



## Middle Managers Will Rise in Value



By [Quy Huy](#) , INSEAD Professor of Strategic Management

### **Increasing government intervention in business may make middle management more important than ever.**

Wherever you are in the world, a middle manager's working life is seldom free from office politics. But nowhere is dealing with political power more of an issue than in China's state-owned enterprises (SOEs). Communist Party influence and scrutiny pervades these firms, cascading down through virtually all management levels via Party branches that SOEs are required to install wherever they do business. Apparatchiks double as full-time employees of the firm.

Middle managers occupy [a unique, indispensable position](#) within organisations, bridging the day-to-day operational expertise of the frontlines with the big-picture perspective of senior management. My [recently published paper in \*Strategic Management Journal\*](#) (co-written by Yidi

Guo and Zhixing Xiao) examines how middle managers at China's SOEs bridge the political and market-based imperatives placed on their organisations.

Companies the world over may soon share the divided sense of mission evident in China's SOEs, as a string of corporate scandals has prompted growing public demand for governments to sharpen regulatory oversight of the private sector. If public agencies pay heed, political management will put a heavy burden on organisations already strained by the post-Great Recession economy. Consequently, our findings indicate, the unique competencies of middle managers will become even more valuable.

### **Reconciling Party and profits**

My co-authors and I interviewed 38 middle managers at four mature SOEs, employing between 130,000 and 220,000 people, among them one of China's largest commercial banks. We also interviewed some low-ranking employees for the sake of comparison. Though their largest shareholder is the government, these firms are expected to function much like private companies, enjoying little privilege and protection from the Party.

They are expected to balance achieving competitiveness in the marketplace with the promotion of social stability in line with Party ideology. As you can imagine, the normal course of business presents situations where these two mandates could come into conflict. For example, significant downsizing may be necessary for continued competitiveness but detrimental to social harmony. Similarly, government policies obliging companies to "strengthen Party branches" could, if mismanaged, lead to the accumulation of needless, efficiency-draining layers of bureaucracy.

The middle managers credited their ability to bridge Party and profits to detailed knowledge of day-to-day operations, familiarity with the local context, and deep community ties. One manager recounted how he leveraged relationships with local media personnel to resolve the potential conflict of interest between Party propaganda and his company's market orientation: "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."

Another manager said that when the arrival of automation at one factory imperiled thousands of jobs, he initiated an acquisition of a factory in Thailand and sent many workers there, while coordinating with local vocational schools to retrain a large portion of the remaining employees—thereby minimising social disruption in adherence to Party ideology.

Other managers described assigning Party workers to perform outreach tasks that were obligatory (in the Chinese context), such as visiting sick employees in hospital, attending employees' weddings and their parents' funerals, and disciplining truant workers—saving manpower cost for the company while meeting the Party's ideology for enhanced social harmony.

### **Emotional bridging**

The one-stone-two-birds tactics mentioned above served our middle managers well in navigating their organisations' internal politics, but the byzantine bureaucracy of external Party agencies was another story entirely. Cutting a path through the piles of government paperwork standing between the managers and their market objectives required the timely cooperation of local government officials, which was not forthcoming without a personal connection. Therefore, the managers had to forge emotional bonds with officials so that they would have strings to pull when the time was right. Chinese people refer to such relationships as *guanxi*, a term with strong sentimental as well as practical connotations. These are not mere alliances of mutual convenience but heartfelt ties implying genuine trust and loyalty.

The managers explained that attempts at relationship-building would fall flat if officials sensed ulterior motives: "It is important to maintain good relationships in normal times when there is no specific issue...Last-minute efforts will be detested by them."

And simply investing time in getting to know the officials personally wasn't enough either. Managers had to prove their good faith by letting the mask of professionalism slip and becoming more human, more fallible. The drinking table was an ideal setting for fast-tracking a friendship, as one manager related:

*After [the officials and I] drank a half-kilogram of liquor, they told me that "From now on, your issues will not be official issues but will be handled as my friend's or brother's issues." [After finishing the liquor],*

*I threw up and then came back to the drinking table. So I was perceived as honest and sincere to them...*

Bonds between officials and managers proved durable in times of crisis. One manager described resolving an ostensibly impossible situation with the help of *guanxi*:

*Our CEO was required to provide materials stamped by some local government institutions. We got [the material requirements] at about 5 pm Friday afternoon and were asked to submit the following Monday morning. The government officials were already off work and 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...*

### **The advantages of middle managers**

As our interviews revealed, middle managers were better suited than either senior managers or frontline employees to perform these critical bridging functions. Top managers were simply too far from the grassroots, with their attention spread across the entire market terrain. They lacked the local know-how and operational expertise to formulate bridging strategies, as well as the time and, in many cases, physical proximity to nurture relationships with local officials.

Frontline employees, as you might expect, had the opposite problem: Their low rank within the organisation had not permitted them to widen their understanding much beyond their functional role. Hence, they lacked the operational fluency to bridge political and market needs. Also, they were perceived as too low-status to form reciprocal connections with officials. Middle managers, by contrast, have access to valuable resources such as job openings, discretionary budgets, and charitable donations—enabling them to give as good as they get in the favour exchange.

### **Final thoughts**

Chinese culture has specific features—a willingness to intermingle emotions and business, and a general respect for hierarchy, just to name two—that may not apply everywhere. But our findings could have relevance outside China, provided the following conditions are met: 1) Companies must balance market needs with those of a non-market stakeholder whose belief

system lies outside market principles; 2) The non-market stakeholder has an organisational structure that enables companies to identify influential individuals within it, and form relationships with those individuals.

Solutions employed by our interviewees suggest that if tomorrow's companies are going to be increasingly saddled with competing demands from market forces and government regulators, the skills of middle managers will be essential to squaring the circle.

**Quy Huy** is Professor of Strategic Management at INSEAD. He is also Programme Director of the **Strategy Execution Programme**, part of INSEAD's suite of Executive Development Programmes.

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#### About the author(s)

**Quy Huy** is the Solvay Chaired Professor of Technological Innovation and a Professor of Strategic Management at INSEAD. He is also a director of the **Strategy Execution Programme**, part of INSEAD's suite of Executive Education programmes.

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