

HOW MIDDLE MANAGERS MANAGE THE POLITICAL ENVIRONMENT TO ACHIEVE MARKET GOALS: INSIGHTS FROM CHINA'S STATE-OWNED ENTERPRISES

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Research summary: Although the middle management literature has identified various bridging roles performed by middle managers in the market environment, it is relatively vague about whether and how they manage the political environment to achieve market-related goals. In an inductive field study of four large state-owned enterprises based in mainland Communist China, operational middle managers were found to take an active role in dealing with political actors to achieve market efficiency in their local environments, performing two distinct bridging strategies. Our field study suggests that middle managers are better equipped than their bosses (top executives) as well as their subordinates (frontline employees) to perform the bridging function between competing market and political imperatives in various local settings.

Managerial summary: For firms that operate in diverse geographies, it is challenging for a handful of top executives to deal with numerous political actors. This burden could be shared with operational middle managers, who play a bridging role by drawing on their operational knowledge and local networks. Our research on middle managers who work under the scrutiny of political actors in China found that they bridge market and political ideology by conveying common features that seem legitimate to both. They also bridge market goals and political actors with personal affect. Compared to top executives and frontline employees, middle managers have unique advantages in performing these bridging functions. Firms can enhance their strategy execution ability by training middle managers in dealing with political actors in diverse contexts. Copyright © 2016 John Wiley & Sons, Ltd.

INTRODUCTION

The pivotal role of middle managers (MMs) has received increasing scholarly attention. One of the distinctive features of MMs—defined as “any managers two levels below the CEO, and one level above line workers and professionals” (Huy, 2001: 73)—is that they are both subordinates and superiors (Dutton and Ashford, 1993). MMs serve as a link between top managers and frontline employees

in their daily work, transforming broad strategic intentions into concrete operational practices and vice versa (Floyd and Wooldridge, 1992). They also perform a pivotal bridging role connecting work groups horizontally (Balogun and Johnson, 2004) and interacting with external stakeholders such as customers and suppliers (Rouleau, 2005).

Although widely recognized, MMs' bridging role is traditionally set within the market environment, characterized by “interactions between firms and other parties that are intermediated by markets or private agreements” (Baron, 1995: 47)—those “other parties” being customers, competitors, or suppliers. The bulk of middle management studies focus exclusively on the market setting, be it issues

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to do with customer demands (e.g., Wooldridge and Floyd, 1990), market competition (e.g., Huy, 2011) or technological innovation (e.g., Taylor and Helfat, 2009). In contrast, the firm's *political environment*—constituted by political actors such as government officials and members of political parties—is rarely considered in studies on MMs.

Decoupling market and political environments may be problematic in some contexts to the extent that the two are closely interrelated (Baron, 1995; Oliver and Holzinger, 2008). Since the effect of their actions in one environment can spill over to the other, managers should be responsible for the performance of their firms in both, particularly in the prevailing context of increasing intensive government intervention and rapid geographical expansion. Understanding the interrelationship between market goals and political pressures is important because government intervention in market transactions has become more pervasive since the global financial crisis in 2008 (Jeong and Kim, 2010). Firms need to strategically manage their interaction with political actors who wield vital resources and have the potential to create uncertainty around firms' future growth or survival (e.g., Holburn and Vanden Bergh, 2014). For firms to stay in business, managers thus need to deal with the tension between profit maximization in the market and the interests of political actors.

Moreover, as the geographic scope of business expands, firms are exposed to demands from various local political parties and governmental institutions (Sexty, 1980). Top management can be easily overwhelmed by the range and complexity of political matters and interactions with political actors in each locality where the firm operates. Indeed, research on multinationals suggests that the distinct nonmarket environments of different host countries are notoriously difficult to manage (e.g., Zhang and Luo, 2013). One potential way to reduce the burden on top managers is thus to share the task of dealing with local political actors with MMs. The purpose of this study, therefore, is to explore whether and how MMs deal with the political environment to achieve market efficiency by identifying the specific actions they perform to address political matters that also help advance the firm's market interests.¹

¹ Note that even though MMs' salary and promotion are generally aligned with the market efficiency of the firm, they might vary in their beliefs on some political matters. It is possible that some political goals have intrinsic value to them. In some situations,

As theories of MMs' political actions are lacking, we carried out an inductive, qualitative study in an "extreme" context in which political pressures were significant and easy to observe: China's state-owned enterprises (SOEs). Our focus was on mature Chinese SOEs that were no longer obedient servants of the state, having developed core competencies and financial self-sufficiency (Hafsi, Kiggundu, and Jorgensen, 1987). Their primary goal was to make a profit by selling products and services; their key performance measures were market oriented, and thus, they strove to innovate to enhance their competitive advantage. These firms encountered fierce competition in the market and enjoyed few privileges from the government in their everyday operations. Although they were comparable to firms in the private sector in regard to their market orientation, they remained under the close scrutiny of the government and the Communist Party, which appointed political representatives at various levels of the hierarchy (e.g., top, middle management, worker level) inside the SOEs. The close proximity and distributed nature of this internal scrutiny made it possible to detect any attempt to symbolically conform to political pressures in pursuit of substantive market-oriented practices. Such so-called "decoupling" has been widely documented as a strategy performed by profit-pursuing firms encountering nonmarket institutional pressures (Meyer and Rowan, 1977). Given the increasing intensity of government intervention in market activities after the financial crisis, this stringent research context could provide new insights about how organization members deal with political actors when decoupling through symbolic conformity appears to be difficult or unrealistic.

We found that MMs acted as bridges in the management of the political environment in two respects. First, when facing conflicting market and political belief systems, MMs bridged the two and minimized conflict by identifying common practices to both, thanks to their knowledge of the local situation. Second, they built bridges to individual political actors on the forefront via personal emotions and affective values. MMs had a distinct advantage over top managers in performing

their behaviors might be driven solely by political goals. However, in this study, we focus on those actions performed by MMs to deal with political matters, and simultaneously benefit the firm's market goals. Insights gained from this research focus could provide guidance to profit-pursuing firms to handle their political actors more effectively.

such bridging roles in that they were well versed in local operational modes and social networks. Their mid-level position in the hierarchy provided the power and status to do the job in a way that frontline employees could not achieve.

Our contribution to the middle management literature is thus to reveal the bridging role of MMs in dealing with the political environment, to enhance understanding of their versatility as well as to enrich the existing body of knowledge of nonmarket strategies, hybrid organizations, and the dynamics of political environment in emerging markets.

The rest of the article is organized as follows. First, we review relevant perspectives in the middle management literature. In the Methods section, we describe our research context and methodology. We then elaborate the strategic actions used by MMs and discuss why they are able to perform these roles better than people in other vertical groupings such as top managers and frontline employees. Finally, we discuss our theoretical contributions and future research.

THE BRIDGING ROLE OF MIDDLE MANAGERS IN THE MARKET ENVIRONMENT

Scholars have long regarded MMs as lynchpins of the firm (e.g., Wooldridge, Schmidt, and Floyd, 2008) in the sense that they translate strategic objectives into concrete operational practices. They exert an upward and downward influence, bridging the diverging views of top managers and frontline employees (Beck and Plowman, 2009). Upward, MMs “sell” issues to their bosses and influence top managers (e.g., Dutton and Ashford, 1993). They both facilitate top managers’ decision-making within a given strategic context by synthesizing operational information (Floyd and Wooldridge, 1992), and champion alternatives by offering ideas that diverge from the existing strategic context (Burgelman, 1994; Floyd and Wooldridge, 1992). In so doing, they put their own reputations at stake since their credibility is the reference when top managers ratify decisions (Noda and Bower, 1996). Their interactions with top managers have a number of performance implications (Raes *et al.*, 2011). MMs have been found to be more energetic about strategy implementation if top managers care about their individualized needs and invite them to join the strategic conversation (Westley, 1990). Moreover,

the quality of strategy formulation and organizational performance can be improved if MMs are actively involved in the strategy process and share information with top managers (Wooldridge and Floyd, 1990). MMs’ legitimacy judgments and emotional reactions to top managers’ personal motivations and capabilities influence their view of the strategic change process and subsequent outcomes (Huy, Corley, and Kraatz, 2014).

Downward, MMs interact with frontline employees, transforming strategy into day-to-day activities of employees (Floyd and Wooldridge, 1992). They help to adapt official strategy to the specific operational environment, fostering flexible organizational arrangements among frontline employees (Floyd and Wooldridge, 1992). The quality of their interactions with frontline employees thus impacts strategic outcomes. MMs can achieve organizational adaptation, for example, by attending to their subordinates’ emotions as well as making an emotional commitment to personally championed change projects (Huy, 2002). An inverted-U shape relationship has been reported between MMs’ adaptive strategy implementation and sales revenues. Adaptation can only benefit performance up to a certain threshold, beyond which a lack of strategic control from top managers will be detrimental to performance (Ahearne, Lam, and Kraus, 2014).

In addition to connecting hierarchical groups vertically, MMs link laterally with their peers both in a cognitive and emotional sense. Their cognitive interaction with other MMs in sense-making can facilitate organizational change (Balogun and Johnson, 2004). This lateral relationship is especially important in geographically dispersed firms, where they cannot rely as heavily on top managers’ sense-making because of the physical distance between hierarchical levels (Balogun and Johnson, 2004). Their emotional attachment to their peer group may prompt MMs to either support or covertly dismiss the implementation of a particular strategy, even if their immediate personal interests are not directly under threat (Huy, 2011). Last, since many MMs interact frequently with external customers, and are closer to them than their bosses (e.g., Huy, 2001), they are well placed to explain new strategies to customers (Rouleau, 2005).

As Baron (1995) observes, since the market and political environments are interrelated, managers should be responsible for dealing effectively with both environments, so we would expect MMs to be active and skillful in both pursuing

market efficiency and dealing with political actors. However, existing empirical studies on middle management seem to be grounded in the market environment only. For instance, when studying the inclusion of MMs in strategic conversations, Westley (1990) refers to MMs' strategic concerns in terms of whether opening franchising stores will be profitable, and the choice of brand name for dealers and clients. Wooldridge and Floyd (1990) operationalize MMs' strategic issues as related to cost efficiency or new product development. Dutton and colleagues' (1997) study on issue selling focuses on customer-related matters under market-based economic and competitive pressures. Balogun and Johnson (2004) describe how MMs make sense of organizational restructuring in response to market competition. Taylor and Helfat (2009) note that MMs create and maintain linkages among work units in charge of innovative development in radical technological change. And Huy (2011) studies the impact of MMs' emotions on the firm's market-oriented strategic change initiated by a price war and declining profits. Given this narrow focus on market-based themes, the literature seems to assume that MMs, by and large, have little to do with political matters—especially the large majority of MMs who work in operational groups rather than the small number of MMs who work in specialized staff groups dealing with governments.

In addition to this limitation in the middle management literature, empirical studies in the political strategy literature often employ a generic firm-level analysis that tends to portray political influencers as faceless actors (e.g., Bonardi and Keim, 2005; Jacobson, Lenway, and Ring, 1993). Ring, Lenway, and Govekar (1990), for example, treat "firm" as the unit of analysis and study the impact of impersonal government intervention on firms. Scholars tend to portray top managers as the main organization members dealing with political actors. Several studies have noted how top managers' cognitive understanding and sense-making of government policy impact the firm's influence on public policy (e.g., Meznar and Nigh, 1995), and how their political networking aids firm performance (e.g., Acquaah, 2007; Li and Qian, 2013). As noted, although some have acknowledged the role of public affairs/government relations units in helping top managers deal with political actors (e.g., Dickie, 1984; Meznar and Nigh, 1995), the implication is that only a small number of MMs in this specialized staff function deal with political actors in their

daily work. In sum, although Baron (1997) has suggested that it is important for managers to deal with the political environment to enhance their firms' market performance, whether and how MMs deal with political actors to enhance market performance remains poorly understood. Our research thus seeks to answer the following questions: Do MMs manage the political environment to achieve their market goals? If so, what types of action do they perform? Are MMs better equipped than top managers and frontline employees to take on this role, and why?

METHODS

As existing theories of political action is underdeveloped, we used an inductive approach to explore what MMs do to achieve their market goals in the political environment (Langley, 1999).

The research setting: China's state-owned enterprises

In inductive exploration, the research setting is selected for its ability to reveal observable phenomena that yield novel theoretical insights (Eisenhardt and Graebner, 2007). The context and the sample are not statistically representative (Eisenhardt, 1989), but facilitate the generation of new insights and causal mechanisms associated with revelatory research (Corley and Gioia, 2011). The apparently idiosyncratic setting is generally transferable to the extent that concepts and principles are relevant to other domains (Gioia, Corley, and Hamilton, 2013). Since our interest is in the behavior of MMs in both the market and the political environment, we sought an "extreme" context (Siggelkow, 2007) that allowed us to observe tensions when both environments are considered simultaneously—that is, firms that conform to market-oriented principles and are at the same time exposed to close scrutiny from political actors and their influence.

We explore a specific type of firm—mature SOEs in China—for two key reasons. First, mature SOEs have been subject to market competition for many years and are comparable with nonstate-owned firms in their market orientation. As stated in the SOE literature, SOEs worldwide have one thing in common: the dual pressure they come under from the market and the government (Hafsi *et al.*, 1987; Lioukas, Bourantas, and Papadakis, 1993; Naughton, 2007; Sexty, 1980), although impacted

differently by the two. Lioukas and colleagues (1993) found that SOEs were more market-oriented when they were less dependent on government resources and were subject to fierce market competition. Hafsi and colleagues (1987) identified a government-SOE relationship cycle whereby a newly established SOE starts out as an obedient servant of the state, internalizing the political goals of the government, but gradually develops the technical competence and financial self-sufficiency to pull away. Compared to firms in the private sector, these mature SOEs pursue the same market goals following similar market principles, continuously developing market-based capabilities; are subject to fierce market competition; and strive to innovate to increase their competitive advantage. Relatedly, a number of SOEs in China can be called “mature”—having competed in the market since the reform of the Chinese economy started in 1978. Their managers have a strong incentive to serve their customers and pursue profitability (Naughton, 2007).

Second, as noted above, Chinese SOEs remain closely scrutinized by the government and the Communist Party, which makes “decoupling,” a widespread strategy for coping with dual institutional pressure, almost impossible. A distinguishing feature of SOEs in China is that government intervention is instilled with Communist Party ideology. SOEs come under pressure to simultaneously maintain social stability and satisfy the demands of the Party leadership. The Communist Party stipulates that all SOEs build Party branches in the country’s various geographies,² and are under obligation to keep these branches active. Party control thus cascades down through virtually all management levels of the organization, implying close monitoring by the Communist government that has few parallels in SOEs in Western countries. In other words, compared to contexts such as heavily regulated firms in the private sector in China or elsewhere, SOEs in China encounter continuous political pressure and close monitoring in that multiple political appointees reside in their local business sites, performing a dual function as working organization members and Party representatives. Superficial or symbolic conformity to the political policies

could thus be easily detected and punished because of these internal political monitors. This context provides a rare opportunity to observe novel strategic actions performed by MMs beyond the conventional approach: symbolic conformity is presented to political actors, but decoupled from actual market practices (Meyer and Rowan, 1977).

Data collection

Despite the insights SOEs can afford, many scholars have difficulty gaining access to them in mainland China for a number of reasons. First, SOEs are controlled by the Communist government and serve key national sectors, so people are understandably sensitive when asked to share their personal experiences and often reluctant to talk openly due to fear of political repercussions. Second, social connections are extremely important in building trust in China; hence, companies rarely grant requests for open interviews unless a trustworthy personal relationship has been built between the researcher and powerful people inside the organization.

One of the authors of this article was born and lives in China, and has a personal network with many Chinese SOE executives who have attended high-level management education programs. Beyond teaching executives, he has also done consulting work for them and has carried out research for a book (in Chinese), thereby earning their respect and trust. His credentials allowed us to gain access to four large SOEs (described in Table 1), each employing more than 100,000 employees. The names of the organizations and quantitative information are disguised to ensure confidentiality, although we show an order of magnitude of the size and revenues to give an idea of the importance of these SOEs to the Chinese economy.

These four SOEs fit the mature SOE profile discussed above and Table 2 provides a sample of quotes³ illustrating their market orientation: First, their primary goal is to maximize economic returns through selling products and services in the market

² In this article, *geographies* typically refers to legal jurisdictions; regions or physical areas that are subject to similar rules and norms of conducting business. An example is the different states in the United States. They vary in their regulations and norms of doing business even within one country.

³ All the quotes in this research were translated from Chinese into English by a team of graduate students majoring in Foreign Linguistics and Applied Linguistics at Beijing Language and Cultural University. Each transcript was first translated by one translator and then checked by another translator in the team. Given their possible limited knowledge of business matters, one of the authors who is pursuing a doctorate in management and fluent in both English and Chinese kept working with the team to ensure that correct business terms were used in the translation.

Table 1. Cases and interviews per organization

Organization	Business description	Number of employees	Revenue (million USD)	Middle manager interviews	Employee interviews	Interviews total
FOODO	A food processing manufacturer and trader	130,000	24,000	11	0	11
BANKO	A commercial bank	175,000	60,000	10	1	11
OILO	A petroleum company	220,000	240,000	11	2	13
CHEMO	A chemical company	200,000	30,000	16	1	17
Total				48	4	52

environment; second, their core competencies are recognized by employees as market-oriented; third, they strive to innovate to meet the evolving needs of their customers and maintain competitive advantage; fourth, they are subject to intense market competition both inside and outside China; finally, while the government is their largest shareholder, they do not enjoy many privileges from the government nor is it their main customer. Hence, they largely resemble other firms in their respective industries with regard to the primacy of operational efficiency and profitability goals, the intensity of market competition, access to financial resources, and channels for resource acquisition. These SOEs thus seem comparable with private firms in terms of their market orientation.

Though our SOEs represent diverse industries, they share a similar organizational structure, as presented in Figure 1. For reasons of confidentiality and generalization across the four firms, we have replaced the names of departments, subsidiaries and offices. Each firm has a CEO, who leads a top management team. Several functional departments are located in the headquarters in parallel with a few subsidiaries. These departments and subsidiaries are ranked “Level 1” in Figure 1. The chiefs and deputy chiefs of these Level-1 units are the most senior MMs in the organizational structure. Since they do not report directly to the CEO, we classify them as MMs. Level-2 MMs are the heads of offices affiliated with the headquarters departments and the chiefs or deputy chiefs of departments of the Level-1 subsidiaries. Level-3 MMs are one level below Level-2 as shown in the figure.

Table 3 provides a profile of all the MM interviewees, including gender, working location, tenure with the firm, functional role, and hierarchical level. They were selected by top managers in response

to our request to interview a representative sample of MMs working in diverse groups who displayed diverse rather than similar perspectives and roles. Top managers seem to have respected our request: Interviewees were distributed across all three middle management levels, with 21.6 percent from Level 1, 67.6 percent from Level 2, and 10.8 percent from Level 3. They varied across functions such as manufacturing, R&D, marketing, business development, general management, human resources, administration, and so on, and worked in six different cities. Cities, according to the hierarchical administrative divisions, are classified into municipalities, prefecture-level, and county-level cities. Municipalities such as Beijing and Shanghai have a status equal to that of provinces and are under central government control. Provinces are divided into multiple prefecture-level cities under the control of provincial governments, which, in turn, are under the central government. County-level cities are one level lower than prefecture-level cities. Our sample SOEs do not have departments or subsidiaries located in county-level cities.

We held a first-round of 38 interviews from September 2011 to September 2012, conducted in the native language (Mandarin) of the interviewers and interviewees so that they could express themselves comfortably and accurately. We asked open-ended questions starting with general ones such as: “What do you think are the core capabilities of your company?” “Describe innovative projects or radical change you made in your work.” “What do you think are the key characters of a good MM?” We then pursued questions such as: “As a SOE manager, do you perceive any conflict between economic goals and conformity to governmental/Communist Party policies? How do you balance conflicts between economic benefits and social

Table 2. Illustration of quotes related to the market orientation of SOEs

Features of market orientation	Quotes
1. Their primary goal is to earn profit by selling products and services	<p>FOODO1: "It is the return on investment that is chiefly pursued"</p> <p>FOODO8: "I think my work is biased towards market logic . . . SASAC (the State Asset Supervision and Administration Commission) also requires profit growth, ROE, and EVA. What SASAC requires is the same as what the capital market requires"</p> <p>BANKO1: "When we promote a certain product to our clients, making money is not the only thing we care about. We recommend a product to them and cherish the hope that the product offered is what they need. In this way, we can achieve a win-win result—we get the profit, and the clients develop their business. That is what we are really pursuing. It provides our bank with long-term benefits"</p> <p>BANKO8: "When providing services to customers, our bank has to charge customers to cover the costs and make profits" " . . . we are a commercial bank, profit-oriented rather than government policy-oriented . . ."</p> <p>OILO2: "[We want] to seize every business opportunity and make a profit"</p> <p>OILO7: "If a company doesn't care about economic returns, what does it care about?"</p> <p>CHEMO2: "We will increase our investment in the repair market this year, because this market yields the highest profit"</p> <p>CHEMO3: "Companies are different from governments. Governments must focus on Party work, while companies should pay most attention to economic profit. Therefore, all the work, no matter if it is the company's Party work or other work, should be carried out with a goal of economic profit. That is a must"</p>
2. Their core competences are market oriented	<p>FOODO5: "I think FOODO is more sensitive to market changes [than other companies] and is always keeping up with the trends . . . As we lack privileged resources and policies [from the government], we are advanced in adaptation to the market"</p> <p>FOODO9: "[Regarding FOODO's advantages], first, he (the chairman) cares the industry's strategic development. It is a strategy-driven industry, not an opportunity-driven one . . . Second, we have refreshed our business model . . . Third, we have our core competency. We have advantages in supply chains, marketing, and technology"</p> <p>BANKO4: "I think the resource integration capability and communication skills are of great importance in our branch . . . This market does not lack opportunities; the key is whether you can grasp them"</p> <p>BANKO5: "BANKO is a time-honored state-owned bank with 100 years of history, but we are never conservative or stagnant. We continuously develop our businesses and make innovations. Our products always take a lead in the market. Other banks copy our products, but we seldom copy others. In this way, we successfully maintain the competitiveness of our products"</p> <p>OILO1: "[Our advantage is] our long-term brand image and customer relationship . . . Our partners, including our customers, are proud of being in partnership with our company . . . Sometimes, they will choose our products even though our price is higher than others, because our products have good quality and we provide good service"</p> <p>OILO6: "I think our location gives us many advantages. We excel in technologies and human resources. We have a very creative team"</p> <p>CHEMO1: "As one of the exported Chinese tire brands, our brand has a considerable influence in the global market, especially the European and North American high-end markets . . . We understand the needs of the European and American customers and meet their needs"</p> <p>CHEMO3: "The leadership of the company is the most crucial. If the strategic decision making cannot keep up with market development, the company will be defeated in the competition. In recent years, our leaders have adapted our products with the market, which is important"</p>
3. They make innovations to serve their customers	<p>FOODO1: "Scientific research and innovation are of great importance. FOODO has set up a research institute and invested a lot of money in it . . . This institute carries out new recruitment, introducing many people with doctoral degrees from the U.S . . . The future competitiveness lies in innovation"</p>

Table 2. continued

Features of market orientation	Quotes
	<p>FOODO2: “To many people, FOODO does not look like a traditional SOE, as it is professional in the emergent online business”</p> <p>BANKO1: “We hope to provide satisfactory service to our customers at any time and place. The project I am involved in now is to reduce the queuing time of our customers at the counter”</p> <p>BANKO5: “Last year, 2,000 Yuan was awarded for a significant product innovation. This year, it is 200,000 Yuan, 100 times last year’s award The award will be conferred for new products. If a new financing product is invented, the team or the individual inventing it can get the money What we emphasize is whether the product has its market”</p> <p>OILO3: “Innovation was carried out to the organizational structure. The branch factories in our subsidiary were authorized with sufficient autonomy, such as sales, production, and R&D. . . . I feel that this innovation was very effective during the financial crisis. Production, research, and market became close to each other and the response was quick”</p> <p>OILO10: “We develop new products based on market demand We proposed a slogan: ‘we produce what others do not produce; we stand out when others all produce’”</p> <p>CHEMO1: “We treat our consumers equally all over the world and take equal responsibility for them. I will not sell toxic products in the Chinese market even though the regulations in China are not as strict as those in Europe Switching to new materials brings technical risks. In order to avoid these risks, I need to find a robust design and invest in R&D”</p> <p>CHEMO4: “[Our R&D department] starts to analyze different types of tires in detail this year. We match the textural characteristics of tires with the road conditions they fit in with, so that the tires can perform in the best conditions. We pass this information to the sales team . . . they then pass it to the customers”</p>
4. They encounter fierce competition in the market	<p>FOODO2: “The competition we are facing in the market is intense We are thinking about how to do things better to outperform others. Basically, there is no advantage or support under the name of SOEs, so we are competing with others equally in the market. From every perspective, what we are up against is full competition”</p> <p>FOODO9: “Our competitors are mostly foreign companies and private companies”</p> <p>BANKO2: “The competition among banks is very fierce There are over 40 banks in this city, including domestic and foreign banks”</p> <p>BANKO4: “The market has been changing fast and the competition is fierce”</p> <p>OILO2: “We do not compete with all companies in the market, but only pay attention to about eight to ten companies, which have similar scales with us”</p> <p>OILO6: “We used to rank first in the industry, but now we are only a middle-and-lower-tier company. Our competitors have more prominent advantages”</p> <p>CHEMO1: “Some big firms in Shandong province directly attack our market. They may have lower costs and produce products with similar quality. They force us to lower the price”</p> <p>CHEMO2: “Our main competitors include ABC, XYZ, etc They do better than us at the moment, so we must surpass them in order to be the first-tier firm in China”</p>
5. They receive few privileges from the government in their everyday operations	<p>FOODO2: “It was before I joined the company [in 1988] when the intimate ties between FOODO and the government were severed This industry has gradually opened up to private firms [since 1988]. We have transformed from a planned economy to a market economy.” “Without the privileges given by the government and the monopoly position we had before, we had no choice but transform [to a market-oriented company]”</p> <p>BANKO4: “Among the four big banks, we are weak in terms of the government monopolized resources”</p> <p>OILO2: “Our subsidiary doesn’t do well in making profit. We refine chemicals, but the monopolistic profit in the industry comes from oil extraction and from the monopoly position of the gasoline market, [which have nothing to do with our subsidiary]”</p> <p>CHEMO5: “Since 1980s, the government has not been able to feed our company anymore. We have to depend on ourselves”</p>

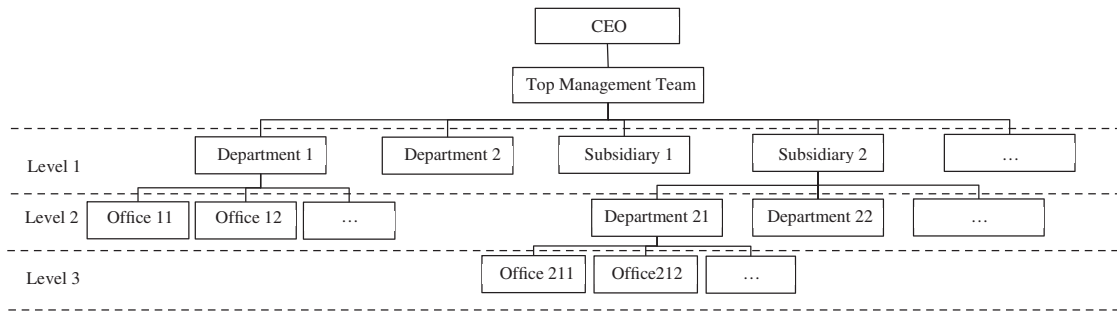


Figure 1. SOEs' organizational structure and MMs' levels

benefits? Have you made any difficult decisions? Do you have other types of challenging tensions to deal with?" We also interviewed frontline employees as a source of triangulation. Each interview lasted one to one-and-a-half hours. All interviews were held face to face at work sites, recorded, transcribed, and translated into English. Participants were assured of confidentiality and anonymity.

Based on our data analysis, we launched a second round of interviews from December 2012 to January 2013. We revisited our first-round interviewees and talked with three new interviewees. As shown in Table 1, we conducted 52 interviews with 41 members of our four SOEs. We triangulated our initial findings in this second stage of data collection.

Data analysis

Our data analysis was divided into three stages that overlapped and intertwined with each other in a recursive process. First, drawing on the extant literature (e.g., Guthrie, 2006; Keister and Zhang, 2009; Naughton, 2007), we confirmed from our interview data that our four SOEs were of the mature type described earlier, with market efficiency as their primary goal (as shown in Table 2). In the second stage, we identified MMs' actions when they were dealing with their political environment. Here, we followed Langley's (1999) inductive theorizing methods to analyze our data. We coded various MMs' actions, compared them, and gradually identified the bridging roles of MMs in both market and political environments. Specifically, we found that MMs bridged market and political belief systems with common practices, or they bridged market and political actors via affective relations. We continuously adjusted and validated our categorization with additional information from the interviews (Langley, 1999). We triangulated our

findings from several MMs' accounts from different organizations. We also analyzed official policy documents issued by government institutions to validate our findings. The triangulated evidence is presented in the next section. In the third stage, we sought to infer from our data various reasons that seem to confer a distinctive advantage on MMs in the bridging role compared with top managers and frontline employees.

THE BRIDGING ROLES OF MIDDLE MANAGERS IN THE MARKET AND POLITICAL ENVIRONMENTS

Among the 37 MMs listed in Table 3, 31 reported that they experienced tensions between the market and political environments in their work, and 16 provided detailed information on their specific actions of bridging the two environments. These individuals were either in charge of the general management of a project or a subsidiary, or came from functions as diverse as manufacturing, administration, human resources, marketing, business development, and corporate culture. Thus, we noted that MMs who were not the specialists of public relations and government affairs were actively involved in dealing with political actors, a fact which has not been documented explicitly in the middle management literature.

The fact that only half (not a majority) reported explicit bridging actions related to the political environment did not surprise us. Since these actions could be construed as politically or ethically sensitive in China's socio-political context, some might have been reticent to refer to their actions explicitly. In one extreme case, when asked to give us an example of how he dealt with government officials in daily life, one MM replied tersely:

Table 3. Profiles of MM interviewees^a

MM interviewee	Gender	Location	Working in organization since	Functional role	Hierarchical level
FOODO1	Female	Municipality 1	1989	General management	Level 1
FOODO2	Male	Municipality 1	1993	Product development	Level 1
FOODO3	Male	Municipality 1	1993	Strategy	Level 1
FOODO4	Male	Municipality 1	2006	Strategy	Level 2
FOODO5	Male	Prefectural-level city 1	2005	General management	Level 1
FOODO6	Male	Municipality 1	2006	Risk management	Level 1
FOODO7	Male	Municipality 1	1983	General management	Level 2
FOODO8	Female	Municipality 1	1989	General management	Level 1
FOODO9	Male	Prefectural-level city 2	1995	General management	Level 1
BANKO1	Male	Municipality 2	Not Available	Operation control	Level 2
BANKO2	Male	Municipality 2	2008	General management	Level 3
BANKO4	Female	Municipality 2	1997	Business development	Level 2
BANKO5	Male	Municipality 2	2003	Marketing	Level 3
BANKO6	Male	Municipality 2	1999	Customer relationship	Level 3
BANKO7	Female	Municipality 2	1991	Business development	Level 2
BANKO8	Male	Municipality 2	1997	General management	Level 3
OILO1	Male	Municipality 2	1997	Corporate culture	Level 2
OILO2	Male	Municipality 2	1991	Manufacturing	Level 2
OILO3	Male	Municipality 2	1987	R&D	Level 2
OILO4	Male	Municipality 2	1983	Strategy	Level 2
OILO5	Male	Municipality 2	Not Available	General management	Level 1
OILO8	Male	Municipality 2	1981	Manufacturing	Level 2
OILO9	Male	Municipality 2	1984	Manufacturing	Level 2
OILO10	Male	Municipality 2	1986	Manufacturing	Level 2
CHEMO1	Male	Prefectural-level city 3	2006	R&D	Level 2
CHEMO2	Male	Prefectural-level city 3	1997	Marketing	Level 2
CHEMO3	Male	Prefectural-level city 3	1982	Manufacturing	Level 2
CHEMO5	Male	Prefectural-level city 3	1983	Administration	Level 2
CHEMO6	Male	Prefectural-level city 3	1983	Human resources	Level 2
CHEMO7	Male	Prefectural-level city 3	2008	Administration	Level 2
CHEMO8	Male	Prefectural-level city 3	2008	Manufacturing	Level 2
CHEMO9	Female	Prefectural-level city 3	Not Available	Administration	Level 2
CHEMO10	Male	Prefectural-level city 4	1989	Marketing	Level 2
CHEMO11	Male	Prefectural-level city 4	1993	Manufacturing	Level 2
CHEMO12	Male	Prefectural-level city 4	2001	Manufacturing	Level 2
CHEMO13	Male	Prefectural-level city 4	1998	Manufacturing	Level 2
CHEMO14	Male	Prefectural-level city 4	2003	R&D	Level 2

^a BANKO3, OILO6, OILO7, and CHEMO4 were frontline employees and were interviewed for triangulation reasons. Thus, they are not listed in this table. We had 48 interviews with these 37 MMs, with some of them interviewed twice.

“I can’t tell you that. Do you have any other question?” Another only revealed how he managed his relationship with government institutions after he had made sure we turned off our recorder. More than 40 percent of the MMs interviewed, however, felt “safe” enough to share what they did behind the scenes. We could thus hypothesize that there was a higher percentage of MMs who performed various types of bridging actions between the market and political environments.

Inductively, we derived two novel types of bridging actions MMs performed. First, unlike the existing view that MMs simply connect market-oriented strategic intentions with operational practices, we

found that they sought to find distinctive commonalities in practice as a way of both achieving economic goals and responding to political demands. Second, apart from MMs’ connections with market stakeholders, we found that they were also interacting with political actors and reconciled their differences via personal relationships imbued with affect.

Bridging market and political belief systems with a distinctive common practice

Market stakeholders and political actors who harbor different beliefs on the legitimate goals to pursue and appropriate means to adopt make competing

demands on firms (Pache and Santos, 2010). When these belief systems conflicted, some of our MMs were skilled at creating a distinctive common practice based on their local expertise to address these divergent expectations simultaneously. The market belief system pursues the maximization of profit through actions such as developing new products, improving production efficiency, optimizing the supply chain, enlarging the customer base, and managing human resources. As described earlier, managers in mature SOEs internalize these principles. In contrast, political actors seek to sustain the dominance of the Party and central government by means of promoting indoctrination, maintaining social stability, and promoting social development. This political belief system is embedded in the formal policies designed by the Party to establish, maintain, and strengthen its branches in various SOEs. Party workers in SOEs have a dual identity: They are employees subject to the firm's hierarchy and representatives of the Party-state's expectations within the firm. This co-existence of firm and Party hierarchy within the SOE makes for complex and changing power dynamics inside the firm. Institutional theory suggests that if an institution has representatives in an organization—at all levels—the organization cannot easily avoid executing actions aligned with the institution because it is closely scrutinized (Pache and Santos, 2010), and any decoupling attempt (Meyer and Rowan, 1977) will be rapidly detected and punished. So how do MMs realize their market goals when under the pressure of executing Party policies and the close surveillance of ubiquitous Party branches?

Responding to political demands may consume resources that could have been allocated to business operations. As OILO9 said, "There are a group of people responsible for Party affairs. They cannot be removed from the enterprise, which is determined by the company's ownership structure." According to Party policy in the political environment, SOEs have an obligation to strengthen the construction of Party branches and organize ongoing activities to serve the people and promote social harmony. This is strictly scrutinized by government institutions such as the State Asset Supervision and Administration Commission (SASAC), which supervises all SOEs in China and is affiliated to the State Council of China. Since its establishment in 2003, it has decreed a series of policies to enhance Communist Party ideology such as "Guidance for Building Organizational Culture in SOEs";

"The Policy of Selecting Excellent Grassroots Party Branches, Excellent Party Members, and Excellent Party Workers in SOEs"; and "The Implementation of Campaigns to Educate Party Members to Preserve Their Vanguard Nature in SOEs."

MMs showed themselves to be supportive of these Party-state requirements by selectively highlighting practical elements in daily business operations that had commonalities with the Party's expectations. Thanks to their familiarity with daily practices, they had the ability to recognize distinctive operational elements that conveyed substantive respect for the Party. They specifically assigned such elements to Party workers in their units, and thus, convinced the Party of their loyalty to the policies by performing these daily practices. As CHEMO6 told us:

In our daily work, the Party affairs and the business operations are almost the same thing, except learning Party documents and paying Party membership fees. In the grassroots units, the Party branches are responsible for sanitation and the living facilities of workers. In some units, the performance evaluation is also the work of the Party branch. Some Party branches take charge of security management, cost control, and production. The two sides [i.e., the Party and the business] are fully combined.

It was the MMs who understood local operations best and were able to identify distinctive situational practices that fit with the political environment while concurrently serving market goals. Several MMs (e.g., CHEMO3, CHEMO5, CHEMO6, CHEMO8, CHEMO11, OILO9, and OILO10⁴) explained how they strengthened the Party branches in their units by using them to facilitate team building and enhance workers' commitment to the business. They assigned Party workers to talk to

⁴ We did not find evidence on how MMs from the other two organizations strengthened their Party branches. We believe that the operating contexts could help explain this variance in part. CHEMO and OILO are both manufacturing enterprises involving hundreds of thousands of workers, and Party branches focus on people (especially the worker class) and their minds. That is why more tensions were observed in CHEMO and OILO, and more creative solutions required. BANKO is a service company with a smaller workforce. In FOODO, many of the MMs we interviewed worked at the headquarters and did not deal with a large number of workers.

employees with abnormal levels of absence, collect employees' complaints on business operations, solve employees' family problems, visit workers in the hospital, and attend employees' weddings and their parents' funerals. As CHEMO6 noted, even if the Party branch did not do these things, the company would have to do them anyway according to its market orientation, but "Since you already have those people working in the Party branch, why waste them?" As CHEMO8 said, "[the team and culture building in Western companies and these Party works in SOEs] are the same things. When activities are carried out in the name of the Party, it simply means that the Party is playing its roles."

Another example was given by OILO8 and CHEMO10, respectively, that related to how they selected the "Excellent Party Member" each year in their units, a formal requirement of the Party applied to all SOEs. Both managers told us that the nominated employees had to be competent in their business-related work or display strong business performance: "Otherwise, how can we demonstrate that Party members are the vanguards of the working class?" asked OILO8.

To maintain consistency between market activities and political demands, MMs rewarded Party members based on strong business performance and also invited high-business-performing workers to join the Party. CHEMO7 and OILO8 explained how they managed to expand the number of Party members: If a person promoted for strong business performance was not a Party member, he or she would be invited to join the Party. CHEMO3 explained:

A lot of young workers stand out in business...they are admitted to be Party members as we have already noticed them and it is easier for us to do their ideological work. We will tell them, "Guys, fill out Party membership application and be closer to the Party organization!" This is the usual way how they join the Party. We prefer them to join the Party. Last year, about 70% of total Party members were recruited in this way.

Sometimes, to bridge the two belief systems, MMs developed a distinctive practice and explicitly interpreted it from the perspective of both market principles and Party policy. For example, OILO1, who was in charge of building OILO's corporate

culture, told us how he developed a set of professional standards for employees and interpreted them in two ways. Essentially, these standards exhorted employees to dedicate themselves to their work, to abide by discipline and rules, and to be honest and polite. The manager framed these standards from both perspectives. In accordance with Communist Party principles, "the standard means being an employee who loves the Party and the job, and taking social responsibilities. The Party system focuses on propaganda and mobilization." From the perspective of market activities, in an industry "with inflammable and explosive, high-temperature and high-pressure production processes," emphasizing discipline served to "ensure safe production and improve business operations." In this way his initiative could be regarded as a dual achievement in his annual report both to the Party and the commercial team. In addition to this skill, OILO1 told us how he interpreted the task of "news release" by perceiving it both as propaganda required by the Communist Party and as media relations management in a market-oriented logic:

I am in charge of news release. An important task of the Communist Party "propaganda" is the propaganda of business operations... Through the "propaganda" of business operations, we can release the information of our business operations and our corporate social responsibility events to the public.... But what we actually do is to enhance public relations and especially media relations. We have good relationships with the media.... We provide information to them and they think our information is valuable.

Not only did our MMs assist with Party branch construction in this way, they also creatively bridged the need for market orientation with efforts to maintain social stability (on behalf of the local government) by finding a distinctive common practice that would address both concerns. FOODO5, general manager of a FOODO factory located in a prefectural-level city, took over when its facilities were obsolete. Competition in the market environment prompted him to upgrade the equipment and enhance the automation of production. However, thereafter the factory only needed half of its 9,000 employees, which posed a problem, as FOODO5 related:

That was a tough decision for me.... It was a matter of balancing social benefits and firm profit. They (i.e., the workers) did not make any mistake. I could not fire them simply because of equipment upgrade. On the one hand, I could not stop upgrading the facilities. On the other hand, I could not let the employees lose their jobs....

In order to address issues from both market and political environments, he came up with two ideas: acquisition and training. First, he initiated the acquisition of a factory in Thailand and sent workers to the foreign site—the expansion helped lots of employees retain their jobs. Second, he cooperated with local vocational schools and sent workers on part-time courses. Workers were rotated to have training and to improve their skills, and meanwhile the part-time training program alleviated the downsizing pressure and maintained stability of the local community.

In sum, to reconcile market-oriented goals with the political actors' beliefs, MMs selectively identified common practices that could bridge both expectations, translating the political demands into catalysts used to enhance the rationale for their pursuit of market goals.

Bridging market and political actors with personal affective relations

The first type of bridging action taken by MMs was dominantly cognition-oriented, focusing on finding a common task that was legitimate for both market and political belief systems. The second was emotion-oriented. Instead of trying to connect the two competing belief systems, our MMs built bridges with individual political actors by instilling a third value shared by both sides. That is, they were on the organization's frontline to interact with local officials and build up connections that were grounded in meaningful personal affective relations.

For FOODO7, who was responsible for a shopping mall of FOODO, the market goal was to attract more shoppers to the mall in a busy part of the municipality. He was convinced that he must first solve the constant traffic jams outside the mall by converting the two-way street in front of the mall to one-way. Official regulations made provision for citizens to make such suggestions, and the traffic police detachment of that district would then

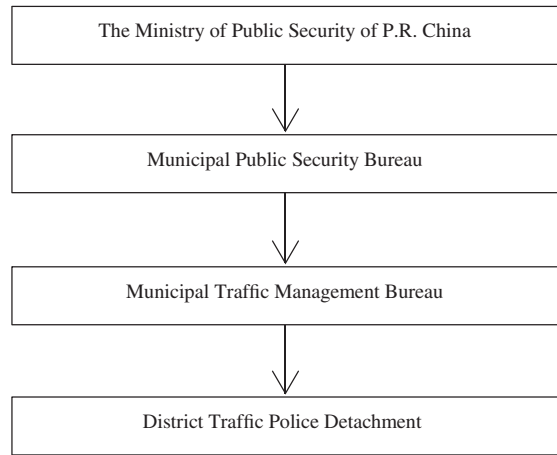


Figure 2. The administrative relationship between the Ministry of Public Security and the District Traffic Police Detachment

decide based on the “Code for One-Way Street Planning” issued by the Ministry of Public Security. (The administrative relationship between the District Traffic Police Detachment and the Ministry of Public Security of China is shown in Figure 2.)

In the political environment, this was a potential barrier to the market goal of this MM as the Code did not specify how long he had to wait for a decision from the agency, neither did he know the exact bureaucratic criteria for evaluating his proposal. He therefore circumvented the policy constraint by building an emotional attachment with individual officials, as he said:

I built very good communication channels with local government officials.... It is important to keep good relationships in normal times when there is no specific issue. I will send my greetings to the officials in holidays or festivals. I show my respect to them in an emotional way.... It is a taboo to make last-minute effort which will be detested by them.... I have successfully got support from the key government officials.... It is an issue of “stomach”.... In China, drinking someone’s alcohol is a way to show respect to him.... Sometimes, after drinking up a cup of strong alcohol, the business is done. It works when the official is as emotionally sensitive as I am.

For the individuals involved, the affective relationship is often cherished by both the market

stakeholder (i.e., MMs) and the government officials, enabling both parties to suspend (situationally) the tension between the two. In this particular traffic management case, FOODO7 invited two deputy chiefs of the district detachment to a banquet, at which he built up a strong personal rapport sealed by the consumption of alcohol. At the interview, he reported that his goal of changing the street to one-way was realized thanks to this interaction:

After [the government officials and I] drank half a kilogram of liqueur, they told me that “From now on, your issues will not be official issues and your issues will be handled as my friend’s or brother’s issues.” [After finishing the liqueur,] I threw up and then came back to the drinking table. So I was perceived as honest and sincere to them. They thought of me as a better manager than the former one Maintaining relationship with them is necessary. It doesn’t have to be too ceremonial and can be simply a phone call or text greetings Chinese people value personal sentiments and feelings, and as long as we think each other as pleasant, there’s nothing impossible, on condition that they also cherish personal relations.

CHEMO5 shared with us how he made friends with government officials who helped him to overcome the inefficiency of bureaucratic constraints in an emergency. When a firm’s head is made a representative of the People’s Congress, either at the national level or at local level, it is a signal of the social prestige and reputation of the firm (Marquis and Qian, 2013). Though no immediate profit can be derived from membership, it promotes a positive image of the firm in the market. This MM thus construed the leader of the subsidiary applying for a position in the People’s Congress of the prefectural-level city as a market-oriented activity; this required getting a stamped application form from various governmental agencies and following a protracted bureaucratic procedure. As CHEMO6 confirmed, stamps from 31 institutions of the prefectural-level city were needed to complete the form, including the education bureau of the city, the public security bureau of the city, the Red Cross Society of the city, and so on. (These are either official departments or operate as independent organizations controlled by the city authorities.) The

slow application procedure was problematic for CHEMO5 when faced with an urgent need. He told us how he solved the problem by mobilizing his friends in the city government:

For the background check of the representative candidate, our CEO was required to provide materials stamped by some local government institutions. This came in a rush We got [the material requirements] at around 5 p.m. Friday afternoon and were asked to submit the [stamped] materials the following Monday morning. The government officials were already off work and they did not work on weekends. What could I do? I had to ask my personal connections for help. We perceived each other as brothers and sisters [These relationships] have been developed over time. As long as their houses were not on fire, they would come to help me. I often invited these people to dinner Those governmental departments were not in emergency services and they did not have anyone on duty on weekends, so I had to resort to connections We did not go to dinner [this time] because we were very familiar with each other. I told them that we would have dinner some other time There are many other cases like this one I asked them to help me on weekends. In return, they can also ask me for such help.

CHEMO7 reported a similar action when he went through the application procedure for a prize competition organized by the city government. Winning the prize would boost the company’s reputation, thus enabling more sales—a market goal. To prepare the documents for the evaluation he had to get a series of stamps on the documents from the district government:⁵

Actually, I have built some personal relationships through work. For example, as I often contact the officials in the city government, I have established connection with the secretary-general If I suddenly need to have a document stamped in the X District

⁵ District government is one level lower than the city government in China’s administrative system.

Government, which I don't have much contact with, and the person in charge wouldn't stamp the document for me, I could make a phone call to an official in the city government and it works right away. . . . Sometimes they (i.e., the district government officials) just won't do the job [if you don't have a personal connection with them]. For example, if you need a document to be stamped at the district government, they would say they can't do it because there is no proof of the authenticity of your document, or they can make an excuse that they can't do it because the district head is out of the office.

Chinese people refer to these personal connections as *Guanxi*, a word that invokes a strong sense of affective value (Gold, Guthrie, and Wank, 2002). It is the intrinsic enjoyment of the ongoing personal relationships rich in sentiment that people cherish most. By investing affect in the relationships, our MMs realized their respective organizations' market goals by asking for help from the government officials they befriended. As CHEMO5 stated, they called each other "brothers and sisters," treating each other as family or friends.

Similarly, CHEMO5 was able to leverage affective connections with the officials of the Power Supply Bureau to get additional electrical power in an emergency beyond the official allocation to the firm, as there was no clear policy on how additional electricity was allocated. CHEMO3 leveraged his personal connections in the government to win the Quality Prize of Provincial Governor—a prestigious government award—when other applicants had similar technical achievements. BANKO4 described her initiative to provide financing support to the district government in her municipality as "sending charcoal fire in snowy days," which enhanced the positive image of the firm and an affective relationship with government officials.

The above accounts show that by building interpersonal relations and embedding them in affect, our MMs were able to build bridges with individual political actors, which, in turn, facilitated the realization of market-oriented objectives. In this way, MMs and government officials were not paralyzed by tension between market and political concerns due to the ambiguity of governmental bureaucratic procedures. MMs hence improved the market-oriented effectiveness by incorporating a third value.

Middle managers' unique advantages in managing the political environment

Next, we explored whether these MMs had a unique advantage over other organizational groups in performing such bridging actions.

Middle managers' advantages over top managers

Our data analysis suggested that top managers were less effective than their middle-level counterparts in performing bridging actions because they had less local technical knowledge and less of a local social network than their subordinates. This is especially true in a geographically dispersed organization, in which top managers are distant from local operational sites (e.g., Balogun and Johnson, 2004). All of our SOEs were headquartered in Beijing and their subsidiaries could be thousands of miles away. It was the MM in each specific local environment who had the knowledge and network "on the ground".

For the first type of action to be effective—finding a distinctive common practice—managers have to be operationally proficient to be aware of the range of realistic operational practices and select distinctive practices that fit with both belief systems in a particular situation. Top managers in remote headquarters tend not to have the requisite know-how, as validated by OILO1: "This company is very large. You can hardly do a good job if you do not know the grassroots and do not know the concerns of the frontline workers." OILO2 reported the same concern from another angle: "The headquarters... lacks the sensitivity to the market for our differentiated products." OILO3 expressed a similar opinion: "The headquarters cannot do better than us; OILO is too big." OILO4 added, "The headquarters is only in charge of ratification procedures. Different from us, it is at the very top. We [as local MMs] need to get along with frontline workers." CHEMO3 and CHEMO5 told us that their subsidiary had to be self-reliant, with little useful operational guidance from the top managers. This suggests that top managers in remote offices lacked knowledge of concrete everyday practices, let alone the ability to creatively select and frame situational actions compatible with competing belief systems.

The second type of bridging action is more likely to be effective when individual interactions are attuned to personal social-emotional needs (Huy, 2001). FOODO5 described how he eased the

tension between his subsidiary and the local environment protection authority. His subsidiary was acquired by FOODO from a local SOE several years ago. From daily interaction with the local people, he realized some were hostile to the takeover: "Some local people got upset when we turned the company into success because they were jealous that they failed when they ran it This made me aware that a lot of people were watching me My bosses were watching, the local community was watching, employees were watching . . ." FOODO9 had similar feelings in his daily operations: "I had to face tough farmers . . . who had local advantage, and I was all by myself. It was very difficult to perform the daily operations with all these relationships and interests of different stakeholders."

These concerns, although seeming local in nature, could have major political repercussions in the eyes of the local population and the government because the state's *raison d'être* is to improve the well-being of the "lower" classes and reduce the inequalities and perceived injustice of capitalism (Naughton, 2007). Underperformance in this area could lead to the erosion of the legitimacy of the Communist Party as a governing institution.

Managers in BANKO, despite being one of the big four banks in China, reported that their headquarters had no advantage from government connections in the specific municipality in which they were operating; they had to build local personal connections on their own. Unlike top managers, MMs seemed to have the time, physical proximity, and energy to build particularistic, family-like relationships with local political actors and make their attention and emotion visible to local stakeholders. Top managers were constrained not only by their limited attention to a wide range of matters, but also by their physical distance.

Note that in some situations it is only at the operational level that the market and socio-political tension manifests itself and has to be addressed. When the tension is more generic for the top of organization, it is less salient. For example, OILO9 mobilized his own "Guanxi" to help laid-off subordinates find jobs in the local community after a downsizing program of OILO:

[Helping them with my own personal relationships] was not required by the top managers and was my own idea. The top managers

asked me to downsize and improve efficiency. They gave me this broad direction. However, what should I do specifically? [In practice], it was related to social stability. This downsizing was a reallocation of benefits. If I deprive these laid-off workers of their benefits, they would cause disturbance. And I did not want that to happen

These MMs' narratives illustrate how political concerns emerged in day-to-day operations when a market-oriented deliberate strategy was promulgated from the top of the organization. Our MMs had to use their own experience and intuition to judge whether political matters should also be considered in specific situations.

Middle managers' advantages over frontline employees

Our data suggest that frontline employees were less equipped than MMs to perform the two types of bridging action because they lack the requisite knowledge, social power and status.

First, in order to connect practical elements with divergent belief systems, actors require a textured understanding of the organization's market and political environments. Frontline employees do not have access to or control of the flow of complex business and social information in the organization. OILO6, a frontline employee, told us that he could only talk about these issues in a very general way since he was not familiar with the details. When asked whether he had made any difficult decisions when market and nonmarket concerns conflicted with each other, he could not answer in any depth and there was no nonmarket factor in the example that he gave. When asked why an unprofitable project he worked on was launched initially, he said, "I don't know the details because I wasn't the decision-maker." OILO7, another frontline employee, when asked what the strengths of OILO in the industry were, said: "This is beyond my knowledge. I haven't thought about it." When asked whether there was any action taken by OILO driven by socio-political reasons, she simply replied, "I don't know." She admitted, "There is no particular way for grass-roots operators to have dialogue with the top management team."

Second, high status is essential when organizational members deal with government officials by building personal relationships. Frontline

employees' social status was perceived as too low to build such connections. CHEMO7 emphasized the importance of status, "Frankly speaking, there are people who want to help you only because you are in the position. [If I left this company,] all my connections established in my position would no longer exist. The reality is cruel. No one expects to keep the relationship after leaving the position." Thus, the middle-level position in the organization facilitates the building of MMs' personal rapport with government officials, whereas frontline employees do not earn enough respect from government officials to build personal connection. MMs control resources such as facilitating job search, charity donations, and discretionary budgets—thus, providing a social endorsement that would be perceived as valuable by government officials in their local communities. Their distinctive position gives them local knowledge and a social network that top managers lack, and provides them with information, power, and social status that frontline employees lack. These distinctive attributes give them an advantage in performing a bridging role between market and political objectives.

DISCUSSION

Our inductive research was motivated by our quest to explore how MMs deal with the political environment to achieve market goals. We investigated this in the context of four large China SOEs, a difficult-to-access setting that offers an ideal opportunity to observe how MMs deal with the daily tensions between market interests and political demands. Such "extreme" situations enable the development of new theories with revelatory value—that is, revealing new mechanisms and concepts (Corley and Gioia, 2011). As increasing government intervention in the internal management of firms in many countries becomes more common, the often-documented decoupling strategy used by firms to avoid substantive conformity becomes less feasible. The insights gained from China SOEs help reveal alternative actions that firms in other contexts, including those outside of China, could consider using to deal with more stringent government intervention and control.

We believe our inductive field study makes an important theoretical contribution to the middle

management literature. Whereas the existing literature recognizes MMs' bridging roles in the market environment only, we found that they also act as a bridge between the market and political environments. Not only do they bridge market-oriented objectives with concrete practices, but they also reconcile competing market and political expectations in a distinctive practice that is specific to the situation at hand. Not only do MMs establish external connections with market stakeholders such as customers, but they also integrate affect in building personal rapport with political actors such as government officials. This bridging role represents a novel and important theoretical contribution to the middle management literature.

When comparing our findings on MMs' behavior in the political environment with the literature on MMs and market strategy, we identified two characteristics that are consistently significant in both environments. First, MMs' local operational knowledge plays a pivotal part in their bridging role. In the market environment, their operational insights represent vital input for top managers to formulate new market strategies (Noda and Bower, 1996). In the political environment, the same expertise allows them to identify opportunities to save the firm from a potential impasse stemming from conflicting institutional demands. Second, firms have to rely on MMs' emotional skills in both market and political environments. While MMs' emotion-management skills have been found to contribute to the success of market strategy implementation (Huy, 2011) and change (Huy, 2002), our study shows that MMs' affect-based interpersonal skills are of great importance when they interact with political actors.

Several boundary conditions are worth mentioning. First, as local knowledge is necessary for MMs to perform the first type bridging action and deep personal connection is the requisite for enacting the second type bridging action, MMs require a stable job of relatively long tenure to accumulate fine-grained local knowledge and build a rapport with local stakeholders. Those in frequent job rotation programs across various locations will have less time to develop these local resources, and thus, to perform the bridging actions identified.

Second, MMs' skills in integrating market and political environments are of more importance to firms expanding beyond their home market. In restrained geographies, the top management of locally operated firms will be able to interact with

political and social actors more frequently, and thus, the unique contribution of MMs will be less impactful.

Third, MMs' bridging actions are likely to be effective in a social environment that tolerates (or even values) informal affective relationships and formal hierarchy. The second type of bridging action is likely to be effective in a social milieu that values norms of affective interactions. The social milieu in China is probably one of the more receptive to the affective nature of social interactions among business and nonbusiness stakeholders (Gold *et al.*, 2002). Moreover, our theory rests on the premise of respect for hierarchy: MMs' higher social status—for example, the title of Regional Manager or Vice President, both in the organization and outside—affords them credibility to deal with government officials that frontline employees lack. Such a culture of respecting hierarchy is also seen in Singapore, Japan, and Korea (Tan, 1989; Wilkinson, 1996).

Fourth, the second type of bridging action seems applicable when the political actors do not insist on interacting with the top managers only, that is, they are content to deal with managers at the middle level of the firm's hierarchy. According to the resource dependence theory (Pfeffer and Salancik, 1978), this may not hold if the government is so powerful that its insistence on dealing only with top managers cannot be challenged. However, to the extent that MMs are perceived as having some discretionary power over the use of local resources, it might be faster and more efficient for local government officials to deal directly with local MMs.

Our study also contributes to the nonmarket strategy literature. While our empirical evidence is largely about dealing with government institutions and Party representatives, our findings could apply to other nonmarket stakeholders as long as they have two features. First, the nonmarket stakeholder has a competing belief system other than market principles. If the stakeholder's values are largely aligned with profit maximization, there will be less need for MMs' local knowledge and efforts to address the concerns, whereas if the stakeholder's belief system is totally incompatible (e.g., profit minimization), the first type of bridging action would be ineffective because MMs are unlikely to find common practices that reconcile both profit maximization and minimization.

Second, the nonmarket stakeholder should have an organizational structure that allows easy

identification of more influential individuals so that MMs can easily build an affect-based relationship with them. In a chaotic social structure (e.g., loose interest groups with unclear leaders), the second type of bridging action will be more arduous, particularly when MMs have limited attention and energy.

In sum, our study makes three contributions to the nonmarket strategy literature that encompasses the political environment. First, research in nonmarket strategy often portrays the formulators and executors of nonmarket strategy as "faceless firms" (e.g., Bonardi and Keim, 2005), highlighting the role of top managers (e.g., Li and Qian, 2013). Our research shows that MMs are actively involved in day-to-day nonmarket activities and provides textured insights into various types of actions beyond the simple distinction of whether firms engage in nonmarket activities or not. Without their textured knowledge of local operations and network, abstract political strategies formulated by top managers are less likely to be implemented successfully. MMs skillfully adjust to their respective local environments and deal with nonmarket issues that emerge in specific situations. As the OILO manager told us, the directive for downsizing came as a market strategy from the top, but he also had to consider (nonmarket) social stability when he executed it.

Second, while the majority of the nonmarket strategy literature focuses on how firms shape government policies before they are formulated (e.g., Hadani and Schuler, 2013), we propose that MMs still influence the nonmarket environment when the formulated policies are being implemented. MMs may either instill a dual cognitive meaning in their practices under the existing policy framework, or elicit government officials' discretion through affective influence when the formal policy is ambiguous. It is worth noting that influencing government policy implementation after policies have been issued does not necessarily create an ethical problem. Since public policy is a collective good (Schuler, 1996) that results from bargaining among various interests groups, some ambiguity in formulation is needed to achieve consensus (Matland, 1995). MMs' bridging actions seem adaptive in the local context to the extent that they help reduce the excessive social costs of regulations under existing policy (Baysinger, 1984).

Third, our research enhances our understanding on how large firms spanning across multiple locations deal with local nonmarket forces. Existing

research has yet to provide a more nuanced account of how organizations deal with the diverse idiosyncratic social and political environments that their local branches and offices encounter. Our findings show that MMs, with their abundant local experience and affect-based rapport with local individuals, play a vital role in accommodating myriad local settings. One potential implication is that to better integrate the market and nonmarket environments, large expanding firms might consider training, incentivizing and authorizing their MMs to engage in nonmarket activities.

Since SOEs are a typical example of hybrid organizations with multiple institutional logics (Pache and Santos, 2013), our findings shed new light on the management of hybrid organizations and suggest two novel responses to institutional complexity (Greenwood *et al.*, 2011) that allow people who adhere to one of those logics to avoid conflict with the other, yet promote their own goals. This notion differs from more widely understood but less textured strategies such as decoupling (Meyer and Rowan, 1977)—which could not be practiced under close scrutiny—in that our MMs seem able to cope with long-term institutional pressure, yet are still able to enact the belief system they support with effective action responses.

In regard to action responses, our study suggests that an actor's intrinsic goal might still be achieved despite institutional complexity by satisfying the needs of multiple institutions as long as the actor is skilled in operational practice and can find, in a specific situation, a fitting frame or narrative (Kaplan, 2008; Sonenshein, 2009) to expose commonalities between opposing institutional forces. Second, an actor could avoid the conflict of two competing institutional logics by incorporating a third framing. In our various examples, MMs leveraged government officials' willingness to make friends and build personal connections by imbuing them with affect, so that the officials were disposed to apply the governmental bureaucratic rules less strictly or narrowly. Practically speaking, these novel strategic actions of MMs are not only applicable to addressing tensions between the market and political demands, but also provide valuable lessons for firms embedded in diverse belief systems, such as family firms pursuing both profit maximization and family values, and those incubated by research institutions of universities. Our findings indicate that MMs, with their unique positional advantage in the organizational hierarchy, can play a significant role

in reconciling the daily conflicts arising from different belief systems in hybrid firms.

Beyond our theoretical contributions to the literatures on middle management, nonmarket strategy and hybrid organizations, we also advance research on corporate political strategies in emerging market and transition economy settings. As noted by Clougherty (2005), and Hillman and Keim (1995), business-government interactions vary significantly across countries. Existing research has primarily focused on interactions in developed, democratic countries (e.g., Bonardi, Hillman, and Keim, 2005). Empirical studies on corporate political behavior in developing countries are beginning to surface (e.g., Jia, 2014). Our research enhances understanding of political strategies in developing countries, where governmental influence is more personal (Pearce, De Castro, and Guillen, 2008), and in transition economies where political resources are critical for firms' survival (Frynas, Mellahi, and Pigman, 2006).

The special context of China SOEs invites future researchers to look at how MMs deal with the political environment in various countries and industries with different political regimes and interest-group dynamics. Future researchers could also explore the heterogeneity of MMs, who may vary in their embeddedness in political logics (Pache and Santos, 2013). In other words, MMs may differ in the degree to which they sense the need to address political matters. Those who believe that complying with government policies and enacting a political party's ideology (e.g., Communist) are of intrinsic value and more important than the economic performance of the firm are more likely to fulfill political obligations only than to perform the bridging actions we describe. Studying differences among MMs in association with their various social, educational and functional backgrounds may thus help to explain whether and how they engage in their management of the political environment. Nevertheless, grounded in the context of China's SOEs, our study has hopefully advanced understanding of how MMs reconcile the competing political and business imperatives of their firms.

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