allowed me to compare my model with an alternative model that follows the line of traditional strategy literature.

To estimate the free parameters, I employed the standard method of maximum likelihood (ML). ML is the most common estimation method for structural equation models, and it performs reasonably well with small samples. I

used AMOS 4 to test the structural equation models. AMOS has a unique graphical interpretation and was specifically designed to make fitting structural equation models easier. In the case of single-item measures, I followed the standard approach and created a latent variable that is measured by a single indicator. The loading of each single indicator must be specified with a value of 1, and the variance of its error must be specified as 0. The reliability of the enacted strategy construct was satisfactory. Its Cronbach's alpha was 0.77, which is adequate given an acceptance cut-off level of 0.70.

Table 1 presents the Pearson correlation matrix for all variables. I checked for multicollinearity, which indicated acceptable levels and did not compromise the theoretical and empirical validity of the study.

Figure 1 illustrates the results of the integrative model put forward in this article. The model suggesting a direct effect of three sets of variables explained 38% of the variance in profit growth. Two frequently used overall fit measures (measures determining the degree to which the model predicts the observed covariance and correlation matrix), namely the goodness-of-fit index (GFI) and the adjusted goodness-of-fit index (AGFI), indicated a good fit (0.932 and 0.818, respectively). The values for fit measures lie between 0 and 1 with higher values indicating a better fit.

The three general propositions of this article were supported: enacted strategy, demographic variables, and characteristics of the microenvironment are significantly associated with performance as measured over time. As suggested in Proposition 1, enacted strategy was positively and significantly associated with profit growth ($.03; p < .05$), suggesting that actual behavior aligned with the intended strategy positively affects performance.

All the demographic variables except age were found to have a significant effect on profit growth. Proposition 2a, which suggested a negative relationship between age and performance, was not supported as no significant link between these two variables was found. Instead, the data supported the speculative Proposition 2b. Gender had a significant negative effect on profit growth ($-.15; p < .05$), suggesting that units managed by female managers performed better than did units managed by male managers. However, the validity of this finding may be questioned as the number of female area managers in the sample (4 out of 119) is small. Proposition 2c, which suggested that middle managers' professional background significantly affects profit growth, was also supported. The data revealed that areas whose managers had changed job position and geographical location had significantly higher growth in profits ($-.08; p < .05$) than did areas whose managers did not experience such a change. Finally, the empirical test Proposition 2d received significant results. However, although the literature suggests a positive relationship between level of education and performance, the findings of this study

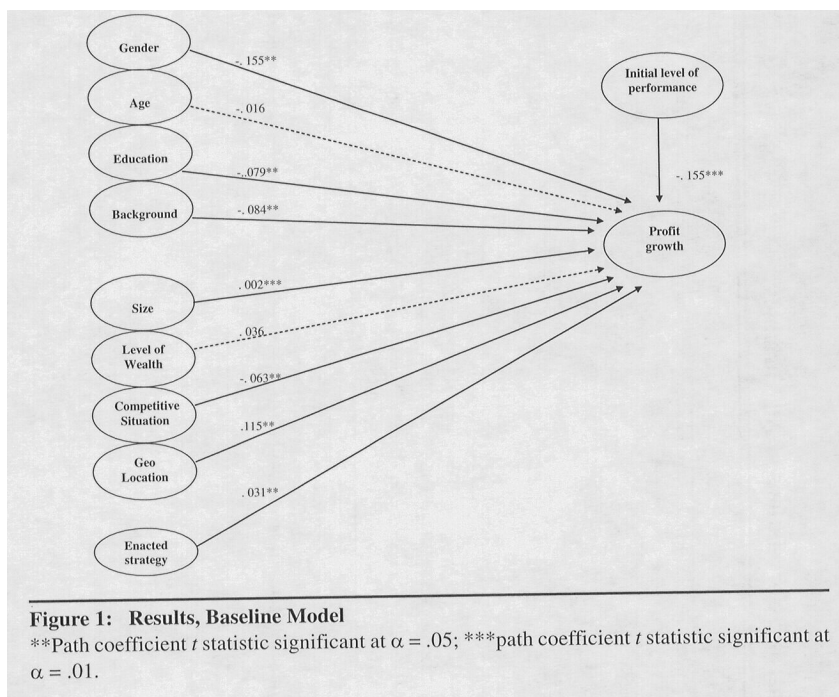
TABLE 1
Means, Standard Deviations, and Correlations of All Variables

	M	SD	1	2	3	4	5	6	7	8	9	10
1. Profit growth ^a	4.885	1.171										
2. Initial level of performance ^a	8.126	0.820	-.176									
3. Enacted strategy	4.716	0.928	-.195*	-.023								
4. Gender	0.97	0.181	-.079	-.069	-.047							
5. Age	0.34	0.474	-.039	.136	.015	.133						
6. Education	0.76	0.426	-.240**	.209*	-.14	.006	-.067					
7. Background	0.42	0.496	-.231*	-.214*	.015	-.030	.115	-.090				
8. Geographic location	0.29	0.454	.179	.017	-.031	.118	.101	.044	.027			
9. Competitive situation ^a	2.539	0.487	-.108	.166	-.123	-.180*	-.155	-.008	-.194*	.084		
10. Level of wealth	0.25	0.436	.002	.086	-.048	-.321**	-.249**	.003	-.141	-.067	.369**	
11. Size	61.628	46.074	.029	.850**	-.001	.002	.153	.145	-.301**	-.075	.113	-.041

NOTE: N = 119.

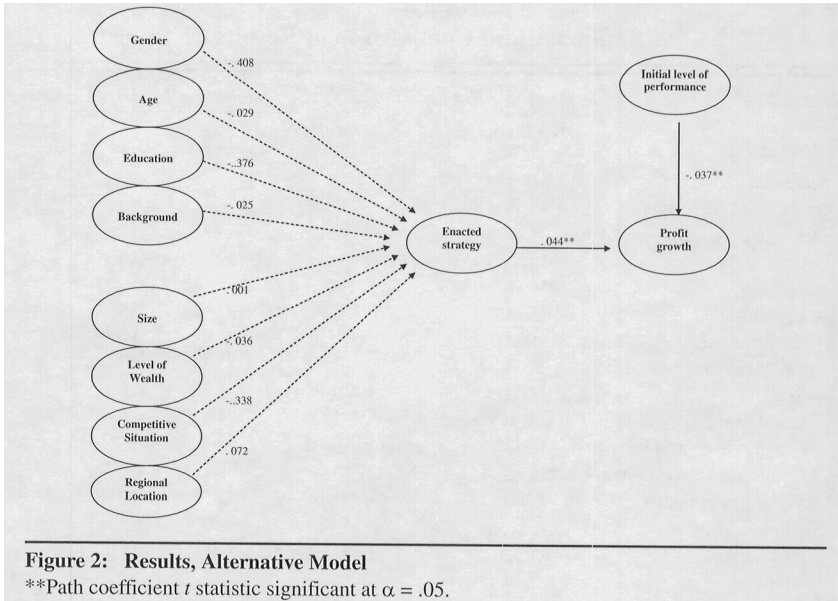
a. Logarithm.

*Correlation is significant at the .05 level (two-tailed); **correlation is significant at the .01 level (two-tailed).



point to an inverted relationship. Unit managers' level of education had a significant negative effect on profit growth ($-.08$; $p < .05$), suggesting that units managed by managers with a university degree or higher vocational training performed worse economically than did those units run by managers who had no more than primary or secondary education.

As suggested in Proposition 3, variables characterizing the unit-specific business environment also had significant effects on profit growth, with the exception of the level of wealth (Proposition 3b), which had a positive but nonsignificant effect. First, Proposition 3a, which suggested a positive and significant relationship between the level of local rivalry and performance, was supported. Areas with a high level of competition among retail banks did significantly better than did areas where the level of competition was lower ($-.06$; $p < .05$), suggesting that competition spurs performance. Second, as suggested in Proposition 3c, the geographical location of the unit was significantly associated with superior results over time. Units located in the south of the Netherlands, where many of the Dutch multinational companies such as Philips are based, achieved significantly better profit growth than did units in the north ($.12$; $p < .05$). Finally, as proposed, unit size, measured in terms of



the number of full-time employees, was positively and significantly related to profit growth (.002; $p < .01$).

ALTERNATIVE MODEL

In this article, I argue that the way middle managers enact strategy, who they are, and where they act exert a direct influence on business unit performance. In contrast to earlier work on strategy, I argue that all three sources of influence are important for understanding variance in performance between business units. To emphasize this point, I compare the model presented above with a model based on traditional strategy thinking, which conceives of environmental and personal characteristics as antecedents of strategic behavior and therefore as having a merely indirect effect on performance. Bower (1970) argued that middle managers' strategic behavior is shaped by context and environmental conditions as well as by their individual characteristics. Martinko and Gardner (1990) investigated how both environmental and demographic variables affect managers' behavior and found that size, geographical location, and level of education are significantly related to various categories of managerial behavior. Gupta (1984) established and empirically tested the link between functional background and the type of strategic

TABLE 2
Summary and Comparison of Results

	Alternative Model	
	Profit Growth	Enacted Strategy
Enacted strategy	0.031**	0.044**
Initial level performance	-0.155***	-0.037**
Demographic profile		
Gender	-0.155**	-0.408
Age	-0.016	-0.029
Education	-0.079**	-0.376
Background	-.084**	-0.025
Local environment		
Size	0.002***	0.001
Level of wealth	0.036	-0.036
Competitive situation	-0.063**	-0.338
Geographical location	0.115**	0.072
Variance explained	0.380	0.088
Goodness-of-fit		
GFI	0.932	0.899
AGFI	0.818	0.775
CFI	0.944	0.852
χ^2 (df)	67.658 (45)	113.631 (54)

NOTE: The numbers in the above table are unstandardized regression weights.

** $p < .05$. *** $p < .01$.

behavior at the subunit level. And Slater (1989) found that education and background significantly influence managerial styles.

Figure 2 summarizes the results of this alternative model based on indirect effects. The overall model explained only 8.8% of the variance in profit growth at the unit level and had a lower overall fit than the model advocated in this article (GFI = 0.899; AGFI = 0.775). Although enacted strategy was significantly and positively associated with profit growth (.044; $p < .05$), demographic variables and unit-specific characteristics exerted no significant influence on enacted strategy. In other words, the indirect influence on performance posited by traditional literature could not be supported.

A comparison of the goodness-of-fit measures of the two models using the criteria suggested in the literature (James, Mulaik, & Brett, 1982; Morgan & Hunt, 1994) further underlines the added value of the perspective advocated in this article (see Table 2). First, according to the comparative fit index (CFI), a goodness-of-fit measure that helps compare the fit of one model to the fit of another and assess the covariance matrixes, the baseline model has a better fit (CFI = 0.944) than does the alternative model (CFI = 0.852).

Second, the percentage of hypothesized parameters that are statistically significant is higher in the baseline model (80%) than in the alternative model (20%). And third, the ability of the baseline model to explain the variance in the outcome of interest, as measured by squared multiple correlations of the focal and outcome variables, is considerably greater than that of the alternative model (38.0% vs. 8.8%). Finally, to provide a more rigorous test of whether the two models differ significantly, I used the difference between the Chi-squares of the two models. The change in Chi-square ($\Delta\chi^2$) is equal to 45.973, with a *df* of 9 and $p < .001$. Thus, the test indicates that the two models differ significantly.

DISCUSSION

In a nutshell, the results suggest that a mix of factors determines superior performance at the unit level. This finding supports the main argument of this article that all three proposed perspectives are relevant to explain performance. First, the results indicate that middle managers' actions that are aligned with the company's strategy are positively and significantly associated with profit growth. This corroborates earlier claims that strategy matters and, more particularly, that enacted strategy matters. Second, the data show that individual characteristics matter. Supporting the predictions of demographic theories, the results demonstrate that managers' level of education and background within the company are significantly related to performance. And third, the data also support the idea that the microcontext matters as most variables capturing the local environment, that is the unit's competitive and situational characteristics, exhibit significant links to performance. In summary, the results of the integrated model, taking into consideration three distinct views, emphasize the complexity and multidimensional nature of the origins of performance. Compared to a model in line with traditional strategy literature, which relies on strategy as the main predictor of performance, the amount of variance explained increases considerably (from 8.8% to 38.0%). This shows how important it is that the field of strategy open up and consider additional variables to understand superior performance.

The study offers interesting insights for future research and also for managerial practice. The results concerning the relationship between demographic characteristics and performance invite further research into a link that has been largely ignored by previous strategic management research. According to my data, female middle managers do significantly better in achieving profit growth in their units. Although the validity of this result may

be questioned because female managers represented only a very small percentage of the sample, it may stimulate future research exploring the effect of gender on performance in various contexts and situations. The results of this study also suggest that managers with a relatively lower level of education perform better. Managers holding only primary or secondary school qualifications seem to be more successful in triggering profit growth in middle management positions than their more highly educated colleagues. One possible interpretation of this finding goes back to the socially created perception of the middle manager's job. Very often middle management positions are seen merely as necessary steps on the career ladder in large organizations. For many career-oriented managers holding university or comparable degrees, middle management positions are no more than a temporary placement on the way to the top. Accordingly, the amount of effort they put into managing the unit is moderate. In contrast, for managers with a more modest educational background, middle management positions can be a superb opportunity to demonstrate their managerial competence. Furthermore, as these managers tend to hold their positions for longer, they also tend to put in more effort and to care more. The data also revealed a significant effect of middle managers' professional background on profit growth. Managers whose job content and job location changed performed significantly better than their colleagues who had been operating in a stable context for years. The implication of this finding for human resources is straightforward: Changing managers' geographical location and exposing them to new job content stimulates performance.

This study corroborates previous claims that context affects performance and shows that competitive and organizational characteristics also matter at the micro (i.e., unit) level. Units located in the south of the Netherlands did significantly better in achieving sustained superior results. This is not so surprising given that the south is the most economically prosperous part of the country and that most of the high-tech and multinational companies are located in that region. The results of the study also indicate that the level of competitiveness in an area makes a difference. My findings suggest a positive and significant relationship between level of rivalry and profit growth. In other words, units that faced increased competition from other banks did significantly better in achieving superior results. Finally, the significant and positive effect of size suggests that larger units perform better over time. Although, overall, results on the effect of size on unit or organizational performance are mixed (Dalton et al., 1980), this finding corroborates claims that larger units have the necessary resources and critical mass of activities to

ensure innovation and superior performance (Bantel & Jackson, 1989). In ABN Amro, managers of small areas with only two or three branches very often do not have the means to explore and exploit business opportunities. Managers of larger areas, building on a larger base of customers and employees, may have more resources and capacity to pursue new and profitable business opportunities.

CONCLUSION

The purpose of this article was to explore the origins of performance differences within the same organizational and industry context rather than to test existing theoretical paradigms. The article deliberately adopts the perspective of the manager in the middle. It offers a fresh look and deliberately stresses the importance of middle managers (their characteristics, their actions, and their immediate environment) in stimulating performance at the unit level. It complements and reconciles existing research by emphasizing realized strategy over intended strategy, by stressing the predictive power of individual attributes, and by identifying situation-specific factors that are key in determining performance over time. Overall, the results corroborate earlier claims that strategy and performance are not detached from the people involved (Gupta, 1984; Hambrick & Mason, 1984). More particularly, the findings advance existing research as follows. First, the study generates further impetus to integrate demographics-based theories such as upper echelon theory in research on middle managers and on strategy in general. Whereas previous research on upper echelons focused mainly on top management (teams), this article deliberately focuses on middle managers. Second, whereas previous work on middle managers generated insights into the role of middle managers (Floyd & Lane, 2000; Floyd & Woolridge, 1992, 1996), this study goes beyond abstract notions of managerial styles or roles to relate strategy in action (i.e., actual behavior aligned with the strategy of the company) to performance over time. Third, this article complements prior traditional strategy research, which tends mainly to adopt an industry, strategic group, or firm level of analysis to examine variance in performance. It focuses instead on the unit level and examines the impact on performance of competitive and situational variables at the micro (i.e., unit) level. Finally, the findings of this study offer valuable insights for managerial practice, although caution needs to be exercised when deriving specific implications for recruitment decisions.

APPENDIX
**Scale to Assess Enacted Strategy: Actual Behavior Aligned with
the Entrepreneurial Strategy of the Company (ABN Amro).**

To what extent did you carry out the following activities in your job as rayon^a manager over the last few years?

	To no extent					To a great extent				
	1	2	3	4	5	6	7	8	9	10
1. Change procedures to facilitate client contact within the rayon.	1	2	3	4	5	6	7	8	9	10
2. Promote entrepreneurial behavior of employees with initiatives that went beyond the ones suggested by head office.	1	2	3	4	5	6	7	8	9	10
3. Proactively approach new customers.	1	2	3	4	5	6	7	8	9	10
4. Actively investigate new market opportunities within the rayon.	1	2	3	4	5	6	7	8	9	10
5. Encourage your employees to develop new ideas on how to do business.	1	2	3	4	5	6	7	8	9	10

a. The term rayon refers to area (submit).

REFERENCES

- Anderson, J. C., & Gerbing, D. W. (1988). Structural equation modeling in practice: A review and recommended two-step approach. *Psychological Bulletin*, 103(3), 411-423.
- Bantel, K. A., & Jackson, S. E. (1989). Top management and innovations in banking: Does the composition of the top team make a difference? *Strategic Management Journal*, 10, 107-124.
- Bower, J. L. (1970). *Managing the resource allocation process: A study of corporate planning and investment*. Boston: Harvard Business School Press.
- Burgelman, R. A. (1983a). A model of the interaction of strategic behavior, corporate context and the concept of strategy. *Academy of Management Review*, 8(1), 61-70.
- Burgelman, R. A. (1983b). Corporate entrepreneurship and strategic management: Insights from a process study. *Management Science*, 29, 1349-1364.
- Burns, T., & Stalker, G. M. (1961). *The management of innovation*. London: Tavistock.
- Canals, J. (2001). How to think about corporate growth? *European Management Journal*, 19(6), 587-598.
- Child, J. (1974). Managerial and organizational factors associated with company performance—Part I. *Journal of Management Studies*, 11(3), 175-189.
- Child, J. (1975). Managerial and organizational factors associated with company performance—Part II. *Journal of Management Studies*, 12(1), 12-27.
- Dalton, D. R., Todor, W. D., Spendolini, M. J., Fielding, G. J., & Porter, L. W. (1980). Organization structure and performance: A critical review. *Academy of Management Review*, 5(1), 49-64.
- Dhar, U., & Mishra, P. (2001). Leadership effectiveness. *Journal of Management Research*, 1(4), 154-166.
- Eisenhardt, K. M., & Schoonhoven, C. B. (1990). Organizational growth: Linking founding team, strategy, environment, and growth among US semiconductor ventures, 1978-1988. *Administrative Science Quarterly*, 35(3), 504-529.
- Finkel, S. E. (1995). *Causal analysis with panel data*. Thousand Oaks, CA: Sage.
- Floyd, S. W., & Lane, P. J. (2000). Strategizing throughout the organization: Management role conflict in strategic renewal. *Academy of Management Review*, 25(1), 154-177.
- Floyd, S. W., & Woolridge, B. (1992). Middle management involvement in strategy and its association with strategic type: A research note. *Strategic Management Journal*, 13, 153-167.
- Floyd, S. W., & Woolridge, B. (1996). *The strategic middle manager*. San Francisco: Jossey Bass.
- Fornell, C., & Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18, 39-50.
- Frink, D. D., Robinson, R. K., Reithel, B., Arthur, M. M., Ammeter, A. P., Ferris, G. R., et al. (2003). Gender demography and organization performance: A two-study investigation with convergence. *Group & Organization Management*, 28(1), 127-147.
- Ghoshal, S., & Bartlett, C. A. (1998). *The individualized corporation: A fundamentally new approach to management*. London: Heinemann.
- Gupta, A. K. (1984). Contingency linkages between strategy and general manager characteristics: A conceptual examination. *Academy of Management Review*, 9(3), 399-412.
- Gupta, A. K., & Govindarajan, V. (1982). An empirical examination of linkages between strategy, managerial characteristics, and performance. *Academy of Management Proceedings*, 31-35.
- Gupta, A. K., & Govindarajan, V. (1984). Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation. *Academy of Management Journal*, 27(1), 25-41.

- Haleblian, J., & Finkelstein, S. (1993). Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Academy of Management Journal*, 36(4), 844-863.
- Hambrick, D. C. (1980). Operationalizing the concept of business-level strategy in research. *Academy of Management Review*, 5(4), 567-575.
- Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review*, 9(2), 193-206.
- Hansen, G. S., & Wernerfelt, B. (1989). Determinants of firm performance: The relative importance of economic and organizational factors. *Strategic Management Journal*, 10(5), 399-411.
- Hornsby, J. S., Kuratko, D. F., & Zahra, S. A. (2002). Middle managers' perception of the internal environment for corporate entrepreneurship: Assessing a measurement scale. *Journal of Business Venturing*, 17, 253-273.
- Howell, J. M., & Avolio, B. J. (1993). Transformational leadership, transactional leadership, locus of control, and support for innovation: Key predictors of consolidated-business-unit performance. *Journal of Applied Psychology*, 78(6), 891-902.
- Howell, J. M., & Higgins, C. A. (1990). Champions of change: Identifying, understanding, and supporting champions of technological innovations. *Organizational Dynamics*, 19(1), 40-55.
- Hughes, M. A., Price, R. L., & Marrs, D. W. (1986). Linking theory construction and theory testing: Models with multiple indicators of latent variables. *Academy of Management Review*, 11(1), 128-144.
- Huy, Q. N. (2001). In praise of middle managers. *Harvard Business Review*, 79(8), 72-79.
- James, L. R., Mulaik, S. A., & Brett, J. (1982). *Causal analysis: Models, assumptions, and data*. Beverly Hills, CA: Sage.
- Kanter, R. M. (1982). The middle manager as innovator. *Harvard Business Review*, 60(4), 95-105.
- Krugman, P. (1994). Location and competition: Notes on economic geography. In R. P. Rumelt, D. E. Schendel, & D. J. Teece (Eds.), *Fundamental issues in strategy: A research agenda* (pp. 463-493). Boston: Harvard Business School Press.
- Lawrence, B. S. (1997). The black box of organizational demography. *Organization Science*, 8(1), 1-22.
- Lawrence, P., & Lorsch, J. (1967). *Organization and environment*. Cambridge, MA: Harvard University Press.
- Martinko, M. J., & Gardner, W. L. (1990). Structured observation of managerial work. *Journal of Management Studies*, 27(3), 329-357.
- McGahan, A. M., & Porter, M. E. (1997). How much does industry matter, really? *Strategic Management Journal*, 18, 15-30.
- Michel, J. G., & Hambrick, D. C. (1992). Diversification posture and top management team characteristics. *Academy of Management Journal*, 35(1), 9-37.
- Miller, D., Kets de Vries, M. F. R., & Toulouse, J.-M. (1982). Top executive locus of control and its relationship to strategy-making, structure, and environment. *Academy of Management Journal*, 25(2), 237-253.
- Mintzberg, H. (1994). *The rise and fall of strategic planning*. Hertfordshire, UK: Prentice Hall.
- Mintzberg, H., & Waters, J. A. (1982). Tracking strategy in an entrepreneurial firm. *Academy of Management Journal*, 25(3), 465-599.
- Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing*, 58(3), 20-38.

- Nonaka, I. (1988). Toward middle-up-down management: Accelerating information creation. *Sloan Management Review*, 29(3), 9-18.
- Norburn, D. (1986). GOGOs, YOYOs AND DODOs: Company directors and industry performance. *Strategic Management Journal*, 7(2), 101-117.
- Norburn, D., & Birley, S. (1988). The top management team and corporate performance. *Strategic Management Journal*, 9(3), 225-236.
- Pfeffer, J. (1983). Organizational eemography. In B. M. Staw (Ed.), *Research in organizational behavior* (Vol. 5, pp. 299-357). Greenwich, CT: JAI.
- Porter, M. E. (1980a). *Competitive strategy*. New York: Free Press.
- Porter, M. E. (1980b). *Competitive strategy: Techniques for analyzing industries and competitors*. New York: Free Press.
- Porter, M. E. (1986). Changing patterns of international competition. *California Management Review*, 28(2), 9-40.
- Porter, M. E. (1990). *The competitive advantage of nations*. London: Macmillan.
- Porter, M. E. (1994). Toward a dynamic theory of strategy. In R. P. Rumelt, D. E. Schendel, & D. J. Teece (Eds.), *Fundamental issues in strategy: A research agenda* (pp. 463-493). Boston: Harvard Business School Press.
- Priem, R. L. (1990). Top management team group factors, consensus, and firm performance. *Strategic Management Journal*, 11(6), 469-478.
- Robinson, R. B., Jr., & Pearce, J. A., II. (1988). Planned patterns of strategic behavior and their relationship to business-unit performance. *Strategic Management Journal*, 9(1), 43-58.
- Rossi, P. H., Wright, J. D., & Anderson, A. B. (Eds.). (1983). *Handbook of survey research*. San Diego, CA: Academic Press.
- Rumelt, R. P. (1991). How much does industry matter? *Strategic Management Journal*, 12(3), 165-185.
- Rumelt, R. P., Schendel, D. E., & Teece, D. J. (1994). *Fundamental issues in strategy: A research agenda*. Boston: Harvard Business School Press.
- Schmalensee, R. (1985). Do markets differ much? *American Economic Review*, 75(3), 341-351.
- Slater, S. F. (1989). The influence of managerial style on business unit performance. *Journal of Management*, 15(3), 441-455.
- Stonham, P. (1995). New view of strategy: An interview with C. K. Prahalad. *European Management Journal*, 13(2), 130-138.
- Tsui, A. S., & Gutek, B. A. (1984). A role set analysis of gender differences in performance, affective relationships, and career success of industrial middle managers. *Academy of Management Journal*, 27(3), 619-635.
- Tsui, A. S., & O'Reilly, C. A., III. (1989). Beyond simple demographic effects: The importance of relational demography in superior-subordinate dyads. *Academy of Management Journal*, 32(2), 402-423.
- Uyterhoeven, H. (1972). General managers in the middle. *Harvard Business Review*, 67(5), 136-145.
- Van De Ven, A., & Ferry, D. L. (1980). *Measuring and assessing organizations*. New York: John Wiley.
- Waldman, D. A., & Avolio, B. (1986). A meta-analysis of age differences in job performance. *Journal of Applied Psychology*, 71, 33-38.
- White, R. E., & Hamermesh, R. G. (1981). Toward a model of business unit performance: An integrative approach. *Academy of Management Review*, 6(2), 213-223.
- Wiersma, M. F., & Bantel, K. A. (1993). Top management team turnover as an adaptation mechanism: The role of the environment. *Strategic Management Journal*, 14(7), 485-504.

- Wood, D. R., Jr., & LaForge, R. L. (1979). The impact of comprehensive planning on financial performance. *Academy of Management Journal*, 22(3), 516-526.
- Wooldridge, B., & Floyd, S. W. (1990). The strategy process, middle management involvement, and organizational performance. *Strategic Management Journal*, 11, 231-241.

Johanna Mair is an assistant professor of general management at IESE, the Business School of the University of Navarra, Spain. Her teaching and research focuses on strategy and social entrepreneurship. She publishes in strategy and entrepreneurship journals.