

**University of Southampton**

**School of Management**

**Middle Managers' Roles and Contributions in Strategic  
Change from the Perspectives of Learning and Power: An  
Empirical Study of Three Chinese Enterprises**

by

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**ABSTRACT**

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This study aims to gain a deeper understanding of middle managers' roles in Chinese enterprises' strategic change through the use of two related perspectives: the learning perspective and the power perspective. This understanding is particularly significant for managing successful strategic changes in Chinese enterprises, and for assisting Western enterprises to succeed in the Chinese market.

In order to achieve the research aim, an interpretive paradigm (Burrell & Morgan, 1993; Easterby-Smith et al. 1991 and 2002) and a multiple case study method (Eisenhardt, 1989; Yin, 1994) were employed to guide the whole research process. Data were collected through interviews, observations and document studies in three Chinese enterprises over a period of more than 2 years. Miles and Huberman's (1994) methods were used to analyse the qualitative data.

The research revealed two roles, 'strategists in the middle' and 'implementers', played by middle managers in the three cases. Two theoretical models, a communication model and an interpretation model, were constructed to explain both roles. Finally, a 'guanxi'-centred explanation network was developed to explain the differences in middle managers' roles across cases. It was argued that middle managers could only become 'strategists in the middle' by actively exploring the interactions of knowledge and power. Formal and informal communication was widely employed by 'strategists in the middle'. A trust and balanced 'guanxi' between middle managers and senior managers was critical for middle managers to play a proactive role. These findings contribute to remedying the current lack of knowledge about middle managers' roles in strategic change. They also enhance our insights into the relationship between organizational learning and power. Relevant implications for strategic change management are also provided for both Chinese enterprises and Western enterprises.

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## **Dedicated to**

Mum and Dad so many miles away but supporting me always

# Chapter 1

## INTRODUCTION

The thesis examines the role of middle managers in strategic change in Chinese enterprises through the use of two perspectives, organisational learning and power. Even in the Western literature the examination of middle managers is limited – middle managers are more often viewed as the subjects of change rather than as active participants in change. Research on the strategic role of middle managers in China is even more limited. This research will make contributions to fill that gap. Further, although there are some studies on the learning perspective and the power perspective, further studies combining these two perspectives are still required in order to develop a more complete picture of organizational life. This chapter first outlines the significance of the research, before providing a brief review of research questions and methodology. Finally, the researcher will show the structure of the dissertation.

### **1.1. Significance of the Research**

Research suggests that middle managers are strategic assets to organizations (Burgelman, 1983; Floyd and Wooldridge, 1992, 1994, 1997; Nonaka, 1988, 1991). However, the current research on middle managers focuses mainly on the impact of organizational structure changes on middle managers and their strategic importance rather than on their own interpretation of these roles. Only limited research examines middle managers' roles in organizational change, and the factors influencing the realization of these roles.

With the increasing importance of knowledge and learning in organizational life, organizational learning and the ways in which it can lead to increased effectiveness and provide sustainable competitive advantage, has become an increased focus for management researchers (DeGeus, 1988; Stata, 1989). Despite the increasing numbers

of researchers following the learning school approach, middle managers have still received little research attention. In particular, there is little research on middle managers' contributions to organizational learning, and on how they make their contributions (Nonaka, 1994).

It is important for researchers to increase understanding of the role of power, as an essential component of strategy, to gain adequate insight into strategic change (Allison, 1971; Hardy, 1996; Pettigrew 1985), and especially important for a better understanding of the role of individuals in this process. Unless power is taken into consideration, the studies of learning researchers on strategic change are incomplete. Recently, more and more researchers have begun to pay attention to the power issue in organizational learning (Easterby-Smith, Crossan and Nicolini, 2000). Coopey and Burgoyne (2000:881) argue that 'a political perspective widens our understanding of the processes that constitute learning in organizations'. By combining the learning perspective and the power perspective, the present research will provide a deeper understanding of the role of middle managers in strategic change.

With the advance of Chinese economic reform, change has become one of the main themes for Chinese enterprises. It is becoming increasingly important to understand organizational change in Chinese enterprises in order to manage them efficiently. Furthermore, Chinese enterprises have very different characteristics from Western enterprises, due to the dramatic differences in economic, political and cultural background compared with Western enterprises. Applying western theory models directly to Chinese enterprises is extremely questionable. Examining middle managers in the Chinese context sheds light not only on Chinese enterprises' managerial practices but also on the validity of Western managerial theories.

To sum up, the roles and contributions of middle managers in strategic change among Chinese enterprises from the learning and power perspectives remains a barely explored but important area. In order to improve the change capability of Chinese enterprises and Western enterprises attempting to enter the Chinese market, and to widen current

Western change theories, there is an urgent need to achieve a better understanding of middle managers' roles in strategic change among Chinese enterprises.

## **1.2. Research Questions and Research Methodology**

Research methodology is mainly determined by research aims and research questions. The present research aims to develop a better understanding of how middle managers contribute to strategic change in Chinese enterprises. Based on this research aim, a general research question was developed from the beginning.

*How do middle managers contribute to strategic change in Chinese enterprises from the learning perspective and the power perspective?*

Three sub-questions were then developed to further pursue the answer to this general question.

*What are middle managers' roles in strategic change in Chinese enterprises from the perspectives of organizational learning and power?*

*How do middle managers fulfil their roles in strategic change in Chinese enterprises from the perspectives of organizational learning and power?*

*Why do middle managers play these roles in strategic change in Chinese enterprises?*

In order to obtain a better understanding of middle managers' contribution to strategic change in Chinese enterprises, an interpretative paradigm (Burrell and Morgan, 1979; Easterby-Smith, Thorpe and Lowe, 1991) and a case study method (Stake, 1995, 2000; Yin, 2003) were employed to gain knowledge from individuals' perspectives within complex social contexts. A multiple case design (Eisenhardt, 1989) was adopted to

capture the richness and dynamics of middle managers in the strategic change process over two years in bounded systems. Several data collection methods were employed, such as interviews, observation, and archive study. Finally, the researcher employed Eisenhardt (1989), Miles and Huberman (1994) and Yin's (2003) methods for data analysis.

### **1.3. Structure of the Dissertation**

There are nine chapters in the dissertation. The first chapter provides a brief introduction of the research. Next, the relevant literature is reviewed to establish a theoretical framework, which guides the data collection and analysis that follows. In Chapter 3, the methodology employed by the researcher is discussed in detail. In order to achieve a deeper understanding of three cases, contextual information is provided in Chapter 4. Then, data, which are organized in major themes, are presented in Chapter 5. The following two chapters, Chapters 6 and 7, are designed to show the main findings of the research. Two roles of middle managers, one proactive and the other reactive, and their descriptive behaviour models, a communication model for the proactive role and an interpretation model for the reactive role, are discussed in Chapter 6. A 'guanxi'-centred explanatory network, which will answer the question why middle managers choose one role instead of the other, is presented in Chapter 7. The major findings are discussed further in relation to the current literature in Chapter 8. Finally, the dissertation concludes by summarising the findings, clarifying the contributions and making suggestions for future research. Besides these nine chapters, the researcher has attached an abstract, a contents table and an appendix to facilitate a deeper understanding of the research.

## **Chapter 2**

# **MIDDLE MANAGERS IN STRATEGIC CHANGE**

### **2.1. Introduction**

This chapter will review the relevant literature to explore and explain the roles and contributions of middle managers in strategic change from the learning and power perspectives. It aims to help the researcher develop theoretical lenses to guide the collection of the field data and further analyse it. In addition, the literature review also improved my sensitivity to field data and provided the knowledge basis to integrate the research findings with the current literature.

A learning perspective and a power perspective were employed to examine the roles of middle managers in strategic change, because the combination of these two perspectives could explain most of the decisions of middle managers and actions in Chinese enterprises. Firstly, organizational learning has long been recognized as an important resource for sustainable competitive advantage (Senge 1990), especially in the era of the knowledge economy. The survival of enterprises requires organizations to explore and learn new ways of doing things and to exploit current knowledge (Levinthal and March, 1993). Thus, strategic change inevitably involves both individual and collective learning processes (Casey, 2005). It is necessary to employ a learning perspective in the study of middle managers' roles in strategic change, especially in the era of the knowledge economy.

Secondly, a power perspective is required for studying strategic change in Chinese enterprises. Chinese enterprises are characterized by high power distance (Hofstede,



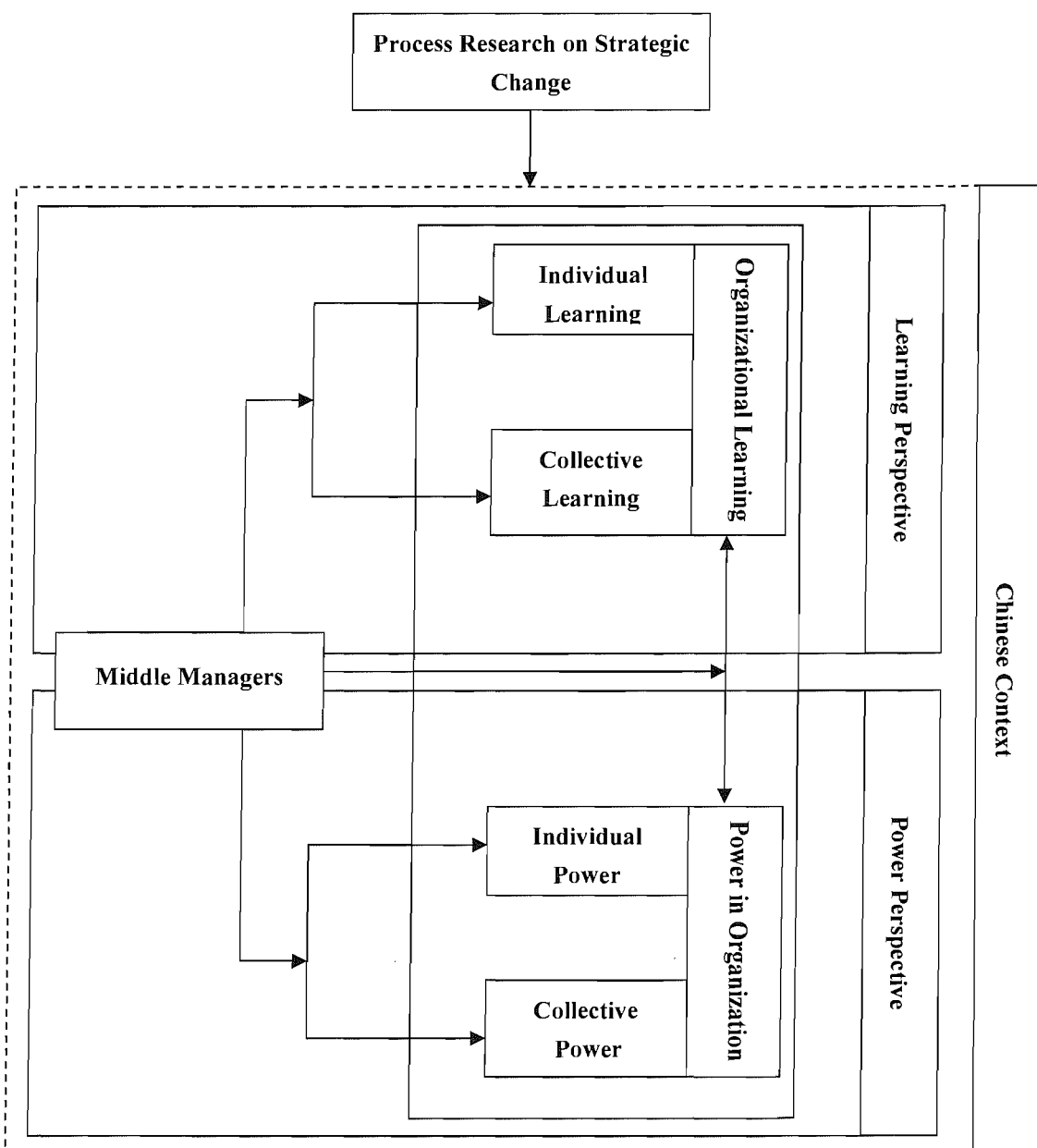
1988, 1994). They usually have strong hierarchical and authoritarian traditions. Thus, power is an unavoidable element in studies on Chinese enterprises. Even in the era of the knowledge economy, it would still be unwise to assume that information and knowledge could replace the important position of power in the management of Chinese enterprises. Instead, power continues to influence nearly all organizational processes, like strategic change. Thus, in order to study middle managers' roles in strategic change in Chinese enterprises, power must be fully considered.

Thirdly, middle managers' different positions in the organizational power structure and the learning system make it significant to study middle managers' roles in strategic change. Compared with senior managers, middle managers have weaker power positions. However, they may hold knowledge advantages that were developed during the strategic change process. Thus, the positions of middle managers in the organizational power structure and the organizational learning system may be different: lower in the former but higher in the latter. Middle managers' roles in strategic change were decided by negotiation between these two processes: the exercise of power and learning. This situation adds more uncertainty to middle managers' roles in strategic change and requires further examination.

After the exploration of the relevant literature, a theoretical framework (Figure 2.1) is developed as the theoretical starting point of the research. This theoretical exploration starts from process research on strategic change and goes into the learning perspective and the power perspective. The literature review of process research provides six assumptions – iterative change, dynamic environment, plural voice, multiple levels, continuous or discontinuous change, and change being manageable – for the examination of strategic change. These assumptions are shared by both the power perspective and the learning perspective. The studies from the learning perspective and the power perspective are discussed in two dimensions: levels and behaviours. In order to successfully connect middle managers, individuals in organizations, to strategic change, a collective phenomenon, studies at both individual and collective levels are

examined from both the learning and power perspectives. At the same time, learning and power behaviours are also reviewed to develop the theoretical basis of middle managers' behaviours and their influence on organizational change. Then, middle managers' roles and contributions in strategic change are examined in detail. Finally, the characteristics of Chinese enterprises and Chinese managers are discussed in order to achieve a deeper understanding of the research context.

**Figure 2.1: Theoretical Framework**



The literature review is organized into three sections. Firstly, the research on strategic change will be introduced. The literature on strategic change from the learning perspective and the power perspective will be reviewed separately in this section. The literature of middle managers will be discussed in the second section. The final section will put the arguments further into a Chinese context in order to gain a local understanding of Chinese enterprises and middle managers in strategic change.

## **2.2. Process Research on Strategic Change**

The researcher adopted Pettigrew's (1985) definition of strategic change. Strategic change is argued to be better understood as 'streams of activity involving at various times the differential attention of individuals and groups, which occur mainly but not solely as a consequence of environmental change, and which can lead to alterations in the product market focus, structure, technology, and culture of the host organization' (Pettigrew, 1985: 438). Strategic is a word describing the 'magnitude of change in, for example, structure and organizational culture, recognising the second-order effects, or multiple consequences of any such changes' (Pettigrew, 1985: 438). Undoubtedly, this is a comparatively broad definition. Since strategic change often consists in practice of smaller strategic or operational changes, a broader definition could help include all relevant activities and changes. At the same time, this definition also focuses on the outcomes of strategic change. Since strategic change sometimes has similar characteristics to operational change when change is in progress, it is much easier to judge strategic change based on outcomes. Thus, the researcher adopted this definition.

Traditionally, research on strategic change can be classified into two parts – content and process – based on different research questions. Content research focuses on the antecedents and consequences of strategic change (Gibbs, 1993; Ginsberg & Buchholtz, 1990), while process research focuses on the process of strategic change (Mintzberg, 1978; Miller and Friesen, 1980; Johnson, 1992; Pettigrew, 1985; Pettigrew and Whipp, 1991; Webb & Dawson, 1991; Whipp, Rosenfeld & Pettigrew, 1989). However,

Pettigrew (1992) concludes, 'the sharp distinction between process and content appears more of an analytical hindrance than a help' (Pettigrew, 1992: 7). Moreover, he also highlights that it seems advantageous to analyse strategic change 'not only from linking process to content but also from exploring simultaneously the links between the contexts, content and process of change together with their interconnections through time' (Pettigrew, 1992: 7). Based on the research questions and as an echo of these arguments, the research was designed to be processual basically without ignoring the importance of linking the change process to the context and content.

Six conclusions are commonly held by most process researchers (Mintzberg, 1978; Pettigrew, 1992; Quinn, 1980) on strategic change. Differently from the earlier rational analysis of strategic change, many researchers (Allison, 1971; Bower, 1970; March and Olsen, 1975; Mintzberg, 1978; Pettigrew, 1985; Quinn, 1980) began to introduce a process view of strategic change from the 1970s onwards. More or less, they agreed with these six basic arguments. First, it is argued that strategic change becomes an iterative process (Yetton, Johnston & Craig, 1994). The traditional linear view of strategic change process – implementation happening after formulation – is challenged. Second, the environment is uncertain and dynamic (Quinn, 1980), and might even be enacted by managers and represented through cognitions (Johnson, 1992). Third, the voice within a firm is not necessarily unitary. Strategic change is a process affected by the different interests of individuals and groups within the organization. The organization may be a political context (Quinn, 1980) influencing the need for and resistance to strategic change (Staw, Sandelands, & Dutton, 1981). Fourth, the formulation or formation of strategy involves different levels of organization, not necessarily only relating to senior managers (Nonaka, 1991). The organization can also learn to bring about major and minor changes in a firm's strategy. Fifth, strategic change may be continuous (evolutionary) or discontinuous (revolutionary) (Meyer, Brooks & Goes, 1990; Yetton, Johnston & Craig, 1994). Finally, managers can manage strategic change through a series of steps to probe the environment and the organization (Lant & Mezias, 1992) and to affect opportunities and constraints (Mintzberg & Waters,

1982; Simons, 1994). These opinions are also held by the researcher and are reflected in the following arguments.

Among the varied schools of process research on strategic change, the learning perspective and the power perspective provide two precious but different pictures of strategic change. Research from the learning perspective tries to explain major shifts in direction through small changes taken together over time (Mintzberg, 2001). Changes are seen as either learning processes (Dutton and Duncan, 1987; Lahteenmaki, Toivonen and Mattila, 2001) or learning results (Argyris and Schon, 1978). Studies from the learning perspective focus on four areas: organizational learning, learning organizations, knowledge management and organizational knowledge (Easterby-Smith and Lyles, 2003). However, the power perspective characterizes strategic change as a process of influence, which emphasizes the use of power (Mintzberg, 2001). The change process is full of organizational members' conflicts of interest and bargaining (Bolman and Deal, 1997). Although there is a certain amount of research in each school, empirical research combining both is still comparatively limited (Coopey and Burgoyne, 2000; Easterby-Smith, Crossan and Nicolini, 2000). The present research will endeavour to make contributions to the combination of the learning perspective and the power perspective in the study of strategic change.

### **2.2.1. Organizational Learning and Strategic Change**

In the organizational learning and change literature, the line between learning and change is blurred. As Fiol and Lyles (1985) argue, three terms – change, learning and adaptation – are all used to refer to the organization's process of adjustment to its environment. Furthermore, these terms are not used consistently with the same meanings (Fiol and Lyles, 1985). Thus, organizational learning is sometimes regarded as a mediating variable that increases an organization's ability to implement planned change and reach its objectives (Lahteenmaki, Toivonen and Mattila, 2001), sometimes resulting in organizational change (Argyris and Schon, 1978), and is sometimes even

seen as equal to adaptation (March and Olsen, 1975). These different opinions of organizational learning reflect the complex relationships between organizational learning and change, and show its multiple facets within the process of change: the first opinion emphasizing the resource characteristic of knowledge, the second focusing on the result of organizational learning, and the last highlighting its process characteristic. Furthermore, these different views of organizational learning during change also imply three areas in which organizational learning researchers have tried to connect their studies to organizational change: learning as enhancing organizational capabilities, learning as a means of change, and the learning model of organizational change.

Although the concept of organizational learning is apparently not clearly defined in the change literature, the majority of organizational learning researchers hold similar opinions on the characteristics of change: change being an iterative process instead of a linear one, and change being continuous / evolutionary / incremental or discontinuous / revolutionary / transformational (Rajagopalan and Spreitzer, 1996). These characteristics will serve as the starting point to understand organizational change from the learning perspective.

Firstly, organizational learning is an important resource for sustainable competitive advantage (Argyris, 1992; DeGeus, 1988; Grant, 1996; Senge, 1990; Stata, 1989). It is argued that organizational learning enhances the organization's ability to adapt to a changing environment, producing suitable strategies and implementing them (Child, 1972; Shrivastava, 1983). Shrivastava (1983) developed a typology of organizational learning systems, 'a mechanism by which learning was perpetuated and institutionalized in organization' (p. 7). Shrivastava (1983) employs two dimensions – an individual-organizational dimension and an evolutionary-design dimension – to categorize these learning systems. Learning organizations are those that facilitate the learning of all organizational members in order to efficiently respond to internal and external changes (Pedler, Bourgoyne and Boydell, 1991). Moreover, strategic learning is the continuous side of discontinuous strategic change (Kuwada, 1998). Strategic

learning is the ‘organizational learning whereby basic assumptions underlying corporate-level knowledge were reframed and led to a renewal of the organization’s strategic capability’ (p. 719). Kuwada (1998) describes it as an intra-organizational ecological process, which integrates business and strategic learning and includes strategic knowledge creation and distillation, and uses it to explain the long-run dynamics of organization strategy. However, although researchers have never forgotten the individual (or business level) and the collective (or corporate level) as an important dimension in organizational learning studies, the studies, especially the empirical studies, on linking these two levels of organizational learning are still limited. In order to successfully connect dynamic capability and organizational learning, it is necessary to clarify how the micro and macro levels are dynamically related (Antonacopoulou, Ferdinand, Graca and Easterby-Smith, 2005).

Secondly, organizational learning is recognized as a principal means of achieving the strategic renewal of an enterprise (Crossan, Lane and White, 1999). Learning is argued to occur when an organization improves its performance as the result of environmental change or adaptive requirements (Dodgson, 1993). Strategic change requires organizations to explore and learn new ways of doing things and to exploit current knowledge (March, 1991; Levinthal and March, 1993). Two general situations involving learning – mutual learning and competition learning – have been modelled. March (1991) argues that the trade-off between exploration and exploitation in mutual learning involves conflicts between short-run and long-run concerns and between gains to individual knowledge and gains to collective knowledge. Adaptive processes are likely to become effective in the short run but self-destructive in the long run. Organizational learning even decides the successful implementation of certain strategies, like imitation (Zander and Kogut, 1995) and replication (Winter and Szulanski, 2001). The speed of transfer is significantly influenced by the degree of codification and how easily capabilities can be taught (Zander and Kogut, 1995). The broad scope of knowledge transfer is one of the key aspects of a replication strategy (Winter and Szulanski, 2001). However, the discussion of organizational learning as a

means of achieving organizational change focuses mainly on analysis at the macro level. The learning actions at the micro level have been comparatively less explored.

Some researchers (Burgelman, 1988; Hendry, 1996; Lant and Mezias, 1992) have also developed models from the learning perspective to explain the organizational change process. The learning model of change describes the change process as one in which cognition and actions are intertwined (Burgelman, 1988). Lant and Mezias (1992) tried to develop a learning model of organizational convergence and reorientation. They propose that first-order learning (Hedberg, Nystrom and Starbuck, 1976) or single-loop learning (Argyris and Schon, 1978) reflect an organization's ability to remain stable in a changing context, and that second-order learning (Hedberg, Nystrom and Starbuck, 1976) or double-loop learning (Argyris and Schon, 1978) lead to organizational reorientation. The key point of their learning model is the interpretation of performance: unsatisfactory performance triggering organizational change. Hendry (1996) tried to accommodate learning into Lewin's (1952) three-stage change model: unfreezing, change, and refreezing. He argues that learning was 'most conspicuous in the initial unfreezing stage' (p. 624). An unlearning phase (Hedberg, 1981) is needed when existing cognitive structures, dominant beliefs and values are challenged. Change is initiated when people face disconfirmation or paradox. Thus, as in the discussion of Lant and Mezias (1992), the motive for change is a cognitive issue. Further, the second change stage is argued to be full of learning actions like information building, search, experimentation and learning by doing in Burgelman's (1988) study, or as the organizational acquisition of external information in Macdonald's (1995) study. The last stage of refreezing is treated as a process of reinforcing the learning of new things (Hendry, 1996). Compared with the great number of studies on learning models of change from the cognition perspective, learning actions in the change process have been comparatively ignored.

Based on the literature review in the above three areas, learning enhancing organizational capabilities, learning as a means of change, and the learning model of



organizational change, two areas – the macro and micro levels of organizational learning, and organizational learning actions – can be identified as crucial to explaining the interactions between organizational learning and change. The combination of the micro and macro analysis of organizational learning connected learning, a traditional individual phenomenon, to organizational change ability and change management. Learning actions constitute the basis of organizational learning and change. In the following section, the researcher will first review organizational learning studies at different levels, and then proceed to studies on learning actions.

### **2.2.1.1. Levels of Organizational Learning**

Learning happens at multiple levels – the individual level and the collective level – in strategic change (Crossan, Lane and White, 1999; Fiol and Lyles, 1985; Lahteenmaki, Toivonen and Mattila, 2001). Strategic organizational change is argued to require organizational members to learn and implies outcomes of collective learning (Casey, 2005). Although the importance of learning at both individual and collective levels is widely admitted by organizational learning researchers, studies on linking individual learning to organizational learning are still limited. Even in these limited studies (Kim, 1993; Nonaka, 1994), the research is either lacking in practical evidence (Kim, 1993) or constrained by certain contextual settings (Nonaka, 1994). More practical research should be carried out in order to deepen the understanding of organizational learning.

#### **2.2.1.1.1. Definitions of Organizational Learning**

As an important effort to unify learning in different levels, Huber (1991) provided a definition for learning that could be used at both the individual level and the collective level. An entity learns ‘if, through its processing of information<sup>1</sup>, the range of its

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<sup>1</sup> In the dissertation, the researcher has adopted Huber’s (1991) argument that information and knowledge are interchangeable. Information will more likely be used ‘when referring to data that give meaning by reducing ambiguity, equivocality, or uncertainty, or when referring to data which indicate that conditions are not as presupposed’ (p. 89). Knowledge is used ‘when referring to more complex products of learning, such as interpretations of information, beliefs about cause-effect relationships, or, more generally, “know-how”’ (p. 89).

potential behaviours is changed' (p. 89). Entities in this definition can be 'a human or other animal, a group, an organization, an industry, or a society' (p. 89). The processing of information consists of three actions – 'acquiring, distributing and interpreting' (p. 89). Considering the complexity of organizational learning, Huber (1991) makes further efforts to clarify it: 'an organization learns if any of its units acquires knowledge that it recognizes as potentially useful to the organization' (p. 89).

Compared with Argyris and Schon's (1978) definition of learning, detecting and correcting errors, Fiol and Lyles's (1985) definition, improving actions through better knowledge and understanding, and Dodgson's (1993), building, supplementing and organizing knowledge and routines around organizational activities, Huber's (1991) definition provides a more observable standard – the range of potential behaviours being changed – to judge whether learning happened, and the constitutes – information acquisition, interpretation and distribution – to observe how learning happened. Furthermore, the value of the definition is enhanced by its applicability to learning on multiple levels. This provides a base on which individual learning and collective learning can be examined.

### **2.2.1.1.2. Individual Learning**

Many researchers (Argyris and Schon, 1978; Garratt, 1987; Senge, 1990) have regarded individual learning as the basis of organizational learning. Hedberg (1981) argues that 'individuals' learning is doubtless important in organizational learning' (p. 6). Argyris and Schon (1978) also assert that organizations cannot learn without individual experience and actions. Most organizational learning models treat individual learning as an integrated part. Three arguments are employed by them to support this opinion. Firstly, individuals are regarded as the main actors in organizational learning (Argyris, 1992; Senge, 1990). Secondly, it is also a good strategy to approximate organizational learning by examining the learning of individual senior managers, due to their significant influence on strategic issues (Garratt, 1987). Thirdly, the learning of key

individuals in organizational learning, like ‘boundary spanners’ (Michael, 1973) and ‘technological gatekeepers’ (Allen, 1977), is the door to understanding organizational learning. Besides admitting the importance of individual learning in organizational learning, these studies also imply that certain individuals may be more important in organizational learning. However, the questions as to who are the important individuals in organizational learning and how and why these individuals become key individuals in organizational learning are still left without satisfying answers.

Other researchers (Argyris, 1990, 1992, 1996; Argyris and Schon, 1978, 1996; Kolb, 1984, 1996; Nonaka, 1994, 1996; Senge, 1990, 1994) have also examined the individual learning process and developed theories. Among them, Argyris (1990, 1992, and 1996) treats learning as the shift from one type of theory-in-use to another type of theory-in-use. He introduced two concepts – single-loop learning and double-loop learning – to account for learning happening on different levels. According to the same logic, Senge (1990, 1994) uses ‘the ladder of inference’ to describe the individual learning process, and shows the way individuals take to reach double-loop learning. In his model, seven stages are identified – observing data, selecting data, adding meaning, making assumptions, drawing conclusions, adopting beliefs and, finally, taking actions. Kolb (1984, 1996) provides an experiential learning model, in which individuals learn from concrete experience through observation and reflection. Four abilities are required for efficient learners – concrete experience, reflective observation, abstract conceptualization and active experimentation.

Based on these studies, three characteristics of individual learning can be easily identified. First, individual learning happens on two levels – the conceptual level (know-why) and the operational level (know-how). Although different names are employed by researchers to show the learning process, they all agree with this opinion. In the learning models introduced above, there are clear conceptualization processes, like double-loop learning (Argyris, 1990, 1992, and 1996), belief adoption (Senge, 1990 and 1994), and abstract conceptualization (Kolb, 1984 and 1996), which explain

the learning of know-why. Active experimentation (Kolb, 1984 and 1996) and taking actions (Senge, 1990 and 1994) show learning on the operational level. Another common feature of these models is the experiential characteristic of the individual learning process. All the learning models introduced above have the process ingredients of observing, generalization and testing. What the learner experiences is normally the beginning of a learning process. Experiential learning theories best incorporate individual learning at the conceptual level and the operational level, and accord with this notion. Finally, all the individual learning models discussed above show clear interaction between learners' mental models and their experience. The process of adapting mental models to experience ('accommodation' – Piaget (1972)) can be found in the processes of belief adoption and justification. The process of integrating experience into mental models ('assimilation' – Piaget (1972)) can be found in the processes of adding meaning and conceptualization. Furthermore, these two processes do not occur in sequence but are interwoven. Thus, employees learn to adapt to the changing environment during strategic change. Their learning happens on both the conceptual level and the operational level. Their new experience during change constitutes another important resource for learning. The interaction between their mental models and experiences develops meaningful knowledge assets for them and the organization as well. However, although there is wide agreement on these three characteristics of individual learning and identifying mental and action changes as two major learning results, researchers have not taken the next step: connecting individual mental and behavioural changes to organizational learning. The next question to answer is how do individual mental and action changes influence organizational learning?

### **2.2.1.1.3. Collective Learning**

Collective learning is argued to be not just the simple sum of organizational members' learning. There are three arguments supporting this opinion. Firstly, 'Members come and go, and leadership changes, but organizations' memories preserve certain behaviours, mental maps, norms and values over time' (Hedberg, 1981: 6). Secondly,

the learning systems developed and maintained by organizations influence their members and can be transmitted through their history or norms (Fiol and Lyles, 1985). Finally, as Cummings and Worley (1997) highlight, individual learning does not necessarily result in organizational learning. This means that, although individual learning is the basis of organizational learning, organizational learning is more than individual learning.

Some researchers focusing on analysis on the organizational level examine the organizational learning process without very much linkage to individual learning. Organizational learning in Hedberg's (1981) research is the development of new norms, mental maps and behaviours enabling more effective performance and better commitment, and is concerned with the organization's culture, vision and value. He discusses how organizations learn, given that learning cycles are complete and incomplete, and the interaction of organizations with their inner and external environments. Similarly, the organizational learning process Daft and Weick (1984) describe is an interpretation process, consisting of three behavioural stages – scanning, interpretation and learning. These organizational learning models were developed by borrowing ingredients of individual learning theories, but without paying too much attention to individual learning. Excluding analysis on the individual level resulted in the incomplete understanding of organizational learning. Studies focusing on organizational learning did provide important insights into the establishment of learning organization and were able to produce valuable practical suggestions for managers, like the establishment of learning culture and the design of organizational learning systems. However, the effectiveness of implementing any of these practical suggestions could not be guaranteed without considering learning individuals' interests. It was highly unwise to make the assumption that learning individuals would be reactive rather than proactive in practice. Thus, it is also necessary to study the links between organizational learning and individual learning in order to provide more of a rationale for and to successfully apply these practical suggestions.

Recently, learning researchers have begun to pay attention to a new unit of analysis – communities of practice (Wenger, 2000) – and a new approach to learning – the cultural approach (Yanow, 2000). ‘Community of Practice are groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly’ (Wenger, <http://www.ewenger.com>). Knowing is argued to be ‘an act of participation in complex ‘social learning systems’’ (Wenger, 2000: 226). Yanow (2000) highlights that a cultural approach to learning can help us understand ‘what is meaningful to actors engaged in organizational learning activities’ (p. 248). Both of them can be seen as the advocates of situational learning. According to this view, the places where learning happens are social interactions between people instead of the heads of individuals or organizational systems. This challenges traditional learning models in which learners are always assumed to be individual actors modifying their mental models by information processing. The emergence of these new studies opens ‘unexplored ways to understand the process through which identities, artefacts, ideologies, rules, language, morality and interests are woven together and affect each other in the process of collective learning’ (Easterby-Smith, Crossan and Nicolini, 2000: 788). However, as with any new idea, several issues, for example, ‘the interaction of power and politics with organizational learning processes’ (Easterby-Smith, Crossan and Nicolini, 2000: 788), require to be clarified first.

#### **2.2.1.1.4. Links between Individual Learning and Organizational Learning**

Some researchers have examined learning processes as they occur by linking the individual and organizational learning processes (Crossan, Lane & White, 1999; Kim, 1993; March & Olsen, 1975; Nonaka, 1994). In March and Olsen’s (1975) study, there is a clear split between individual action and organizational action. The completion of organizational learning process depends on the fluent proceeding from individual beliefs to individual action, further organizational action, environmental response and individual beliefs again. The connection between individual action and organizational

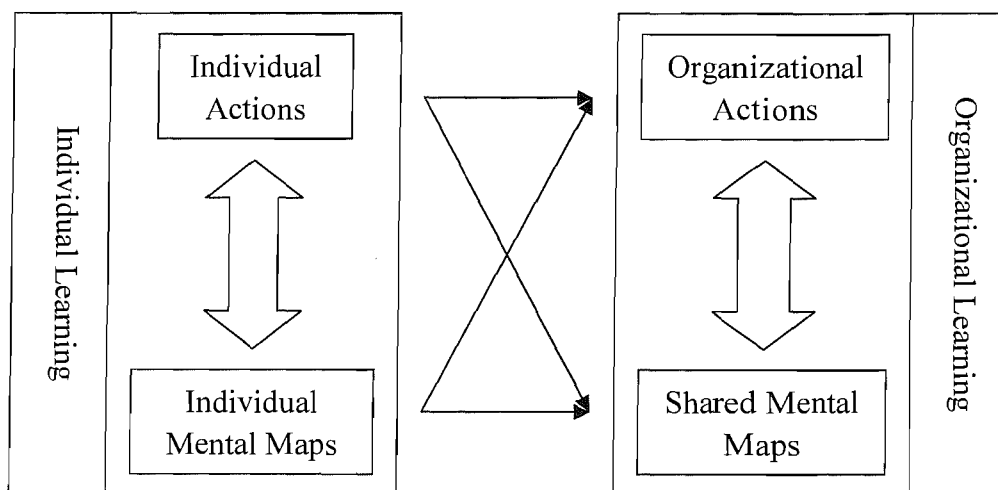
action seems to be the critical point bridging the two levels of learning. Kim (1993), on the other hand, presents an integrated model of organizational learning and argues that ‘the cycles of individual learning affect learning at the organizational level through their influence on the organization’s shared mental models’ (p. 43). However, unlike the comparatively detailed description of individual learning behaviours (observe, assess, design and implement) supporting the individual learning process in this integrated framework, the organizational learning behaviours supporting organizational double-loop learning are missing. This inevitably makes it more difficult to understand the influence process of individual learning on organizational shared mental models. Thus, the question as to how individual learning is linked to organizational learning is still left without a satisfying answer.

Some clues can be found in Crossan, Land and White (1999) and Nonaka’s (1994) studies. Crossan, Land and White (1999) view organizational learning as a dynamic process and propose a 4I (intuiting, interpreting, integrating and institutionalizing) model to describe the processes involved within and across levels. Among these four processes, integrating and institutionalizing contribute to the development of shared mental models. Integrating is ‘through the continuing conversation among members of the community and through shared practice (Seely-Brown & Duguid, 1991) that shared understanding or collective mind (Weick & Roberts, 1993) develops and mutual adjustment and negotiated action (Simons, 1991) take place’ (528). Institutionalizing ‘sets organizational learning apart from individual or ad hoc group learning’ (529). In addition, Nonaka (1994) discusses a spiral knowledge creation process – combination, internalization, socialization and externalization – covering individual, group, organization and even inter-organization levels. An organizational knowledge creation process is also developed. Five behaviours – enlarging individual knowledge, sharing tacit knowledge, conceptualization and crystallization, justification and networking knowledge – are identified as creating organizational knowledge from individual knowledge. However, these developed theories require either more practical evidence

to support them (Crossan, Land & White, 1999) or to be tested in different context settings to expand further.

Instead of arguing which link is the correct one, it seems more practical to admit that individual learning is reflected in individual actions and that mental models can influence both organizational actions and shared mental models (shown in Figure 2.2). Thus, enough space is reserved to explore further the links between individual learning and organizational learning. In order to examine these links, it is necessary to answer a series of questions, like ‘how individual actions influence organizational actions and shared mental maps’ and ‘how individual mental maps influence shared mental maps and organizational actions’.

**Figure 2.2: Links between Individual Learning and Organizational Learning**



### 2.2.1.2. Learning Behaviours

From Huber’s (1994) definition of learning, three information processing behaviours – acquisition, distribution and interpretation – are identified as integrally linked to learning. These three learning behaviours are applied to learning on both individual and collective levels. In studies on strategic change from the learning perspective, each of these three learning behaviours can become the study focus (Daft and Weick, 1984; Davenport and Prusak, 1998; Marsick and Watkins, 1990). Next, the researcher will



discuss these three learning behaviours: knowledge acquisition, distribution and interpretation.

### **2.2.1.2.1. Knowledge Acquisition**

Knowledge acquisition deals with the process of acquiring knowledge or information (Huber, 1991). In the literature of knowledge acquisition, researchers focusing on individual learning mainly study individuals' means of acquiring knowledge or information. In comparison, researchers focusing on organizational learning study more the acquisition of information and knowledge from the external environment. Unlearning, as a required process for organizations to acquire new knowledge (Hedberg, 1981), is another study focus for organizational learning researchers.

Studies on the means of individual knowledge acquisition can be classified into two categories: formal learning and informal learning<sup>2</sup> (Marsick and Watkins, 1990). Marsick and Watkins (1990) argue that informal learning happens more widely in organizations. Learning is argued to grow out of everyday encounters while working and living in a given context. Furthermore, since informal learning 'occurs in situations but is not typically classroom based or highly structured' (p. 12) and is controlled by 'the hands of the learner' (p. 12), the management of individual informal learning becomes a necessary but demanding task in strategic change. Marsick and Watkins's (1990) arguments on knowledge acquisition are in accordance with Kolb's (1984, 1996) experimental learning model. These arguments also partially support the recent growing interest in the role of 'communities of practice' (Brown and Duguid, 1991; Wenger, 1996) in learning, which imply a practice-based view of learning (Gherardi, 1999 and 2000). The practice-based view of learning argues that learning, which originates from practice, is a collective accomplishment rather than a cognitive process in people's heads. This view challenges the traditional view of learning as acquisition of 'given'

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<sup>2</sup> Marsick and Watkins (1990) also mention incidental learning. Incidental learning is treated as the 'byproduct of some other activity such as task accomplishment, interpersonal interaction, sensing the organizational culture or trial and error experimentation' (p. 7). Since informal learning may include incidental learning, the researcher will employ informal learning to refer to both learning types in the following sections.

knowledge (Antonacopoulou, Ferdinand, Graca and Easterby-Smith, 2005). However, although this practice-based view opens another door to the understanding of learning, its practical implications still await further exploration.

In studies on knowledge acquisition on the organizational level, a series of terms are used to represent the process. Here are some samples: information gathering (Simon, 1994; Yetton, Johnston & Craig, 1994), environment scan, active environment monitor (Gersick, 1994), comprehensive search (Cyert & March, 1963; Lant & Mezias, 1992; Nelson & Winter, 1982), grafting and proactive shaping environment (Gersick, 1994; Meyer, Geoffrey & Goes, 1990). Although these actions have been differently named, they all constitute the behaviours of organizations in understanding or enacting their environments and are based on individual information / knowledge acquisition activities. Particularly, Hedberg (1981) discusses an unlearning process, 'a process through which learners discard knowledge' (p. 18). This unlearning process is argued to make way for organizations to acquire new knowledge. In addition, Hedberg (1981) also admits that 'organizations learn and unlearn via their members' and that 'very little is known about how organizational unlearning differs from that of individuals.' Apparently, these studies try to explain organizational learning through borrowing from and modifying individual learning theories. These studies pay more attention to the mechanical or technical analysis of means of information acquisition without fully considering the factors that might explain the differences between individual and organizational knowledge acquisition, for example, the different importance of organization members in organizational knowledge acquisition. The examination of these factors will help the researcher to answer questions that have more meaning for managerial practices, for example, how can an organization identify the important knowledge acquisition points so as to support acquisition behaviour and make good use of the new information? The present research is designed to make contributions to this area.

### **2.2.1.2.2. Information Distribution**

Information distribution is ‘the process by which information from different sources is shared and thereby leads to new information or understanding’ (Huber, 1991: 90). It facilitates the development of new knowledge by combining information held in different people’s brains, and broadens organizational learning by widely distributing individual knowledge in organizations. Both the occurrence and the breadth of organizational learning are determined by knowledge distribution (Huber, 1991). The existing literature examines knowledge sharing and transfer on both the individual level (intra-organizational) and the organizational level (inter-organizational).

The existing research on knowledge distribution can be categorized into three areas – motives of knowledge distribution, means of knowledge distribution, and distortion in knowledge distribution. The studies in these three areas collectively explain the process of knowledge distribution and contribute to developing a number of propositions about the knowledge distribution process (Huber, 1982; Huber, 1991; Huber & Daft, 1987). These propositions include: (a) that the probability of A’s information distribution to B is positively related to the information’s relevance to B; (b) B’s power and status; (c) that A’s rewards and the recent frequency of distribution are negatively related to A’s distribution costs, workload and penalty; (d) that the delay of A’s information distribution to B is positively related to A’s workload and the number of sequential links in the communication chain, and negatively related to the timeliness of the information for B; and (e) that distortion is positively related to the consequent increase in A’s goal attainment, the amount of discretion allowed in presentation, the difference between the actual and the desired information, A’s workload and the number of links in the communication chain, and negatively related to the penalty incurred. A full presentation table of these propositions can be seen in Huber’s (1991: 101) study.

Studies on the motives of information distribution mainly examine individuals’ decision-making process of knowledge distribution. Since knowledge is an increasingly

important competitive advantage for employees, 'motivation is a crucial precondition for knowledge sharing' (Wah, Menkhoff, Loh & Evers, 2005: 3). It is argued that distributors decide to distribute knowledge based on their expectation of the benefits and the costs incurred. The benefits include rewards, perceived reputation attached, and knowledge in return (Davenport, De-Long and Beers, 1998; O'Reilly and Pondy, 1980). Moreover, context and personal compatibility are also found to be positively related to knowledge distribution behaviour (Huang & Wang, 2002). Furthermore, the costs of withholding knowledge can also be seen as a special benefit of distributing knowledge, and as encouraging knowledge distribution, though involuntarily (Knights, Murray & Willmott, 1993).

Successful knowledge distribution also depends on the means of distribution. Current studies on means of information distribution focus on two areas: formal and informal. Formal distribution means include training programmes, structured working teams and technological systems (Wah, Menkhoff, Loh & Evers, 2005). Stinchcombe (1990) developed a simple but effective communication process model. He identifies six elements of communication – a source, a transmitter, a channel, a receiver, a destination and noise. Szulanski (1996) finds that the major barriers to internal knowledge transfer are 'knowledge related factors such as the recipient's lack of absorptive capacity, causal ambiguity, and an arduous relationship between the resource and the recipient' (p. 27) rather than motivational factors. From a technological perspective, researchers also argue that information and communication technology enhance knowledge distribution through lowering barriers and providing access (Hendriks, 1999; Ruggles, 1997).

Knowledge can also be distributed informally through interpersonal relationships and social networks (Wah, Menkhoff, Loh & Evers, 2005). Tsai and Ghoshal (1998) argue that social interaction and trust are 'significantly related to the extent of inter-unit resource exchange, which in turn [have] a significant effect on product innovation' (p. 464). Hansen (1999) further differentiates two kinds of inter-unit ties – weak ties and strong ties – and finds that weak inter-unit ties help a project team to search for useful

knowledge in other sub-units but impede the transfer of complex knowledge to other sub-units, which requires strong inter-unit ties. These studies highlight the importance of relationship and social capital for knowledge share and transfer, but still treat knowledge as having a separate existence; thus, they can be positioned between traditional mechanical knowledge distribution theories and the practical view of organizational learning.

Researchers have also paid attention to the distortion of information during information transfer. It is argued that knowledge distributors may seek self-interest while distributing knowledge. Goffman (1969) provides an example of information manipulation and intention misrepresentation by using false or empty threats or promises. These opportunist behaviours may be unpredictable. These opportunist behaviours are analysed together with transaction costs and can be treated as the allowance for knowledge distribution.

However, despite the great number of studies on knowledge distribution, there is still a limit – failure to integrate motives, means and contents and to provide a complete picture of information distribution. Most current studies focus on only one aspect of information distribution; thus, several blanks remain. For example, is there any preferred means of distribution for a specific distribution motive, and if so why? Does information distortion happen more often with one distribution motive and means than others, how and why? The present research is designed to integrate the three constituents of information distribution, motives, means and contents, and to fill in these blanks.

### **2.2.1.2.3. Information Interpretation**

‘Information interpretation is the process by which distributed information is given one or more commonly understood interpretations’ (Huber, 1991: 90). Studies on information interpretation have mainly adopted a cognitive perspective. Five factors are summarized by Huber (1991) as determinants of information interpretation – the

uniformity of prior cognitive maps, the uniformity of framing, the richness of the media, the information load and the amount of unlearning. Individuals' prior cognitive maps (mental models) are argued to shape their information interpretation. This is one of the reasons why different units may have different interpretations for the same information in an organization. Media richness decides the extent of meaning-giving. Information overload influences the effectiveness of interpretation. Finally, unlearning prepares individuals for learning. It is argued that more learning will occur when more and more varied interpretations are developed and more of the organization's units understand the nature of the varied interpretations held by other units, and that these two situations change the range of the organization's potential behaviours (Huber, 1991).

In the information interpretation literature, researchers equate organizational learning with an interpretation process or the development process of shared interpretation. Daft and Weick (1984) describe organizational learning as an interpretation process, consisting of three behavioural stages – scanning, interpretation and learning. Bartunek (1984) and Milliken (1990) examine shared interpretation and make the assertion that environments, leaders, resource dependence and organizational characteristics determine the development of shared interpretation. Isabella (1990) directly connects interpretation to organizational change. She builds a model of how managers construe organizational events from the cognitive perspective as change unfolds. Four stages of interpretation – anticipation, confirmation, culmination and aftermath – are defined and linked to the change process. At the same time, Isabella (1990) also identifies four interpretive tasks – assembly, standardization, reconstruction and evaluation – and four predominant reference frames – in-progress, conventional, amended and evaluative – in four interpretive stages. Information interpretation is thus closely linked to change. However, these studies either only focus on one of two analysis levels – individual interpretation behaviour and the development of shared interpretation – or neglect the links between individual interpretation and shared interpretation. The shortcoming is the exclusion of information distribution from information interpretation studies. Therefore, the question of how individual interpretation influences shared interpretation

is left without a satisfying answer. The present research combines information interpretation with information distribution and aims to provide the answer to this question.

### **2.2.2. Power and Strategic Change**

A political perspective is essential in order to gain adequate insight into strategic change (Allison, 1971; Pettigrew 1985). Lewis (2002) conclude that there are four basic assumptions underlying the political change perspective. The first assumption is 'pluralism and the existence of multiple goals' (p. 30). The second is 'resource dependence' (p. 30). It is argued that organizational members seek scarce resources for their own interests. The third assumption is about 'the impracticality of the rational model of decision making' (p. 30). Decision makers are often governed by well-established ideologies, norms, values, short-term considerations and their own interests. There are no optimal strategies. The last assumption is that people will form coalitions in order to control outcomes. These kinds of coalitions happen among those with similar minds in one or more aspects. Similar opinions can also be found in Bolman and Deal's (1997) study, which proposes five organizational characteristics – the coalition characteristics of organization, differences among coalition members, the allocation of scarce resources, power as the most important resource ,and decisions emerging from bargaining (p. 163) – to explain the wide existence of power in organizations. All these studies provide the rationale for and constitute the basis of power studies in the strategic change area.

Based on these propositions, strategic change is treated as a power process by power researchers. Pettigrew (1985) argue that 'the development of strategic change in the firm is seen as a long-term conditioning and influence process designed to establish the dominating legitimacy of a different pattern of relation between strategic content, context, and process' (p. 439). He believes that 'the real problem of strategic change is anchoring new concepts of reality, new issues for attention, new ideas for debate and

resolution, and mobilising concern, energy, and enthusiasm often in an additive and evolutionary fashion to ensure these early illegitimate thoughts gain powerful support and eventually result in contextually appropriate action' (p. 439). It is also argued that strategic change will finally reflect the most powerful participants' interests, mapping the current power structure of the organization, because different interests among participants disturb or distort the intended strategy one step after another. Thus, both strategic decision making and implementation are political (Lewis, 2002; Narayanan and Fahey, 1982). Mintzberg (1983) and Pfeffer (1992) further expand studies on different interest groups from the intra-organization area to the external organizational environment. Further, power can also be used to 'produce more generalized and long-term changes' (Hardy, 1996: S8). Power is argued to bring about change by extending access (Hardy & Redivo, 1994), by legitimizing certain management decisions to make sure of acceptance from organizational members, and by providing energy to drive the organization and its members through the strategic change process (Hardy, 1996). With research on power in strategic change going deeper, researchers' attitudes towards power during the change process have also changed. The use of power is found to lead not only to resistance (Clegg, 1994), but also to a commitment to change (Falbe and Yukl, 1992). To sum up, it is unlikely that change will occur without countervailing power (Knights, 1992). Power is 'an integral part of strategic change' (Hardy, 1996: S6).

Power researchers broke the traditional rational image of strategy as the product of homogenous strategists. Subordinate groups were given positions in strategy decision making and change. Therefore, the roles of individuals in shaping strategy and leading strategic change can be better understood from the power perspective. However, current power studies need to include more factors, like information and knowledge, so as to make further contributions to management theories and practices in the era of information and the knowledge economy. Since information and knowledge are increasingly considered as important power bases (Beer, 1980) and greatly influence



the power structure of organizations, there has been a high demand for researchers to focus on them in their power studies. Next, the definition of power will be clarified.

### **2.2.2.1. The Definition of Power**

The definition of power is ‘as ancient and ubiquitous as any that social theory can boast’ (Dahl, 1957: 201). The big pool of numerous definitions of power (Daft, 2001; Dahl, 1957, 1968; Finkelstein, 1992; Foucault, 1983; Giddens, 1984; Kanter, 1983; Lukes, 1974, 2005; Pfeffer, 1992; Scott, 1992; Weber, 1978; Wehrich and Koontz, 1993) makes it difficult to work with. Power is defined as getting things done (Kanter, 1983; Pfeffer, 1992), as relevant to probability (Dahl, 1957), as one kind of relationship (Foucault, 1983) and as system resources (Giddens, 1984). Furthermore, theoretical studies and practical management both suggest that power can be either positive or negative (French and Bell, 1990), and that, during change, illegitimate politics can often be used to pursue legitimate aims (Mintzberg, Ahlstrand and Lampel, 1998). Thus, a neutral and thorough definition of power has been pursued by the researcher in order to avoid any bias in the first place. Therefore, Lukes’ (1974) definition was adopted in the present research.

Lukes (1974) outlines three dimensions of power. The first dimension is described as the power of A to influence the behaviour of B. The exercise of power is observable. The second dimension of power is shown when A defines the agenda to prevent B from voicing his/her interests in the negotiation and decision-making process. The exercise of power is both overt and covert. The third dimension is the power of A to mould B’s perceptions and preferences. This dimension of power can be observed in the process of socialisation, the control of information, and the control of media. It is argued that the third dimension of power, which shapes the thoughts and desires of people, is the most effective, because it prevents the awareness of possible conflicts, and that the second dimension of power is next most effective, because it prevents conflicts. These three dimensions of power imply the two tensions of power: the tension between obvious and

latent (or surface–deep tension, see Bradshaw (1998)), and the tension between individual and collective (personal–structure or personal–culture tension, see Bradshaw (1998)). The first dimension of power often happens on the individual level and is obvious. The third dimension of power can be discussed on the collective level and is latent. Things become slightly more complex for the second dimension of power. Some kinds of power, like bureaucracy control (Weber, 1958), are collective but can be both obvious and latent. The characteristics of the exercise of power on these two levels are also different: the exercise of individual power being observable and the exercise of organizational power being latent. In the following section, the researcher will first review the literature of power on different levels, and then proceed to the discussion of the exercise of power.

#### **2.2.2.2. Levels of Power**

Power exists and works on multiple levels – individual, group and organization – during strategic change. However, the studies on each level have different focuses. Research on individual power in strategic change mainly focuses on important actors, like senior managers and change agents, and examines how they influence the change process through exercising power. Group power studies examine the exchange and negotiation behaviours of departments or interest groups in the strategic change process. Research on organizational power studies how macro power, like culture, influences individuals' behaviour. Power studies on these three levels explore not only the process of individuals influencing organizations but also the process of organizational settings influencing individual behaviour. Since strategic change is full of the interaction between these two processes, power studies on multiple levels constitute an important part of political organizational change.

### **2.2.2.2.1. Individual Power**

Research on individual power in the organizational change area mainly focuses on managers' power of position and change agents' personal power. Bass (1960) distinguishes these two power bases. Managers' power of position is based on their formal positions in organizations and change processes. Power holders thus have legitimate authority to use it positively or negatively. In comparison, change agents' personal power derives mainly from particular personal ability, skills and experience. A legitimization process may be needed in order to use it successfully.

Discussion on the power of position is often related to top-down change (Boonstra, and Bennebroek Gravenhorst, 1998; Ford, 2006). Senior managers with strong power of position can initiate, lead and control whole change processes without considering too much their subordinates' interests. However, resistance may appear when subordinates realize that their interests are being sacrificed during change. This is the reason why some researchers argue that this approach to change often experiences difficulties in practice (Boonstra and Vink, 1996). The use of power of position is direct and observable most of the time. Power-coercive strategy (Dunphy and Stace, 1988) is the most frequent strategy employed by the holders of power of position. The use of power of position is more frequent when quick action is needed.

Change agents' personal power also plays an important role in the change process whether change is initiated and controlled by senior managers or not. Researchers have different definitions of personal power. Thus, personal power has become a collective name for expert power (French and Raven, 1959), referent power (French and Raven, 1959), charisma power (Bass, 1960), coalition power (Beer, 1980), reputation power (Beer, 1980), group support power (Beer, 1980), resources and knowledge control power (Beer, 1980), information power, tradition power, and so on. It is argued that change agents employ their expert knowledge to assist organizations in analysing and solving problems and exert their influence in strategic change. The means of influence

employed by change agents is mainly the distribution and effective communication of information. The use of personal power is also visible most of the time. Change strategies are mainly empirical and rational. It is often argued that resistance to change can be minimized by effective communication and other members' involvement. This, to a certain extent, counteracts the weakness of the exercise of power of position.

However, the majority of studies on individual power concentrate on senior managers and change agents, and seldom consider other organizational members, like middle managers and lower employees. Furthermore, senior managers' power is always studied in relation to top-down change and hardly examined in other change patterns, like middle-up-down change or bottom-up change. Thus, current studies on individual power are required to expand further on both study objects and context settings.

#### **2.2.2.2.2. Group Power**

In the strategic change area, power studies on the group level mainly deal with department power and other interest group power. Department power is based on the work nature of the department and can change over time (Pfeffer, 1992). Three dimensions are used to determine department power: the ability of department to cope with uncertainty, the substitutability of the department's function, and the centrality of the department in work flow (Hickson, Hinings, Lee, Schneck and Pennings, 1971). However, not all conflicts of interests on the group level happen between departments. Flexible groups exist widely within or across departments during strategic change. The power of these interest groups relies more on the power of group members.

In strategic change, it is argued that the former stable power distribution in the organization is broken up. All the interest groups try to secure their interests and power positions (Kanter, 1993). The exercise of power is a natural choice for interest groups to achieve power or avoid losing power. Negotiation and exchange are the two basic strategies. In addition, group support is also found to be an important personal power base (Beer, 1980). Personal power and group power are interwoven from this point of

the view. Thus, it is possible that individuals can enhance their power to serve their personal interests by employing group power during strategic change. Although studies on group power do include the analysis of individual power, they do not provide enough evidence on the employment of group power by individuals, especially flexible groups. The present research treats group power as one way of exerting influence by individuals and aims to make contributions in this area.

### **2.2.2.2.3. Organizational Power**

Studies on organizational power can be categorized into two areas: bureaucratic control and democratic control. Studies on democratic control can be further divided into two sub-areas: organizational culture and organizational learning. The common characteristics shared by these studies are the involvement of the exercise of latent power and the openness of change: change happening to all organizational members. As Bradshaw (1998) argues, power also resides ‘in the more latent or subtle and unobtrusive operation of language, symbols, myths, and other meaning-making activities’ (p. 123).

Earlier organizational power studies were about bureaucratic control (Weber, 1958). Weber (1958) names the inevitable and rational power of bureaucracy an ‘iron cage’ (p. 180-181). Kalberg (1980) discusses Weber’s type of rationality, and argues that people desire organizational order and predictability, tend to over-focus on the rationality of the rules, and make decisions according to them instead of people. Bureaucracy becomes ‘the means of transforming social actions into rationally organized action’ (Weber, 1978: 987). It controls organizational members by shaping their knowledge about the right way to act and interact in the organization (Barker, 1993: 411). Bureaucracy power is so powerful that individual organizational members cannot free themselves from it. Apparently, the power of bureaucracy rests in the system, which is impersonal (Barker, 1993).

In a more democratic system, culture constitutes a dimension of power (Lukes, 1974). Cultural power is one of the capabilities for shaping reality and performing actions without employing explicit power. This kind of power is regarded as natural, neutral and legitimate (Deetz, 1986), and rests in language use (Alvesson, 1996). Thus, it is also unconscious. Pettigrew (1977) calls it the management of meaning. In the management of meaning, agreement with the existing system of those influenced is intentionally made. The compliance of employees is achieved by creating a favourable future situation and putting aside unfavourable situations. Attention is drawn to positive effects and negative effects are concealed. Therefore, one party can influence the attitudes of other parties during change processes. The critical requirement for success is keeping all these methods secret. Barker (1993) examines 'concertive control' (p. 411). Compared with its precedent, bureaucratic control, concertive control emerges from the concertive, value-based actions of organizational members rather than from rational rules and hierarchy (Barker, 1993: 411). Thus, concertive control functions through cognition and is also impersonal. However, cultural power may go beyond intentional management control.

Another organizational level analysis concerns organizational learning, emphasizing participative design (Greiner and Schein, 1988), and dialogue (Schein, 1995). Greiner and Schein (1988) examined an educational process that encouraged participants to work together to make decisions on their own development. All potential participants were endowed with the opportunities of initiating and maintaining dialogues on all change issues. It is argued that this participative design could benefit the decision-making process and the achievement of organizational improvements. Alvesson and Deetz (1996) highlight the meanings of open and free dialogue. They argue that knowledge has the power to counteract domination by evaluating various viewpoints and arguments in dialogue. Schein (1995) also supports this view, and discusses how communication facilitates the development of a shared set of norms, values and languages to understand events occurring during the change process. Power is thus closely related to communication and further organizational learning.

These studies provide a rationale for the choice of designing and establishing organizational culture and a learning system to facilitate change. However, it is problematic to assume that individuals are always reactive when adopting these methods, especially in the era of the knowledge economy and democratic organizations. Thus, studies on organizational power still need to include the analysis of individual power.

### **2.2.2.3. Exercise of Power**

Schein (1977) discusses how individual power-related behaviours can be categorized into three areas: the bases of individual power, the intent of the power holder and the means of the exercise of power. Power bases are the resources from which power is derived. The intent of power holders is examined to answer the question 'why was power exercised'. Power means are defined as 'the mediating activity by A between A's base and B's response' (Dahl, 1957: 203); thus it would answer the question 'how was power exercised'. Although organizational power studies may concentrate on power means rather than on the other two, this conceptual scheme has still been useful for the researcher to thoroughly examine the exercise of power in strategic change.

#### **2.2.2.3.1. Power Bases**

As mentioned in the discussion on individual power, the strategic change process involves power based on different power resources. Those most frequently examined are power of position and personal power. Power of position is based on 'reward', 'coercion' and 'legitimacy' (French and Raven, 1959). Reward and coercive power rely on others believing that the power holders can provide them with desired rewards or punish them. An individual can exercise legitimate power when others believe that he or she has a legitimate right to exert influence over them. Senior managers' reward and coercive power is their most important power base in an organization. Change agents often hold legitimate power during the change process. These power bases are

legitimate and can authorize power holders to participate in strategic decision making and implementation. However, the use of reward and coercive power often induces superficial changes rather than changes in the beliefs, attitudes or values of influence targets. Public compliance will depend on power holders' continuing exercise of power. In comparison, legitimate power can easily lead to private acceptance within the influence target.

Change agents' personal power is more related to their abilities, skills and experiences, which further determine their ability to influence (Boonstra and Bennebroek Gravenhorst, 1998). These personal power bases include 'expertise', 'reference' and 'information' (French and Raven, 1959). Expert power relies on the influence target's perception of the change agents' expertise or knowledge in one or more areas. Reference power depends on the target's identification with the change agents. As with legitimate power, these two power bases also lead to private acceptance. Information power is argued to be the only power basis that leads to cognitive change in the influence target, and this kind of change can be sustained without continuous social dependence on influencing agents (Munduate and Gravenhorst, 2003). As an attempt to define individual power bases, Morgan (1997) provides a list of the most important sources of power, which include formal authority, control of scarce resources, decision processes, knowledge and information, and so on. Since there are different lists of personal power bases in different contexts (Hardy and Clegg, 1996), it is unlikely that there can be a complete one.

Recently, Raven (1992) extended traditional studies on power bases to an interaction model of interpersonal influence. Compared with the traditional static classification of power bases, this interaction model provides an important dynamic view of power. It considers change agents as rational decision makers in choosing a power base and takes influence effects other than public compliance and private acceptance into consideration. Further, it also admits that influencers can change when they try to influence others. This dynamic view of power can be seen as an attempt to include



power intent and exercise in traditional power studies. As this view highlights, the possession of power bases on their own is not enough for power holders to efficiently exert influence in the strategic change process. Power intent and means are the other two important constituents of the exercise of power.

### **2.2.2.3.2. Power Intent**

Power intent provides the motives behind power holders' power behaviours. It is 'a meaningful way to understand and clarify different types of power related behaviours' (Schein, 1977). If an organization is treated as a political system (Morgan, 1997), individuals have their own interests – 'propositions embracing goals, values, desires, expectations and other orientations and inclinations that lead a person to act in one way rather than another' (Morgan, 1997: 161). Morgan (1997) proposes a model consisting of three interconnected domains – task interests, career interests and extramural interests – to analyse interests in organizations. Task interests are connected with work. Career interests reflect aspirations and visions of the future. However, extramural interests are mainly influenced by personalities, values and beliefs. Three domains are argued to 'interact and also remain separate' (Morgan, 1997: 162); thus they may coincide, be compatible, mutually unrelated or even contradictory. For individuals, their behaviours are oriented by the combination of these interests. Since organizations can also be seen as loose networks of people with divergent interests, they are 'coalitions and made up of coalitions' (Morgan, 1997: 166). It can be assumed that strategic change decisions are also the results of these coalitions.

One point to mention is that individual power intents are not necessarily accordant with organizational ones during the strategic change process. Organizations have goals for their change plans. Individual power holders also have their own individual goals, which may be different from organizational ones. Thus, it is important for individual power holders to legitimize their power behaviours governed by individual goals that are incongruent with organizational goals during the change process. Besides, it is also

necessary to study the links between the motives for the exercise of individual power and organizational goals and answer the question: how do individuals' power motives influence the establishment and realization of organizational goals? More studies of practice are required in these areas.

### **2.2.2.3.3. Power Means**

Power has the long recognized characteristic of action. It is argued that power exists through its effective exercise and always involves an action. Means are seen as 'strategic manoeuvres based on the kinds of resources available to the power holder and the desired outcome' (Schein, 1977: 67), and thus can 'be linked to both power bases and power intents' (Schein, 1977): power means being the function of the current power bases and power intents deciding the nature of power means. The current literature of power means concentrates on two dimensions. One dimension is physically obvious power means and symbolic communicative power means. The other dimension is about the direction of influence: from mental maps to actions or vice versa.

As an integrated component of employing power resources to attain desired outcomes, power actions are diverse. However, there are certain criteria – consequentiality, commitment, irreversibility, frequency, subtlety and recursivity – by which to judge them. Some power actions are more immediately stronger and more observable than others. These actions can be categorized as physically obvious power means, like senior managers forcing lower managers to finish a project in a certain way or quit their jobs. However, some power actions may also be symbolic actions or signals performed as communication – 'types of information flow which symbolizes non-self-regarding action for the recipient' and 'a specific mode (or signal) of communication' (Martin, 1977). This kind of power exercise is a symbolic communicative power means. Leirvik (2005) examines the use of dialogue for participatory change and proposes a dialogue or communicative perspective of organizational change. He argues that power is not only about who won and lost but also about who and which issues were left out of the

debate. The creation of dialogues helps include more voices and perspectives, and further develops a better understanding of reality. This dialogue perspective is closely related to participant design (Pateman, 1970) and highlights the importance of full participation in influencing actions and results. The importance of talk can also be found in a discursive-oriented view of change (Francis, 2002). Francis (2002) examines an HRM-based change process and highlights the power of talk for managers to persuade employees to accept a particular view of organizational change. Compared with the communicative perspective of change, the discursive-oriented view of change is established based on the assumptions that people actively construct reality and that language is central to the social construction process. Thus, the discursive-oriented view of change is more related to the management of meaning. Although communication, as an important means of the exercise of power, is highlighted by both views, the mechanisms embedded in these two perspectives are different: the communicative view of change pays more attention to the influence of communication on expanding the width of strategic change, and the recursive view of change pays more attention to the influence depth of strategic change. The research results in these areas are mainly employed in the design of organizational communication systems, which scholars believe will benefit organizational change efficiency. In comparison, the use of communication by individuals to enhance individual power has been less explored.

There are also two directions in which to exert power. First, since 'truth isn't outside power' (Foucault, 1983: 49), the mental model with a power inheritance provides meanings for or legitimizes power actions. Specific power actions are guided by the mental model. This is the characteristic of the exercise of organizational power. Secondly, many power actions collectively create the formation of the mental model. Sense-making and cognitive processing are two examples. This is the case of the exercise of individual power. These two ways of exercising power are interwoven and interlocked with each other to create the activity of carrying action and interpretation

simultaneously. Thus, the successful exercise of power can reinforce the supported mental model and further reinforce power resources.

However, although researchers emphasize that power means are better understood combined with power bases and exercise intents, there are still few studies focusing on the relationships among power means, power bases and exercise intents. Questions such as which kind of power prefers communication as an exercise means and how communication reinforces the power base are still left without satisfying answers.

### **2.3. Middle Managers in Strategic Change**

Middle managers are ‘those below the small group of top strategic managers and above first-level supervision’ (Dopson, Risk & Stewart, 1992: 40). Although the definition of middle managers in management research becomes narrower or wider with economic changes, one thing that has never been questioned is that middle management is ‘a hierarchy of authority between the operating core and the apex’ (Mintzberg, 1989: 98). Earlier studies often treated middle managers as the resistance to radical change (Biggart, 1977). This is more or less related to the overwhelming results of studies on planned change in the strategic change area. With more and more perspectives emerging, the literature on middle managers has begun to document their positive contributions to change. Among these studies, organizational learning and power studies are two important perspectives. A simple summary of studies on middle managers in strategic change from these two perspectives is provided in Table 2.1. A detailed discussion will be provided following the summary.

**Table 2.1 Research on Middle Managers in Strategic Change**

<b>Research on Middle Managers in Strategic Change</b>	<b>Middle Managers' Roles in Strategic Change</b>	<b>Factors Influencing Middle Managers' Roles in Strategic Change</b>	<b>Influence Direction</b>	<b>Perspectives Adopted by the Researchers</b>
<b>Balogun (2003)</b>	Change intermediaries: undertaking personal change, helping others, keeping business going and implementing organizational change; interpretation as the key middle manager task	Informal processes of communication; organizational constraints: lack of appreciation of the true nature of the middle managers' roles, lack of support and time	Links with senior managers, and their teams	Sense-making
<b>Balogun and Johnson (2004)</b>	Shaping change without senior management by moving from shared though clustered sense-making to shared but differentiated sense-making		Lateral	Sense-making
<b>Bower (1970)</b>	Filter information and evaluate choices before the strategic decisions get to the top levels		Upwards	Information distribution
<b>Burgelman (1983)</b>	Linking successful autonomous strategic behaviour at the operational level with the corporate concept of strategy		Lateral	
<b>Currie (1999)</b>	Change purveyors and recipients	Financial constrains, centre-periphery relationships	Upward and downward	Processual literature and Floyd and Wooldridge's (1992) typology
<b>Currie and Procter (2005)</b>	Role transition, role conflict and ambiguity	The expectations of key stakeholders; socialization process, which values incoming identity and personal characteristics	Upward and downward	Role theory
<b>Dutton and Ashford (1993)</b>	Issue selling	17 groups of propositions covering issue selling initiation, packaging, process and channels	Upward	Social problem theory, impression management and upward influence
<b>Dutton, Ashford, Wierba, O'Neil and Hayes (1997)</b>	Read the context before selling to create strategic context	Social context, assessment of change in contextual conditions, supportive	Upward	Impression management and upward influence

<b>Dutton, Ashford, O'Neil and Lawrence (2001)</b>	Issue selling		Upward	
<b>Floyd and Wooldridge (1992)</b>	Championing alternatives, facilitating adaptability, synthesizing information and implementing deliberate strategy	Strategic type	Upward and downward	
<b>Floyd and Wooldridge (1997)</b>	Boundary spanning	Middle managers' formal positions; the differences in sub-unit orientation towards the external environment and towards the current strategic agenda	Upward and downward	
<b>Huy (2001)</b>	Good entrepreneurial ideas; leveraging the informal networks; maintaining the transformation's momentum; managing tension between continuity and change		Upward and downward	
<b>Huy (2002)</b>	Emotional balancing and facilitating organizational adaptation: emotionally committing to personally championed change projects and attending to recipients' emotions	Bureaucratic organization, individual differences, position	Work group	Emotional balancing
<b>Nonaka (1988)</b>	Combining macro and micro information, creating unified vision, synthesizing tacit knowledge of both frontline and top managers, mobilizing knowledge	Hypertext organization	Middle-up-down	Knowledge creation
<b>Nonaka (1994)</b>	Middle-up-down management		Middle-up-down	Knowledge creation
<b>Nonaka, Toyama and Konno (2000)</b>	Knowledge producers: energising 'ba'	SECI, 'ba' and leadership	Middle-up-down	Knowledge creation
<b>Rouleau (2005)</b>	Interpreting and selling strategic change at the organizational interface through four micro practices of strategic sense-making and sense-giving: translating the orientation, overcoding the strategy, disciplining the client, and justifying the change	Social interactions and contexts	Downward	Micro practice of sense-making and sense-giving
<b>Schilit (1987)</b>	Influencing their supervisors in strategic decisions	The years working with supervisors; organization ownership; types of decisions; the stage: during implementation or decision making	Upward	

### **2.3.1. Middle Managers in Strategic Change from the Learning Perspective**

Although it has been argued that middle managers would not exist in the era of the knowledge economy (Rabin, 1999), there are still many researchers (Delmestri and Walgenbach, 2005; Nonaka, 1988, 1994; Nonaka and Takeuchi, 1995) who believe that middle managers will still be able to keep an essential role in organizational learning. In the comparative analysis of middle managers done by Delmestri and Walgenbach (2005), middle managers are responsible for handling exceptions and solving unexpected problems. Middle managers are also responsible for leading people and maintaining a positive social environment. Nonaka (1988 and 1994) also argues that middle managers stimulate development, promote learning and increase the ability of members to respond to change. Middle managers are argued to influence organizational change by producing knowledge (Nonaka, Toyama and Konno, 2000), distributing information (Bower, 1970) and interpreting information (Balogun, 2003; Dutton & Jackson, 1987; Rouleau, 2005).

Middle managers as knowledge producers are highlighted by Nonaka, Toyama and Konno (2000): middle managers are able to lead a dynamic knowledge-creating process. In their research, 'a model of knowledge creation consisting of three elements: (i) the SECI process, knowledge creation through the conversion of tacit and explicit knowledge; (ii) 'ba', the shared context for knowledge creation; and (iii) knowledge assets, the inputs, outputs and moderators of the knowledge-creating process' (p. 5) is proposed. It is crucial that middle managers are 'at the intersection of the vertical and horizontal flows of information in the company and actively interacted with others to create knowledge by participating in and leading 'ba'' (p. 22). Middle managers behave as a bridge between 'the visionary ideals' (p. 24) of top managers and 'the chaotic reality' (p. 24) of lower employees to 'break down the values and visions created by the top into concepts and images that guide the

knowledge-creating process with vitality and direction' (p. 24). They are 'knowledge producers' (p. 24) who remake reality according to vision. Thus, middle managers, knowledge producers with an important role in energising 'ba', are at the centre of the dynamic knowledge-creation process.

Middle managers are also argued to be able to influence the strategic change process through information distribution and interpretation. Bower (1970) finds that middle managers can filter information and evaluate choices before strategic decisions get to the top levels. As a result, senior managers have comparatively narrower choices when they are making decisions. Dutton and Jackson (1987) argue that middle managers interpret ambiguous, diverse data related to the strategic situation, frame the perceptions of other managers, and change the strategic agenda. Balogun (2003) also finds that interpretation is the key middle-manager task. Middle managers' interpretation, as part of undertaking personal change, is argued to influence 'not only the changes they try to adopt themselves, but also what changes they encourage their teams to undertake, how they keep the business running, and what changes they implement in their departments and how' (79). Balogun and Johnson (2004) also examine the role of middle managers in change from the perspective of 'sense-making'. After the presentation of 'a 'replacement' pattern of schema development in which middle managers moved from shared through clustered sense-making to shared but differentiated sense-making' (p. 523), they conclude that middle managers play a significant role through lateral interaction in shaping change without senior management. From a more micro view, Rouleau (2005) argues that middle managers interpret and sell strategic change at the organizational interface through 'four micro practices of strategic sense-making and sense-giving: translating the orientation, overcoding the strategy, disciplining the client, and justifying the change' (p. 1413).

Nonaka, Toyama and Konno's (2000) study on middle managers' role as knowledge producer is closely related to Japanese company culture. Further studies, especially practical ones, are required to further develop their theories in other cultural settings.



Besides, studies on middle managers as important knowledge distributors and interpreters during change are separate from those on them as knowledge producers. Thus, an important element of middle managers' self-learning and their contributions to organizational learning is still missing. In order to provide a complete and in-depth description of middle managers' roles in strategic change, more practical studies are needed.

Based on discussions of middle managers' important roles in organizational learning, a model of middle-up-down management (Nonaka, 1988, 1994) was proposed. In this model, 'middle managers synthesize the tacit knowledge of both frontline employees and top management, make it explicit, and incorporate it into new technologies and products' (Nonaka, 1994: 32). Middle managers are 'knowledge engineers' (Nonaka, 1994: 32) of learning organizations. It is argued that more redundancy and fluctuation can be created as the self-organizing team moves up and down the organization. Thus, the organization adopting middle-up-down management model is more self-reorganisable. Middle managers head these teams and sometimes behave as change agents in the organizational changes. However, the questions as to how to realize middle-up-down management and how middle-up-down management works in different cultures still await satisfying answers, though some researchers have mentioned the importance of organizational constraints (Balogun, 2003), social interactions (Rouleau, 2005), hypertext organization design (Nonaka, 1988) and 'ba' (Nonaka, Toyama and Konno, 2000).

### **2.3.2. Middle Managers in Strategic Change from the Power Perspective**

From the power perspective, middle managers are argued to be able to make important contributions to strategic change (Bower, 1970; Burgelman, 1983; Kanter, 1983; Huy, 2001; Nonaka, 1988; Schilit, 1987). Bower (1970) notices that planning is not constrained at the corporate level, but spreads across different levels including

divisional, business and departmental levels in large diversified firms. Mintzberg and Waters (1985) find that middle managers often attempt to influence strategy and provide the impetus for initiatives. Burgelman (1983) also argues that middle managers play a critical role in supporting initiatives from operating levels, combine these with the firm's strengths, and conceptualize new strategies. Apparently, middle managers are not simply spelling out senior managers' orders (Thompson, 1967) in these researchers' eyes. The control is not unilateral (Parsons, 1960) and the relationship between senior managers and middle managers is a two-way interaction.

The influence of middle managers is discussed in two directions: upwards and downwards (Mintzberg, 1979). Middle managers' downward influences in strategic change are more associated with their traditional role of strategy implementation. In implementation, middle managers engage in an ongoing set of interventions to bring organizational action in line with deliberate strategy (Nutt, 1987; Sayles, 1993; Schendel and Hofer, 1979). In comparison, middle managers' upward influences are more related to strategic decision making and planning. Dutton and Ashford (1993) develop a framework for describing and studying issue selling by middle managers to top management teams from three perspectives: the upward influence perspective, the claiming-behaviours perspective, and the impression management perspective. Based on a sample of 60, Schilit (1987) examines the upward influence of middle managers on strategic planning and decision-making: middle managers are more successful in influencing their supervisors in strategic decisions and more likely to attribute the success to internal causes. These theoretical developments provide a good start to understanding middle managers' upward influences. However, it is an obvious disappointment that few qualitative studies can be found to testify to and develop these findings in the complex business context.

In order to explain middle managers' upward influences on strategic change, researchers argue that middle managers can redefine the strategic context (Bower, 1970; Burgelman, 1983). Bower (1970) asserts that middle managers 'are the only

men in the organization who are in a position to judge whether issues are being considered in the proper context' (pp. 297-298). Burgelman (1983) also suggests that 'both the continuation of the impetus process of a particular ICV project and the change of the corporate strategy through the activation of the process of strategic context determination depends on the conceptual and political capabilities of managers at this level' (p. 241). Floyd and Wooldridge (1996) also suggest that middle managers tend to attenuate the pace and magnitude of the quantum organizational learning required in radical change. Once again, there is lack of thick description on how middle managers' exert their upward influences.

Researchers also examine the factors affecting the upward contributions of middle managers. These factors range from middle managers' personal characteristics (Dutton and Ashford, 1993; Schilit, 1987) and strategy characteristics (Floyd and Wooldridge, 1992) to enterprise characteristics (Dutton and Ashford, 1993; Schilit, 1987). Dutton and Ashford (1993) develop a set of 17 propositions from theoretical studies including issue-selling, initiation, packaging, process and channels. Schilit (1987) considers the years that middle managers had worked with their supervisors as the best predictor. Furthermore, middle managers from private sector organizations exert influence more frequently. At the same time, upward influence activity was more prevalent in low risk/return types of decisions and during implementation. Research on the relationship between involvement and strategic type was done by Floyd and Wooldridge (1992). Based on Miles and Snow's (1978) strategic type, they argue that 'middle managers in Prospectors have significantly higher levels of upward and divergent forms of strategic involvement than those in Analyzers and Defenders' (p. 153). However, these studies either lack further testing or are not systematic enough to constitute a good explanation of middle managers' upward influencing behaviours.

As for the methods middle managers use, Kipnis, Schmidt and Wilkinson (1980) conclude that rational or persuasive arguments and indirect exchange – ingratiation –

are the most commonly used tactics of upward influence, and the method is dependent on goal: exchange tactics match personal goals and rational arguments match change goals. Furthermore, Schilit (1987) finds that rational or persuasive arguments are more popular with middle managers. More research is required to examine the tactics employed by middle managers and provide a thick description.

A typology of middle management involvement in strategy – both upwards and downwards – can be found in Floyd and Wooldridge's (1992) research. The typology is based on two dimensions – behaviour and cognition. According to the behaviour being upward or downward and the cognition being integrative or divergent, the typology consists of 'championing alternatives', 'facilitating adaptability', 'synthesizing information' and 'implementing deliberate strategy'. 'Championing alternatives' and 'synthesizing information' are two activities constituting upward influence of middle managers. At the same time, 'Championing alternatives' and 'facilitating adaptability' are treated as divergent. Among them, 'championing alternatives' means that middle managers can affect strategic decisions by engaging in the communication of strategic options, and 'synthesizing information' means middle managers interpret and evaluate information before transferring it to executives. In downward influence, middle managers increase adaptability through their behaviours during change and implement them. The implementation role also helps to align organizational action with intentions.

Jumping out of the traditional pattern to explain the influence of middle managers in the upwards and downwards directions, Huy (2002) discusses another role of middle managers in emotionally balancing organizational continuity and radical change. In the research, middle managers facilitate organizational adaptation through two seemingly opposing emotion-management patterns in radical change: emotionally committing to personally championed change projects and attending to recipients' emotions. Two different results are found: organizational inertia and chaos. Low

emotional commitment leads to the former and high commitment with little attending to recipients' emotions leads to the latter.

The involvement of middle managers in strategy formation has been found to enhance organizational performance (Wooldridge and Floyd, 1990). In their research, middle managers make their contributions on organizational performance in two principal ways: higher quality strategic decisions and more efficient implementation. Furthermore, higher quality strategic decisions seem more powerful. Floyd and Wooldridge (1997) also investigated the relationships between middle managers' formal positions, their strategic influence and organizational performance in strategic change. By employing the typology of middle management involvement in strategy, which they had developed in 1992 (Floyd & Wooldridge, 1992: 154), they conclude that 'differences in sub-unit orientation towards the external environment and towards the current strategic agenda seem to produce more strategic influence within an organization' and 'more consistency of downward influence and more varied upward influence are positively associated with measures of performance' (482).

## **2.4. Chinese Enterprises and Chinese Middle Managers**

As mentioned earlier, the research was conducted in China. China, a transitional economy, is experiencing a rapidly expanding capitalist market economy but continues to exhibit historically embedded specialities, especially in existing state-owned enterprises (Hutchings, 2005). In Pun, Chin and Lau's (2000) study, Chinese culture was concluded to be different from Anglo-American culture in 10 dimensions (see Table 2.2). These specialities make it highly improper to borrow Western management theories and apply them directly to Chinese enterprises' managerial practices. With the increasing importance of China's economy in the world economic system, research on Chinese enterprises is also increasingly required both for researchers who want to widen current Western management theories and for

managers who have business interests in China. The present research, which is set in a Chinese context, is expected to serve these aims.

**Table 2.2: Contrasting Anglo-American and Chinese Cultures**

<b>Anglo-American Culture</b>	<b>Chinese Culture</b>
Rational	Intuitive
Inductive thinking	Holistic thinking
Scientific	Aesthetic
Individualistic	Collectivist (family oriented)
Low power distance	High power distance
Seek to reduce uncertainty	Accept or tolerate uncertainty
Explicit communications	Implicit communication
Function-oriented expression	Relationship-oriented expression
Systematic trust	Personal trust
Diversified information networks	Top-down information system

**Source: Pun, Chin and Lau (2000: 332) (Based on Hofstede and Bond (1988) and Martinsons (1994, 1996))**

In addition, the research focus also requires the researcher to pay attention to the research context. Since managers' decision-making and behaviours are rooted in a specific context, middle managers' roles and contributions in strategic change, which is the research focus here, unavoidably bear characteristics from the context. In the following two sections, the characteristics of Chinese enterprises and Chinese middle managers will be discussed in detail.

### **2.4.1. Chinese Enterprises**

The Chinese world has long been recognized as a culturally embedded network society. These culturally embedded characteristics decide the potential rules followed by employees, and further influence their decision making and behaviour in Chinese enterprises. Since 'guanxi' is a concept closely related to multiple dimensions in Chinese culture, like collectivism, implicit communication, relationship-oriented expression and personal trust, it is regarded as an important concept in Chinese enterprise management (Xin and Pearce, 1996). Below, 'guanxi' will first be introduced.

### **2.4.1.1. ‘Guanxi’**

‘Guanxi’ is a multi-faceted concept (Fan, 2002). It is widely accepted as a special relationship between two persons (Alston, 1989; Osland, 1990); thus the nature of this special relationship – the ‘guanxi’ base – can be the starting point of understanding ‘guanxi’. Three categories are defined by Fan (2002). The first category of ‘guanxi’ base is about birth or blood – ‘family’, and ‘kinships and in-laws’ (Fan, 2002: 547). The second category is about nature – ‘locality’, ‘classmate or alumni’, ‘teacher-student’, ‘co-worker’, ‘neighbour’ and ‘in the same profession’ (Fan, 2002: 547). The third category of ‘guanxi’ base can be acquired, like ‘acquaintance’, ‘intermediary’, ‘friend’ and ‘sworn brotherhood’ (Fan, 2002: 547). Except for the largely predetermined blood ‘guanxi’ base, the other two categories of ‘guanxi’ base can either constitute the base or be the result of developing ‘guanxi’.

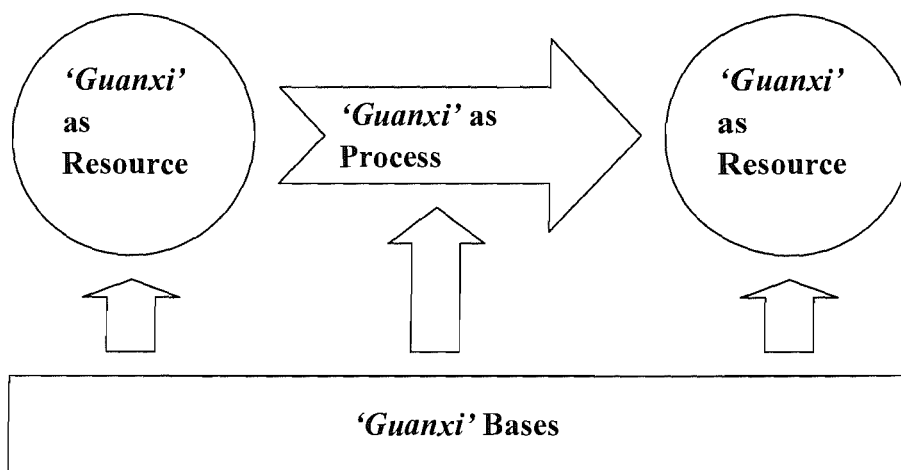
Since developing ‘guanxi’ does not depend on the existence of a ‘guanxi’ base and the existence of a ‘guanxi’ base does not lead to ‘guanxi’ (Fan, 2002), it is not sufficient to understand ‘guanxi’ just by examining its bases. A process concept of ‘guanxi’ is thus needed. ‘Guanxi’ is the process of social interactions that initially involve two individuals (A and B). A may or may not have a special relationship with B. A asks B for assistance (favour) in finding a solution to a problem. B may have the solution at hand, or more often, has to seek further assistance from other connections, i.e. start another process (Fan, 2002: 549). The definition depicts the process of employing ‘guanxi’. It can be easily identified that the problem of one party produces the demand for ‘guanxi’.

However, while an individual is developing ‘guanxi’, he or she does not need to always have a specific aim. ‘Guanxi’ might just be developed in case of the need for future use. Thus, ‘guanxi’ also shows its characteristics as a resource (Xin & Pearce, 1996) of the developer. ‘Guanxi’ can be an investment object of the developer so that he or she can use it when a problem arises. Therefore, ‘guanxi’ can be enhanced or

can deteriorate through ‘guanxi’-relevant behaviours, like socialization with the aim of developing ‘guanxi’.

The researcher believes that it is more accurate to define ‘guanxi’ from all the three aspects discussed above instead of just highlighting one of them. In order to develop ‘guanxi’, an individual needs to employ one or more ‘guanxi’ bases. When facing a problem, an individual employs these ‘guanxi’ bases to solve it. The characteristics are defined in its process definition. Furthermore, a resource perspective highlights static ‘guanxi’; thus, ‘guanxi’ becomes comparable in different stages. A more vivid presentation of this view can be found in Figure 2.3. Therefore, the researcher has adopted this multi-dimensional definition of ‘guanxi’ in this research.

**Figure 2.3 The Definition of ‘Guanxi’**



Chinese management culture stresses ‘guanxi’ (Xin and Pearce, 1996). ‘Guanxi’ is treated as a relationship for achieving status, seeking assistance, and moving from being an outsider to an insider (Weir and Hutchings, 2005). Besides the apparent personal benefits, organizations may also profit from ‘guanxi’ between members. The development of ‘trust’ often occurs simultaneously. It is argued that efficient



knowledge sharing will only occur where trust and in-group status has already been established in a Chinese context (Hutchings and Michailova, 2006). Thus, 'guanxi' and 'guanxi' development are critical for Chinese enterprises' exercise of power and organizational learning. However, 'guanxi' is comparatively little explored in the organizational learning literature. More studies are required in order to reach a deeper understanding of 'guanxi's' influences on the organizational learning process.

#### **2.4.1.2. Hierarchy, Face and 'Rule of Men' in Chinese Enterprises**

Another characteristic of Chinese society is its strong hierarchical and authoritarian traditions. This means that managers are threatened by a participatory management style, and that employees do not want to be involved in decision making to avoid the fear of having their views rejected (Chen, Peng and Saporito, 2002). Employees in China do not like to cross boundaries (Weir and Hutchings, 2005). At the same time, managers with higher positions are also expected to know more than those below them. This leads to the discussion of 'face'.

'Face' is the respect, pride and dignity of individuals developed from their social achievements (Goffman, 1972; King, 1993; Lam and Wong, 1995). Individuals can give, save and avoid losing face or other people's 'face' by employing social skills. Face, together with 'guanxi', is argued to greatly influence members' behaviours in Chinese enterprises (Lam and Wong, 1995).

Similarly to the discussion of 'guanxi', 'face' is studied from the point of view of its inducement factors. Among them, social hierarchy is the most important. It is found that an individual has more 'face' when he or she occupies a higher position in the social hierarchy (Goffman, 1972; Lam and Wong, 1995). At the same time, how much 'face' an individual has also depends on his or her comparative social position – less in front of people with a higher position and more in front of those with a lower

position (Brunner et al., 1989). Besides the position of authority, the quantity of face is also decided by individuals' wealth, knowledge, reputation and even social networks. More 'face' is generated when individuals have good relationships with people in high social positions.

'Face' also has an action meaning. The practice of 'face' includes giving 'face', saving 'face' and avoiding other people losing 'face' (Hwang, 1987). Besides obeying the rules of 'self-respect' and 'considerateness' (Goffman, 1972), individuals are also unavoidably influenced by other people's perceptions and behaviours during this process. Maintaining 'face' is the mutual responsibility of all the individuals involved. The aim of these 'face' practices is to influence resource allocation in the practitioners' preferred way. Thus, 'face' practice involves image and impression management.

Employees in China are keen to save 'face' and avoid conflict while demonstrating inter-departmental rivalry (Weir and Hutchings, 2005). Thus, employees feel uncomfortable receiving advice or information from people below them in the hierarchy. This will make them lose 'face'. At the same time, they do not like providing advice or information to people above them in the hierarchy, which will cause the loss of senior managers' 'face' (Weir and Hutchings, 2005). 'Unethical behaviour continues to be tolerated in organizations as employees will not share knowledge of superiors' indiscretions' (Jackson and Bak, 1998).

Another characteristic of Chinese enterprises is 'rule of men'. This concept first appeared as the fundamental maxim of Confucian political philosophy in the discussion of the world's legal system (Wigmore, 1928), which was in contrast with 'rule of law'. Recently, Chinese researchers have used 'rule of men' to explain low management efficiency and corruption in Chinese enterprises (Gao, 2007). For these researchers, 'rule of men' highlights governance by men instead of regulation in enterprises. 'Rule of men' focuses on harmony among organizational members. Thus, 'guanxi' and 'face' are more important than regulation and even the market. Although

'rule of men' is recognized as an important part of Chinese enterprise culture, it has not attracted very much attention from organizational learning researchers.

Some recent research (Glisby and Holden, 2003; Weir and Hutchings, 2005) has been done to enrich the former knowledge management literature by examining contextual constraints and cultural embeddedness. In particular, Weir and Hutchings (2005) have studied knowledge sharing in Chinese culture based on Nonaka and Takeuchi's (1995) model of knowledge management. All the four processes – socialization, externalization, combination and internalization – are discussed further in Chinese culture. Socialization and externalization processes in China are remarkably similar to those in Japan. However, the combination and internalization processes in China and Japan are significantly different. 'The departmental focus of the Chinese means that the combination of tacit knowledge is not straightforward, while learning-by-doing that is key to internalization is also problematic because of individuals' fear of admitting mistakes' (Weir and Hutchings, 2005: 97). However, the limited studies on organizational learning in a Chinese context mainly focus on the knowledge distribution area. More studies are required to cover all three organizational learning behaviours.

Differences can also be found in power studies on Chinese society. High distance and the acceptance and tolerance of uncertainty (Hofstede, 1988 and 1994; Martinsons, 1996) are reflected in macro and micro social life. The principal task of government in China is to develop and maintain political harmony (Nathan, 1984) instead of expressing and resolving political differences and conflicts as in the Western world. The logic behind negotiation in China is dialectical, characterized by being collaboration-oriented and generalities-focused, and having ambiguous deadlines and an open, holistic process (Palich, Carini, Livingstone, 2002). However, these studies fail to consider the new situation of the knowledge economy, in which knowledge constitutes an important power base and learning becomes an unavoidable part of organizational life.

### **2.4.2. Chinese Middle Managers**

Chinese managers have different work values from those in Western countries. Based on the Schwartz value survey, Ralston, Holt, Terpstra and Yu (1997) assessed the individual work values of managers in the USA, Russia, Japan and China. The study demonstrates that Chinese managers show clear characteristics of collectivism, conservation and self-transcendence. Chinese managers scored the highest in four sub-dimensions (security, conformity, tradition and benevolence), and the lowest in two sub-dimensions (self-direction and hedonism). These findings show that Chinese managers' mental models are deeply rooted in Chinese culture. In order to follow the cultural changes happening alongside economic development, Ralston, Egri, Stewart, Terpstra and Yu (1999) examine the generation shift of Chinese managers' work values. It was found that an increased individualistic tendency exists widely among younger Chinese managers, while a relatively high level of Confucian values and collectivist tendencies is still retained by them compared with Western managers. This research further shows that Chinese middle managers still bear traces of their Chinese cultural background and continue to have their specialities in decision making and behaviour.

Chinese middle managers are also found to have different perceptions compared with those in Western countries. Neelankavil, Mathur and Zhang (2000) examine the perceptions of middle-level managers about the determinants of managerial performance in four countries – America, China, the Philippines and India. The middle managers of China and America show two extreme patterns. Chinese middle managers highly value the importance of self-confidence/charisma, while Americans treat it as least important. Chinese middle managers also rate educational achievements more highly than middle level managers in USA. In contrast, American middle managers emphasize communication, past experience and leadership more. These perceptions are the reflections of the different contexts in which middle

managers work, and govern middle managers' personal development strategy, which greatly influences their decision making and behaviour in organizations.

However, although these studies show the different work values and perceptions of Chinese middle managers, they do not connect these characteristics with managerial theories and practice. More studies are required to develop a better understanding of Chinese managers in organizational learning and their changes in the exercise of power during strategic change processes. The present research is expected to make contributions in this area.

## **2.5. Summary**

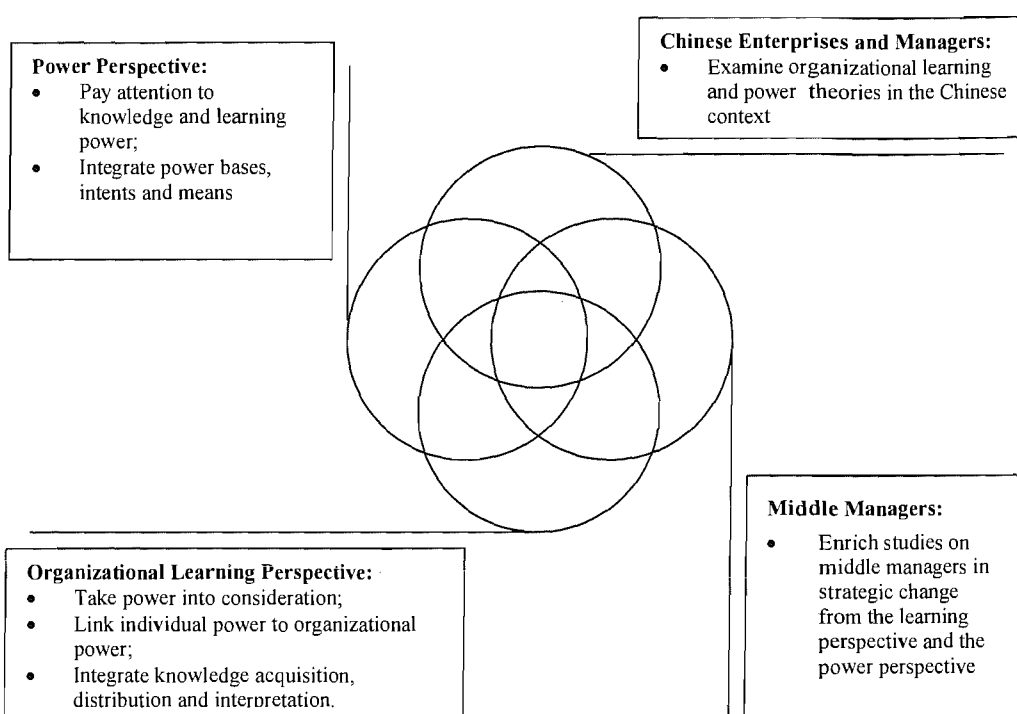
This chapter has reviewed the relevant literature of strategic change from the learning perspective and the power perspective, middle managers in strategic change, and the characteristics of Chinese enterprises and middle managers. The researcher reviewed the literature of organizational learning from two aspects. First, individual learning and organizational learning were examined. It was found that studies on linking individual learning to organizational learning were still limited, especially those practical ones done in different contextual settings. Then, three learning behaviours – ‘knowledge acquisition’ ‘information distribution’ and ‘information interpretation’ – were discussed. The current research seldom considered all these three learning behaviours within a framework. More work was needed to cover knowledge acquisition, information distribution and interpretation and provide a comparatively complete picture of organizational learning. The literature of power was also reviewed from two aspects. Power was first discussed on three levels: individual power, group power and organizational power, and then in terms of three constituents: ‘power base’ ‘power intent’ and ‘power means’. There has been a high demand for researchers to focus on knowledge and information in their power studies. The specialities in the exercise of knowledge power and the interrelationship between knowledge power and traditional authorized power would be the major focuses of these studies. Next, the researcher specially examined middle managers in strategic change. They were

regarded as either 'reactive' or 'proactive' actors in the change process. At the same time, their upwards and downwards influences were also discussed. It was found that detail explanations of their influences from different perspectives were still in a high demand and that the reasons why middle managers behaved differently were also required to pursue further. Finally, the researcher further examined the characteristics of Chinese enterprises and managers. Four important concepts – 'guanxi', hierarchy, 'face', and 'rule of men' – were identified as the major characteristics of Chinese enterprises. Chinese managers were found to have different work values and perceptions from those in Western enterprises. More practical studies were needed in order to examine the influences of these characteristics on strategic change.

Based on these discussions, the researcher identified the following potential contribution areas of this study (see figure 2.4):

1. Combine the organizational learning perspective with the power perspective in order to expand current studies from each perspective and develop a more complete picture of strategic change;
2. Connect individual learning to organizational learning and integrate knowledge acquisition, distribution and interpretation so that a better understanding of organizational learning can be achieved;
3. Integrate studies on power bases, power intents and power means in order to provide a complete picture of the exercise of power in organizational change;
4. Enrich studies on middle managers in strategic change;
5. Develop a deeper understanding of Chinese enterprises and managers, especially from the organizational learning perspective.

**Figure 2.4: The Potential Contribution Areas of the Research**



# Chapter 3

## RESEARCH METHODOLOGY

### 3.1. Introduction

This research aims to examine the roles and contributions of middle managers in strategic change from a combinative view of learning and power in Chinese context. The research was interpretative and employed an inductive approach. Multiple case studies were undertaken by the researcher. Interviews, observations and document studies were three data collection methods. The researcher employed Miles and Huberman's (1994) interactive analysis model to guide qualitative data analysis and used their practical methods in the data analysis process. It was expected that this research method would assist the researcher to observe the main behaviours of middle managers, to accurately interpret their meanings, and finally to clarify their relationships with contextual factors.

This chapter is organized into seven parts – research aim, research philosophy, case study research method, research design, data collection, data analysis and quality control of the research. While discussing these seven parts of the research methodology, the researcher will also specify the particular features of doing field research in China and analysing field data in both Chinese and English.

### 3.2. Research Aim

The research seeks to understand the roles and contributions of middle managers in the strategic change process from the perspectives of both learning and power, which has been little exploited in the study of the strategic change process. The research begins with the exploration of organizational learning and the exercise of power in



three enterprises. The research continues by focusing on middle managers' learning and political behaviours involved in three strategic change processes. Finally, the factors influencing middle managers' roles and contributions are also studied. It is expected that the research findings can provide answers to the following three research questions:

*1. What are middle managers' roles in strategic changes in Chinese enterprises from the organizational learning perspective and the power perspective?*

*2. How do middle managers fulfil their roles in strategic changes in Chinese enterprises from the organizational learning perspective and the power perspective?*

*3. Why do middle managers play these roles in strategic changes in Chinese enterprises?*

This research will contribute to the studies of organizational learning by incorporating power issues, producing more practical evidence for studies on middle managers in strategic change, and providing a deeper understanding of Chinese managers and enterprises.

### **3.3. Research Philosophy**

It is argued that the study of research philosophy benefits the research design from at least three aspects: clarifying research designs, recognizing research designs that work, and identifying or even creating and adapting designs (Easterby-Smith et al., 2002). The research is interpretative, processual and contextual, seeking to understand and explain the learning and power behaviours of middle managers in the complex social processes of strategic change.

The perspective adopted in the research is interpretative. The interpretative approach highlights 'individual meaning and people's perceptions of reality rather than any independent reality that might exist external to them' (Hopper and Powell, 1985: 446). According to interpretivist philosophies, the difference between social action and physical objects' movement is the inherent meaning of social action (Schwandt, 2003). In order to understand social action, the researcher should grasp the meaning of action, and understanding can only be attained in terms of the meaning system to which it belongs (Fay, 1996). It is then required that researchers interpret the social action in a particular way.

Traditionally, there are four paradigms – 'radical humanist', 'radical structuralist', 'interpretive' and 'functionalist' (Burrell and Morgan, 1979) – utilised for the analysis of a wide range of social theories. These four paradigms are defined along two dimensions – the subjective–objective dimension and the regulation–radical change dimension. The radical humanist paradigm is to 'develop a sociology of radical change from a subjectivist standpoint' (p. 32). However, the radical structuralist paradigm's standpoint is objectivist. Although both the functionalist paradigm and the interpretive paradigm represent a perspective that is firmly rooted in the sociology of regulation, they approach their subject matter differently – an objectivist point of view for the functionalist paradigm and a subjectivist point of view for the interpretive paradigm. The present research is well situated in the interpretivist paradigm. The research tries to 'understand the world as it is' and 'the fundamental nature of the social world at the level of subjective experience'. Besides, the explanation can only be attained 'within the realm of individual consciousness and subjectivity' and 'the frame of reference of the participant as opposed to the observer of action' (p. 28).

In an important effort to clarify the methodological implications of interpretivist research, Easterby-Smith et al. (2002) compare social constructionist research with classical positivist research along eight dimensions: the observer, human interests, explanations, research progress, concepts, units of analysis, generalization and

sampling required. A summary table is shown in Table 3.1. From the discussion in the following parts of this chapter, the interpretivist characteristic of the research can be easily identified. Although the researcher was an observer without participating in the three change processes examined here, it was impossible to obtain meanings from the field data without consulting the mental model of the researcher. From this point of view, the researcher was also part of what was being observed. The research is inductive, which means theory follows data rather than vice versa. Although the theoretical framework was developed from the literature review, the researcher was still open to any new information in the fieldwork. The strength of inductive research is to understand the ways in which human beings interpret their social world (Saunders, Lewis and Thornhill, 2003). Inductive research is particularly concerned with context and emphasises the collection of qualitative data (Saunders, Lewis and Thornhill, 2003).

**Table 3.1 Summary Table of Methodological Implications of Positivism and Social Constructionism (Easterby-Smith et al., 2000: 30)**

	<b>Positivism</b>	<b>Social Constructionism</b>
The observer	Must be independent	Is part of what is being observed
Human interests	Should be irrelevant	Are the main drivers of science
Explanations	Must demonstrate causality	Aim to increase general understanding of the situation
Research progresses through	Hypotheses and deductions	Gathering rich data from which ideas are induced
Concepts	Need to be operationalized so that they can be measured	Should incorporate stakeholder perspectives
Units of analysis	Should be reduced to simplest terms	May include the complexity of 'whole' situations
Generalization through	Statistical probability	Theoretical abstraction
Sampling requires	Large numbers selected randomly	Small numbers of cases chosen for specific reasons

This research is also contextual. The contextual analysis of the change process focuses on both vertical and horizontal levels of analysis and the interconnection in time series (Pettigrew, 1990). The importance of contextual analysis resides in four

aspects: ‘the importance of embeddedness’, ‘the importance of temporal interconnectedness’, ‘the need to explore context and action’ and ‘the central assumption about causation in this kind of holistic analysis’ (Pettigrew, 1990: 269). Moreover, Pettigrew (1985) also asserts that contextualist research is a natural way to link theory and practice.

Furthermore, this research can be classified as strategy process research. This perspective is accordant with the assertion that ‘social life is a process of structural emergence via actions’ (Pettigrew, 1990: 8). ‘Process studies are fundamental to gaining an appreciation of dynamic organizational life and to developing and testing theories of organizational adaptation, change, innovation and redesign’ (Van de Ven and Huber, 1990). Here, the third definition of process Van de Ven (1992: 169) argued is adopted: ‘a sequence of events that describes how things change over time’.

### **3.4. Case Study Method**

The research strategy utilized in this research is case study. Organizational and management study has long been one of the main areas in which the case study method is used. Furthermore, it is the preferred research strategy ‘when “how” or “why” questions are asked, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context’ (Yin, 1994: 1). It can be found that this research has all these three characteristics; thus, case study was chosen. Below, this section will begin with the characteristics of case study, and then continue to discuss several main concerns about the case study method used in the research.

#### **3.4.1. The Characteristics of the Case Study Method**

There are other research strategies – experiment, survey, archival analysis, history and so on – in the study of organization and management besides case study. Each research strategy can be used for all three purposes – exploratory, descriptive and

explanatory (Yin, 1994: 3, 4). However, there are particular characteristics of the case study method that helped the researcher choose among them. It is necessary to clarify these before proceeding with the choice of any research strategy.

To facilitate making decisions on when to use each strategy, Yin (1994) concluded three conditions (Yin, 1994: 4-9). First is the type of research question posed – ‘what,’ ‘who,’ ‘where,’ ‘how,’ and ‘why.’ For the ‘what’ question, there are two further types – one being exploratory and the other a basic ‘how many/much’ question. In order to answer the first type of ‘what’ question, all five strategies can be used. However, for the second type of ‘what’ question, ‘who’ question and ‘where’ question, a survey or an archival analysis will have certain advantages. In comparison, ‘how’ and ‘why’ questions, which are explanatory, are more likely to lead to the use of experiment, historical study and case study. In this research, although the first type of ‘what’ question is indeed asked, ‘how’ and ‘why’ questions constitute the main concern. The research is mainly explanatory. Therefore, experiment, historical study and case study are more suitable.

The other two conditions are the extent of control over behavioural events and degree of focus on contemporary as opposed to historical events. Among experiment, case study and historical study, the extent of control decreases from total control in experiment to absolutely none in historical study. The case study is preferred to examine contemporary events without manipulating relevant behaviours. Thus, the case study can deal with a full variety of evidence – interview, observation, and document. In this research, all three strategic change processes were unfinished when the research began. The researcher also employed diverse data collection methods in the field research without influencing the change process. Thus, case study is the most suitable research strategy for this research.

### **3.4.2. The Clarification of Main Concerns of Case Study**

Traditionally, there are many concerns in using the case study method. Combined with the specific situation in this research, two concerns – case study and theoretical conclusion, and case study and generation – will be clarified. It is expected that the argument in this section can facilitate the understanding of the case study method and the rationality of the case study used in this research.

#### **3.4.2.1. Case Study and Theoretical Conclusion**

The method adopted in the research is case study. Many researchers argue that case studies are designed to produce theoretical conclusions. Case study research can be used as ‘exploratory’, ‘descriptive’, ‘explanatory’, generating theory and initiating change (Yin, 1994: 13). The rationales of case study can be explained in two ways: ‘direct perception of causal relations’ and focus on ‘the role of comparative methods’ (Hammersley, Gomm & Foster, 2000: 234).

First, case study can provide direct insight into ‘the causal processes linking inputs and outputs within a system’ (Hammersley, Gomm & Foster, 2000: 234). The description is detailed in case study, and Connolly (1998) argues that it can discover the meanings attached to behaviours and ‘unravel the causes of an individual’s or a group’s behaviour (Connolly, 1998: 124).

Next, causal factors can be better controlled and assessed in multi-case study (Hammersley, Gomm & Foster, 2000: 239). There are two influential interpretations of comparatives in case study: eliminative induction and analytic induction. Eliminative induction is based on Mill’s methods of agreement and difference. The agreement method examines cases to identify factors that occur often when an outcome appears. The difference method, on the contrary, looks for differences among cases: some have one outcome, but some do not. Analytic induction admits that accumulation does not reform original theoretical elements, but adds explanatory

factors (Hammersley, Gomm & Foster, 2000: 245). The research mainly employs eliminative induction and is expected to better understand the causal relationships between different explanatory factors.

### **3.4.2.2. Case Study and Generalization**

Generalizations can also be made on the basis of case studies. ‘If you have a good descriptive or analytic language by means of which you can really grasp the interaction between various parts of the system and the important characteristics of the system, the possibilities to generalize also from very few cases, or even one single case, may be reasonably good’ (Normann, 1970: 53). For the case study method adopted here, the generation is ‘analytical’ not ‘empirical’ (Yin, 1994) and the inference is ‘logical’ not ‘statistical’ (Mitchell, 2000).

## **3.5. Research Design**

A research design is regarded as the linking of the data to the research questions, further to the conclusions (Yin, 1994: 19). For this research design, five components (Yin, 1994) – the research questions, the propositions, the analysis unit, the logical link of the data to the propositions, and the interpretation criteria of the findings – have been fully considered. Overall, the research is a multi-case study. The research design will be explained in detail below.

### **3.5.1. Multiple Case Studies**

The research design consists of five components. First is the research question. As explained in section 3.2, the research has three main questions to answer: ‘what are the roles and contributions of middle managers in Chinese enterprises’ strategic changes from the perspective of learning and power?’, ‘how do middle managers make their contributions?’, and ‘why do they choose to play those roles?’. The ‘how’ and ‘why’ questions are more essential to the theoretical development which the

research aims at, though the ‘what’ question is indeed a necessary start. Thus, the initial task – clarifying the nature of the research questions – is fulfilled.

The second component is the propositions of the research, which direct attention to the things that should be examined (Yin, 1994). The propositions were developed mostly from the literature review before the data collection. The role of theory development prior to the data collection has long been the major difference between case study and grounded theory (Strauss and Corbin, 1990). Since the purpose of this case study is to develop theory, it is regarded as important to review the theories that are relevant or might be relevant. Thus, theories in strategic change, organizational learning and power in organizations were reviewed before the beginning of fieldwork. However, the researcher also tried to avoid being constrained by the literature review.

Based on the research questions and theoretical understanding, the main analysis units were defined. The research aims to analyse the roles of middle managers in strategic change. Therefore, it is required to define the beginning and end of change, and differentiate middle managers from other members in the organizations. In the research, these two questions were solved by asking questions of organizational members, like ‘when do you think is the beginning (or the end) of this change?’ and ‘who do you think can be called middle managers in your company?’ Although there were slight differences, the majority of members in companies provided similar answers (over 80%).

The last two components of the research design are the foundation of later data analysis. Here, ‘pattern-matching’ (Donald and Campbell, 1975) skill has been employed to link the data to theoretical propositions. Furthermore, two roles of middle managers appeared as the results of this process and the other data analysis methods, like ‘categorical aggregation’ and ‘direct interpretation’ (Stake, 1995).

As for the type of case study, the research is a holistic multi-case study. Three Chinese enterprises – FCC, BAIJIA and FOTON – are examined in the research. At



the same time, there is only one analysis unit in each case. Although more extensive resources and time are required than in single case studies, the evidence from multiple cases is often considered more compelling and robust (Herriott and Firestone, 1983). The logic followed in this multi-case study is ‘replication’ instead of ‘sampling’. Thus, each case needs to be carefully selected to predict similar results (a literal replication) or produce contrasting results but for predictable reasons (a theoretical replication). From the theoretical results developed later, it can be found that a reactive role can summarize middle managers’ behaviours in BAIJIA and FOTON and a proactive role those in FCC. The reasons why middle managers play proactive or reactive roles or why they do not are also identified. The selection of cases will be discussed in detail below.

### **3.5.2. The Selection of Cases**

Three cases are examined in the research. Two companies are in the same industry, the car production industry, and one company is in a related industry, the car distribution industry. Since they have the same macro economic context in the nation and high correlated macro-economic contexts in industry, the potential variances occasioned by cross-sectional comparisons are minimized. At the same time, the differences in the history, origin and nature of the companies also help the researcher to make comparisons among them to some extent to enrich the theory model. During the selection process, theoretical sampling criteria (Yin, 1994) are used as guidance. While they are not ‘polar types’ (Pettigrew, 1990) in all aspects, it still can be seen as appropriate to address the topic through the three cases described above (Table 3.2).

**Table 3.2 Summary of Examined Cases**

<b>Cases No.</b>	<b>Examined companies</b>	<b>Nature of companies</b>	<b>Strategic change</b>
1	FCC	State-owned stock company	<b>Cooperation with MAZDA:</b> This is the first time that FCC has completely taken charge of a big technology introduction project. It is also the first time that FCC cooperates with international companies. The cooperation suggests a new direction for the product development strategy of FCC and FAW: a mixture of national brand and international brand.
2	FOTON	Stock company (state is the largest shareholder)	<b>SBU management:</b> The introduction of SBU management changed the relationship between central management departments and divisions. It allows FOTON's management to stay efficient and flexible in a quickly changing environment. To some extent, SBU has helped FOTON achieve its development aim for the last two years.
3	BAIJIA	Medium-sized private company	<b>Dual-brand strategy:</b> The adoption of a dual-brand strategy means a change of development direction for BAIJIA. Before, BAIJIA was only the distributor of FAW-VOLKSWAGEN. The brand value of BAIJIA remained low. The dual-brand strategy increased the brand value of BAIJIA itself and helped BAIJIA prepare for the new business opportunities in import or other brand car distribution, and car decoration..

## **3.6. Data Collection**

The data were collected in three Chinese enterprises in two continuous years – 2004 and 2005. The first data collection was undertaken between June and October in 2004. All three enterprises were visited, and the researcher sat in the planning departments for about a month in FCC and BAIJIA. Due to access restriction in FOTON, the researcher only had the opportunity to visit the company. The second data collection was undertaken between July and September in 2005. Based on the data collected in the last year, FCC was revisited and the researcher chose to sit in the same department for a month. For BAIJIA and FOTON, the researcher contacted important informants and checked the current situations by phone. The data collection process will be introduced in detail below.

### **3.6.1. Gaining Access**

Based on the understanding of Chinese society's special characteristics, personal relationships were considered as a decisive factor to gain access to Chinese enterprises. In making decisions on case selection, the researcher finally obtained permission from three companies in the Chinese vehicle industry. It turned out that the personal trust developed in the access negotiation process removed the impediments often encountered during field work, and increased the quality of the collected data. Although there were a certain number of people who did not like to be recorded in interviews, the interviewees were basically honest about their answers. This assertion was partially verified by asking different interviewees the same question and checking their answers.

### **3.6.2. Data Collection Methods**

Case studies were conducted in three cases (see Table 3.2). Data collected in the research is from three resources: interviews, observation, and archival analysis (see Table 3.3). Qualitative research is inherently multi-method (Flick, 1998: 229) and the combination of multiple methods in one study can be understood as a good strategy to add complexity, richness and depth to an inquiry (Flick, 1998: 231). In the research, these methods helped to establish the real picture of strategy practice and strategic

actors' contributions (Pettigrew, 1992) and provided more data on emerging concepts (Glaser and Strauss, 1967). At the same time, the combination of research methods can also be used to avoid single data source bias (Denzin, 1989; Eisenhardt, 1989), particularly where retrospective analysis is involved (Golden, 1992). Multiple sources also provide the valuable information needed to develop a relatively holistic picture of strategy as practice (Jick, 1979; Pettigrew, 1990). Data collected in the present research are highly contextual and pluralist in the patterns of audio recording, photos, transcripts, field notes and collected documents.

**Table 3.3 Summary of Data Sources across Cases**

Data sources	FCC	BAIJIA	FOTON
Interviews	18 open-ended and semi-structured interviews, 60-180 minutes each, with 1 senior manager, 7 middle managers and 3 lower employees, 6 recorded	22 open-ended and semi-structured interviews, 60-90 minutes each, with one group senior manager, all three top management team members, 6 middle managers and 1 lower employee, 15 recorded	12 open-ended and semi-structured interviews, 60-90 minutes each, with 1 senior manager, 5 middle managers and 2 lower employees, 11 recorded
Observations	Daily work of middle managers in planning and control department – 21 days	Weekly management meeting – 4 General management department meeting – 2 All-employee meeting – 1 Maintenance department meeting – 1	-
Documents	Annual reports, M6 project's database, including attending persons, project processing files, research report, summary report and so on, materials about company culture and important events on intranet and internal newspapers	The weekly meeting records from Aug 2003 to Jul 2004, company financial reports in 2002 and 2003, some advertisement and promotion materials, some photos of campaigns	Strategy planning materials, training materials, annual reports, internal newspapers, advertisement handouts, analysis reports, published book

### **3.6.2.1. Interview**

Since the qualitative method is ‘an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world’ (Van Maanen, 1983: 9), the most fundamental qualitative research method is interview. Burgess (1982) concluded that the importance of the interview was ‘the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience’ (Burgess, 1982: 107). The present research employed interview as one of the main data sources.

Fifty-two interviews were conducted in the research. All the interviews were conducted by the researcher herself due to the limitation of budget and task complexity. The interviewees consisted of middle managers, senior managers and lower employees. A more detailed description may be found in Table 3.4. Interviews were normally 60 to 90 minutes long (some even about 180 minutes). Due to accidental breakdown and power problems with the recorder, three interviews had to be conducted without it. In addition, 17 interviews had to be done with pen and paper. Therefore, a total of 32 interviews were taped. However, the unrecorded interviews were all followed by detailed interview summaries, which were written up within 24 hours of finishing the interviews (Eisenhardt, 1989). It was assumed that the interviewees were reluctant to be recorded because they did not feel secure while talking about sensitive issues, especially about power.

**Table 3.4 List of Interviews**

<b>FCC</b>		
<b>Interviewees</b>	<b>Position</b>	<b>Interviews</b>
Senior Manager A	Deputy Chief Manager, Product	2
Middle Manager A	Manager, Department of Planning & Control	3
Middle Manager B	Manager, Department of Product	2
Middle Manager C	Manager, Department of Planning & Control	4
Middle Manager D	Manager, Department of Quality Control	1
Middle Manager E	Manager, Department of Quality Control	1
Middle Manager F	Manager, Department of Human Resources Management	1
Middle Manager G	Manager, Department of Production	1
Lower Employee A	Staff, Department of Planning & Control	1
Lower Employee B	Staff, Department of Planning & Control	1
Lower Employee C	Staff, Department of Human Resources Management	1
<b>BAIJIA</b>		
<b>Interviewees</b>	<b>Position</b>	<b>Interviews</b>
Senior Manager A	The Chief Manager	3
Senior Manager B	Deputy Chief Manager, Technical	1
Senior Manager C	Assist Chief Manager	3
Senior Manager D	Deputy Chief Manager of ZHONGXING Group	1
Middle Manager A	Manager, Department of Repair and Maintenance	3
Middle Manager B	Manager, Department of General Management	2
Middle Manager C	Manager, Department of Decoration	2
Middle Manager D	Manager, Department of Sales	2
Middle Manager E	Manager, Department of Sales	1
Middle Manager F	Manager, Department of Human Resources	3
Lower Employee A	Staff, Department of General Management	1
<b>FOTON</b>		
<b>Interviewees</b>	<b>Position</b>	<b>Interviews</b>
Senior Manager A	Manager of Sales and Marketing	1
Middle Manager A	Manager, OUMAN Bus	3
Middle Manager B	Manager, Department of General Management	3
Middle Manager C	Manager, Department of Technology	1
Middle Manager D	Manager, OUMAN Truck	1
Middle Manager E	Manager of Group Media and Advertisement Management	1
Middle Manager F	Staff, Department of Production Management	1
Lower Employee A	Staff, Department of Quality Control	1

Interviews are designed to be mainly open-ended and semi-structured in order to reveal interviewees' own perceptions in the research. For the first several interviews in each case, the researcher chose much more open questions and aimed to gain as much information as possible, which was used to guide the later interviews. The questions asked were tailored for different interviewees under the guidance of three research questions. The stages of the interview and the positions of interviewees are two factors influencing the researcher's choices. A list of interview questions employed to ask a middle manager in FCC is shown as an example in Table 3.5. The interview questions centred on the strategic change process examined, and focused on the actions of middle managers who were involved and their thoughts, either according to their own description or other people's experiences.

**Table 3.5 List of Interview Questions – An Example**

<b>List of Interview Questions</b>	
<b>Interviewee:</b> MM-FCC-1	<b>Proposed Interview Date:</b> 13-09-2004
<ol style="list-style-type: none"> <li>1. (Open) What do you think of the cooperation with MAZDA?</li> <li>2. What is the strategic meaning of the cooperation between FCC and MAZDA for FCC and MAZDA respectively?</li> <li>3. How was this decision made? (The critical persons, the critical procedures, the critical methods used, and the other interest groups)</li> <li>4. What is the interviewee's evaluation of this cooperation as a middle manager in FCC?</li> <li>5. (Open) what do you think of the strategic management of FCC?</li> <li>6. Who dominates the strategic decision making?</li> <li>7. How are the other members involved in decision making?</li> <li>8. Did you identify any differences in this cooperation compared with before in FCC?</li> <li>9. If the answer is positive, further ask for detail of these differences.</li> <li>10. What did you do in this strategic cooperation? Could you describe it in detail?</li> <li>11. Did you find any improvement after the cooperation? What did you learn from this cooperation?</li> <li>12. How could you contact these new methods and know these new methods will benefit FCC?</li> <li>13. How did you get support from senior managers on doing things in new ways?</li> <li>14. How did you do to make these new ways adopted by the other employees?</li> <li>15. Did you get any support or constraint in FCC?</li> <li>16. How do you describe your power in FCC?</li> <li>17. How do you use your power in this cooperation? Did you need to follow any rules?</li> </ol>	
<p><b>Others:</b> According to the interviewee's reaction, it is possible to adjust the interview questions in order to dig deeper without being offensive.</p>	



### **3.6.2.2. Observation**

In-depth interviews, the main type of data collection in the research, were supplemented by observations. This is another essential method of data gathering in qualitative research. The detailed observations entailed in the case study method enable us to study many different aspects, examine them in relation to each other, and view the process within its total environment. In the present research, observations were expected to facilitate the understanding of middle managers' daily activities and improve the researcher's contextual awareness.

The researcher obtained access to observe on site in two enterprises – FCC and BAIJIA. In FCC, the researcher sat in the department office of planning and control with an allocated desk just beside the leader of the planning team. The observation was done in two periods – from 10<sup>th</sup> to 30<sup>th</sup> September, 2004 and from 1<sup>st</sup> to 15<sup>th</sup> August, 2005. During the first 21 days, the researcher behaved just as other FCC staff – going to the office at 7:30 am and coming back home at 17:30 pm. In order to obtain the real feelings of the FCC enterprise's context, the researcher chose to have lunch in the mess hall and take the employee bus every day. The observation focused on middle managers and lower employees' daily activities, especially their reactions to senior managers' decisions and their actions to implement them. In addition, the relaxed talk happening frequently between the researcher and FCC employees helped the researcher develop a deeper understanding of middle managers' perception, evaluation and attitudes toward senior managers' decisions and the change process. The results of these observations are shown in detailed observation diaries in the forms of photos and write-ups. An example of the observation diary can be seen in Table 3.6.

**Table 3.6 Observation Diary – An Example**

<b>Observation Diary</b>	
<b>Case:</b> FCC	<b>Date:</b> 10-09-2004
<p><b>1. Major Observation Events</b>            The first meeting with one of the senior managers and one middle manager. Sitting in one of the senior manager meeting room and observing the work of senior managers' secretaries.</p> <p><b>2. Observation Results</b>            The overall working environment of senior managers is very busy. Most of the meetings are arranged by the secretary office. However, the informal visiting from middle managers occasionally happened. The atmosphere in senior managers' zone is comparatively not so serious.            During the conversation, the senior manager showed his confidence. Apparently, he was quite satisfied with the strategic cooperation results. From more than one hour's meeting, it can be seen that the senior manager likes giving suggestions instead of taking suggestions.            From the communication between senior manager and the middle manager, I saw the respect of middle manager for senior manager. Trust was clearly there. All the behaviours and words showed that middle manager was treated as 'insider' by the senior manager.</p> <p><b>3. Further Observation Direction</b>            More observations need to be done on the frequency and ways of middle managers' communication with senior managers.</p>	

In BAIJIA, the researcher sat in the department of general management. The observation was done from 1<sup>st</sup> July to 28<sup>th</sup> July in 2004. During this period, the researcher observed and recorded all seven meetings. All senior and middle managers showed up and discussed strategic issues in five meetings. All the employees attended one meeting. All the repair and maintenance employees attended the other meeting. Moreover, the researcher had several intensive talks with employees. These unscheduled and informal talks were found very helpful to enhance the researcher's understanding of the organizational context and power relationships within BAIJIA. The list of observations for BAIJIA can be found in Table 3.7.

**Table 3.7 List of Observations for BAIJIA**

<b>Date</b>	<b>Observation Event</b>	<b>Folder</b>
05-07-2004	Meeting – Repair Workers	File Folder: <b>O-BAIJIA-05072004-1</b>
06-07-2004	Week Meeting	File Folder: <b>O-BAIJIA-06072004-1</b>
09-07-2004	Meeting – All Employees	File Folder: <b>O-BAIJIA-09072004-1</b>
12-07-2004	Week Meeting	File Folder: <b>O-BAIJIA-12072004-1</b>
12-07-2004	Week Meeting – Department	File Folder: <b>O-BAIJIA-12072004-2</b>
15-07-2004	Work site observation	File Folder: <b>O-BAIJIA-15072004-1</b>
16-07-2004	Within department observation	File Folder: <b>O-BAIJIA-17072004-1</b>
23-07-2004	Week Meeting	File Folder: <b>O-BAIJIA-23072004-1</b>
26-07-2004	Week Meeting	File Folder: <b>O-BAIJIA-26072004-1</b>

### 3.6.2.3. Document Study

Besides in-depth interviews and on-site observations, document study is another important data collection method. Certain documents were collected by the researcher from contacts in FCC, BAIJIA and FOTON before the start of field research in order to obtain some background information. These documents were found useful to help the researcher define the three cases, find the right interviewees, especially at the beginning stage of the fieldwork, and prepare the interview questions. As the field research proceeded, more and more documents focusing on the cases examined were collected. The researcher studied these documents to generate a more comprehensive image of the changes. Although middle managers' thinking and certain behaviours during the changes could not be concluded directly from these documents, the researcher indeed identified the important change episodes about which questions were asked to encourage the discussion of middle managers' thinking and behaviours. In addition, these documents also help certify interviewees' arguments. The documents collected showed different physical outlooks – books, newspapers, web pages, photos and files. A list of documents was written up for each case. An example can be found in Table 3.8.

**Table 3.8 List of Documents – FOTON**

<b>Type</b>	<b>Documents</b>	<b>Folder</b>
Book	The development of FUTIAN (the old name of FOTON)	D-FOTON-B
Advertisements	The products and brands of FOTON	D-FOTON-A
Newspaper	FOTON's internal newspaper	D-FOTON-N
Internal Files	Structure of FOTON and changes	D-FOTON-I
Strategy Files	FOTON's strategy development plan	D-FOTON-S
Web Files	Public resources of FOTON	D-FOTON-W
Introduction Files	FOTON's Introduction	D-FOTON-D
Photo	FOTON's Photos	D-FOTON-P

### **3.7. Data Analysis**

The data analysis in the research adopted Miles and Huberman's (1994) approach and methods. They were found to be highly practical and easy to use in both on-field and off-field data analysis processes. Miles and Huberman (1994) suggested that researchers use an interactive model of qualitative data analysis, which was further developed by Balogun. From this view, qualitative data analysis consists of four activities: data reduction, data display, conclusion drawing/verification and comparison with theory. Several methods were employed by the researcher to apply this model in the qualitative data analysis of the research. While the researcher was still in the field, four methods – contact summary sheet, documentary summary form, coding and memo – were employed. After finishing data collection, the researcher re-examined the data, continued coding, presented descriptive data, produced a causal network and made comparison among cases. This process will be discussed in detail below.

#### **3.7.1. The Interactive Model of Qualitative Data Analysis**

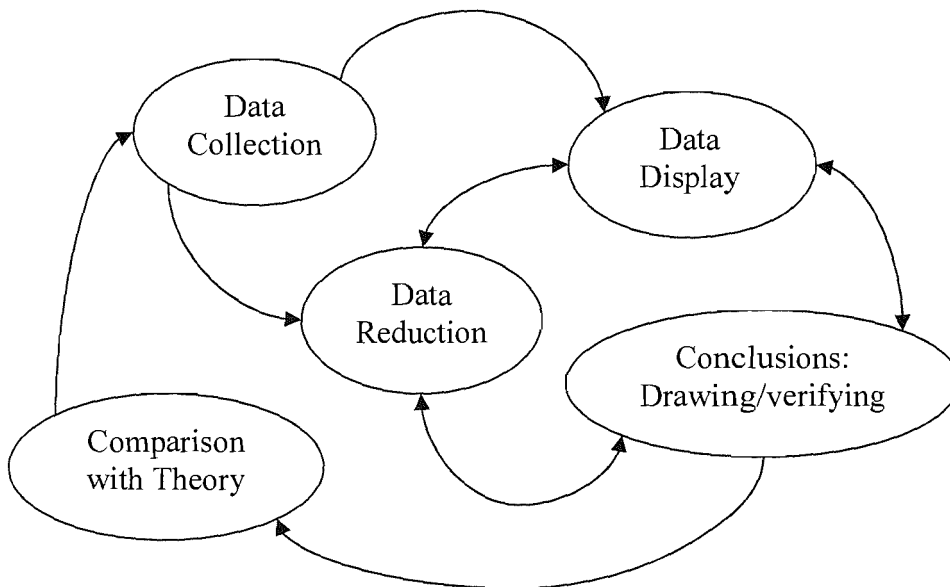
The orientation of qualitative data analysis methods that Miles and Huberman introduced holds an identical view to that of interpretivism. The two authors 'agree with interpretivists who point out that knowledge is a social and historical product and that "facts" come to us laden with theory' and 'affirm the existence and importance of subjective, the phenomenological, the meaning-making at the centre of social life' (Miles and Huberman, 1994: 4). This orientation minimizes the possibility of conflicts appearing between the research philosophy adopted and the analysis methods used in the research.

From Miles and Huberman's view, qualitative analysis consists of 'three concurrent flows of activity: data reduction, data display, and conclusion drawing/verification' (Miles and Huberman, 1994: 10). Data reduction is to select, focus, simplify, abstract, and transform the data in field notes or transcriptions. It occurs continuously and appears throughout the whole life of the research. Data display refers to information

organization and assembly, which prepares for the later drawing of conclusions. Then, conclusions appear and are verified as the analysis proceeds.

The interactive model of data analysis employed in the research is shown in Figure 3.1. In this view, the three types of analysis activities and data collection are interactive and cyclical. In Balogun’s workshop, another component is added: comparison with theory. For this component, the researcher compares the conclusions drawn/verified from qualitative data with current theories. The contribution is defined and the further theoretical discussion is evoked. The research analyses the qualitative data according to the interactive model, and it is expected that it will fully depict the context and process of strategic changes, interpret middle managers’ activities involved in the changes, and disclose causal relationships between their activities and changes. The data analysis in the research can be classified in two broad parts: data analysis within each of the three cases and data analysis across the three cases. Accordingly, the whole data analysis process is also introduced in these two parts.

**Figure 3.1 Interactive Model of Data Analysis**



### **3.7.2. Field Data Analysis**

The earliest data analysis began when the researcher was still collecting data. The data analysis in the field benefited the present research in the following two ways. First, it

helped me organize the field data for later analysis. Second, it helped me identify blind spots in the original data collection strategies; thus, more complete and higher quality data were collected. Four methods were employed to analyse data during the field research process: a contact summary sheet, a documentary summary form, coding and memo. The researcher used these methods to do the preliminary analysis based on interview transcripts, observation diaries and documents collected to start the data analysis process.

### **3.7.2.1. Contact Summary Sheet**

The writing of contact summary sheets was related to interviews and observations in the process of data collection. After finishing the interviews, a contact summary sheet was developed either before or after writing up transcriptions or notes. This summary sheet was based on the fresh memory of the interviewer. All the important information – the main issues explored, the interesting information emerging in the contact and the consideration of future contacts – was highlighted in a one-page summary sheet. An example can be found in Table 3.9. As for the observations, since I did them throughout the whole data collecting process, I chose to fill in one each time I found important information. The observation summary sheet was written up based on the observation diary and aimed to show all the important and interesting information and new thoughts for future data collection. In total 68 contact summary sheets were written up during the field research process. These contact summary sheets helped the researcher keep logical connections between two consecutive contacts and minimize the loss of important data.

**Table 3.9 Contact Summary Sheet – An Example**

<b>Contact Summary Sheet</b>	
<b>Contact Type (Visit or Phone):</b> Visit	
<b>Site:</b> FCC meeting room	
<b>Contact Date:</b> 20040910	
<b>Today's date:</b> 20040910	
<b>Written by:</b> W. Yang	
1.	What were the main issues or themes that struck you in this contact? The strategic change happened in FCC was very big. It seems that I can get sufficient documents and supports to examine this process. I decided to study the M6 project. Besides, they mentioned TPS, which was used to produce M6 cars. I also should pay attention on the adoption of this new production system.
2.	Summarize the information you got (or fail to get) on each of the target questions you had for this contact. Question1: Which change process do you think is strategic? Information: M6 Question2: Why is it strategic? Information: Several first – the first time to do it as an owner; the first time to cooperate with an international car manufacturers; the first time to introduce another brand; the first time to break routines.
3.	Anything else that struck you as salient, interesting, illuminating or important in this contact? It is an international cooperation project. The political environment was very obvious in FCC.
4.	What new (or remaining) target questions do you have in considering the next contact with this site? I have to consider digging deeper in the changes happening within this project. Pang is the appropriate interviewee.

### **3.7.2.2. Documentary Summary Form**

The documentary summary form was designed to analyse data contained in the documents collected. The researcher wrote a documentary summary form after each new document was collected during the field research process. The significance mainly resided in the brief summary of contents and their relations with other sources of data. These documentary summary forms could be used for data triangulation later on to increase the reliability of the collected data, and for cross referencing when I analysed data from different resources. An example can be seen in Table 3.10.

**Table 3.10 Documentary Summary Form – An Example**

**Document form**

**Site:** FOTON

**Document:** 1

**Date received or picked up:** 07/08/2004

**Date:** 10/10/2004

**Name or description of document:**

The Development of FUTIAN (FOTON)

**Event or contact, if any, with which document is associated:**

N/A.

**Significance or importance of document:**

A detail introduction of FOTON's development history.

Important for providing a thorough understanding of FOTON's current power structure.

**Brief summary of contents:**

The development history from a local factory to currently one of the important vehicle manufacturer in China.

The same chief manager from then to now.

The flexible usage of resources and government regulations at the critical point of development.

The strategy changes of FOTON during this process.

How did FOTON advertise its success?

The influence of development history on current FOTON's power structure.

The learning of FOTON in its development.

The historical guanxi between middle managers and senior managers in FOTON.

**If document is central or crucial to a particular contact**

N/A.



### 3.7.2.3. Memo

Many memos were also used together with contact summary sheets and documentary summary forms. ‘They are one of the most useful and powerful sense-making tools at hand’ (Miles and Huberman, 1994: 72). These memos were used to write down new ideas that probably contributed to data analysis. Since these were new ideas, they might not be systematically processed or well organized in the brain. More probably, they were bits and pieces and less conceptually elaborated (Glaser, 1978), shown in just a few words or a paragraph. However, these characteristics did not undermine these new ideas’ significant meaning as powerful materials facilitating systematic data analysis. Memos helped grasp the sparkles in the brain during the data collection process. An example is shown in Table 3.11.

**Table 3.11 Memo – An Example**

<h2>Memo 5</h2>
<p><b>Date:</b> 20040826 <b>Site:</b> FOTON <b>Theme:</b> Power Play</p>
<p>There was still power play atmosphere in FOTON, but mainly in middle managers’ level. First, there was a comparative complete promotion system in FOTON, which minimized the intervention of personal relationship. However, the evaluation of senior managers was also important, and often changed objective evaluation. In another word, middle managers had to gain the trust from senior managers in order to promote. Second, the chief manager had absolute power in FOTON. His power, in one side, came from authorised power resources, and, in the other side, from the trust developed within FOTON. Thus, the chief manager basically did not need to play power games to legitimize his decisions and facilitate the implementation. The occasionally play of power games was mainly designed to acquire important resources for FOTON. Third, there was no enough external control for the chief manager’s power. This enhanced the chief manager’s authority in FOTON. At last, compare with the absolute power in senior managers’ level, there was a great amount of middle managers in FOTON. They were the major power players.</p>

### **3.7.2.4. Coding**

In order to more effectively organize and retrieve data, the researcher also employed a coding method during the data collection process. 'Codes are tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study' (Miles and Huberman, 1994). As Miles and Huberman (1994) suggest that 'qualitative research depends heavily on ongoing analysis, and coding is a good device for supporting that analysis' (page: 66), coding should be carried out while collecting data instead of being put off to the end of data gathering. Before the researcher went into the research field, an initial list of codes was created (see Table 3.12) based on the theoretical framework developed from the literature review. It was purely descriptive. The data collected at the earlier stage were guided by the theoretical framework and organized by the initial list of codes. However, the researcher followed a rule of keeping an eye on all new and interesting information. Thus, with the data collection proceeding, the original coding list was gradually changed and developed as field experience continued: some codes did not work, some decayed, some were newly added in and others flourished. These codes were widely used in contact summary sheets, documentary summary forms, and memos to categorize information. At this stage, the codes were mainly descriptive. The researcher chose to do the coding manually.

**Table 3.12 The Initial List of Codes**

SHORT DESCRIPTIONS	CODES	RESEARCH QUESTIONS
<b>Context</b>	<b>CT</b>	3
External Context	CT-E	3
Internal Context	CT-I	3
<b>Strategic Change</b>	<b>SC</b>	<b>1, 2</b>
Change Decision Making	SC-DM	1, 2
Decision Maker	SC-DM-M	1, 2
Decision Making Process	SC-DM-P	1, 2
Change Implementation	SC-IM	1, 2
Change Implementers	SC-IM-M	1, 2
Change Process	SC-IM-P	1, 2
Changes	SC-C	1, 2
<b>Organizational Learning</b>	<b>OL</b>	<b>1, 2</b>
Knowledge Acquisition in Organization	OL-KA	1, 2
Information Distribution in Organization	OL-ID	1, 2
Information Interpretation in Organization	OL-II	1, 2
Power in Organizational Learning	OL-PW	1, 2
Power in Knowledge Acquisition	OL-PW-KA	1, 2
Power in Knowledge Distribution	OL-PW-KD	1, 2
Power in Information Interpretation	OL-PW-II	1, 2
<b>Power</b>	<b>PW</b>	<b>1, 2</b>
Power Bases in Organization	PW-PB	1, 2
Power Intent in Organization	PW-PI	1, 2
Power Mean in Organization	PW-PM	1, 2
Learning in Power	PW-LN	1, 2
Knowledge Acquisition in Power	PW-LN-KA	1, 2
Knowledge Distribution in Power	PW-LN-KD	1, 2
Information Interpretation in Power	PW-LN-II	1, 2
<b>Middle Managers</b>	<b>MM</b>	<b>1, 2</b>
MMs' Learning Behaviours	MM-LN	1, 2
MMs' Knowledge Acquisition	MM-LN-KA	1, 2
MMs' Knowledge Distribution	MM-LN-KD	1, 2
MMs' Information Interpretation	MM-LN-II	1, 2
MMs' Power behaviours	MM-PW	1, 2
MMs' Power Bases	MM-PW-PB	1, 2
MMs' Power Intent	MM-PW-PI	1, 2
MMs' Power Exercise	MM-PW-PE	1, 2
MMs' Combinative Using of Power and Knowledge	MM-CB	1, 2
MMs' Employment of Knowledge in Power Exercise	MM-CB-LP	1, 2
Knowledge in Acquiring Power	MM-CB-LP-PA	1, 2
Learning as Power Intent	MM-CB-LP-PI	1, 2
Learning as a Means of Exerting Influences	MM-CB-LP-PM	1, 2
MMs' Employment of Power in Learning Process	MM-CB-PL	1, 2
Power in Knowledge Acquisition	MM-CB-PL-AQ	1, 2
Power in Knowledge Distribution	MM-CB-PL-KD	1, 2
Power in Information Interpretation	MM-CB-PL-II	1, 2

### **3.7.3. Data Analysis after Data Collection**

The post-collection data analysis was carried out in the sequence of first description and then explanation. This logical sequence was accordant with the natural analytic progression found in Rein and Schon (1977)'s argument – from a story in a context, a map to formalize elements and variables of the story is developed, and then a theory or model is built up based on the ‘map’ – and further enhanced by Miles and Huberman's (1994) assertion that the deeper story is ‘both variable-oriented and process-oriented’ (p. 91). Thus, the whole analysis process is a ‘ladder of abstraction’ (Carney, 1990). There were three sub-levels – summarizing and packaging the data, repackaging and aggregating the data and developing and testing propositions to construct an explanatory framework – in this process. Data collected were first reduced, then condensed and finally integrated into an explanatory framework.

#### **3.7.3.1. Re-examination of Data**

Data analysis after leaving the field began with the thorough examination of the data collected including interview transcripts and notes, observation diaries, documents collected, contact summary sheets, document summary forms and memos. All the important interview records left were also finally converted into transcriptions at this stage. Although important data had been either categorized or highlighted in the earlier field data analysis, important data were probably still missing. This re-examination of the complete data set aimed to minimize the amount of missing data and prepare for later data analysis. This choice proved to be valuable. Certain data, especially those collected at the earlier stage when the researcher did not have a deep understanding of the cases, were indeed neglected. At the end of data re-examination, a file folder containing the complete data collected was created.

#### **3.7.3.2. Coding**

Along with the examination of data collected, coding continued. The coding process went along with the re-examination of data. Line-by-line coding was applied to interview transcripts, interview notes and documents. The researcher expected to make codes as detailed as possible. Thus, a great number of sub-categories with appropriate codes were created under the theoretical framework. The number of codes

was about 143 in the final list (see Table 3.13). At the end of the coding process, a comparatively complete list of codes was finally developed.

**Table 3.13 The Final List of Codes**

SHORT DESCRIPTIONS	CODES	RESEARCH QUESTIONS
<b>Organizational Learning</b>	<b>OL</b>	<b>1, 2</b>
Knowledge Acquisition in Organization	OL-KA	1, 2
Knowledge Developer	OL-KA-KDP	1, 2
Knowledge Development	OL-KA-KDT	1, 2
Knowledge Developed	OL-KA-KDD	1, 2
Information Distribution in Organization	OL-ID	1, 2
Information Distributor	OL-ID-IDR	1, 2
Distribution Motive	OL-ID-IDM	1, 2
Distribution Means	OL-ID-IDS	1, 2
Information Interpretation in Organization	OL-II	1, 2
Information Interpreter	OL-II-IIR	1, 2
Interpretation Motive	OL-II-IIM	1, 2
Interpretation Model	OL-II-IIL	1, 2
Power in Organizational Learning	OL-PW	1, 2
Power in Knowledge Acquisition	OL-PW-KA	1, 2
Power in Knowledge Distribution	OL-PW-KD	1, 2
Power in Information Interpretation	OL-PW-II	1, 2
<b>Power</b>	<b>PW</b>	<b>1, 2</b>
Power Bases in Organization	PW-PB	1, 2
Major Power Bases	PW-PB-MPB	1, 2
The Relationship among Different Power Bases	PW-PB-RLS	1, 2
Power Intent in Organization	PW-PI	1, 2
Power Mean in Organization	PW-PM	1, 2
Learning in Power	PW-LN	1, 2
Knowledge Acquisition in Power	PW-LN-KA	1, 2
Knowledge Distribution in Power	PW-LN-KD	1, 2
Information Interpretation in Power	PW-LN-II	1, 2
<b>Middle Managers</b>	<b>MM</b>	<b>1, 2</b>
MMs' Learning Behaviours	MM-LN	1, 2
MMs' Knowledge Acquisition	MM-LN-KA	1, 2
MMs' Knowledge Distribution	MM-LN-KD	1, 2
MMs' Information Interpretation	MM-LN-II	1, 2
MMs' Power behaviours	MM-PW	1, 2
MMs' Power Bases	MM-PW-PB	1, 2
MMs' Power Intentions	MM-PW-PI	1, 2
MMs' Power Exercise	MM-PW-PE	1, 2
MMs' Combinative Using of Power and Knowledge	MM-CB	1, 2
MMs' Employment of Knowledge in Power Exercise	MM-CB-LP	1, 2
Knowledge in Acquiring Power	MM-CB-LP-PA	1, 2
Learning as Power Intent	MM-CB-LP-PI	1, 2
Learning as a Mean of Exerting Influences	MM-CB-LP-PM	1, 2
MMs' Employment of Power in Learning Process	MM-CB-PL	1, 2
Power in Knowledge Acquisition	MM-CB-PL-AQ	1, 2

Power in Knowledge Distribution	MM-CB-PL-KD	1, 2
Power in Information Interpretation	MM-CB-PL-II	1, 2
<b>Middle-up-down Learning</b>	<b>ML</b>	<b>1, 2</b>
Knowledge Acquisition	ML-KA	1, 2
Middle Managers Acquiring New Knowledge	ML-KA-MN	1, 2
Senior Managers Acquiring Confidential Knowledge	ML-KA-SC	1, 2
Middle Managers' Experimental Learning	ML-KA-EL	1, 2
Senior and Middle Managers' Non-experimental Learning	ML-KA-NE	1, 2
Tacit Knowledge	ML-KA-TK	1, 2
Explicit Knowledge	ML-KA-EK	1, 2
Information Distribution	ML-ID	1, 2
Middle Managers Distributing new Knowledge	ML-ID-MN	1, 2
Senior Managers Distributing Senior Level Information	ML-ID-SS	1, 2
Enhancing Influences	ML-ID-EI	1, 2
Middle Managers' Indirect Information Distribution	ML-ID-MD	1, 2
Senior Managers' Direct Information Distribution	ML-ID-SD	1, 2
Versatile Distribution Methods	ML-ID-VD	1, 2
Information Interpretation	ML-II	1, 2
Middle Managers Dominating New Knowledge Interpretation	ML-II-MD	1, 2
Senior Managers' Interpretation of Confidential Knowledge	ML-II-SC	1, 2
Enhancing Influences	ML-II-EI	1, 2
Decision Legitimization for Senior Managers	ML-II-DL	1, 2
Facilitating Implementation for Senior Managers	ML-II-FI	1, 2
Professional Knowledge Used by Middle Managers	ML-II-PK	1, 2
Contextual Knowledge Used by Middle Managers	ML-II-CK	1, 2
<b>Top-down Learning</b>	<b>TL</b>	<b>1, 2</b>
Knowledge Acquisition	TL-KA	1, 2
The Chief Managers Acquiring Knowledge	TL-KA-SK	1, 2
Middle Managers Acquiring Knowledge through Personal		
Relations	TL-KA-MP	1, 2
Non-Experimental Learning	TL-KA-NE	1, 2
Explicit Knowledge	TL-KA-EK	1, 2
Information Distribution	TL-ID	1, 2
The Chief Managers as Information Distributors	TL-ID-CI	1, 2
Decision Legitimization	TL-ID-DL	1, 2
Facilitating Implementation	TL-ID-FI	1, 2
Direct Distribution	TL-ID-DD	1, 2
Versatile Distribution Methods in FOTON	TL-VD	1, 2
Information Interpretation	TL-II	1, 2
The Chief Managers as Information Interpreters	TL-II-SI	1, 2
Decision Legitimization	TL-II-DL	1, 2
Facilitating Implementation	TL-II-FI	1, 2
Management Knowledge Used in BAIJIA and FOTON	TL-II-MK	1, 2
Professional Knowledge Used in FOTON	TL-II-PK	1, 2
<b>Interdependent Power Exercise</b>	<b>IE</b>	<b>1, 2</b>
Power Base	IE-PB	1, 2
Position Power and Empower	IE-PB-PP	1, 2
Knowledge Power	IE-PB-KP	1, 2
Relation Power	IE-PB-RP	1, 2
Comparatively Equal Relationship among Power Bases	IE-PB-EQ	1, 2
Power Intent	IE-PI	1, 2
Enhancing Influences	IE-PI-EI	1, 2
Power Exercise Means	IE-PM	1, 2
Communication	IE-PM-CM	1, 2

Relationship	IE-PM-RL	1, 2
<b>Uni-polar Power Exercise</b>	<b>UP</b>	<b>1, 2</b>
Power Base	UP-PB	1, 2
Position Power	UP-PB-PP	1, 2
Position Power Being Decisive in BAIJIA	UP-PB-PD	1, 2
Knowledge Power Enhancing Position Power in FOTON	UP-PB-KP	1, 2
Power Intent	UP-PI	1, 2
Control and Safety in BAIJIA	UP-PI-CS	1, 2
Leading and Obedience in FOTON	UP-PI-LO	1, 2
Power Exercise Means	UP-PM	1, 2
Order and Report Process	UP-PM-OR	1, 2
Relationship	UP-PM-RL	1, 2
Fulfilment	UP-PM-FF	1, 2
<b>Power Influencing New Knowledge Development</b>	<b>PB&gt;NK</b>	<b>1, 2</b>
<b>Power Influencing Information Interpretation Results</b>	<b>PB&gt;II</b>	<b>1, 2</b>
<b>Power Exercise Mean Deciding Knowledge Distribution Efficiency</b>	<b>PE&gt;DE</b>	<b>1, 2</b>
<b>New Knowledge as Power Base</b>	<b>NK&gt;PB</b>	<b>1, 2</b>
<b>Knowledge Acquisition as a Natural Power Exercise Intent</b>	<b>KA&gt;PI</b>	<b>1, 2</b>
<b>Knowledge Distribution as Mean of Exercising Power</b>	<b>KD&gt;PM</b>	<b>1, 2</b>
<b>Information Interpretation as Mean of Exercising Power</b>	<b>II&gt;PM</b>	<b>1, 2</b>
<b>Role of ‘Strategists-at-Middle’</b>	<b>RL-SM</b>	<b>1, 2</b>
Influencing	RL-SM-IF	1, 2
Communication	RL-SM-CM	1, 2
Combinative Power Bases	RL-SM-CB	1, 2
Approaching	RL-SM-AP	1, 2
<b>Role of ‘Implementers’</b>	<b>RL-IP</b>	<b>1, 2</b>
Fulfilment	RL-IP-FF	1, 2
Interpretation	RL-IP-IT	1, 2
Position Power	RL-IP-PP	1, 2
Connector	RL-IP-CN	1, 2
<b>Strategists-at-middle</b>	<b>MS</b>	<b>1, 2</b>
New Knowledge Advantage	MS-NK	1, 2
Contacts with New Knowledge	MS-NK-CT	1, 2
Experimental Learning	MS-NK-EL	1, 2
Contextual Knowledge	MS-NK-CK	1, 2
Communication with Senior Managers	MS-CM-SM	1, 2
Five Decisions	MS-CM-SM-FD	1, 2
Dilemmas	MS-CM-SM-DL	1, 2
Transaction	MS-CM-SM-TR	1, 2
With Lower Employees	MS-CM-LE	1, 2
Differentiating	MS-CM-LE-DF	1, 2
Education	MS-CM-LE-ED	1, 2
<b>Implementers</b>	<b>IP</b>	<b>1, 2</b>
Contextual Knowledge	IP-CK	1, 2
Interpretation with Senior Managers	IP-IT-SM	1, 2
Understand	IP-IT-SM-US	1, 2
Break-down	IP-IT-SM-BD	1, 2
Indoctrinate	IP-IT-SM-ID	1, 2
With Lower Employees	IP-IT-LE	1, 2
Evaluate	IP-IT-LE-EV	1, 2
Combining	IP-IT-LE-CB	1, 2
Report	IP-IT-LE-RP	1, 2
<b>External Control</b>	<b>EC</b>	<b>3</b>

<b>Historical Development</b>	<b>HD</b>	<b>3</b>
<b>Democratic Leadership</b>	<b>DL</b>	<b>3</b>
<b>Learning System</b>	<b>LS</b>	<b>3</b>
<b>Rule of men</b>	<b>RM</b>	<b>3</b>
<b>Middle Managers' Abilities</b>	<b>AB</b>	<b>3</b>
La Guanxi	AB-LG	3
Communication	AB-CM	3
Implementation	AB-IP	3
Learning	AB-LN	3
<b>Unchangeable Guanxi Bases</b>	<b>UG</b>	<b>3</b>
Family	UG-FM	3
Education	UG-ED	3
Fellow-townmen	UG-FT	3
<b>Personal Interests</b>	<b>PI</b>	<b>3</b>
<b>Guanxi</b>	<b>GX</b>	<b>3</b>
Trust	GX-TR	3
Without Trust	GX-NT	3
Balanced Power	GX-BP	3
Uni-polar Power	GX-UP	3
<b>Positive Relationship between La Guanxi and Trust Guanxi</b>	<b>AB-LG+&gt; GX-TR</b>	<b>3</b>
<b>Positive Relationship between Unchangeable Guanxi Bases and Trust Guanxi</b>	<b>UG+&gt; GX-TR</b>	<b>3</b>
<b>Positive Relationship between External Control and Balanced Guanxi</b>	<b>EC+&gt; GX-BP</b>	<b>3</b>
<b>Positive Relationship between Democratic Leadership and Balanced Guanxi</b>	<b>DL+&gt; GX-BP</b>	<b>3</b>
<b>Positive Relationship between Communication Ability and Balanced Guanxi</b>	<b>AB-CM+&gt; GX-BP</b>	<b>3</b>
<b>Positive Relationship between Learning Ability and Balanced Guanxi</b>	<b>AB-LN+&gt; GX-BP</b>	<b>3</b>
<b>Negative Relationship between Development History and Balanced Guanxi</b>	<b>SH-&gt; GX-BP</b>	<b>3</b>
<b>Negative Relationship between Implementation Ability and Balanced Guanxi</b>	<b>AB-IP-&gt; GX-BP</b>	<b>3</b>
<b>Positive Relationship between Trust Guanxi and Position</b>	<b>GX-TR+&gt;PS</b>	<b>3</b>
<b>Positive Relationship between Position and Contacts with New Knowledge</b>	<b>PS+&gt;CT</b>	<b>3</b>
<b>Positive Relationship between Contacts with New Knowledge and New Knowledge Advantage</b>	<b>CT+&gt;NA</b>	<b>3</b>
<b>Positive Relationship between Trust Guanxi and Perceived Power</b>	<b>GX-TR+&gt;PP</b>	<b>3</b>
<b>Positive Relationship between Perceived Power and Legitimization</b>	<b>PP+&gt;LG</b>	<b>3</b>
<b>Positive Relationship between Legitimization and Motive of Influence</b>	<b>LG+&gt;MT-IF</b>	<b>3</b>
<b>Positive Relationship between Legitimization and Experiment Learning</b>	<b>LG+&gt;EL</b>	<b>3</b>
<b>Positive Relationship between Experiment Learning and Knowledge Advantage</b>	<b>EL+&gt;NA</b>	<b>3</b>
<b>Positive Relationship between Trust Guanxi and Feeling of Secure</b>	<b>GX-TR+&gt;SF</b>	<b>3</b>
<b>Positive Relationship between Feeling of Secure and Motive of Influencing</b>	<b>SF+&gt;MT-IF</b>	<b>3</b>
<b>Negative Relationship between Trust Guanxi and Motive of Fulfilment</b>	<b>GX-TR-&gt; MT-FF</b>	<b>3</b>
<b>Positive Relationship between Trust Guanxi and Informal Communication</b>	<b>GX-TR+&gt;MN-IC</b>	<b>3</b>

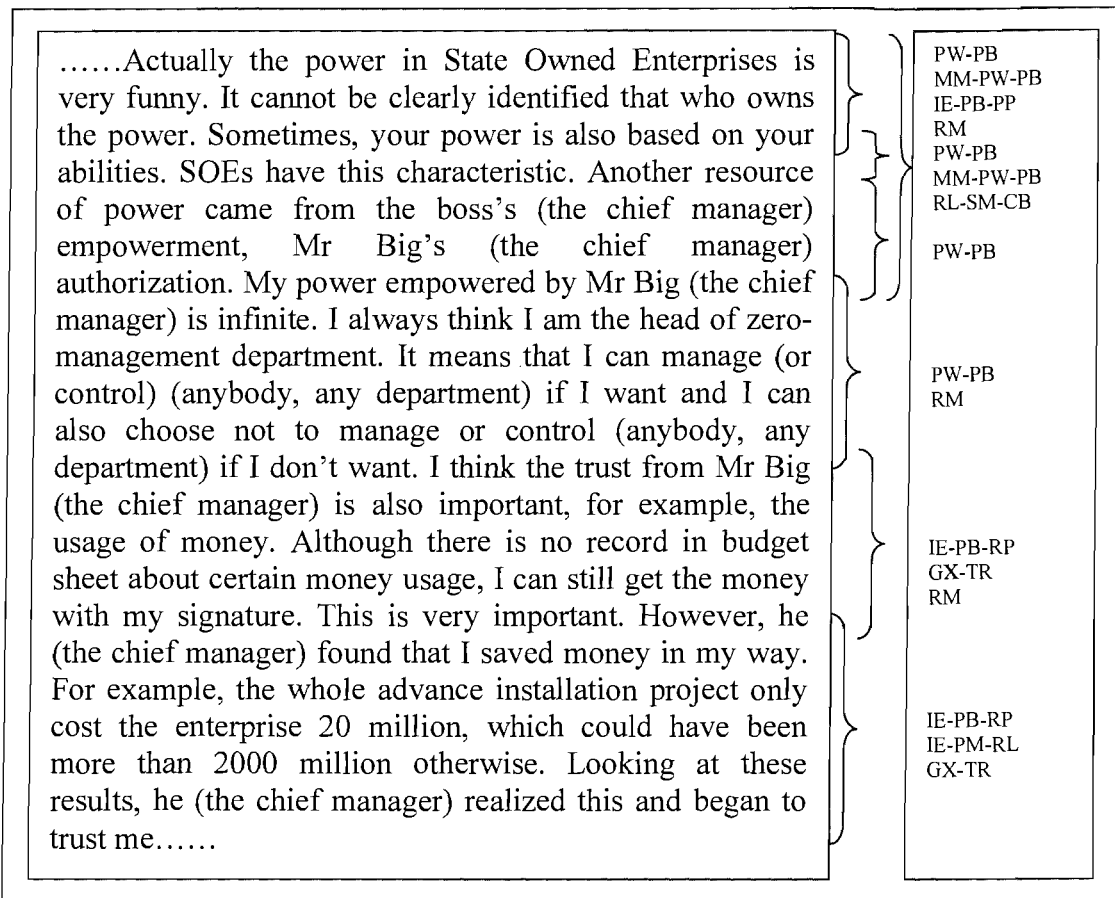


<b>Positive Relationship between Balanced Guanxi and Influence Motive</b>	<b>GX-BP+&gt;MN-IF</b>	<b>3</b>
<b>Negative Relationship between Balanced Guanxi and Fulfilment Motive</b>	<b>GX-BP-&gt; MT-FF</b>	<b>3</b>
<b>Positive Relationship between Balanced Guanxi and Informal Communication</b>	<b>GX-BP+&gt;MN-IC</b>	<b>3</b>
<b>Positive Relationship between Personal Interest and Motive of Influencing</b>	<b>PI+&gt;MT-IF</b>	<b>3</b>
<b>Positive Relationship between Personal Interest and Informal Communication</b>	<b>PI+&gt;MN-IC</b>	<b>3</b>
<b>Positive Relationship between Learning System and Contacts with New Knowledge</b>	<b>LS+&gt;CT</b>	<b>3</b>
<b>Positive Relationship between Learning System and Formal Communication</b>	<b>LS+&gt;FC</b>	<b>3</b>

There are three types of code – descriptive codes, interpretive codes and pattern codes – employed in the data analysis process. Among them, descriptive codes ‘attribute a class of phenomena to a segment of text’ (Miles and Huberman, 1994: 57) with little interpretation. This type of code was used mainly in the earlier stage of data analysis. With the analysis moving on, the researcher became more knowledgeable about the cases and used more interpretive codes. As patterns became clearer, pattern codes were also used to discern patterns illustrated in field notes. They are more inferential and explanatory than the former two types. One thing to mention was that these codes were employed on different levels and at different times of analysis. Thus, the researcher chose to occasionally re-read the field materials in order to make meaning from all the data collected. Since it is difficult to decide when coding is over, the researcher took Lincoln and Guba’s (1985) suggestion that coding was over when the analysis itself appeared to have run its own course.

The researcher chose to do coding manually, and thus used many reflective and marginal remarks during the process. Here an example (Figure 3.2) will be presented in order to illustrate this coding process. The example consisted of two paragraphs cut from the transcripts – file I-MM-FCC-1-2 (The second interview of middle manager No. 1 in the case of FCC). Both paragraphs were originally written in Chinese in the file. Since interviews were actually done in Chinese, the researcher chose to keep all files in Chinese in order to avoid any information loss while translating. The English version here is just shown for readers without any Chinese background to understand the contents properly. However, the codes were designed in English from the very beginning.

**Figure 3.2 An Example of the Coding Process**



After the researcher had looked through it for the first time, descriptive codes – PW-PB and MM-PW-PB – were used to summarize the information contained in the paragraph. The first code represented FCC's power bases: position and empowerment power being discussed in the paragraph. The second code represented middle managers' power bases: the middle managers getting big empowerment power from senior managers and being constrained by their abilities in FCC, and getting benefits from their trust relationships with senior managers. As mentioned above, these codes were descriptive and mainly come from the theoretical framework. The coding at this stage was quite straightforward.

As the researcher became more knowledgeable about the cases of FCC, BAIJIA and FOTON, more interpretive and explanatory codes emerged from the same paragraph.

The researcher had to re-examine the same paragraph when coding proceeded in order to extract good meaning from it. During this re-examination process, the researcher used three codes 'IE-PB-PP', 'IE-PB-RP' and 'RL-MS-CB' to define the characteristics of the pattern of FCC's exercise of power shown in this paragraph. The first two codes described the position and empowerment power, and relation power in the pattern of FCC's exercise of power. The last code described the combinative power bases for strategists-at-middle. At the same time, the researcher further identified two factors – trust 'guanxi' between middle managers and senior managers, and 'rule of men' – being implied by the paragraph. Referring to other interview transcripts, the bigger budget negotiation power of middle managers came from their trust 'guanxi' with senior managers. The confusing holding of power was one phenomenon of 'rule of men'. 'Rule of men' was also the prerequisite of trust 'guanxi' exerting its influence on middle managers' behaviour. Thus, two codes, 'GX-TR' and 'RM', were also used to highlight the information contained in the paragraph.

### **3.7.3.3. Cross-Case Data Analysis**

The cross-case analysis here adopts case-oriented strategies. As Noblit and Hare (1988) argue, this approach is more like a synthesizing interpretation process across cases. This strategy consists of several sub-strategies: 'reciprocal translations', 'refutational syntheses' and 'lines-of-argument syntheses'. These sub-strategies are used to analyse the predictability of findings of one case on the other cases, to examine contradictions across cases, and to build a general interpretation of different cases. Moreover, Yin (1984) highlights a 'replication strategy'. One case is examined in depth by a theoretical framework, and a pattern is found. Next, the other cases are examined to check for a match of the pattern found previously. Compared with the single case study, multiple case studies help strengthen the theory developed through the examination of similarities and differences across cases. It is expected that the description can be more sophisticated and the explanation more powerful by employing multiple case studies.

Cross-case data analysis was based on the within-case data analysis described above. After finishing within-case data analysis, each case had a thick description and

explanation of middle managers' roles and contributions to strategic change from the learning perspective and the power perspective. The cross-case data analysis particularly focused on the similarities and differences among the three cases and pursued the proper explanations. Since there was a theoretical framework guiding the data collection and analysis, it was comparatively an easier task to compare between cases. The comparison happened first in major dimensions of middle managers' roles and contributions from the learning perspective and the power perspective, like three learning behaviours on two levels and power base, intent and mean on three levels. Two patterns – FCC being one and BAIJIA and FOTON sharing one – were easily identified from these descriptive data. To support both patterns, two separate models of middle managers were developed. The one supporting the pattern of BAIJIA and FOTON was defined by identifying important common elements of middle managers' learning activities and exercise of power, which accounted for their similar roles in both cases. These conclusions will be shown in Chapter 6.

At the same time, a comprehensive causal network was developed based on the causal networks developed in each case. According to the logic presented in the replication strategy of cross-case analysis, the researcher took the causal network of the FCC case as the first and improved it by examining the other two cases. Certain variables were added. The variables that were less important for certain cases were still kept in the network. Then, two outcomes of the two different patterns were defined. The differences in mediating variables and starting variables, which influenced the outcomes, were soon identified. The reasons why there were two different patterns of middle managers in three cases were finally explained by this comprehensive causal network (further details in Chapter 7).

#### **3.7.3.4. Data Display**

As an integrated part of the interactive qualitative data analysis model, data display is 'a visual format that represents information systematically, so the user can draw valid conclusions and take needed action' (Miles and Huberman, 1994: 91). It is argued that 'valid analysis requires, and is driven by, displays that are focused enough to permit a viewing of a full data set in the same location, and are arranged systematically to answer the research questions at hand' (Miles and Huberman, 1994: 91-92). Thus,

extended and unreduced text, the typical mode of display faced by qualitative researchers, is only 'a weak and cumbersome form of display' (Miles and Huberman, 1994: 91). The data display discussed here will mainly focus on the more sophisticated display formats used by the researcher to answer research questions during the data analysis process.

Matrix and network were adopted as the main data display formats. The matrices were designed based on the research questions and the theory framework. They were mainly descriptive and explorative. In within-case analysis, each matrix was tailored for answering one question. For example, in order to answer the question 'how do middle managers' employ learning behaviours and power behaviours together?', a matrix of middle managers with two dimensions, 'learning behaviours' and 'power behaviours', was developed. In cross-case analysis, case-oriented variable matrices were employed to illustrate the similarities and differences among three cases. All these matrices had two dimensions: case and important themes. One thing to mention was that all the important themes shown in each case should be covered though some of them might not be intrusive in certain cases. These matrices constituted the basic blocks of descriptive data analysis across cases. Texts were also written down to support the understanding of these matrices. In comparison, the networks were mainly used to represent the causal relationships among variables. They were full of explanatory power. The networks consisted of knots, representing variables, and arrows, representing influencing functions and directions. The final layout of the networks depended only on the data collected.

Based on the analysis conducted within case and across cases, the researcher tried to extract, condense and summarize data and filled in appropriate cells efficiently. While designing the matrices, the researcher had already developed certain ideas of the information input in cells. The task at this stage was mainly focused on extracting, condensing and summarizing data. The standards obeyed were most relative and most condensed without harming the understanding. This was once again a data reduction process. Moreover, the researcher also tried to keep to the data input standards from the very beginning to the end.

### **3.7.4. An Illustration of Data Analysis Process – a ‘Guanxi’-Centred Explanation Network**

In this section, the development of a ‘guanxi’-centred explanation network will be shown in order to illustrate the qualitative data analysis process described above. This network was developed to answer the question, ‘why do middle managers have proactive or reactive roles in strategic change?’ This analysis process is explanatory and based on the descriptive analysis of organizational learning patterns and exercise of power patterns and middle managers’ roles in the three cases. At the same time, the development of a ‘guanxi’-centred explanation network also employed several cross-case analysis techniques. Therefore, this is the most complicated part of the whole data analysis process. Below, the researcher will show the development of the ‘guanxi’-centred explanation network in three steps: the identification of ‘guanxi’ as the central concept, the establishment of the causal network, and the presentation of the ‘guanxi’-centred explanation network.

#### **3.7.4.1. Identifying ‘Guanxi’ as the Central Concept**

Following the descriptive analysis of two organizational learning patterns, ‘middle-up-down’ and ‘top-down’, two exercise of power patterns, ‘interdependent’ and ‘uni-polar’, their interrelationships, and two roles of middle managers, ‘strategists in the middle’ and ‘implementers’, the researcher proceeded to explanatory data analysis. Firstly, relevant codes describing the two roles were reviewed. It was concluded from the analysis of middle managers’ proactive and reactive roles that the major differences lay in three areas: the development of new knowledge advantages, the motivation of information distribution and information distribution methods. Thus, the codes reviewed, which are shown in Table 3.14, were mainly in these three areas.

**Table 3.14 Codes Describing the Differences of Two Roles**

Codes	Meaning
MS	Strategists-at-middle
...	
<b>MS-KA-NK-CT</b>	Strategists-at-middle's contacts with new knowledge
<b>MS-KA-NK-EL</b>	Strategists-at-middle's experiment learning
...	
<b>MS-KD-CM-SM-FD</b>	Middle managers' five decisions
<b>MS-KD-CM-SM-DL</b>	Middle managers' dilemma
<b>MS-KD-CM-SM-TR</b>	Trust in 'Strategists-at-middle' knowledge distribution
<b>MS-KD-CM-LE-DF</b>	Differentiating lower employees
<b>MS-KD-CM-LE-ED</b>	Educating
...	
IP	Implementers
...	
<b>IP-IT-TD-BD</b>	Breaking down
<b>IP-IT-TD-ID</b>	Indoctrinating
...	
<b>IP-IT-BU-CB</b>	Combining
<b>IP-IT-BU-RP</b>	Reporting
...	
<b>RL</b>	Roles of Middle Managers
...	
<b>RL-MS-IF</b>	Influencing
<b>RL-IP-FF</b>	Fulfilment
<b>RL-MS-CM</b>	Communication
<b>RL-IP-IT</b>	Interpretation
<b>RL-MS-AP</b>	Approaching
<b>RL-IP-CN</b>	Connecting
<b>RL-MS-CB</b>	Combinative power base
<b>RL-IP-PP</b>	Position power base

While reviewing these 19 codes, the researcher identified the following break points to explain the differences between proactive and reactive middle managers: 1. be able to develop new knowledge advantages or not; 2. have a motive for selling their ideas and / or sharing their knowledge / information; 3. be able to successfully sell ideas and / or share knowledge / information. The researcher further found that 'guanxi' was mentioned by almost all the interviewees as an important factor influencing middle managers' decisions and behaviours. For example, from the interview with a

middle manager of FCC, codes MS-KD-CM-SM-TR and RL-MS-CM (also see section 7.3.3):

*“I think my communication with B<sup>3</sup> is comparatively more sufficient. How to say... I think our ‘guanxi’ is pretty good. Thus, I have more chances of meeting him, from drink after work to on-job chats, compared with others....”*

(Interviewee: FCC, Middle Manager B, Department of Product)

It was clearly shown that good ‘guanxi’ provided more opportunities for middle managers to communicate with senior managers. Interviewees also mentioned guanxi as an important factor influencing the development of new knowledge advantages and the motive for knowledge sharing. Furthermore, it was also found that majority of the other factors exerted their influences on middle managers’ decisions and behaviours through ‘guanxi’, based on interviewees’ explanations. For example, from the interview with a middle manager of BAIJIA, codes RL-IP-FF and RL-IP-CN (see also section 7.4.3):

*“No matter what he (the chief manager) said, he wants to be the only person making decisions in BAIJIA. He needs good followers, not thinkers. Sometimes, he likes to play some tricks by asking your opinions. However, you can feel that he did not expect your honest answers...We all know that. Why should we bother to make any suggestion then?”*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

The chief manager’s leadership was found to influence middle managers’ guanxi with him, and further influenced their expectations for positions and aims in BAIJIA. Thus, ‘guanxi’ was gradually identified as the central concept in this explanation network. Furthermore, it was also found that interviewees’ descriptions of ‘guanxi’ focused on ‘how trust is the guanxi between middle managers and senior managers’ and ‘if the trust applied only to implementation area’. Thus, two dimensions of ‘guanxi’ were also identified.

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<sup>3</sup> B: FCC, the Chief Manager.



### 3.7.4.2. Establishing the Explanation Network

The explanation analysis was variable-oriented and contextual. Explanation is a ‘concatenated description...putting one fact or law into relation with others’ (Kaplan, 1964). The causes of events are “conjunctural” – they combine and affect each other as well as the “effects” (Miles and Huberman, 1994: 146). Thus, cause and effect is better understood as a network. At the same time, since causality was local, the analysis also paid attention to the local context.

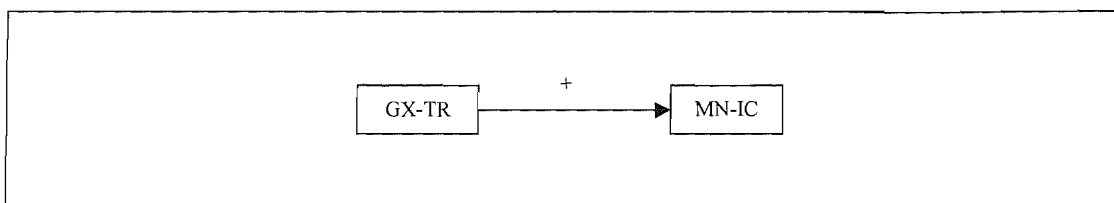
First, a variable list (Table 3.15) was established. The list included all variables found in the thorough examination described above. There were 28 variables in total in the list. These variables were re-organized into three categories: starting variables, mediating variables and outcomes. Starting variables were explanatory variables in the case. Mediating variables explained outcomes. At the same time, they were also explained by starting variables. Finally, outcomes were the variables explained by starting variables and mediating variables.

**Table 3.15 Variable List of Explanation Network**

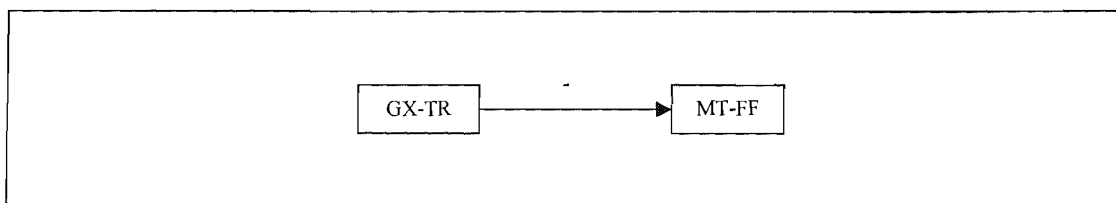
<b>Starting Variables</b>	<b>Mediating Variables</b>	<b>Outcomes</b>
Rule of Men (RM)	Guanxi between Middle Managers and Senior Managers	Middle Managers’ Role in Strategic Change
External Control (EC)	- Trust (GX-TR)	- Strategists -at-Middle (SM)
Successful Historical Development (SH)	- Balanced Power (GX-BP)	- Implementers (IP)
Democratic Leadership (DL)	Position (PS)	
Middle Managers’ Abilities	Contacts with New Knowledge (CT)	
- La Guanxi (AB-LG)	New Knowledge Advantage (NA)	
- Communication (AB-CM)	Perceived Power (PP)	
- Implementation (AB-IP)	Legitimization (LG)	
- Learning (AB-LN)	Experiment Learning Space (EL)	
Unchangeable Guanxi Bases	Feeling of Secure (SF)	
- Family (UG-FM)	Motive	
- Education (UG-ED)	- Influence (MT-IF)	
- Fellow-townsmen (UG-FT)	- Fulfilment (MT-FF)	
Personal Interests (PI)	Means	
Learning Systems (LS)	- Informal Communication (MN-IC)	
	- Formal Communication (MN-FC)	

Then, the establishment of the explanation network continued to the drawing process. It was incremental. I chose to draw one stream after another and finally obtained the whole network. Firstly, different streams of variables were developed from the themes and constituted many blocks of a causal network. For example, the first quote in section 3.7.4.1 implied a positive causal relationship (see Figure 3.3) between trust guanxi and informal communication. From the second interview transcript quoted in the same section, a negative causal relationship (see Figure 3.4) between trust relationship and fulfilment was shown.

**Figure 3.3 The Causal Relationship Implied by Quote 1**

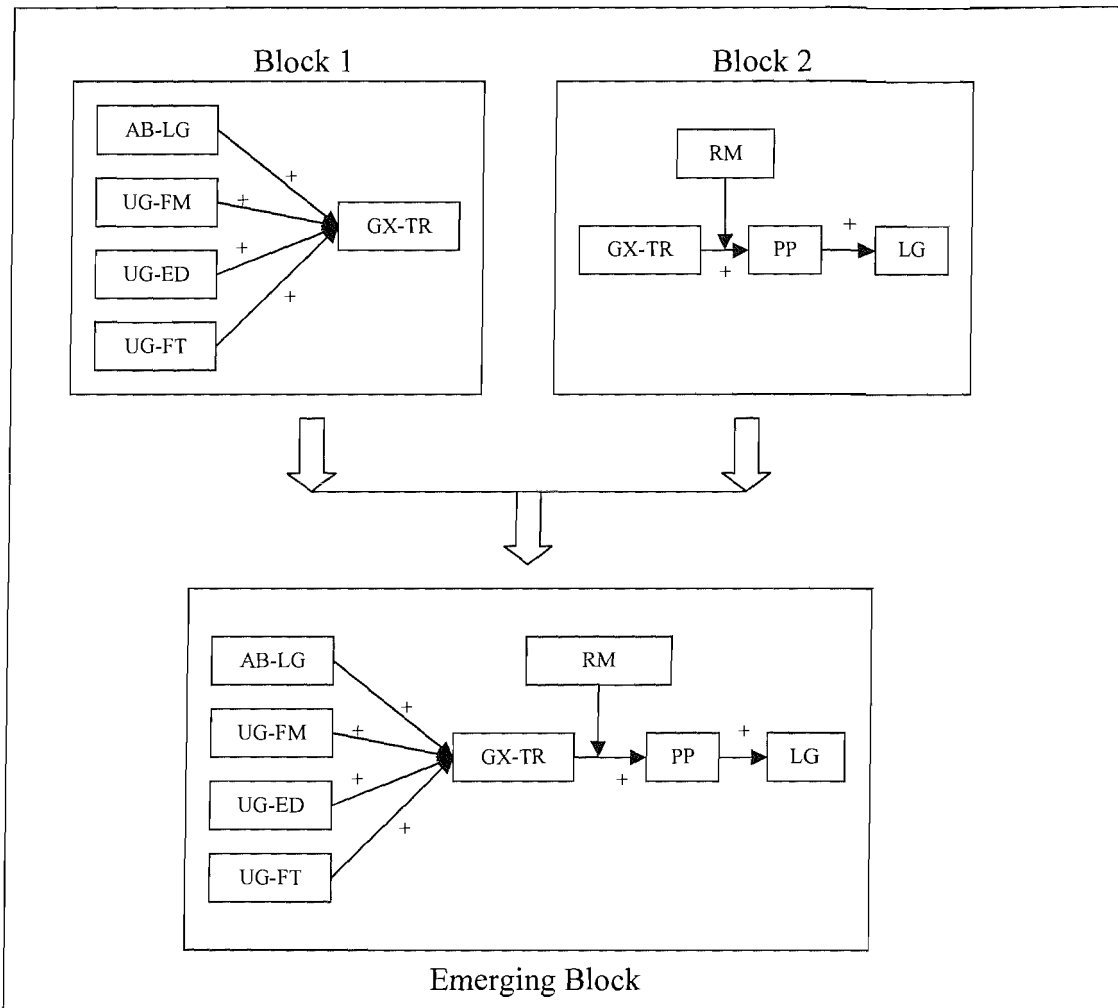


**Figure 3.4 The Causal Relationship Implied by Quote 2**



Then, these streams were assembled to create a complete causal network. During the assembly process, the researcher chose a block of causal network to start with. The remaining blocks were then picked up one by one to add more variables or causal relationships to the starting one. The same variables in different blocks were merged into one. An example is shown in Figure 3.5. In this example, block 1 consists of the positive relationship between middle managers' La Guanxi ability (AB-LG), three unchangeable 'guanxi' bases – family (UG-FM), education (UG-ED) and fellow-townsmen (UG-FT) – and trust 'guanxi' (GX-TR). In block 2, trust 'guanxi' is positively related with middle managers' perceived power (PP) and further influenced the legitimization of their ideas (LG). 'Rule by men' (RM) is the prerequisite of this relationship. The overlap of these two blocks is the variable GX-TR. By merging two GX-TRs into one, two blocks are linked together and constitute a bigger block.

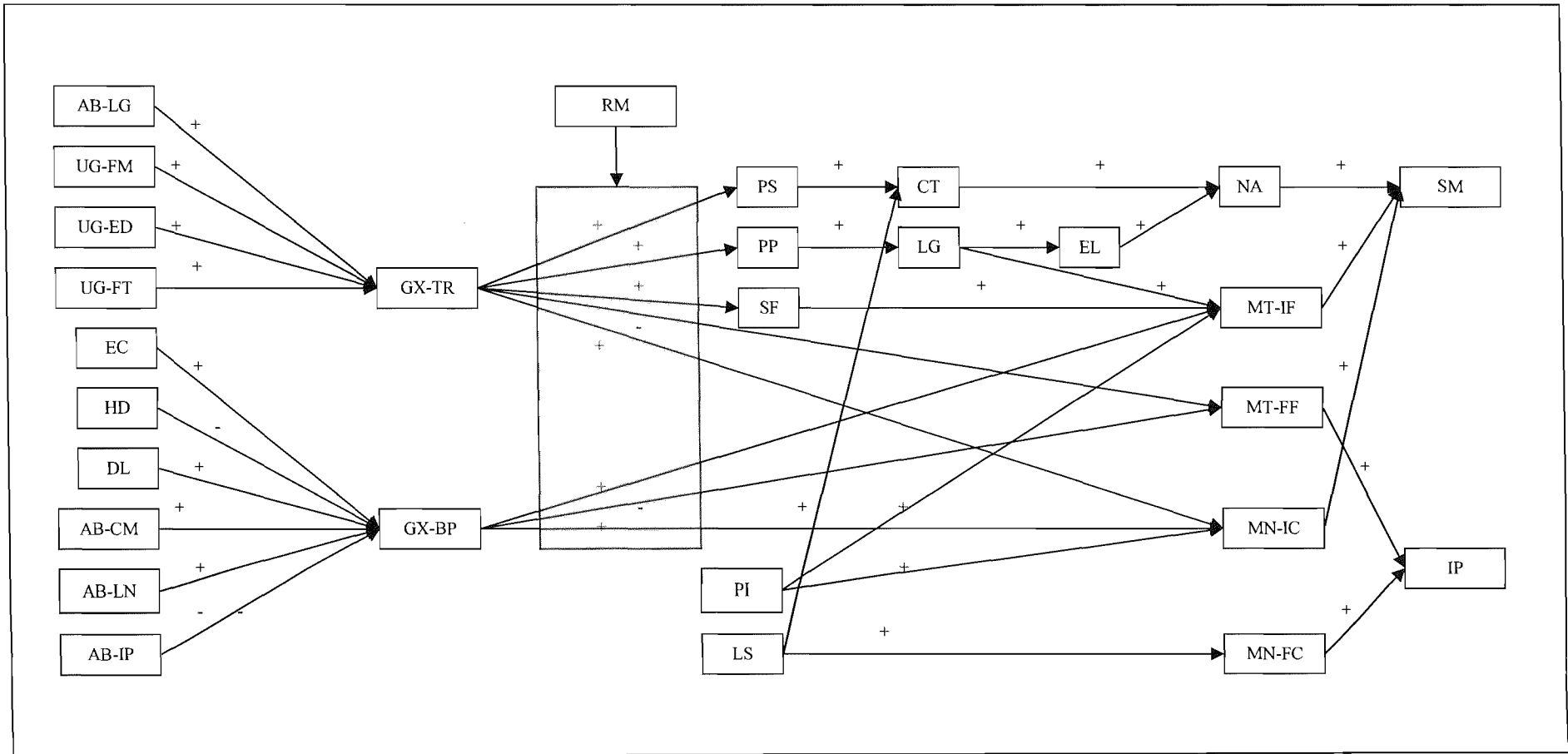
**Figure 3.5 An Example of Merging Two Blocks**



After finishing the work in these two stages, a complete causal network was established (see Figure 3.6). In this network, the relationships among variables (Table 3.15) were identified and illustrated.

A narrative was written up after establishing the causal network. This narrative started from the central concept, 'guanxi', and finished at the points of outcome. It described the causal relationships between 'guanxi' and the proactive and reactive roles of middle managers. At the same time, it also described the relationship between other factors and 'guanxi'. This process converted the explanation network into text in order to make causal relationships more explicit and the analysis more coherent. The detailed explanation of this network can be found in Chapter 7.

**Figure 3.6 The Explanation Network**



### **3.7.5. Data Analysis in Two Languages**

Since data collection in the field and the data display in the thesis were done in two languages, more caution was required in the data analysis. The basic rules followed by the researcher were to keep the meanings as original as possible and the meaning loss during the analysis as small as possible. These rules were accordant with the interpretive research philosophy and are believed to facilitate the development of theories in local meaning. Thus, all the analysis in the field was done in Chinese. This means that all the transcripts, memos, and other materials were in Chinese. However, the codes used were in English due to their characteristic of highly condensed meaning. However, when certain important transcripts were chosen to represent the important themes in the thesis, they were translated into English. The researcher believes that these choices minimized the loss and distortion of meaning during the analysis process.

### **3.7.6. The Use of QSR Software**

The researcher studied and tried out QSR software in the data analysis, but finally decided to stop using it after careful consideration. Upon finishing the first period of fieldwork, the researcher began her study of QSR software. The researcher attended seminars to become familiar with and undertake training to learn different kinds of QSR software. The researcher chose Nvivo based on its potential and dominant position in the qualitative data analysis area and its easy-to-use character. However, when the researcher began to use it in practice, a big difficulty emerged. Since the field data were collected in Chinese and Nvivo could not recognize Chinese characters, it required the researcher to translate all transcripts from Chinese to English in order to use Nvivo. However, the time limit prevented the researcher from following this path. Furthermore, the researcher wished to analyse the qualitative data in Chinese instead of English so that the loss of meaning could be minimized. Thus, the researcher finally decided to stop using QSR software in data analysis and use manual coding instead. As a bonus, Nvivo was found to be useful in the literature review and was therefore employed by the researcher to store and retrieve important references.

### **3.8. Quality Control of the Research**

Quality control is always one of the researcher's concerns throughout the whole research process – beginning with the research design and ending with the thesis composition. It is expected that the research will have high quality both in each research phase and as a whole system by using multiple methods, though the focus of quality control in different research phases may change. Here, the four criteria – construct validity, internal validity, external validity and reliability – for judging research quality summarized by Kidder and Judd (1986) and highlighted by Yin (1994) were adopted. The methods adopted by the researcher to control research quality will be discussed below.

Since a research design is the logic linking data collection and analysis to research questions (Yin, 1994), high quality research must have a high quality research design. In this multiple-case research design, the researcher did not put much energy into looking for representative cases. Instead, replication logic was adopted. The cases were selected to predict similar results (literal replication) or produce contrasting results for predictable reasons (theoretical replication) from the beginning. As the researcher expected, the three cases in this research turned out to produce a rich theoretical model. In this model, the conditions under which middle managers were likely or unlikely to play the role of 'strategists in the middle' could be well defined.

In order to increase the quality of the field work, the researcher produced a research proposal. This proposal was mainly used to guide the field work and collect data in a more efficient way. At the same time, the researcher also began to search for relevant information on the internet in order to take a closer look at the cases. As explained above, multiple data collection resources were adopted in the field. Although the researcher faced some difficulties in the early stage of data collection due to the lack of focus, a clearer chain of evidence gradually appeared, and constituted the basis for the subsequent data analysis.

During the data analysis process, the researcher tried to incorporate all relevant evidence and rival interpretations and still highlight the most significant parts of the research. Besides the researcher's personal effort in maintaining the quality of the data analysis, certain help also came from important informants and peers. After the draft

matrices and networks were developed, the researcher called important informants to ask their opinions of the explanation. Peer assessment (Easterby-Smith, 1991) and inter-coder reliability checks (Fox-Wolfgramm, 1997) were also used in order to increase the reliability and validity of the cross-case qualitative research findings.

Besides the quality control methods used in each research phase, attention was paid to maintaining the research as a system without internal conflicts. When designing the research, the researcher considered the philosophical proposition (interpretative here being chosen) adopted and tried to keep to it throughout the whole research process. During data collection, the researcher behaved as an interpreter and absorbed the context of organizations without intervening change processes. This proposition also applied to the data analysis and case composition, by which the researcher tried to show the rich and original organizational change process, and explain the phenomena in actual causal relationships.

### **3.9. Summary**

This chapter has introduced the research methodology. Aiming to achieve a deeper understanding of middle managers' roles and contributions in strategic change, the research was inductive and well situated in the interpretive paradigm. At the same time, the research was also processual and contextual. The research strategy utilized in this research was multiple case studies. Three cases – FCC, BAIJIA and FOTON – were selected. Two companies were in the same industry: the automotive industry. One company was in a related industry: the car distribution industry. Data were collected using multiple methods: interviews, observation and archival analysis. The researcher went to China to collect data in two continuous years – between June and October 2004 and between July and September 2005. Fifty-two interviews were conducted in the research. Moreover, the researcher obtained access to observe on site in two enterprises – FCC and BAIJIA. Relevant documents were also collected by the researcher from all three enterprises. The data analysis in the research adopted Miles and Huberman's (1994) approach and methods. An interactive model consisting of three concurrent flows of activity – data reduction, data display and conclusion drawing/verification – was employed to guide the whole data analysis process. A series of methods were employed by the researcher to apply this model in the

qualitative data analysis of the research. These methods included four methods in the field – contact summary sheet, documentary summary form, coding and memo – and five analysis procedures after data collection – data re-examination, re-coding, descriptive data presentation, causal network development and comparison among cases. An illustration of the data analysis process – the development of a ‘guanxi’-centred explanation network – was also provided. Since the research was conducted in two languages, Chinese and English, the researcher also discussed the influences of this special feature on the data analysis. Finally, this chapter also discussed the researcher’s efforts in enhancing the research quality, for example, asking the opinions of important informants about the explanations. Based on the research methodology discussed in this chapter, the researcher collected and analysed field data and designed the data presentation formats. In the following chapters, the researcher will first provide a thick case description and then introduce the major data analysis results.



# **Chapter 4**

## **STRATEGIC CHANGES IN THREE**

## **CHINESE ENTERPRISES**

### **4.1. Introduction**

This chapter provides an overview of the three cases examined in the research – FCC’s M6 project, BAIJIA’s dual-brand strategy, and FOTON’s SBU management. The introduction is case-oriented. Three aspects – overview, organization context and strategic change process – will be discussed for each case. Since all three enterprises are active players in the Chinese automotive market, the chapter begins with an introduction to this market to help develop a contextual view. A brief summary concludes the chapter.

### **4.2. The Chinese Automotive Market**

All three Chinese enterprises examined in the research operate in the Chinese automotive market. One, FCC, is a car producer belonging to FAW, which was the first vehicle enterprise in China. FAW produced the first truck and the first car for China, and is now the second biggest national vehicle production group. FAW’s development history is also the development history of China’s automotive industry. The second vehicle producer examined here is FOTON, which entered the Chinese automotive industry in the late 1990s. FOTON can be regarded as a classic new generation vehicle producer. The third enterprise examined here, BAIJIA, is a car distributor. It benefited from the rapid development of the Chinese car industry in 2002 and 2003, and is now facing major challenges due to the slowing down of

industrial growth. The development of all three enterprises is closely related to the development of the Chinese automotive industry.

The Chinese automotive industry has a special development track, which can be classified into three stages (China Automotive News, 2006). The first stage may be called the pioneering stage, from the 1950s to the 1960s, which was characterized by national investment and imported technology. At the same time, the related education and research systems were also in the early stages of development. The second stage was the fluctuating development stage, from the 1960s to the 1980s. The Cultural Revolution impeded the normal development of the Chinese automotive industry. However, the central government's policy, which empowered local governments to manage local vehicle enterprises, gave rise to a second boom. From the 1980s, the vehicle industry experienced a high-speed development stage. After very rapid development in 2002 and 2003 (the annual growth rates of vehicle production were 39.3% in 2002 and 35.2% in 2003), the growth rate fell quickly to 14.11% in 2004, leading to a more stable pattern of development.

#### *The pioneering stage (from the 1950s to the 1960s)*

The first step in the development of the Chinese automotive industry was the establishment of the first vehicle works in Changchun on 5<sup>th</sup> July 1953 using national investment and Soviet technology. This vehicle works was FAW. Its name was autographed by Chairman Mao. After three years, the first vehicle, the 'Liberation Truck', was successfully produced. At the very beginning, the Chinese automotive industry mainly focused on the production of medium-sized trucks, military vehicles and other special utility vehicles such as ambulances. Heavy trucks and light cars played a smaller role than medium-sized vehicles in the development of the Chinese automotive industry. From May 1957, the first works, FAW, began to design their own cars. The two oldest national cars, 'CA71 DONGFENG' and 'CA72 HONGQI', were successfully trial produced. Later, 'HONGQI' cars were assigned to be national protocol cars and the Chairman's cars. This tradition has continued until now. FCC, an enterprise examined in the present research, is the owner of the 'HONGQI' brand.

#### *The fluctuating development stage (from the 1960s to the 1980s)*

During the 1960s and 1970s, the Chinese automotive industry developed very slowly due to the Cultural Revolution. Five old vehicle works – the first vehicle works, the south vehicle works, the Shanghai vehicle works, the Beijing vehicle works and the Jinan vehicle works – took responsibility for supporting smaller vehicle works, endeavoured to improve technology, and expanded their own production capability. The government also decided to establish a second vehicle works. However, it took more than ten years to finish this project.

During this period, the second boom in the Chinese automotive industry occurred for two reasons. First, the supply of vehicles was far less than demand in the vehicle market. Second, the central government empowered local government to manage local vehicle works. Thus, local governments began to establish more vehicle works in order to stimulate local economic development. The number of national vehicle producers had increased to 53 by 1976.

#### *The rapid development stage (from the 1980s to 2003)*

After the Cultural Revolution, the Chinese automotive industry entered a period of rapid growth, and developed towards a more balanced industry structure. The Chinese automotive industry began a strategic change shown in the following five aspects. First, the volume of car production increased continuously. In 1998, the total volume of vehicles produced in China was tenth highest in the world. Secondly, the product structure continued to be adjusted, with technology improving. More heavy trucks and cars were produced. At the same time, the Chinese automotive industry became more centralized. In 1998, 14 vehicle groups or enterprises together accounted for 91.21% of national car production. Fourth, the development focus changed from commercial utility vehicles to personal utility vehicles. Finally, the market mechanism was introduced into automotive production management. The influence of the planning mechanism was weakened.

However, the most exciting issue at this stage was the appearance of joint ventures in the Chinese automotive industry. In 1984, the first joint venture in the car production industry, Shanghai Volkswagen Ltd, was established in Shanghai. The successful operation of this joint venture stimulated more foreign investors. Total foreign

investment in car manufacturing in 1998 increased to RMB 150 billion (about £10 billion).

*Current situation*

The Chinese automotive industry developed rapidly in 2002 and 2003. The average volume growth rates for these two years exceeded 35%. The detailed data can be found in Table 4.1. However, this super rapid development could not be sustained. In 2004, the growth rate of both production and sales of vehicles in China slowed to 15%. Most vehicle manufacturers and distributors shivered in the face of the depressed market of 2004. This is the macro economic background to the three cases examined here.

**Table 4.1 Vehicle Production and Sales (Volume) (2001-2006)**

<b>Year</b>	<b>Production (Million)</b>	<b>Growth Rate (%)</b>	<b>Sales (Million)</b>	<b>Growth Rate (%)</b>
<b>2001</b>	2.34	13.25	2.36	12.91
<b>2002</b>	3.25	38.81	3.25	37.71
<b>2003</b>	4.44	36.70	4.39	35.08
<b>2004</b>	5.07	14.11	5.07	15.50
<b>2005</b>	5.71	12.56	5.76	13.54

**Data: National Bureau of Statistics of China**

### **4.3. Strategic Change in FCC**

In this section, an overview of FCC will be provided first. Then, the corporate context of FCC will be introduced in four aspects –historical development, relationship with FAW, corporate structure, and strategy development. In particular, a practical definition of middle managers is provided in the introduction to corporate structure. Finally, the cooperation with MAZDA will be introduced.

#### **4.3.1. Overview of FCC**

The FAW Car Co. Ltd (FCC) was established on 10<sup>th</sup> June 1997 by China’s First Automobile Group Corporation (FAW, the original name being First Automobile Works) in order to cater for the requirements of system reform and asset rearrangement at that time. FCC appeared on Shenzhen’s stock exchange market on

18<sup>th</sup> June 1997 as the first stock company in the Chinese car industry in China, with registered capital of RMB 1.05 billion. In 2003, FCC's total profit was RMB 590 million and the number of employees was about 7400.

Until 2003, FAW had 30 wholly owned subsidiaries and 15 subsidiary companies, including FCC. In 2003, the company's total assets were valued at RMB 106.2 billion (about £7.1 billion), sales income was RMB 114 billion (about £7.6 billion) and profit after tax was RMB 5.8 billion (about £386.7 million). The group had 124,000 employees. 'HONGQI' is FAW's own brand and trademark, established in 1958. The value of the 'HONGQI' brand is increasing every year; in 2003, it reached RMB 5.248 billion and occupied first place in the Chinese car production industry. Since 2002 FCC has developed a multi-brand strategy, through strategic cooperation with MAZDA.

### **4.3.2. The Corporate Context of FCC**

#### **4.3.2.1. Historical Development**

The predecessor of FCC is FAW's own car production unit, which produces national brand cars: HONGQI. FAW was established on 15<sup>th</sup> July 1953 and the automotive industry of China began.. Before the 1990s output was dominated by heavy trucks. However, in 1991 FAW established a new car production base, with an annual production volume of 150,000 cars, together with the VOLKSWAGEN AUTO COMPANY of Germany. FAW launched the new company FCC on 10<sup>th</sup> June 1997, with placing on Shenzhen's stock exchange on 18<sup>th</sup> June. In 2002, FAW merged with the TIANJIN AUTO GROUP, thus entering into cooperation with the TOYOTA AUTO COMPANY of Japan to produce cars. FAW gradually developed a new product strategy focusing on cars. Within this strategy FCC, which took responsibility for producing FAW's own brand, HONGQI, played an important role in FAW's overall product development strategy.

HONGQI's development history is also China's car development history. China's first car, named 'DONGFENG', was developed by FAW and launched on 12<sup>th</sup> May 1958. The same year, FAW developed the first high-grade car, 'HONGQI'. The first HONGQI cars were used at the ceremonies in Beijing marking the 10-year

anniversary of national establishment in 1959. In the following years, HONGQI security cars and special review cars were used at nearly all important national moments. HONGQI became the national flag for the car manufacturing industry.

After the establishment of FCC, HONGQI cars began to come under more competitive pressure from national and international car manufacturers, leading to doubts about the company's survival. The number of international car manufacturers in Chinese car market has been increasing since 1978. In 2003, there were totally 51 car brands produced and sold in Chinese car market, among which only 9 were national car brands (including HONGQI). The market share of national brands kept shrinking. From 2001, the market share of FCC has been out of the top ten. In comparison, the market shares of FAW-VOLKSWAGEN and FAW-TIANJIN was able to rank the 2<sup>nd</sup> and 3<sup>rd</sup> in China car market. The situation of FCC in FAW group could not be more difficult. In order to enlarge HONGQI's market share, FCC made several efforts. Firstly, on 15<sup>th</sup> July 2000, the newly designed HONGQI Century Star (type: CA 7202E3) was launched. Then, one year later, HONGQI MINGSHI and 18 were launched. The main feature was the low price. This was an important step for FCC towards focusing on the private car market. However, sales were not satisfactory.

At the same time, the establishment of FCC's new car production base further forced FCC to face the problem of low sales and profit. FCC established a new car production base in Changchun's new technology development zone. It began to produce cars from July 2004. The first stage was designed to be 880,000 square metres and to have four main production units: press, weld, paint and total assembly. The throughput at the beginning was 100,000 cars. However, only about 26,000 HONGQI cars were sold in 2003. This number further decreased to about 15,000 in 2004. The sales of HONGQI cars alone could not utilise fully the production potential of this new production base; valuable production resources were being left to lie idle. The conflict between production capability and car sales has never been so severe.

#### **4.3.2.2. The Relationship of FCC with FAW**

FCC, as a member of FAW group, was largely controlled by FAW. The control could be seen in the following three aspects. First, the patronage of senior managers in FCC was held by FAW. The formal appointment of senior managers in FCC was processed

by organizational management departments in FAW. The chief manager in FCC had the power of recommendation instead of appointment. Next, the performance of FCC was evaluated within FAW. At the end of each year, all companies in the FAW group were evaluated and compared with each other. A ranking was produced, becoming an important reference point for the chief manager's personal development. Finally, major decisions on FCC's development had to be approved by FAW in advance, though this process was normally time-consuming. However, with its rapid development, FCC became more likely to make its own decisions. The introduction of M6 cars from MAZDA was an attempt by FCC to assume responsibility for an international cooperation project as the owner.

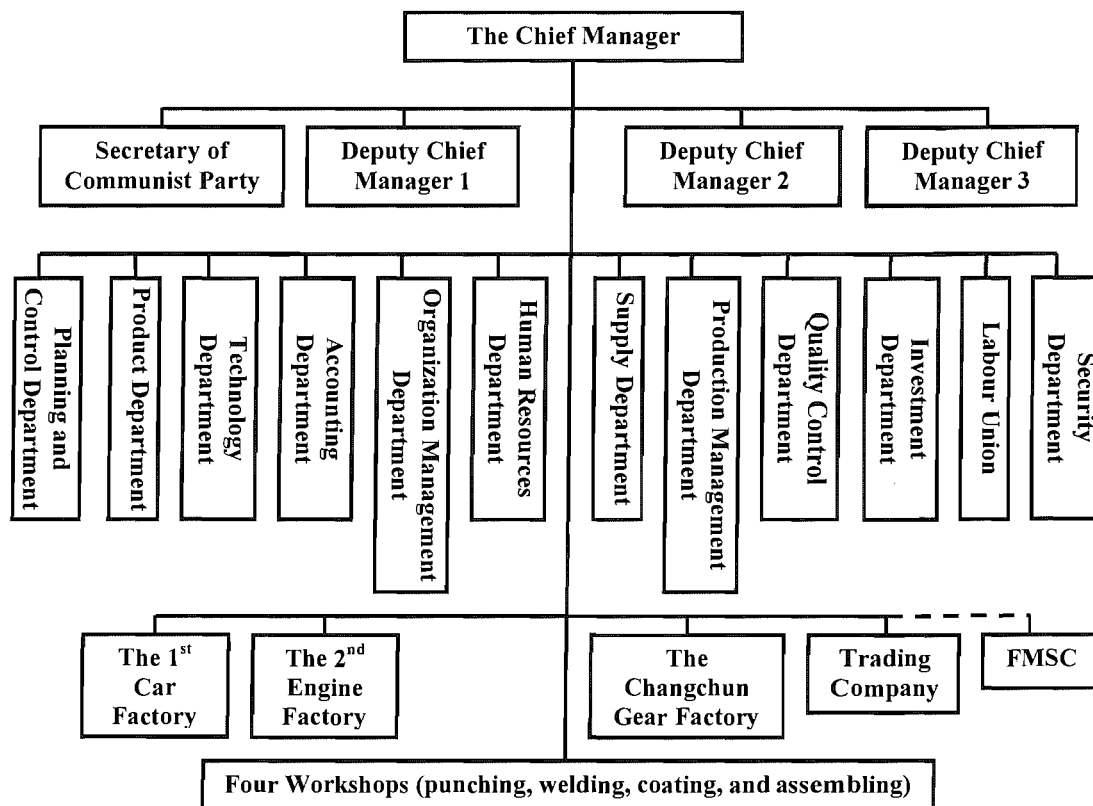
#### **4.3.2.3. The Corporate Structure of FCC**

FCC has a hierarchical organizational structure. There are a chief manager, three deputy chief managers and a party secretary at the senior level of management. Under their management, there are twelve departments – the planning and control department, the product department, the technology department, the accounting department, the organizational management department, the human resources department, the supply department, the production management department, the quality control department, the investment department, the labour union, and the security department.

As a car manufacturing company, there are still four workshops under the chief manager's control (the other six workshops were managed under FAW). Furthermore, five organizations – the first car factory, the second engine factory, the Changchun gear factory, the trading company, and FMSC (FCC-MAZDA Sales Company, just established) – were also managed by FCC. Among them, FMSC was recently established in 2005 as the second stage of the cooperation with MAZDA (MAZDA is a Japanese car manufacturer that FCC cooperates with to produce M6 cars. The cooperation will be introduced later in the next section). The overall organizational structure map of FCC is shown in Figure 4.1. Based on the definition of middle managers – 'those below the small group of top strategic managers and above first-level supervision' (Dopson, Risk & Stewart, 1992: 40) and FCC's corporate structure, I classified the chief manager, three deputy chief managers, and the secretary of the

communist party as senior managers, other managers above first level supervision as middle managers, and the others as lower employees. The researcher also asked interviewees about the definition of middle managers in FCC. This classification was agreed by most (more than 80%) of them.

**Figure 4.1 Corporate Structure of FCC**



#### 4.3.2.4. Strategy Development

There was a period of uncertainty in FCC’s strategy development. Since FCC was FAW’s wholly owned subsidiary, FCC had never been able to decide its development strategy until the introduction of the M6. Although senior managers of FCC had no enough power to decide FCC’s development direction, the continuously declining performance of FCC in Chinese automotive market still forced them to think about a survival and development strategy. However, senior managers of FAW were more likely to consider the development direction of FCC within the development plan of FAW in car manufacture industry. Directly or indirectly, several strategic attempts proposed by FCC, such as the proposal of cooperating with Hyundai (a Korean car manufacturer), were called off by FAW due to discordance with FAW’s arrangements



or the long waiting period for FAW's approval. During this period, FCC did not have a well defined strategic plan.

Moreover, FCC faced a dilemma between cooperation with international companies and focusing on the production of national HONGQI cars. In the current Chinese automotive market, most Chinese car producers chose to cooperate with international car manufacturers, such as establishing joint ventures. However, FCC's situation was slightly different. HONGQI had long been the flagship for national cars. The managers in FCC had great responsibility for the national car industry's development. Disappointingly, this cause had been hindered by capital constraints, and declining financial performance. Although the Chinese automotive market was experiencing super fast growth at that moment, the majority of the market had been captured by joint ventures. The market share of FCC was becoming smaller and smaller. Survival became the biggest issue for FCC. Strategic cooperation with foreign car producers was one of the most practical choices. MAZDA was one of FCC's cooperation candidates.

### **4.3.3. The Strategic Cooperation with MAZDA**

#### **4.3.3.1. The Background of the Strategic Cooperation**

##### **4.3.3.1.1. The Situation of FCC**

FCC was experiencing financial pressure before the introduction of M6 cars from MAZDA. This pressure originated mainly from severe market competition, the inefficiency of the state-owned company's management system, brand HONGQI's unavoidable political image, and the slowing down of technological development. All of these forced FCC to cooperate with international companies. At the same time, MAZDA in China was also experiencing one of its most difficult development periods. MAZDA Japan had conflicts with its biggest shareholder in Chinese automotive market, FORD, on the development strategy of MAZDA China. The cooperation between FCC and MAZDA accorded with both companies' interests.

First, the competition in Chinese car market had become more and more severe. The rapid development of the Chinese car market attracted a great number of international

car producers. They poured into China to establish joint ventures. More and more new cars were introduced to China. HONGQI, as a national car brand, found it difficult to sustain its competitive advantage. In the government car market, which was previously HONGQI's main market, more and more central and local governments chose international car brands when they made public purchases. The advantages of HONGQI cars in this market gradually disappeared. Moreover, in the private car market, the 50 years of HONGQI cars' traditional political image became an impediment to their popularity among private car consumers. Consumers across the nation treated HONGQI cars as government use cars instead of private use cars. Although FCC intentionally highlighted the characteristics of new products as private cars and minimized those related to government cars in promotion activities, the majority of consumers still do not want to choose HONGQI as their private car brand.

The second challenge FCC had to face was its heavy social burdens. FCC had comparatively heavier social burdens because it was a state-owned company and strongly influenced by planning economic. As an important state-owned company, FCC had to pay salaries to a large number of redundant workers. Although FCC had already fired many workers and management employees, it still had the problem of labour redundancy. Any further reductions in the number of employees could not get approval from the government and would endanger the company's stability. At the same time, a great amount of unprofitable projects, such as the improvement of natural gas engines, were directly allocated to FCC by local or central governments. Capital, time and resources were spent on these projects without benefiting FCC's financial performance. All of these social burdens impeded FCC's further development.

In addition, governments still had influences on the operation of the HONGQI brand. The HONGQI brand is not only an asset of FCC and FAW, but also an asset of China. As the flagship of the Chinese car industry, the HONGQI brand cannot be permitted to disappear from the market. Thus, new HONGQI cars have to be developed every one or two years in order to make ensure the brand's continuity though limited resources are invested. Furthermore, FCC's new products have to bear the brand name of HONGQI, even though it might be better to use another brand financially. FCC is forced to stay in the difficult situation mentioned above.

Finally, the slow technological development of FCC made it difficult to produce any new types of HONGQI cars by itself. Compared with the attention focused on HONGQI cars, less capital and technological support were received from the government. It became an impossible mission for FCC to develop any new HONGQI cars further by itself. From 1995, all new HONGQI cars were produced based on the AUDI 100 production platform, which was old and did not match international trends. The main task of FCC at that time was to find a suitable production platform for HONGQI cars.

For the reasons shown above, the sales of FCC unavoidably shrank to a dangerously low level. During this period, FCC kept searching for strategic cooperation partners in order to stimulate its development. Unfortunately, no proposals were successful.

#### **4.3.3.1.2. Initial Attempts at Change**

FAW did not have specific plan for FCC's development in Chinese automotive industry. As the only wholly owned car manufacturer by FAW group, FCC should have received enough supports for the production of HONGQI cars. However, the big technological gap between HONGQI cars and international brand cars made the required investment bigger than what FAW could provide. At the same time, FAW was also facing the increasingly severe market competition in Chinese automotive industry. More investment went into the setting up of joint ventures with international car manufacturers in order to keep a good profit level for the whole group instead of technical investment of HONGQI cars.

FAW influenced FCC's choice of cooperation partners. According to FAW's original plan, it wanted to choose a cooperation partner for FCC among its current strategic partners. In fact, from the 1990s, FAW had already begun to consider an international cooperation partner for FCC. FAW insisted that FCC should cooperate with a leading international automobile company, which would match the fame and position of FAW in the Chinese automotive industry. However, the differences in strategic objectives between FAW and its international cooperation partners always made FAW's proposal for FCC's cooperation fail to implement. Neither VOLKSWAGEN nor TOYOTA became FCC's strategic cooperation partner.

FCC also made its own efforts to cooperate with other international companies in the 1990s. One was a negotiation with the HYUNDAI Motor Company of Korea. This suggestion did not gain support from FAW. On one hand, FAW thought that FCC should have a partner with higher international status. On the other hand, FAW did not want to give up the cooperation with TOYOTA at that time. Finally, FCC's cooperation with HYUNDAI had to be cancelled. In 2001, another possible partner came in FCC's eyes – MAZDA – after the final settling down of FAW's cooperation with TOYOTA in TIANJIN City of China.

#### **4.3.3.2. The Strategic Cooperation with MAZDA**

The introduction of M6 cars accorded with three parties' interests. First, FCC introduced a new car type with one of the most advanced technologies at that time. It helped FCC escape from the embarrassing situation in which there was no new type in the HONGQI car series and survive. Second, the introduction of M6 was also in keeping with the aspiration of MAZDA. MAZDA, which was also experiencing a difficult period at that time and did not want to be completely dominated by FORD (FORD owns a 33% share of MAZDA), was also eager to find a better strategic partner in China. Finally, it was also in line with FAW's policy on the HAINAN CAR COMPANY – a company owned by FAW. The HAINAN CAR COMPANY had been producing MAZDA cars since the 1990s and had become one of the important car producers in south China. For historical reasons and based on its good financial situation, the HAINAN CAR COMPANY had the intention of becoming independent from FAW. However, FAW did not want to give up control. The introduction of M6 cars into FCC instead of into the HAINAN CAR COMPANY helped to show and enhance the power of FAW and to stop the campaign of the HAINAN CAR COMPANY for independence.

The first contact for both sides was a 'planned coincidence'. The deputy chief managers of FAW and FCC went to Hainan to attend the production ceremony for PRIMA (a new MAZDA car), and met senior managers of MAZDA there. They raised the proposal to cooperate with MAZDA. Without doubt, this proposal was silently allowed by one of the senior managers of FAW. The cooperation project was named as 'HONGQI's complementary model', which had the potential meaning that

the introduction of M6 cars would benefit the further development of HONGQI cars. This name would obviously make it easier to get permission from the group and the government. Certainly, there were some consequences. Many members of the directorate were kept in the dark until the project began, and showed their dissatisfaction with the operation's progress. Nevertheless, the results of this project later proved to be successful.

Since the technology introduction of the M6 was accordant with all parties' interests, FCC's proposal received a very good response from MAZDA. In the same month as both sides' first contact, the deputy chief manager of FAW visited MAZDA in Japan. Both sides came to an agreement. In August, the chief manager of the Oceania department of MAZDA visited FCC and decided that the new model, the MAZDA6 (it was called ATANZA, and was designed to appear on the Japanese market in May 2002), would be the one for cooperation. In October, MAZDA agreed to work further on this cooperation. At the end of the same month, the deputy chief manager of FAW visited MAZDA again and discussed the principles of cooperation based on M6 cars. Both sides decided to negotiate a technology agreement and a CKD supply agreement based on pre-research data. On 7<sup>th</sup> November 2001, FCC received the basic agreement and, after four days, the hundred thousandth form and assembly definition form of the 626 model were provided by MAZDA. On 8<sup>th</sup> November 2001, FCC established a project group. After several months' negotiation, the M6 contract was finally approved by MAZDA. The pre-research report was finally finished in March 2002, and helped prepare start-up and purchasing for the project.

On 9<sup>th</sup> March 2002, both sides signed TLA and CKD agreements and aide-memoires on sales. The M6 project entered the period of production preparation. On 18<sup>th</sup>, a purchase contract for moulds for 24 kinds of press accessories was signed. On 5<sup>th</sup> April, both sides signed a purchase contract for the weld product line. From August to December, the mould and weld lines passed pre-check and were transported to Changchun for installation and debugging. On 9<sup>th</sup> August a product catalogue was shown on the 23rd declaration of 2002 by National Economic and Trade Commission (now National Development and Reform Commission). On 13<sup>th</sup> September 2002, a research proposal was sanctioned by NETC. On 9<sup>th</sup> December tooling try-out (TTO) began. The project passed the internal quality control on December 21st. All

sanctioned materials about “HONGQI’s complementary model” were sent out. The first M6 car (TTO3#) was finished on 3<sup>rd</sup> January 2003. On the next day, all sanctioned materials about the main business contract TLA were sent out by NETC. On 16<sup>th</sup> January 2003, M6 passed the first quality control meeting and entered PP (Pilot Production). On 21<sup>st</sup> January there was celebration as the M6 left the production line (TTO-1# and TTO-2# were shown). On 11<sup>th</sup> March 2003, the project passed the second quality assurance meeting and was qualified to enter MP (mass production). On 24<sup>th</sup>, MP began. Up to April 5<sup>th</sup> 100 cars were finished, and 20 among them sample checked and passed for sale. The production system adopted by FCC was TPS (TOYOTA PRODUCTION SYSTEM). This was the first time FCC had changed its production system and it proved to be successful. The change in production system was interwoven with change in the management system and greatly liberated employees’ minds.

The sales of M6 cars in the Chinese market were satisfactory. In the first eight months, FCC sold 24,000 M6 cars. This helped FCC to achieve a huge increase in net profit of 78% in the year. Besides temporarily resolving the problem of survival, FCC also obtained precious experience of international cooperation and modern car production management. FCC began to apply this experience to HONGQI car production. MAZDA was also impressed by FCC’s efficiency in production and quality control. In 2004, MAZDA showed its preference for pursuing further cooperation. FCC and MAZDA decided to set up a joint venture company, which would integrate the trading of MAZDA cars across China. In 2005, this company was brought into reality.

#### **4.4. Strategic Change in BAIJIA**

As in the discussion of strategic change in FCC, an overview of BAIJIA will be provided first in this section. Then, the corporate context of BAIJIA will be introduced in four aspects – historical development, the relationship with ZHONGXING, corporate structure, and development strategy. A practical definition of middle managers will also be provided with the introduction of corporate structure. Finally, the dual-brand strategy of BAIJIA will be discussed.

#### **4.4.1. Overview of BAIJIA**

BAIJIA (SHANXI BAIJIA AUTOMOBILE TRADE COMPANY) was established in September 1997 by ZHONGXING group (SHANXI ZHONGXIN ENTERPRISE GROUP CO. LTD). The registered capital is RMB 26 million (about £1.7 million). BAIJIA is a car distributor. Its major businesses are car sales, maintenance, decoration and repair. The car owners of BORA, JETTA and GOLF – three car brands owned by FAW-VOLKSWAGEN – are BAIJIA’s main customers.

BAIJIA is the biggest car distributor and repair station of FAW-VOLKSWAGEN in the northwest part of China. In 2001, BAIJIA established the first ‘4S’ station, which occupied land of around 9000 square meters, in this region. This new ‘4S’ station began to operate from 2003. The sales of BAIJIA in 2003 were RMB 155.92 million (about £10.4 million). This number increased steadily through 2004.

BAIJIA is the wholly owned company of ZHONGXING group. ZHONGXING was established in August 1997. The registered capital is RMB 249.05 million (about £16.6 million). Until 2004, ZHONGXING group held seven subsidiary companies. The number of employees was more than 500. The businesses of ZHONGXING group are now mainly finance, car services and estate development. In 2004, car services were further decided as the development focus for the next decades by ZHONGXING group. Now, there are seven sales stations in ZHONGXING group, among which three are 4S standard sales stations. These stations sell BORA and JETTA cars for FAW-VOLKSWAGEN, BUICK cars for SHANGHAI GENERAL and TOYOTA cars for TOYOTA & FAW-TOYOTA. BAIJIA sells BORA and JETTA cars for FAW-VOLKSWAGEN. Car sales of ZHONGXING group in 2002 were RMB 500 million (about £33.3 million).

#### **4.4.2. The Corporate Context of BAIJIA**

##### **4.4.2.1. Historical Development**

There was a financial reason for ZHONGXING group to establish BAIJIA. At the beginning of ZHONGXING’s development, ‘money issues’ were one of the major concerns. ZHONGXING group needed to raise more funds at its initial development

stage. Thus, ZHONGXING decided to establish BAIJIA and later raised a mortgage on it to get more circulating funds from the bank. ZHONGXING group did not even expect to obtain significant profit from this investment. Apparently, compared with traditional ways of obtaining money from profits, this way was much quicker. To a certain extent, the mortgage indeed relieved ZHONGXING from the need for operational funds. The origination of BAIJIA partially explains why it received little attention from ZHONGXING group, except for financial control.

Surprisingly, BAIJIA quickly grew up to be a leading car dealer in the northwest part of China from just a small car sales shop. In the first two years after establishment, BAIJIA focused on maintenance and repair only, and did not start to sell cars until 1999. This was because ZHONGXING group did not really want to develop its car trading business. However, although BAIJIA had a late start, it grasped the greatest development opportunity: the Chinese car market was booming. After only four years, BAIJIA became one of the most successful dealers in northwest China. It established the first 4S station in this area in 2003. Undoubtedly, a great portion of BAIJIA's achievement can be attributed to the macro economic environment. BAIJIA experienced the glorious period of the Chinese car industry. The annual growth rate for this industry in China during this period was over 30 per cent. It was a seller's market. Consumers had to wait for several weeks to pick up their new cars from the store. Moreover, since Shanxi province, in which BAIJIA is located, is not a developed area of China, competition was not as severe as in southeast China during this period. The financial support from ZHONGXING group was another factor for BAIJIA's rapid development. ZHONGXING group has already grown up to be a middle sized group in northwest China and was able to support BAIJIA financially, though still paid limited attention to BAIJIA's operations.

At the same time, the success of BAIJIA, together with the development of the other car distributors in ZHONGXING group, encouraged senior managers of group to rethink ZHONGXING's development strategy. In 2004, ZHONGXING group formally made the statement that the development of ZHONGXING group would rely on the further expansion of the car distribution business in Shanxi province. Under this new development framework, BAIJIA, together with the other three car distributors, became the strategic focus of ZHONGXING group.



BAIJIA had four chief managers in less than 7 years' development. The first chief manager is now working in ZHONGXING group. The second and the third chief managers have already left ZHONGXING group. In particular, the third chief manager was the one who led BAIJIA through the rapid development stages in 2001 and 2002. The first '4S' station in northwest part of China was also established by BAIJIA during his term. After the operation of the new '4S' station, he left BAIJIA, and became the chief manager of another '4S' station, in which he had shares. The third chief manager was accused by ZHONGXING group of the inappropriate use of cash. In 2003, after the full operation of the new '4S' station, a new chief manager took up the post.

#### **4.4.2.2. The Relationship of BAIJIA with ZHONGXING**

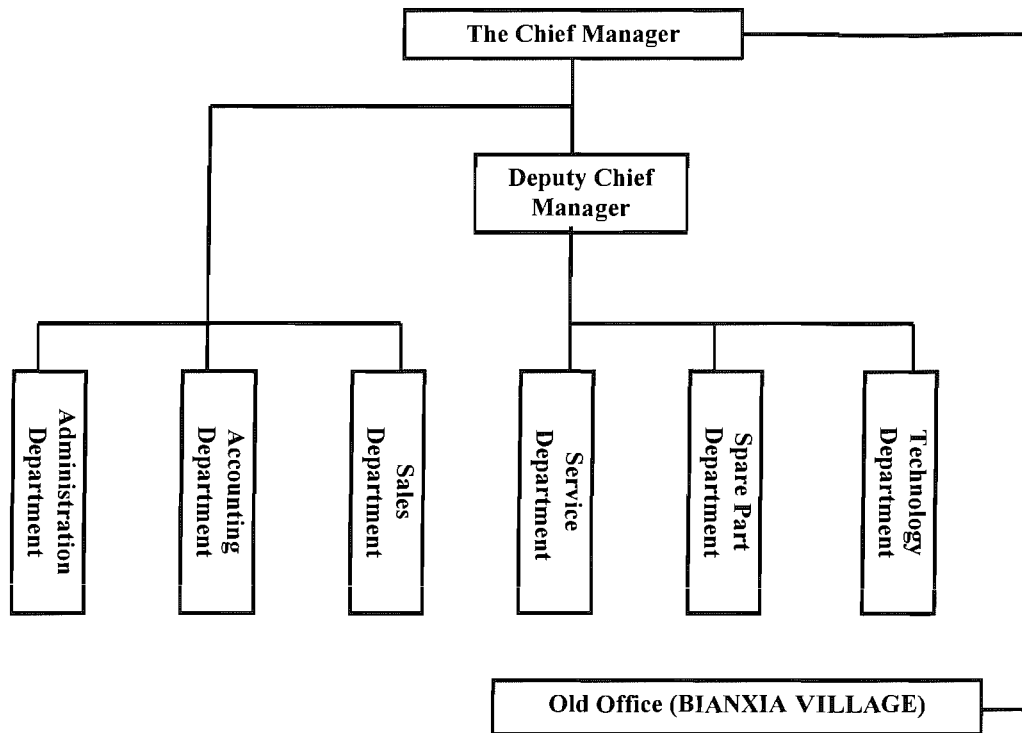
ZHONGXING group, as the company holding BAIJIA, exercises its influence over BAIJIA mainly through financial control and the assignment of senior managers. All chief managers are assigned by ZHONGXING group. The length of their terms depends on whether they can help BAIJIA achieve the target profit. At the same time, the chief manager has to gain permission from ZHONGXING group before appointing any senior managers. As for financial control, the manager of the financial department is chosen by ZHONGXING group. All the members of the financial department are checked by ZHONGXING group instead of BAIJIA itself. In addition, there is a thorough financial check once a year done by ZHONGXING group. The focus is the use of operating funds.

Apart from the controls discussed above, ZHONGXING group does not intervene directly in the management of BAIJIA. Actually, the managers in BAIJIA hardly gain any support or attract any attention from ZHONGXING group. Although ZHONGXING group has already announced a new strategy, which emphasizes further development in the car distribution industry, it has not changed its attitudes towards BAIJIA's management much. The senior managers in ZHONGXING group seldom come to BAIJIA. Communication opportunities for middle managers in BAIJIA with senior managers in ZHONGXING group are far fewer.

### **4.4.2.3. The Corporate Structure of BAIJIA**

The corporate structure of BAIJIA is designed to be hierarchical. The chief manager assigned by ZHONGXING group is in charge of the whole corporation, especially the sales departments. Under him, there is a position for deputy chief manager, who is mainly responsible for technical affairs. The three departments under the direct control of the chief manager are the administration department, the accounting department, and the sales department. The other three departments – service, spare parts, and technology – are under the deputy manager’s control. Furthermore, the old sales office, which is still located in Xixiacun, is managed by the chief manager. The overall organizational structure can be seen in Figure 4.2. The senior managers examined in BAIJIA are the chief manager, the deputy chief manager, the assistant manager and the deputy chief manager in ZHONGXING group. The middle managers examined are the managers under these senior managers and above the first supervision level. The lower employees are the first supervising managers and first-line salespeople and workers. The researcher also asked interviewees about the definition of middle managers in BAIJIA. Majority of them (more than 80%) agreed with this definition of middle managers.

**Figure 4.2 Corporate Structure of BAIJIA**



#### **4.4.2.4. Strategy Development**

There was no strategy in the earlier development stage of BAIJIA. As a company established by ZHONGXING group to obtain operating funds, ZHONGXING group did not expect BAIJIA to have a good profit in the first place. It could even be treated as an accident that BAIJIA selected the car distribution industry and was successful. The only aim for BAIJIA was survival at the early development stage. Thus, there was no specific strategic orientation at the beginning. Daily practice constituted the whole life of BAIJIA.

From 1999, BAIJIA developed a ‘one brand’ strategy – the distributor for FAW-VOLKSWAGEN – and successfully established its fame in the northwest area of China. BAIJIA started its car trading business as an authorized distributor for FAW-VOLKSWAGEN in 1999. Evidently, the brand value of FAW-VOLKSWAGEN was very valuable for BAIJIA to attract new customers at this stage. Thus, BAIJIA tried to develop the name as a FAW-VOLKSWAGEN distributor. This strategy worked quite well for BAIJIA. After 4 years, BAIJIA became one of the biggest car distributors in the northwest region. Customers might not remember the name of BAIJIA, but did

remember it as a FAW-VOLKSWAGEN distributor. With the slowing down of the Chinese car market, BAIJIA began to think about a strategy for supporting its sustainable development. At the same time, more and more competitors entered the same market as BAIJIA. Senior managers realized that BAIJIA needed to differentiate itself from the other market players. Apparently, it was not enough to focus on establishing the image of BAIJIA as a FAW-VOLKSWAGEN distributor. BAIJIA should enhance its own brand value. This new strategy was called ‘dual-brand strategy’.

### **4.4.3. The Dual-brand Strategy of BAIJIA**

#### **4.4.3.1. The Background to Dual-brand Strategy**

Dual-brand strategy, developing the brand value of BAIJIA while enhancing the brand value of FAW-VOLKSWAGEN, was put forward following the slowing down of the Chinese car market. From the second half of 2003, the development of the Chinese car market began to slow down. It attained an all-time low in 2004. Compared with a growth rate of over thirty per cent in 2002 and 2003, the growth rate of just over fifteen per cent in 2004 made the majority of the car dealers feel a chill. The Chinese car market changed from a seller’s market to a buyer’s market. A great amount of investment, which had entered the market during the glorious period, made the competition among car dealers more intense. Many ‘4S’ stations backed up by powerful groups began to operate. Besides, other car trading organizations, like the car trading market, were also set up during this period. Although BAIJIA still ranked first among car dealers in the northwest part of China, it became less and less confident of the future.

The all-time low in the car market destroyed the basis of the relationship between car producers and car dealers – profit sharing. High profits in the booming market made this relationship easy to keep up. However, when development began to slow down, this simple profit-sharing relationship was endangered. Car producers had to cut their investment in the maintenance of the distribution network. The old evaluation standards, like the number of cars sold per month, were not changed by car producers. However, it became more difficult for car distributors to keep up in a depressed market. Moreover, car producers still tended to approve more and more distributors in

order to keep up the growth of car sales. This resulted in more conflicts between producers and distributors. Many car distributors began to review the relationship and realized the danger of over-reliance on car producers. BAIJIA was one of these distributors.

The development strategy of BAIJIA was not defined in ZHONGXING group until 2004. For ZHONGXING group, its development in car trading industry depended on three companies, which sold cars for three car manufacturers: GENERAL, TOYOTA and FAW-VOLKSWAGEN. BAIJIA was the one selling FAW-VOLKSWAGEN cars. However, another option has always been there: selling BAIJIA to get profit from the deal. Thus, ZHONGXING group kept hesitating on BAIJIA's development strategy. The managers in BAIJIA also could not make any judgement on BAIJIA's future. Although ZHONGXING group formally announced the decision to expand its business in the car trading industry, ZHONGXING group did not take any action implementing this decision. The managers in BAIJIA did not feel any difference. Thus, they were more likely to think that BAIJIA still did not occupy an important position in ZHONGXING group and that the possibility of being sold was still there.

Dual-brand strategy was put forward by the new chief manager of BAIJIA. A new chief manager of BAIJIA was appointed by ZHONGXING group in 2003. As a member of the TOYOTA project of ZHONGXING group, this new chief manager made his contributions to the improvement of the maintenance and repair services of BAIJIA in 2002 and 2003. A TOYOTA project team was established by ZHONGXING group to find a suitable managerial pattern for BAIJIA. After the departure of the third chief manager, the leader of this project team was assigned as the new chief manager of BAIJIA. He had several occupations before leading this project. However, none of these occupations were related with the car trading and maintenance business. The chief manager obtained his limited experience only from this project. After several months' investigation, the new chief manager began to make his own decisions on BAIJIA's development. The dual-brand strategy was the first decision he made. Although he argued that this strategy would benefit BAIJIA's sustainable development, most of the managers in BAIJIA believed that he just wanted to employ a different strategy to establish his own reputation in BAIJIA and the local car trading market.

#### **4.4.3.2. The Development of a Dual-brand Strategy**

The implementation of a dual-brand strategy began with the announcement of changes in BAIJIA's development direction. From the first day BAIJIA was established, it had been known as a car distributor for FAW-VOLKSWAGEN in the northwest region. After six years' development in the car trading market, the majority of BAIJIA's customers knew only FAW-VOLKSWAGEN rather than BAIJIA. This situation impeded the development potential of BAIJIA in other areas. The chief manager in BAIJIA announced the decision that BAIJIA would highlight its own brand value, which was independent of FAW-VOLKSWAGEN, and prepare for development in other areas.

When implementing this strategy, the development focus of BAIJIA gradually shifted from car trading to car repair, maintenance and decoration businesses. With the rapid drop in profits of car trading, BAIJIA had to look for other profitable businesses. The managers in BAIJIA noticed that the profits of the car repair and maintenance business increased steadily even when the profits of car trading shrank. Thus, BAIJIA began to pay more attention to the management of the car maintenance and repair business. Since the management of car maintenance and repair relies more on technical workers than the brand of FAW-VOLKSWAGEN, the chief manager believed that it was the break point for BAIJIA to establish its own brand image. Thus, BAIJIA enhanced its management of repair workers to retain the excellent ones, established a department and a subsidiary company to expand its repair and decoration business, and improved its customer information system to enhance customer management quality.

BAIJIA established a new department to meet the increasing demand on car decoration business. This was a new business for BAIJIA. Originally, car decoration was just a promotion method to facilitate the car trading business. However, after adopting it for several months, BAIJIA found it was a highly profitable business and decided to specially establish a department taking charge of its further development. BAIJIA's great number of customers constituted the basis for the initial development of this business. The chief manager of BAIJIA expected the car decoration business to be another profit point in the future.

BAIJIA established a subsidiary company to sell parts of brands other than FAW-VOLKSWAGEN's. This company also had a repair business. With the profit business shifting from car trading to car maintenance and repair, BAIJIA began to pay attention to the price of parts. As a car distributor for FAW-VOLKSWAGEN, parts were provided by or had to be approved by FAW-VOLKSWAGEN. The price was normally higher. BAIJIA believed that the high price of parts was one of the obstacles to attracting new customers and retaining old customers. In order to be able to use cheaper parts in repairs, BAIJIA established a new subsidiary company, which did not have any conflict with the contract between BAIJIA and FAW-VOLKSWAGEN, to attract customers preferring cheaper parts. This company also enjoyed a tax advantage through paying a smaller amount of tax.

Furthermore, BAIJIA began to concentrate on customer service once more. In order to attract new customers and also retain old customers as well, BAIJIA ran an enhanced driving test programme and reopened the car owners club. The driving test turned out to be successful and provided good feedbacks from prospect customers. As for the car owners club, it had been opened before, but had not achieved its aims due to poor management. This time, BAIJIA established a special division to take charge of it and provided more financial support.

At the same time, in order to prepare for cooperation with other car manufacturers, BAIJIA also introduced the TOYOTA management system. Although this change did not completely accord with the requirements of FAW-VOLKSWAGEN, BAIJIA secretly insisted on using it. The TOYOTA management system mainly focused on the daily management of the repair and maintenance business. However, BAIJIA still used the FAW-VOLKSWAGEN management system for car trading. BAIJIA developed a combined management system.

Since the tax on imported cars was going to change to an international standard in 2006, which is much lower than the current level, BAIJIA decided to get approval to sell imported cars in 2003. This proposal successfully obtained support from ZHONGXING group. In 2004, BAIJIA finally received a certificate for trading imported cars. Except for the problem of high price fluctuation, BAIJIA had already been fully prepared for selling imported cars. BAIJIA was waiting for the final

removal of the car import tariff in two years, and entered another market with intense competition.

Finally, BAIJIA also reopened its new-for-old car exchange project. Under intense market competition, FAW-VOLKSWAGEN intended to develop a new business – new-for-old car exchange. BAIJIA had sold second-hand cars before, but had to stop due to the lack of regulations in the exchange market. However, the people taking in charge of this business were still employees of BAIJIA. In order to prepare BAIJIA for any opportunities in the new-for-old car exchange market, BAIJIA sent people to BEIJING to attend further training and decided to reopen this business as soon as a good opportunity arose.

## **4.5. Strategic Change in FOTON**

### **4.5.1. Overview of FOTON**

BEIQI FOTON MOTOR CO., LTD (FOTON), an affiliate of Beijing Automotive Industry Holding Corp., was established on 28<sup>th</sup> August 1996 and appeared on Shanghai's stock exchange market on 2<sup>nd</sup> June 1998. Its stock code is 600166. FOTON is one of the main car manufacturers in China. It ranks 88<sup>th</sup> on the list of the 500 largest Chinese companies. Moreover, FOTON has been named by FORTUNE magazine as one of the 100 best Chinese stock companies and one of the 50 Chinese stock companies with the greatest development potential. In 2003, FOTON sold 260,000 vehicles, the fifth largest sales volume in China. Sales were RMB 14.3 billion (about £966.7 million). Profit was RMB 0.42 billion (about £28 million). Compared with 2002, growth rates of volume, sales and profit were 53%, 90% and 119% respectively. Until 2003, total assets were RMB 5.3 billion (about £353.3 million). Net assets were 2.2 billion (about £146.7 million). The brand value of 'FOTON' was assessed to be worth RMB 8.108 billion (about £540.5 million). In 2004, the number of employees across China was more than 20,000, including 18,000 in Beijing.



## **4.5.2. The Corporate Context of FOTON**

### **4.5.2.1. Historical Development**

The precursor of FOTON was a local state-owned company – SHANDONG ZHUCHENG MOTOR VEHICLE WORKS. It was established in 1958. From 1958 to 1993, it produced small agricultural machinery, architectural machinery, spinning machinery and slaughtering machinery. In 1989, the company successfully produced its first generation of agricultural transport vehicle. Although it continued to grow in scale under the traditional planning economy, FOTON<sup>4</sup> was still lack of capital and technological supports to expand its product range beyond agricultural machinery..

On 18<sup>th</sup> January 1994, FOTON voluntarily merged with the BEIJING MOTOR AND MOTORCYCLE ASSOCIATION MANUFACTURING COMPANY (BEIQIMO) with net assets of RMB 5.76 million (about £384,000), and became the works of BEIQIMO. This cross-province merging was supported by the local governments of ZHUCHENG and BEIJING. At that time, BEIQIMO had more than 40 years' vehicle manufacture history; thus it had technology advantages. However, profits were not satisfactory. In contrast, FOTON had a market advantage but required technology support. After merging, both sides obtained the resources they need. The agricultural vehicles in the new 2310 series produced by FOTON, which used light truck technology from BEIQIMO, achieved a great success.

Based on the prediction that the investment from governments in the development of agricultural transport vehicles would decrease, FOTON designed another multi-province and multi-industry cooperation. On 18<sup>th</sup> August 1994, with the permission of Beijing government, FOTON was founded by more than 100 companies, including BEIQIMO and JIANGSU CHANGCHAI GROUP. A rational convergence of practicality, money, technology and human resources solved the critical bottleneck in FOTON's development. In the same year, its sales of agricultural vehicles became the No. 1 in the nation.

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<sup>4</sup> The names FOTON has used are SHANDONG ZHUCHENG MOTOR VEHICLE WORKS (before 1994), BEIJING MOTOR AND MOTORCYCLE ASSOCIATION MANUFACTURING COMPANY ZHUCHENG VEHICLE WORKS (1994-1996), and FUTIAN (1996-2002). In order to avoid confusion, the name of 'FOTON' is used throughout the dissertation.

In order to raise public funds to accelerate development, FOTON formally applied for listing on Shanghai Stock Exchange Market from the local government of Beijing on 10<sup>th</sup> November 1996. After a year's struggle, FOTON finally obtained approval from the national security supervising committee. On 2<sup>nd</sup> June 1998, FOTON appeared on the Shanghai Stock Exchange market, and raised RMB 320 million (about £21 million). This helped FOTON meet its need for money to finance its next move into the Chinese automotive industry.

In 1998, FOTON entered the automotive industry after obtaining government permission. The strategic development focus changed to the automotive industry from then on. In 1999, FOTON became the biggest light truck manufacturer in China, and has kept that position since then. In the same year, FOTON entered the SUV market.

In August 2000, FOTON changed the location of its headquarters from Shandong to Beijing. An integrated decision-making and command centre was established to manage the works across China. Relevant employees and their families moved to Beijing. Between 2001 and 2002, FOTON developed medium and heavy trucks. Later in 2002, FOTON formally introduced SBU management.

#### **4.5.2.2. The Relationship of FOTON with its Main Shareholders**

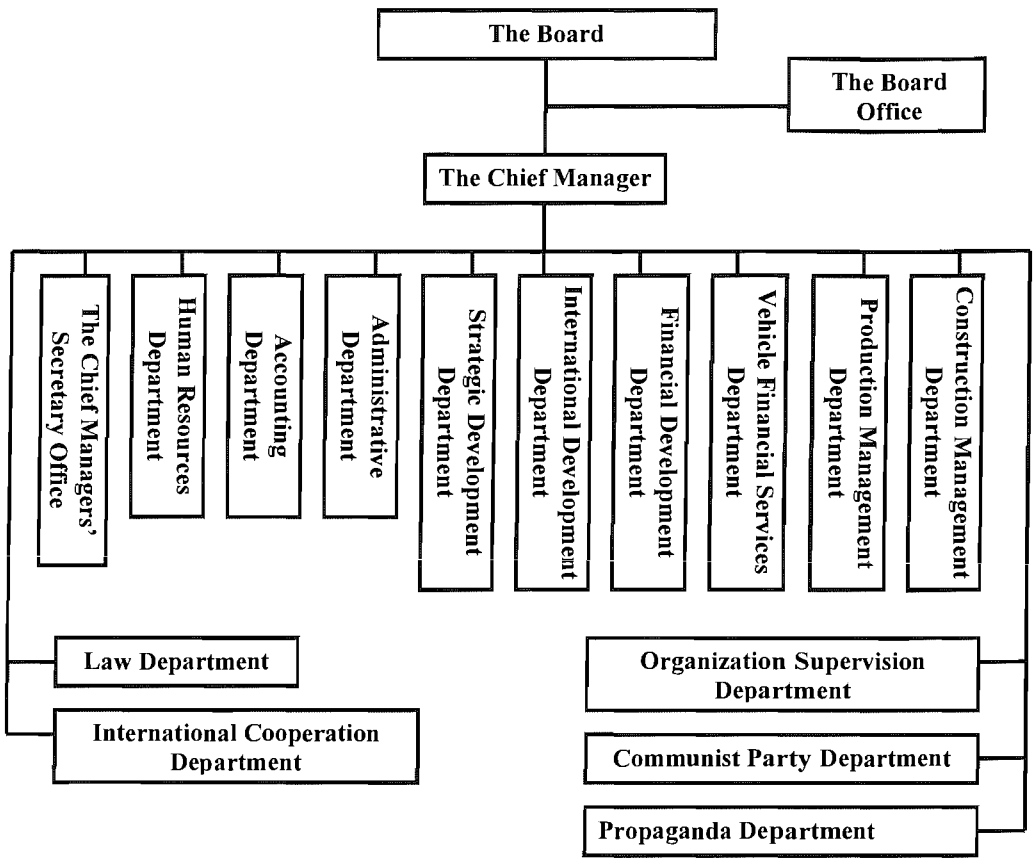
FOTON was very independent of its external stakeholders in enterprise management. One reason was the decentralization of its share structure. On the way to FOTON appearing on the stock market, the chief manager persuaded FOTON's suppliers to invest. More than one hundred suppliers accepted this suggestion. Thus, the share structure of FOTON was initially comparatively diffuse. Later, although BEIQIMO became the biggest shareholder when FOTON made its strategic alliance with BEIQIMO group, the amazing development speed of FOTON helped enhance the power of its chief manager in enterprise management. Since all the shareholders had benefited a lot from FOTON's rapid development, they trusted the ability of the chief manager in leading FOTON towards better performance and most of the time depended on his decisions.

The other reason is the central role of the chief manager. The chief manager was regarded as the main reason why FOTON could have such a rapid historical development. The chief manager was involved in every strategic decision on the way leading to FOTON's current success. It could be said that the successful history of FOTON is also that of the chief manager. He was also the critical person in all the strategic alliances, and highly esteemed by FOTON's strategic cooperators and external stakeholders. The success enhanced his fame in the industry. Thus, after nearly six years' highly successful development, the chief manager of FOTON could make strategic decisions by himself with few constraints from external shareholders.

#### **4.5.2.3. The Corporate Structure of FOTON**

The corporate structure of FOTON was also hierarchical. Until 2004, there were 17 departments in the head office. These were international cooperation, law, the chief manager's secretarial office, human resources, accounting, administration, strategic development, international development, financial development, vehicle financial services, production management, supply, quality control, construction management, organization supervision, party, and propaganda departments. In addition, there were also 8 strategic business units, including a research centre, marketing companies, and six works, under the chief manager's direct control. The overall organizational structure can be seen in Figure 4.3. In FOTON, only the chief manager and some managers he highly relies on (this is confirmed in interviews) can be classified as senior managers. The other managers above the first supervision level are middle managers. All the first-level supervising managers and first-line employees and workers are classified as lower employees.

**Figure 4.3 Corporate Structure of FOTON**



**4.5.2.4. Strategy Development**

The development of FOTON benefited from a series of wise strategic decisions. FOTON chose agricultural vehicles as its first strategic focus. It made use of its good relationship with local government, and the comparatively looser regulatory environment in agricultural vehicle production industry. Then, in order to further enhance its advantages in this industry, FOTON persuaded suppliers to invest, and finally established a stock company. With an increasing requirement for strong government support, FOTON’s head office moved to BEIJING, and became part of the BEIQIMO group. Next, FOTON successfully entered the commercial automotive manufacture industry. FOTON always sticks to the nation’s development focus, makes good use of its marketing advantage, and chooses strategic partners with the assets and technologies FOTON needs.

At the earlier stage of development, FOTON managed its operations through a traditional divisional system. Considering its small size, this choice was efficient and sensible. With rapid expansion, FOTON's old management system came to be challenged due to an increasingly slow decision-making process. Thus, SBU management was formally introduced in 2003 in order to retain organizational flexibility for product units while expanding.

### **4.5.3. The Introduction of SBU Management**

#### **4.5.3.1. Background**

Divisional management worked well before the location change of the headquarter. FOTON had seven divisions at that time. Divisions were classified according to products and management functions. By employing its divisional management system, FOTON developed to one of the largest agricultural vehicle manufacturers in China.

The location change of the headquarter encouraged senior managers to consider a good management system for FOTON. In August 2000, FOTON moved to Beijing. This was a big decision. Before the change, FOTON was located in Zhucheng in Shandong province. Although the local government of Zhucheng was extremely supportive of FOTON's development, its limited power could not help FOTON to fulfil its vision of becoming a national vehicle manufacturer. FOTON chose Beijing, the capital city, as the new location of its head office. From one aspect, the local government of Beijing was more powerful. From another aspect, since most of FOTON's works were located in the north China at that time, the headquarter in Beijing would be able to manage them closely. After the negotiation with local government, FOTON moved its management team to Beijing.

Rapid development and declining management efficiency forced senior managers to seek more suitable management methods. With its fast development, FOTON had more and more works and businesses, both in Beijing and in other provinces. At that moment, FOTON naturally developed a divisional management system. However, in the rapid changing market, FOTON's increasingly slow responses to market impeded its further development in Chinese automotive industry. Senior managers began to

search for a better management system in order to keep FOTON's competitive advantage.

SBU is the abbreviation of 'strategic business unit'. According to a marketing dictionary (English), a strategic business unit is a separate operating division of a company with some degree of autonomy. Its characteristic is that every workshop and every person is one SBU in order to guarantee the allocation of company strategy to every employee. It aims to stimulate strategic creativity and realize a simulated market within the company.

The main advantage of an SBU system is to make sure that one product can survive with other products of large sales volume or high profit within a large company. Moreover, it also makes the managers and employees who are in charge of guiding and promoting a product more focused and exert more energy on it.

The introduction of SBU management made FOTON more suited to rapid development in a highly competitive environment. The management of FOTON remained efficient and flexible. SBU management system has helped FOTON realize or even exceed its development aims for the last two years.

### **4.5.3.2. Introducing SBU Management**

#### **4.5.3.2.1. Decision-making in the Introduction of SBU Management**

The idea of introducing SBU management was brought into discussion when FOTON decided to set GM as its development model in Chinese automotive industry. At all critical change and development points, FOTON would choose a company as its learning model. At the earlier development stage, HAIER, a leading home appliance manufacturer in China, was FOTON's learning model. After FOTON entered the Chinese automotive industry, GM became the new learning model. Undoubtedly, FOTON was pursuing GM's type of success in the automotive industry. At that time, SBU management was GM's main managerial pattern. SBU management naturally attracted the chief manager's attention.

The decision to introduce SBU management was also influenced by managerial fashion in China. There was a management fashion in China – GM’s SBU management – in 2001 and 2002 in China. The success of GM encouraged academic scholars and industrial leaders to study its managerial system – SBU management. The whole Chinese management society was full of books and conferences about the essence of SBU management. The chief manager of FOTON was also influenced by this managerial fashion. The choice of SBU management was stimulated by this fashion.

The decision to introduce SBU management was also reinforced by FOTON’s reflections on an internal case. WEIFANG AGRICULTURAL EQUIPMENT COMPANY, an affiliate of FOTON HEAVY, achieved unexpected success in the agricultural equipment market. Its market share grew to more than 60 per cent in the first year after its establishment in 2000. This growth rate continued for the next three years. Surprisingly, the success was achieved without much direct intervention from FOTON central management system. The establishment of WEIFANG AGRICULTURAL EQUIPMENT COMPANY itself was the side product of a strategic acquisition. In 1999, FOTON decided to acquire a mould company to produce vehicle bodies. One of the conditions in the contract was that FOTON must employ a certain number of current workers. Thus, FOTON established agricultural equipment works, WEIFANG AGRICULTURAL EQUIPMENT COMPANY, to solve the problem of labour redundancy. After employing experienced technical workers from competitive companies, this company began to operate from the beginning of 2000. FOTON did not invest very much in the development of WEIFANG AGRICULTURAL EQUIPMENT COMPANY. Compared with the performance of the other businesses FOTON kept an eye on, the success of WEIFANG AGRICULTURAL EQUIPMENT COMPANY especially attracted the attention of the chief manager. Should a certain independence be given to business units or not? How much independence should be given to business units? These questions became especially meaningful and urgent when FOTON was experiencing rapid expansion and wanted to retain its managerial efficiency. SBU management, which served this intention, became FOTON’s choice. The chief manager attributed the success of WEIFANG AGRICULTURAL EQUIPMENT COMPANY to its

comparatively independent management. Thus, SBU management already had a successful example in FOTON before its formal introduction.

The decision to introduce SBU management was also supported by expert opinion. A project on information technology was in progress in FOTON at that time. A consultancy company was invited to take charge of this project. The project manager from the consultancy company had work experience in GM and was also familiar with the automotive industry. Just before signing the final agreement, the chief manager felt there were still many issues in FOTON's strategic development, especially whether SBU management was suitable for FOTON and how to implement it. After careful consideration, the chief manager required the consultancy company to provide a further report to answer these two questions. SBU management was advocated in this report. The chief manager's decision to introduce SBU management received professional support. Thus, the chief manager of FOTON finally decided to introduce SBU management.

#### **4.5.3.2.2. The Implementation of SBU Management**

At the end of 2002, the chief manager of FOTON formally announced that SBU management would be introduced into FOTON. However, the beginning of the introduction of SBU management may be traced to half a year earlier. A study and discussion of SBU management across FOTON was widely regarded by middle managers in FOTON as the beginning of this introduction process.

This discussion, which happened not only in formal conferences but also in informal personal contacts above the middle level, focused on SBU management and its suitability for FOTON. The discussion in conferences was governed by the chief manager. He tried to evoke middle managers' enthusiasm for studying SBU management through the promotion on meetings. Soon, the topic of SBU management became popular even within informal personal contacts. During the discussion, the chief manager advertised the advantages of SBU management and attributed the success of WEIFANG AGRICULTURAL EQUIPMENT COMPANY to the SBU management model. Through formal and informal communication within FOTON, the whole company began to appreciate SBU management and came to be ready to accept it, even though not all managers and employees knew it well.



In December 2002, the chief manager announced his decision to introduce SBU management into FOTON in a formal management meeting. Middle managers were required to think about the implications of this change for their own areas and to produce plans and reports for these changes. To control the whole process, the administration department was assigned the responsibility for working out the overall plan, in which the power and structure of each unit and the relationships between central management departments and each unit were defined. When the administration department considered the roles of a functional department in SBU management system, meetings involving managers of this department were held in order to include their professional thoughts on the specific changes in their functional areas. To a certain extent, the detailed changes within these departments were worked out by the departments themselves. Therefore, at the beginning of 2003, all the plans for management responsibility and staff assignments were finished.

Following the finish of SBU management system design, the chief manager began to implement this new system. SBU units were allocated by important product lines. Each product line had its own brands under the overall brand of FOTON. The calculation of costs and profits were further disaggregated to each unit. The responsibilities of central management departments were also rearranged according to different lines. In a short time, the reallocation of people and resources was finished, though minor corrections to these plans kept going on in the next several months.

Along with these changes, the chief manager launched an education project, which aimed to facilitate the whole organization's understanding of SBU management and its meaning for FOTON's development. The first subjects of this education plan were middle managers. Although they had previously participated in discussions, middle managers did not know SBU management in detail. A series of training sessions was provided. Internal and external professionals were invited to introduce the advantages of SBU management and to show a clear sketch of the future. More materials were available in handouts, papers, books and intranet. Increasingly, the training extended to FOTON's lower employees. Almost all managers were involved in the training. A great amount of training sessions about SBU management was organized for lower managers and employees within the headquarters. This educational process enabled the employees to think about where and how far the changes would happen to them.

After different departments and divisions had received formal documents about FOTON's new SBU management system, managers began to focus on the real changes relating to their own departments. Although the planning documents were designed to be detailed, there were not enough details to incorporate everything, especially daily work and processes. In the new management pattern, some departmental responsibilities were shifted to divisions. Some new responsibilities were added into their lists. Moreover, efforts were also made to classify different divisions' responsibilities, which were originally interwoven together. For example, in order to differentiate the costs between two products, middle managers were required to find proper ways to calculate and report them every month.

In order to carry out these changes, managers in different departments and divisions delegated the change load to lower managers. Through meetings, they allocated changes and defined the responsibilities for lower managers and the standards for evaluating their performance. Middle managers tracked the process and gave comments through meetings. They also had to report the progress to senior managers at regular intervals. In fact, there were two inclinations among middle managers. The first was to use their own power and knowledge to solve problems. The second was to report problems accurately and leave them to the boss to solve. The latter inclination usually made the changes more difficult. Senior managers also used meetings to control the whole change process. In these meetings they gave comments and answered questions. After the exchange of opinions up and down, the main structure of the change plan was established and stabilized.

#### **4.6. Summary**

In this chapter, the strategic changes happening in three Chinese enterprises were introduced. FCC, a national car producer, cooperated with MAZDA, a Japanese car producer, and introduced M6 cars. It was the first time that FCC had cooperated with an international car producer and produced cars of a brand other than HONGQI, which was the first national car brand wholly held by FCC. Cooperation was initiated in contacts between the senior managers of the two companies and implemented through close interaction between the relevant departments of the two companies. The cooperation was successful, thus helping FCC escape from a survival crisis and

opening a window for further cooperation between the two companies in the marketing area.

BAIJIA, a leading car distributor in the northwest part of China, changed its development strategy from a single-brand strategy to a dual-brand strategy. This strategic change showed BAIJIA's intention to enhance its own brand value in the car distribution market and prepared it for more severe market competition. A dual-brand strategy was introduced by the new chief manager. BAIJIA tried to improve its repair, maintenance, decoration and customer service businesses in order to establish its own brand.

FOTON, a vehicle producer, introduced SBU management. It aimed to retain FOTON's organizational flexibility without hindering its rapid growth. As in BAIJIA, the introduction of SBU management was also decided by FOTON's chief manager based on information and knowledge from consultants, internal information departments and senior managers from other organizations. Following the formal announcement of the introduction, a formal learning project was designed to educate the whole of FOTON. It is expected that the discussion here will provide a basic understanding of the three cases and prepare for the discussion of organizational learning patterns and patterns of the exercise of power.

# Chapter 5

## Organizational Learning, Power and their Interplay

### 5.1. Introduction

This chapter presents descriptive data analysis results on three major themes: organizational learning, the exercise of power and the interplay between organizational learning and the exercise of power. The researcher read and coded interviews transcripts, observation diaries, memos and documents. Four steps – field coding and reflection, re-coding, comparison and integration, and presentation – were followed by the researcher. Based on the data in the two categories of organizational learning and the exercise of power, the researcher identified two patterns of organizational learning and two patterns of the exercise of power from three cases. FCC was characterized by ‘middle-up-down’ learning and ‘interdependent’ exercise of power. BAIJIA and FOTON were found to have ‘top-down’ learning and ‘uni-polar’ exercise of power. Furthermore, the interplay between organizational learning and the exercise of power was shown in six aspects: power influencing the probability of employees developing new knowledge, power influencing the efficiency of information distribution, power influencing the results of information interpretation, knowledge as power base, knowledge acquisition as a natural exercise of power intent, information interpretation and knowledge distribution as the exercise of power.

This chapter begins with the analysis process employed by the researcher to recognize patterns. It continues to describe two learning patterns, ‘middle-up-down Learning’ and ‘top-down Learning’, and two exercise of power patterns, ‘interdependent exercise of power’ and ‘uni-polar exercise of power’. Then, the researcher presents the interplay between organizational learning and the exercise of power found in three cases. Finally, a summary concludes this Chapter.

## **5.2. Recognizing Organizational Learning and Exercise of Power Patterns**

The researcher recognized two patterns of organizational learning and two patterns of exercise of power by following four steps: field coding and reflection, re-coding, comparison and integration. An illustration of this analysis process can be seen in Figure 5.1, in which the researcher has included the analysis process of two categories – knowledge acquisition and power base – to provide readers with an idea of the identification of the two organizational learning patterns and exercise of power patterns.

As in the discussion of data analysis (section 3.7), the researcher began the data analysis process while she was still doing field work. Contact summary sheets, documentary summary forms, and memos were coded along with transcripts. The starting list of codes (see Table 3.12 in section 3.7.2.4), which was developed based on the theoretical framework, was used to guide the coding process at this stage. After field coding, field data were put into 2 main categories (OL and PW) and 6 sub-categories (OL-KA, OL-ID, OL-II, PW-PB, PW-PI and PW-PM).

While doing field coding, the researcher read through these coded data and tried to make sense of them. The literature review provided the academic context and common sense for the researcher. Five questions – ‘Does it support existing knowledge? Does it challenge it? Does it answer previously unanswered questions? What is different? Is it different?’ (Easterby-Smith, Thorpe and Lowe, 2002: 123) – were asked. Reflection helped the researcher to avoid missing critical issues and develop a deeper understanding of relationships among variables.

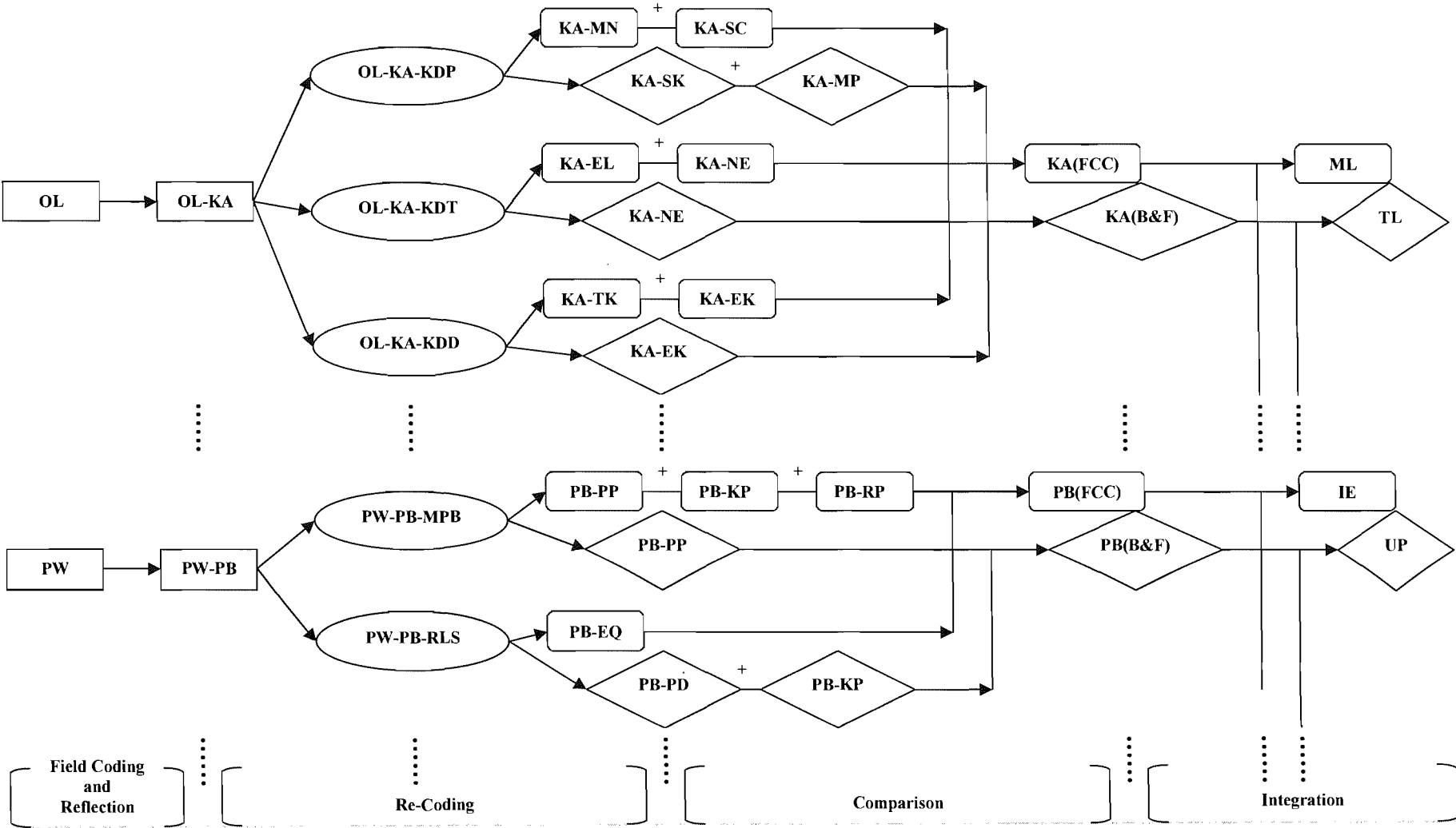
After finishing the field work, the researcher read all the codes again and recoded them. During this process, the data in the 6 sub-categories above were further broken down into 16 concepts (interpretive codes, see codes under OL and PW except OL-PW and PW-LN in Table 3.13). For example, as shown in Figure 5.1, knowledge acquisition (OL-KA) has three central concepts – knowledge developer (OL-KA-KDR), knowledge development (OL-KA-KDT) and knowledge developed (OL-KA-KDD) – to describe it. At the same time, terms or short sentences were used to summarize the property of each concept. For example, as shown in Figure 5.1, the

property of knowledge developed was ‘both tacit and explicit’ in FCC. Pattern codes KA-TK and KA-EK were used to illustrate this property. Thus, 33 pattern codes (see codes under ML, TL, IP and UP in Table 3.13) were added.

Next, the researcher compared three cases in each sub-category and developed a data presentation matrix. Through comparison, the researcher was able to identify the major differences in organizational learning and the exercise of power among the three cases. It was found that BAIJIA and FOTON shared the same properties in the majority of the concepts, and thus were identified as one pattern. FCC had its own properties, and thus became the other pattern. Matrixes (for example Table 5.2) were used to present these differences. Pattern codes were accordingly categorized into two patterns. For example, pattern codes KA-TK and KA-EK belonged to the organizational learning pattern of FCC, which was temporarily shown as KA (FCC) in Figure 5.1.

Finally, the researcher integrated the properties of concepts in each category to represent each pattern. Two highly condensed terms were employed to summarize these properties of central concepts in both patterns. These terms were ‘middle-up-down’ (ML) and ‘top-down’ (TL) for the two organizational learning patterns, and ‘interdependent’ (IP) and ‘uni-polar’ (UP) for the two exercise of power patterns. Pattern codes developed at the earlier stage were formally placed under these four main pattern codes (see codes under ML, TL, IP and UP in Table 3.13). For example, KA (FCC) was transformed to ML-KA and under the main category of ML in Figure 5.1. Two patterns of organizational learning and two patterns of exercise of power were established. Two summary matrices (Tables 5.1 and 5.5) were developed to show the properties of the two patterns in organizational learning and the exercise of power.

Figure 5.1 An Illustration of the Identification of Two Learning Patterns and Exercise of Power Patterns



The analysis of the interplay between organizational learning and the exercise of power followed the first three procedures described above and then combined data from the three cases. Field coding categorized data into two themes – power in organizational learning (OL-PW) and learning in power (PW-LN) – and six sub-categories under these two themes (see codes under OL-PW and PW-LN in Table 3.12). After reflection and after recoding these data, the researcher identified major influencing areas and applied interpretive codes to these areas. For example, power was found to be influencing new knowledge development; thus, the interpretive code PB>NK was used to show this property. Rather than comparing the three cases in pattern recognition, the researcher proceeded with the combination of these properties in each of the three cases. For example, in the category of power influencing knowledge acquisition (OL-PW-KA), the positive effects of power on experimental learning were obvious in FCC but not in BAIJIA and FOTON. The negative effects of power on new knowledge access were apparent in FOTON but not in BAIJIA. The researcher chose to describe all these influences. As for the differences among three cases, the researcher will explain them in Chapter 7. Finally, two matrices (Tables 5.9 and 5.10) were developed to present the data on the interplay between organizational learning and the exercise of power. The researcher will discuss these analysis results in detail below.

### **5.3. Two Learning Patterns – ‘Middle-Up-Down’ Learning and ‘Top-Down’ Learning**

Based on multiple data resources, two patterns of organizational learning were identified in the three change processes examined. One pattern can be defined as ‘middle-up-down’ learning, which is the case for FCC. The other pattern can be defined as ‘top-down’ learning, which is the case for BAIJIA and FOTON. These two patterns of organizational learning will be examined through discussing three learning behaviours – knowledge acquisition, information distribution and information interpretation – in the three cases. The following section will provide an overall explanation of the two learning patterns. Then, the three learning behaviours will be discussed individually to provide a detailed explanation. However, important terms used in this section will be clarified first.



### **5.3.1. The Clarification of Terms**

As shown in the literature review, knowledge acquisition deals with the process of acquiring knowledge or information (Huber, 1991). Information distribution is ‘the process by which information from different sources is shared and thereby leads to new information or understanding’ (Huber, 1991: 90). ‘Information interpretation is the process by which distributed information is given one or more commonly understood interpretations’ (Huber, 1991: 90). These definitions can be applied to both organizations and individuals. They were adopted throughout the whole process of data collection and analysis.

While collecting field data on knowledge acquisition in FCC, the researcher chose to start with the question: ‘have you learned something new during the change process?’ Then, the researcher continued to explore the process characteristics by asking questions: ‘who did you learn from?’ and ‘how did you learn?’ The researcher focused on the process data of acquiring ‘new’ knowledge. Here, ‘new’ knowledge was defined as knowledge that was new and had an improvement implication for FCC. For example, the knowledge middle managers learned from senior managers was new for middle managers, but was not new for FCC because senior managers already held it; thus, this process was a knowledge acquisition process for middle managers, but could only be treated as a knowledge distribution process for FCC. Besides, if the knowledge middle managers acquired was about the arts, which was not relevant to their roles, the process associated with the acquisition of this knowledge could not be considered as a knowledge acquisition process of FCC. Under these prerequisites, it was found that knowledge acquisition in FCC included the process of middle managers in relevant departments acquiring knowledge or information from corresponding departments of MAZDA and the process of senior managers acquiring information from senior managers of FAW and those of MAZDA. According to the same logic, knowledge acquisition in BAIJIA referred to the process of the chief manager acquiring knowledge and information to formulate a dual-brand strategy and the process of middle managers acquiring information through their personal relationships. Knowledge acquisition in FOTON referred to the process of the chief manager acquiring knowledge and information to adopt SBU management. Thus, the analysis of knowledge acquisition was on the organizational level.

Data collection on information distribution and interpretation used the same methods as that on knowledge acquisition. The ‘information’ in these two definitions was related to new information that had already been acquired. Information distribution dealt with the process of new knowledge holders sharing with other employees in the three cases. Information interpretation focused on the process of information distributors giving interpretations to the information distributed. Both processes were interpersonal. Along with the definition of knowledge acquisition in the three cases, information distribution in FCC was the process of senior managers and middle managers sharing their new information and knowledge in multiple ways, like selling ideas, making suggestions, setting up educational plans, personal discussion and so on. Information distribution in BAIJIA and FOTON referred to the process of the chief manager sharing his ideas on dual-brand strategy and SBU management with middle managers. Information interpretation in FCC studied the process of how senior managers and middle managers interpreted information and how they distributed it. Information interpretation in BAIJIA and FOTON studied the process of how chief managers interpreted information and knowledge associated with the dual-brand strategy and SBU management.

### **5.3.2. Two Learning Patterns**

The two patterns of organizational learning are ‘middle-up-down’ learning, which was identified from FCC’s strategic change process, and ‘top-down’ learning, which was identified from BAIJIA and FOTON’s strategic change processes. As shown in Table 5.1, FCC’s learning is dominated by middle managers. Middle managers are new knowledge acquisition points for FCC. They distribute knowledge to senior managers and lower employees. Furthermore, middle managers also serve as important information interpreters. Senior managers hold exclusive information on the senior level and distribute it downwards. In BAIJIA and FOTON, organizational learning is dominated by the chief manager. The chief managers in these two enterprises acquire new knowledge, distribute information downward and behave as important information interpreters. In the two learning patterns, the participation of senior managers and middle managers in knowledge acquisition, distribution and interpretation is shown in Table 5.1. A general explanation follows the table.

**Table 5.1 Senior Managers and Middle Managers in Two Learning Patterns**

	<b>Knowledge Acquisition</b>	<b>Knowledge Distribution</b>	<b>Knowledge Interpretation</b>	<b>Case</b>
<b>Middle-up-down Learning</b>	Middle managers; Senior managers (senior level information)	Middle managers; Senior managers (for senior level information)	Middle managers; Senior managers (for senior level information)	FCC
<b>Top-down Learning</b>	The chief manager; middle managers	The chief manager	The chief manager	BAIJIA
	The chief manager	The chief manager	The chief manager	FOTON

‘Middle-up-down’ learning is the dominant learning pattern in FCC. Although important information flowed into FCC mainly through senior managers at the beginning, middle managers gradually became the ‘centre’ of organizational learning in FCC. The central position of middle managers is shown in the following three aspects. First, the new knowledge developed at middle managers’ positions began to govern the learning orientation of FCC. Second, an apparent knowledge-selling activity was found to be happening between middle managers and senior managers. Moreover, knowledge sharing between middle managers and lower employees also influenced senior managers’ decision making. Third, there was also an apparent meaning-manoeuvre behaviour in which middle managers sold or promoted their ideas to senior managers and lower employees. Middle managers’ interpretation of information influenced senior managers’ and lower employees’ understanding of market and enterprise situations.

*“In FCC, middle managers with creative thoughts can influence senior managers, and even affect the whole organization....”*

(Interviewee: FCC, Middle Manager C, Department of Planning & Control)

In comparison, ‘top-down’ learning in BAIJIA and FOTON was strongly characterized by the dominant position of the chief managers in the organizational learning process. The chief managers in the two enterprises showed their domination in the following three ways. First, the chief managers were the main starting points for learning in BAIJIA and FOTON during the change processes. Their intentions decided organizational learning directions. Second, the chief managers governed the information flowing within the two enterprises. Middle managers and lower employees learned new knowledge from the chief managers and other resources that

they had assigned. Third, chief managers' understanding of enterprises and their environment determined middle managers' and lower employees' perception of them.

*“What we will learn in BAIJIA will be decided by the chief manager. After all, he had this power, and won't let anyone else challenge it.”*

(Interviewee: BAIJIA, Middle Manager A, Department of Repair and Maintenance)

*“Who is the dominator? Certainly the chief manager, one person....”*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

As shown above, the criteria used to differentiate middle-up-down from top-down learning is the different roles of middle managers and senior managers in the organizational learning process. These two learning patterns were identified by examining three learning behaviours: knowledge acquisition, information distribution, and information interpretation. In the following sections, these three learning behaviours will be discussed further in detail.

### **5.3.3. Knowledge Acquisition**

Data on knowledge acquisition showed who were new knowledge developers and how new knowledge was developed in the three enterprises. In FCC, middle managers developed new knowledge through daily contacts with their counterparts in MAZDA and experiments in their own departments in the middle-up-down learning process of FCC. In comparison, in the top-down learning pattern of BAIJIA and FOTON, chief managers were the major knowledge acquisition points throughout the process. The category of knowledge acquisition consists of three sub-categories: knowledge developer, knowledge development and knowledge learned. Table 5.2 was developed to summarize the properties of the two learning patterns in these three sub-categories. A detailed explanation will be provided in sections 5.3.3.1 and 5.3.3.2.

**Table 5.2 Knowledge Acquisition in Two Learning Patterns**

Sub-category	Property	Case	Learning Pattern
Knowledge developer	Middle managers; senior managers (senior level information)	FCC	Middle-up-down
	The chief manager; middle managers	BAIJIA	Top-down
	The chief manager	FOTON	
Knowledge development	Experimental learning; non-experimental learning	FCC	Middle-up-down
	Non-experimental learning	BAIJIA; FOTON	Top-down
Knowledge Learned	Tacit; explicit	FCC	Middle-up-down
	Explicit	BAIJIA; FOTON	Top-down

### **5.3.3.1. Knowledge Acquisition in Middle-Up-Down Learning**

During the introduction of M6 cars, new knowledge was developed mainly by middle managers in FCC. Although senior managers held nearly all the strategic or confidential information about the cooperation with MAZDA before the introduction, middle managers gradually became the interface between FCC and MAZDA, though senior managers were still important actors in senior-to-senior talks with MAZDA. Important information and new knowledge flowed from MAZDA to FCC through middle managers' daily contacts with the managers of their counterpart departments in MAZDA.

At the beginning, senior managers had exclusive access to information about the opinions of FAW and MAZDA. Senior managers of FCC had communication with senior managers of FAW. Thus, they knew the expectation of FAW on the strategic development of FCC and the position of FCC in the whole strategic development of FAW. FAW insisted that FCC, as the only car manufacturer wholly owned by FAW, deserved a strategic co-operator with a highly valued international brand. FCC's strategic cooperation should benefit the internationalization process of the FAW group. Thus, the initial cooperation candidates of FCC were limited to the current or prospective strategic partners of FAW in order to reinforce the alliance with them. MAZDA was apparently not under consideration. Due to their lower positions, the

middle managers and lower employees of FCC could not acquire the same information. This situation was described by middle managers as ‘depressing’.

*“For some information, we (middle managers) cannot get, but senior managers can. For example, we thought the cooperation with company A<sup>5</sup> was perfect for FCC and actually did work on it. However, FAW did not think that company was big enough and actually preferred another. Our efforts (initial attempts to contact cooperation candidates) turned out to be just meaningless. Senior managers knew it. But we did not....Sometimes, we feel confused and are afraid that our proposals are naive for senior managers due to the lack of the confidential information....We hope that they (senior managers) can share with us, and don’t want it to be just their own....”*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This showed that senior managers in FCC acquired confidential information that was not available to middle managers. Besides, the early contacts between FCC and MAZDA happened only among senior managers. As a senior manager described:

*“At the beginning, the intention to cooperate with MAZDA was shared only among our several senior managers. Not all senior managers in FAW even know about it. Certainly, we have already informally communicated with key management member (the chief manager) in FAW about the intention....On the event of new car launching ceremony in Hainan province, we began our contacts with MAZDA....After the exchange of cooperation intention, we met senior managers of MAZDA several times to be familiar with each other....This was followed by discussing the overall plan....”*

(Interviewee: FCC, Senior Manager A, Deputy Chief Manager, Product)

Senior managers were provided with the opportunities to know MAZDA in depth in the negotiation process with MAZDA.

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<sup>5</sup> For legal reasons, the real name of the company has been replaced by Company A.

However, with the introduction of M6 cars proceeding, the interface between FCC and MAZDA shifted from the senior management level to the middle management level. Middle managers worked together with relevant managers in MAZDA to deal with technical and managerial problems. This can be seen in the discussion on middle managers' importance in new idea initiation by one of them:

*“Once the cooperation began, it was us, middle managers, who got daily contacts with MAZDA, and worked on technical issues, like training, producing, stock and quality control....The new ideas to enhance the production efficiency and indicate the future development direction were often originated from the managers in relevant departments....”*

(Interviewee: FCC, Middle Manager C, Department of Planning and Control)

Middle managers received information and acquired new knowledge from these contacts with MAZDA. One example was the improvement of quality control system in FCC. Middle managers in the quality management department learned a new quality control procedure from MAZDA. They initiated a new quality control system based on MAZDA's which superseded the old one, which had come from FAW-Volkswagen. This new system was adopted by FCC.

However, this expanded role for middle managers did not mean that senior managers were not important at all in new knowledge development when the strategic cooperation began. Actually, they were still the major actors in talks happening at senior management level with FAW and MAZDA. Certain information, for example, FAW's plan on FCC's development, would not flow to middle managers and lower employees in FCC. Thus, many suggestions that middle managers regarded as valuable might be absolutely unacceptable from the perspective of senior managers. For example, middle managers had suggested stopping using 'HONGQI' as the brand of new series of cars. However, this proposal failed to get approval from senior managers. As the first national car brand, 'HONGQI' would not be allowed to change. Senior managers in FCC became the important influencing factors on middle managers' new ideas and suggestions instead of producing new ideas.

The way of acquiring knowledge also changed in FCC. At the beginning, senior managers acquired new knowledge mainly through face-to-face communication. The carrying medium of information was words. The learning process was direct. The knowledge acquired was basically explicit. With middle managers occupying the central position in the organizational learning process, they acquired knowledge in a different way. Middle managers acquired knowledge through their work contacts with their counterparts in MAZDA. New knowledge was embedded in middle managers' experience of MAZDA's management systems, routines and values, and managers' behaviours. The knowledge learned was mainly tacit. The learning process was indirect. In addition, the middle managers' learning process also involved experiments in employing new knowledge within their own departments. Middle managers in the quality control department explained this process briefly:

*“Many things I touched were brand new for me. We used FAW-VOLKSWAGEN's production and quality control methods before. Now we adopted MAZDA's....While I was cooperating with the managers from quality control department of MAZDA, they introduced this system (quality control procedure) to me. I saw what they did and the improvement of product quality. I began to think the possibility of using the same quality control system....According to my experience, I concluded several ideas that might benefit FCC and tried it on one lot of our 'HONGQI' cars. Things turn out that the system could also benefit FCC but more training for our employees was needed....”*

(Interviewee: FCC, Middle Manager D, Department of Quality Control)

While he described his learning experience, he also mentioned:

*“Many things you could not say clearly. You got to feel or...how to say. Only when you actually did the job with MAZDA, you could know. Through the daily contacts with them (correspondent departments in MAZDA), I can understand their organizational culture better, not only from words, advertisements or introduction brochures, but also from my own feelings. For example, when I*



*was working with them, I could feel that they were extreme conscientious in whatever they did. Comparatively, we gave ourselves too many excuses for our irresponsibility, including the soft quality control in production. We should have done a lot of things better....”*

(Interviewee: FCC, Middle Manager D, Department of Quality Control)

It was shown that the knowledge acquired by middle managers through daily contacts with MAZDA was more tacit and the process was characterized by experimental learning.

### **5.3.3.2. Knowledge Acquisition in Top-Down Learning**

New knowledge was mainly acquired by chief managers through top-down learning at BAIJIA and FOTON. In both enterprises, chief managers controlled organizational learning content and process. In order to legitimize their strategic decisions and implement change, chief managers chose the knowledge for middle and lower managers to learn, and set up the learning schedules. In FOTON, the chief manager decided to change to an SBU management system. He then empowered the training department to design the training project for the whole enterprise involving all middle managers and lower employees. Slightly differently, middle managers in BAIJIA could also acquire information and knowledge through their personal relationships. However, middle managers in FOTON were not knowledge gatekeepers. In BAIJIA, middle managers had several years' experience in the vehicle distribution industry. Compared with the new chief manager who had little experience in this area, middle managers apparently held more professional knowledge about the company and the industry than the new chief manager. Besides, middle managers' wide social contacts in local markets also provided them with important information and knowledge resources. However, they would rather keep the knowledge than share it with other members of BAIJIA. Thus, their knowledge could not become BAIJIA's knowledge. (Knowledge sharing in BAIJIA will be discussed in the next section.) In FOTON, middle managers had few chances to learn from other enterprises or external professionals and were under the control of the chief manager. As a middle manager described it:

*“Every day, we just did our jobs and did what our boss asked us to do....I work in the general management department. Thus, my responsibility is to maintain the management system of our firm. The boss also gave us some urgent non-technical projects....Our contact with other enterprises is less....However, our chief manager is really good at learning. His decisions have proved to be correct. FOTON developed so fast these years....He is the only boss. His idea is FOTON’s ideas....”*

(Interviewee: FOTON, Middle Manager B, Department of General Management)

Similarly to senior managers in FCC, the chief managers of BAIJIA and FOTON acquired knowledge in a direct way. They mainly deal with explicit knowledge. However, the chief manager of FOTON had more information resources than the chief manager of BAIJIA. The wide social contacts of the chief managers were an important way to receive new information and learn new knowledge. In FOTON, an information collection department was established by the chief manager to facilitate the collection of external information and issue relevant reports. Based on these reports and the exclusive information from his social network, the chief manager made his decisions. Current managerial fashion also had a certain influence on the chief manager of FOTON. The previous enterprises FOTON learned from were ‘HAIER’ and ‘GM’. These were hot topics at that time in management studies. Sometimes, the suggestions of external consultants and professionals were also seriously considered by the chief manager. The introduction of SBU management was influenced by the consultant who took charge of the project on FOTON’s information system establishment. These information and knowledge resources were seen to influence the decision-making process of SBU management, which was summarized in a middle manager’s interview:

*‘At different development stages, our firm set different enterprises as the learning models. When the size of FOTON was still small, the enterprise we learned from was HAIER....Now, we learned from GM....The idea of introducing SBU management came first from a consultant. He was doing a project on information system at that time. He had been working in GM for a long time and was*

*familiar with this management system. At the final stage of this project, our boss asked him about the management of FOTON and got the suggestion that SBU management would be suitable....He also consulted many scholars and asked the department to collect relevant information. At that time, GM was a fashionable study focus in academic area. This also influenced him....'*

(Interviewee: FOTON, Middle Manager E, Department of Group Media and Advertisement Management)

In comparison, the knowledge acquisition of the chief manager in BAIJIA was based only on his communication with professionals in the industry and senior managers in ZHONGXING. The knowledge resources of the chief manager in FOTON were versatile.

#### **5.3.4. Information Distribution**

To explain the two patterns of organizational learning, the discussion of knowledge distribution uses three related concepts: major distributors, distribution motives and means. In the middle-up-down pattern of learning of FCC, middle managers were important information and new knowledge distributors. New knowledge was distributed by middle managers to senior managers and lower employees. However, in the top-down learning pattern of BAIJIA and FOTON, new knowledge was distributed mainly from chief managers to middle and lower management levels. The category of information distribution consists of three sub-categories: information distributor, distribution motive and distribution mean. Table 5.3 summarizes the properties of the two learning patterns in these three sub-categories. In the following two sections, these properties are examined in detail.

**Table 5.3 Information Distribution in Two Learning Patterns**

Sub-category	Property	Case	Learning Pattern
Information distributor	Middle managers; senior managers (senior level information)	FCC	Middle-up-down
	The chief manager	BAIJIA; FOTON	Top-down
Distribution motive	Enhancing influences	FCC	Middle-up-down
	Decision legitimization; facilitating implementation	BAIJIA; FOTON	Top-down
Distribution means	Indirect (only applicable to middle managers' knowledge distribution) and direct; versatile	FCC	Middle-up-down
	Direct	BAIJIA	Top-down
	Direct, versatile	FOTON	

### **5.3.4.1. Information Distribution in Middle-Up-Down Learning**

Middle managers were important knowledge distributors in FCC. Middle managers distributed information and new knowledge to both senior managers and lower level employees. Their knowledge distribution to senior managers was a selling process. In contrast, their knowledge distribution to lower employees was a teaching process. It was also found that middle managers' knowledge distribution to lower employees facilitated knowledge sharing with senior managers. As discussed in knowledge acquisition, senior managers in FCC also held new information and knowledge coming from senior-to-senior talks and social networks. They selected and distributed it to middle managers in FCC.

Middle managers sold their knowledge to senior managers in FCC. The first prerequisite of this selling process was that middle managers had total control over the new knowledge acquired. In accordance with the knowledge acquisition involving experiments, the majority of the information and knowledge middle managers learned was non-routine for FCC, which meant that such information and knowledge was not under the regulation of the current management system. For example, middle managers in the quality management department learned a new quality control procedure from MAZDA. The decisions as to whether this quality control system was

suitable for FCC and whether FCC should adopt this system and discard the old one were made by middle managers in the quality management department of FCC. They could decide to recommend the change to senior managers or just keep it in their minds, because no regulations forced them to take these actions and they would not be punished if they chose not to disclose the information. Thus, middle managers 'had' the 'goods' to sell.

Middle managers in FCC only sold the ideas that they thought would be accepted by senior managers. Middle managers made their decisions by employing the contextual knowledge that was developed through their daily work and personal contacts with senior managers. The contextual knowledge included senior managers' habit, typical decision making pattern, career development plan and preference in communication. As a middle manager described:

*'We (the middle manager himself and the chief manager of FCC) worked together for more than 3 years. We also have talks off work. I can say that I know him quite well....When things or ideas turn up, I can predict his response....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

Middle managers' understanding of senior managers facilitated their knowledge distribution to senior managers. For example, when the middle manager in the department of planning and control tried to promote his idea of a new reward system, he started with the arrangement of senior managers' stock options. The middle manager knew it was the major concern of senior managers in FCC through personal discussion with them.

Knowledge distribution also happened between middle managers and lower employees. Middle managers tried to educate lower employees to adopt new methods, fully understand their decisions, and think in the same way as them. When middle managers in the human resource department tried to make adjustments to the current worker training system, they had group discussions on the evaluation of the new training system. A brainstorming process was employed to involve lower employees to make contributions to the new training system. Several seminars were also given to educate lower employees on the necessity of launching a new worker training system.

All these activities were a good preparation for lower employees to implement the training scheme later.

Compared with senior managers' knowledge distribution, middle managers' knowledge distribution was more versatile. There were two ways for senior managers to distribute new information and knowledge. Traditionally, senior managers announced their decisions on new organizational learning schedules in formal meetings. At the beginning of the strategic cooperation with MAZDA, senior managers of FCC announced the decision to send middle managers from production, quality control and the other relevant departments to MAZDA Japan to study. As for the content, they did not think it suitable for open discussion, and chose to distribute it in more private ways, like personal talks with selected managers. In the strategic cooperation with MAZDA, the senior managers in charge of production privately communicated with middle managers in the product design department on the learning plan, which highlighted the importance of studying new car models. The knowledge distribution of senior managers was normally direct.

However, middle managers tended to use more varied distribution methods. They employed new techniques and set up a web page to exchange opinions. The MAZDA project team created a special space on the FCC intranet to disclose the latest information, documents and project progress. Managers and relevant employees were given access to files at different security levels. Middle managers also behaved in the way that they wanted lower employees to follow. While I was sitting in the department of planning and control, I observed that a middle manager opened his door and welcomed all employees to ask or communicate with him. He also occasionally walked into the work zone of lower employees to have business talks with them. The following is one paragraph from my observation diary:

*'A<sup>6</sup> walked into the working zone of lower employees four times this morning. He talked to different persons and actually had a small group discussion once. The chats covered a wide range of topics from the annual budget to the market research project of brand value, which had been discussed in a recent meeting. It seems that he was trying hard to create more open atmosphere of*

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<sup>6</sup> A: FCC, Middle Manager A, Department of Planning and Control.

*exchanging ideas. Actually, lower employees did seem more relax while working and communicating with him.'*

Moreover, the changes amongst middle managers and lower employees also influenced senior managers' thinking. A middle manager described this influence:

*'If you change your ways to do things, for example, we began to use project management software and skills in the process of the cooperation with MAZDA, your boss will feel the differences. B<sup>7</sup> has asked me if project management and time management skills were widely used in FCC and admitted that our department led the firm in management skill development. The thing is if more and more people use the new way, the boss will be more likely to accept them and also use them....'*

(Interviewee: FCC, Middle Manager C, Department of Planning and Control)

Senior managers could sense the changes in behaviour at middle and low management levels. Thus, senior managers' learning process was triggered. The knowledge distribution of middle managers was most of the time indirect.

#### **5.3.4.2. Information Distribution in Top-Down Learning**

Knowledge distribution in BAIJIA and FOTON was top-down during the change processes. The chief managers in the two companies were the main knowledge distributors. Middle managers and lower employees in BAIJIA and FOTON were guided by chief managers to learn new knowledge. When the chief manager in FOTON decided to implement SBU management, he expressed his interest in this management style in several consecutive meetings and asked middle managers to learn more about it. At the same time, the chief manager also empowered the information department to collect information and knowledge on employing the SBU management system. Furthermore, all departments were asked to think about the changes relevant to their functions if SBU management was implemented. As a middle manager described:

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<sup>7</sup> B: FCC, The Chief Manager.

*'(After all these actions), we all knew the intention of the boss (the chief manager of FOTON) and were quite sure that SBU management would soon be implemented. Under his influences, the whole group began to learn SBU management....'*

(Interviewee: FOTON, Middle Manager B, Department of General Management)

This showed that the chief manager in FOTON had great influence on what middle managers and lower employees would learn. A similar situation was found in BAIJIA. The chief manager explained the dual-brand strategy in detail in company meetings and asked middle managers in different departments to discuss the actions that should be taken. The chief manager in BAIJIA successfully guided the learning of employees on the dual-brand strategy.

The aim of the chief managers' knowledge distribution was to legitimize their decisions and facilitate the implementation of changes in BAIJIA and FOTON. While the chief manager of FOTON empowered the information department to collect relevant information, he particularly required the department to pay more attention to successful cases and the common factors shared by the companies in these cases and FOTON. Finally, he decided to set GM as the most suitable organization to learn from. As shown in Chapter 4, FOTON aimed to be one of the biggest vehicle manufacturers in China. The leading position of GM in the world vehicle manufacturing market was expected to help legitimize the choice of SBU management by FOTON. As one middle manager commented:

*'If GM, such a big company, employed SBU management system to successfully establish or at least facilitate the establishment of its leading position in the world vehicle manufacture market, SBU management was undoubtedly a good experience to learn. We want to be successful as GM in China market....'*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

The learning of SBU management and the use of successful cases educated employees to support the adoption of SBU management and helped them to prepare for implementation later. Although there was no information department in charge of



learning in BAIJIA, the chief manager was also able to distribute knowledge to legitimize his decisions. As he said:

*'I had to let them (employees of BAIJIA) know the necessity of adopting dual-brand strategy. I analysed the current competitive situation BAIJIA faced and predicted the development trend. I prepared plenty of evidence supporting my decisions, like financial numbers, market research reports and so on. I think they (employees of BAIJIA) would have already realized that it was the best choice we have....'*

(Interviewee: BAIJIA, Senior Manager A, The Chief Manager)

The decision to implement a dual-brand strategy finally gained support from the whole of BAIJIA.

Although middle managers in BAIJIA held certain new information, they chose to keep it rather than distribute it because they saw no benefit in information distribution. Middle managers in BAIJIA had been in the car distribution and repair industry for more than 8 years. They had friends and contacts in competitive firms. In the local car distribution and repair market, middle managers in BAIJIA could always obtain first-hand information about competitors' next moves and changes in the local market. However, they did not have enough incentive to distribute information.

*'Why should I share it (the information that company a<sup>8</sup> is planning to open another 4S distribution station and proactively looking for new employees) with him (the chief manager). Sometimes, it is not good to show you know so much. I don't want to be a threat to him. Moreover, nobody is sure of staying with BAIJIA for ever. It is better to listen and see more but say less...'*

(Interviewee: BAIJIA, Middle Manager A, Department of Repair and Maintenance)

Middle managers did not feel secure enough to distribute information. It also meant that a great amount of knowledge acquired by middle managers turned out to be

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<sup>8</sup> Company a: one of the main competitors of BAIJIA.

'sediments at their positions'. Middle-up-down knowledge distribution was not found in BAIJIA.

The means of knowledge distribution in FOTON were more versatile than those in BAIJIA. In BAIJIA, computers were not used so often. There was no intranet. Thus, internet information communication was rare. Meetings and personal contacts were the two main knowledge distribution channels. However, in FOTON, there was a comparatively complete knowledge distribution system. Multi-media were employed, the intranet being widely used in addition to meetings and personal contacts. Moreover, there were specific regulations on information distribution in FOTON. Three departments – the general management department, the marketing department and the secretarial office of the chief manager – played the major role in this system. The general management department took charge of the internal information flow. The marketing department collected external information and reported it monthly. However, the secretarial office of the chief manager dealt mainly with the relevant strategic information from government and the senior management of major co-operators and competitors, and communicated with the chief manager on a daily or weekly basis. The responsibilities of the relevant departments were clear.

### **5.3.5. Information Interpretation**

In the explanation of the two learning patterns, information interpretation described the aim and process of giving commonly understood interpretations to distributed information. As shown in Table 5.4, the middle managers of FCC were the main interpreters, and influenced senior managers' interpretation in middle-up-down learning. Senior managers were also interpreters when they were distributing information. In top-down learning, the chief managers of BAIJIA and FOTON were the main interpreters. Three sub-categories, information interpreter, interpretation motive and interpretation model, are used to explain the category of information interpretation. Table 5.4 summarizes the properties in these sub-categories. A detailed explanation follows.

**Table 5.4 Information Interpretation in Two Learning Patterns**

Sub-category	Property	Case	Learning Pattern
Information interpreter	Middle managers; senior managers (senior level information)	FCC	Middle-up-down
	The chief manager	BAIJIA; FOTON	Top-down
Interpretation motive	Enhancing influences (middle managers); decision legitimization and facilitating implementation (senior managers)	FCC	Middle-up-down
	Decision legitimization and facilitating implementation (the chief manager)	BAIJIA; FOTON	Top-down
Interpretation model	Professional knowledge and context knowledge	FCC	Middle-up-down
	Management knowledge	BAIJIA	Top-down
	Professional knowledge, management knowledge	FOTON	

### **5.3.5.1. Information Interpretation in Middle-up-down Learning**

In FCC, the importance of middle managers as major information interpreters was continuously enhanced while FCC's cooperation with MAZDA was proceeding. Information interpretation was embedded in middle managers' knowledge acquisition and distribution process. As the interface of information exchange between FCC and MAZDA, the middle managers of FCC interpreted the new information and knowledge coming from MAZDA. Middle managers in the product design, production, quality control and human resources departments received information from their counterparts at MAZDA, and distributed it to senior managers and lower employees. During this distribution process, middle managers' interpretation of information influenced senior managers and lower employees' understanding of the information. For example, middle managers in the human resources department learned a new worker training programme from MAZDA. After middle managers examined the training programme, they realized that it was very difficult for Chinese workers to work as machines without the freedom to change their actions. What should be highlighted was step-by-step training and highly standardized production

procedures. Thus, they interpreted the new training programme as standardized production training, which aimed to increase productivity and better quality, and reported to senior managers and lower employees. The information and knowledge that senior managers and lower employees received was not the original training programme of MAZDA but a transformed training programme with particular context characteristics of FCC. Thus, middle managers' interpretation of new information and knowledge influenced senior managers and lower employees' understanding.

Middle managers' interpretation was based on their knowledge and working experience in relevant professional areas, FCC, and the macro-economic context. In the example above, middle managers interpreted the new training programme by using their professional knowledge in the area of worker training. Therefore, they could identify the critical parts of the training programme, which were the design and obedience to the production procedures. Combined with their understanding of FCC and the macro-economic context, middle managers designed a transformed training programme, which was particularly suitable for FCC. This programme focused on the standardization of procedures and the education of workers to follow these procedures strictly. As middle managers in the human resources department described:

*'We have visited MAZDA's works. Their workers followed several manual books, which were all that thick (fingers showing about fifteen cm thick) right on their counters. Can you imagine that hundreds of workers work as one person, like robots? Even the number of actions required to have a nail done was written down: three in total, pa-pa-pa (actions shown by him). We soon realized the distance between us. Our workers were just told what to do when they had training for the first time. They could use two actions or five actions as they like. We picked several workers and tried MAZDA's methods. It was found that quality and productivity was enhanced....Thus, we particularly highlighted the standardization of procedures including the design and workers' education....'*

(Interviewee: FCC, Middle Manager F, Department of Human Resources)

This short narrative shows that middle managers were able to interpret new information and knowledge based on their own judgements. With the distribution of the knowledge to senior managers and lower employees, their interpretation influenced other members' understanding across FCC.

Senior managers in FCC also became important information interpreters when they distributed information. As shown in knowledge acquisition and distribution in FCC, senior managers held exclusive information and knowledge at the senior level, and selected and distributed it. Their interpretation of the information aimed to create an image of FCC and its environment. Senior managers tried to connect the information they obtained with the strategic development of FCC. Since information came from both external and internal resources, senior managers combined it and created an overall understanding. For example, senior managers in FCC knew the intention of FAW, which planned to support FCC's long-term strategic cooperation with MAZDA, from senior talks with senior managers of FAW. From the senior level discussion with MAZDA, they also knew the intention of changing the former strategic co-operator, which was company b<sup>9</sup> in HAINAN province. Their interpretation while distributing information was combined with middle managers' interpretation of information and knowledge in production design, production, quality control, human resources and marketing to create a strategic understanding of FCC and its environment. Finally, senior managers accepted the suggestions of middle managers, which implied that it was FCC's direction in cooperation with MAZDA to establish a joint marketing company in the future. As the senior manager said:

*'We knew MAZDA was not satisfied with the development in China automobile market and wanted to change strategic co-operator. We also knew FAW had a positive expectation of FCC's cooperation with MAZDA...We explained and exchanged ideas with some middle managers on these development opportunities. Combined with the information and suggestions of relevant departments, we agreed that a joint venture in marketing area would be a perfect choice. First, it reflected our marketing advantages in China market and avoided the weakness in*

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<sup>9</sup> Company b: one of the former co-operators of MAZDA.

*production. Second, it was accordant with the development of market competition, which shifted from production to marketing. Third, the cooperation in marketing area would help FCC integrate MAZDA's resources in China market and establish FCC's importance in MAZDA's strategic development in China market...'*

(Interviewee: FCC, Senior Manager A, Deputy Chief Manager, Product)

This showed that senior managers combined internal suggestions and external exclusive information to create an overall understanding of FCC's strategy development.

### **5.3.5.2. Information Interpretation in Top-down Learning**

Chief managers continued to be the major information interpreters in BAIJIA and FOTON. While the chief managers were distributing new information and knowledge, they also distributed their understandings. They expected that the majority of employees in BAIJIA and FOTON would share their understandings. For example, the chief manager of FOTON tried to interpret the success of GM in a way favouring SBU management. Although the success of GM could not be achieved without the SBU management system, the extent to which the success of GM was attributable to the SBU management system was unclear. In order to legitimize the decision to introduce SBU management, the chief manager intentionally highlighted its importance in GM's success. As described by a middle manager:

*'Our boss explained the success of GM in world car manufacture industry. SBU management was one of the most important factors. Although FOTON cannot compare with GM in size, we do have similar mission in China car manufacture market. It is expected that FOTON can have a better future by employing SBU management system like GM....'*

(Interviewee: FOTON, Middle Manager E, Department of Group Media and Advertisement Management)

It was shown that the chief managers did not simply distribute information or knowledge but used it to send messages to other employees. The messages would benefit the legitimization of the chief managers' decisions.

Although middle managers processed routine information, their interpretation mainly influenced implementation efficiency in their professional areas instead of decision-making efficiency. The information interpretation of the chief managers and middle managers worked on different levels – one strategic and the other practical. When the chief manager was trying to initiate the change from a single-brand strategy to a dual-brand strategy in BAIJIA, he focused on the information interpretation of market competition and the development of the Chinese car distribution market. In order to successfully implement a dual-brand strategy, the chief manager identified repair and maintenance one of the most important businesses in establishing the brand of BAIJIA. Guided by this decision, the middle managers of the repair and maintenance department worked on how to develop the strength of BAIJIA in this area. It was found that the big problems were that technical employees left and that the average repair and maintenance day was too long. As middle managers in the repair and maintenance department discussed:

*'He (the chief manager) emphasized our department was one of the major businesses our firm should develop in order to realize his plan (Dual-brand Strategy). Thus, we have reviewed our repair and maintenance business thoroughly. Based on the information and discussion within department and the comparison with other firms, we focused our efforts on two areas: the management of technical employees and the time management efficiency of repair....'*

(Interviewee: BAIJIA, Middle Manager A, Department of Repair and Maintenance)

From the perspective of middle managers, they interpreted information to facilitate the implementation of the chief managers' decisions.

## **5.4. Two Exercise of Power Patterns – ‘Interdependent’ Exercise of Power and ‘Uni-Polar’ Exercise of Power**

Based on the multiple resource data collected under the category of ‘exercise of power’, it was identified that the exercise of power in the three cases could be summarized in two patterns. One pattern was an ‘interdependent’ exercise of power pattern, which is the case for FCC. The other pattern was a ‘uni-polar’ exercise of power pattern, which is the case for BAIJIA and FOTON. These two patterns of the exercise of power will be examined by discussing three elements of the exercise of power – power bases, power intentions and power means – in three enterprises. This section will first provide an overall explanation of two exercise of power patterns. Then, three elements of the exercise of power will be discussed separately to provide a detailed explanation.

### **5.4.1. Two Exercise of Power Patterns**

Two patterns of the exercise of power – interdependent exercise of power and uni-polar exercise of power – were identified in the three cases. As shown in Table 5.5, the exercise of power in FCC, the interdependent exercise of power pattern, was characterised by multiple power bases, the aim of enlarging strategic influences, and the employment of personal communication channels. The other pattern, the uni-polar exercise of power found in BAIJIA and FOTON, was centred on power players’ positional power, the aim of securing positions, and the focus on a formal order and report system. The two patterns will be discussed briefly below.



**Table 5.5 Two Exercise of Power Patterns**

	<b>Power Base</b>	<b>Power Intent</b>	<b>Power Means</b>	<b>Case</b>
<b>Interdependent Exercise of Power</b>	Multiple bases: positional power, knowledge power and relationship power	Enhancing influences	Communication, employment of relationship	FCC
<b>Uni-polar Exercise of Power</b>	Positional power	Control and safety	Order and report process, employment of relationship	BAIJIA
		Lead and obedience	Order and report process, duty fulfilment	FOTON

In FCC, senior managers and middle managers were interdependent in the exercise of power during the change process. Managers’ power derived from various power bases. Senior managers held authorized power and the power of exclusive knowledge. Middle managers held authorized power and the power of professional knowledge. Moreover, they also acquired new power when they acquired new information and knowledge from MAZDA. Although senior managers had greater authorized power, they still had to rely on middle managers, especially their professional and new knowledge, to make decisions and efficiently implement them. Middle managers tried to exercise power in order to enhance their influence in strategic decision making. Senior managers’ intentions were not the only consideration for middle managers. Efficient communication within FCC was another major means of the exercise of power besides the traditional order giving and taking process. As a middle manager in the human resources department described middle managers’ influences in the adoption of new worker training system:

*‘Although senior managers could say ‘yes’ or ‘no’ to the adoption of a new worker training programme, it is us that designed the most suitable training programme (highly standardized training) and implemented it. Besides, their (senior managers) judgements were also based on our introduction and explanation of the programme. After all, we, not they, are the experts in this area. Actually, this training programme evoked the thinking of worker reward system (from quantity-focused to quality-focused one)....’*

(Interviewee: FCC, Middle Manager F, Department of Human Resources)

It was shown that middle managers could have their own voices in decision making and greatly influenced senior managers' decisions in FCC.

On the contrary, the exercise of power was characterized by the dominant power of the chief managers in BAIJIA and FOTON. The chief managers held unchallenged authorized power in these two enterprises. Moreover, the chief manager of FOTON had also gained more power by leading FOTON to its current success since the establishment of FOTON. Although middle managers in BAIJIA had a knowledge advantage compared with the chief manager, this advantage did not successfully constitute one of their power bases, due to lack of information and knowledge distribution behaviours. In both enterprises, employees, including middle managers, treated the fulfilment of the chief managers' intentions as the requirement for survival in the two enterprises. The major means of the exercise of power was traditional order and reporting in meetings. This situation can be shown clearly in the observation diary following:

*'In today's meeting, the chief manager and middle managers in BAIJIA discussed the set up of customer club. The appointments of relevant managers were the hot topic in this discussion. Following the set up was the duty shift of relevant managers. From the information I collected, I realized that it was the second attempt to set up a customer club. Customer club had been set up before but closed. Based on the discussion of meeting, customer club was set up not under sale department but under assistant chief manager. It implied the power shift from sale department to assistant chief manager (actually the chief manager). Obviously, it was not a happy decision for managers of sale department. However, it seemed no one dare question the decision of the chief manager. The decision got approved without too much discussion even....'*

This episode at the meeting showed that the chief manager had controlled the decision-making process and that middle managers failed to question the chief managers' decision in BAIJIA.

## 5.4.2. Power Bases

Data on power bases showed the bases from which power was derived in the major exercises of power in the three enterprises, and how they developed power from these bases. One major difference in the two exercise of power patterns was shown in this category. In both patterns, position in the organization was one of the most important power bases. Senior managers held the biggest positional power, which was also legitimized power. However, the importance of the other power bases was different for managers in the three enterprises. It was found that knowledge power was equally as important as position power in FCC. However, position power was the only significant power base in BAIJIA and FOTON. Although middle managers held certain new information and knowledge in BAIJIA, they did not develop power from this advantage. Table 5.6 is the summary of properties in two sub-categories, major power bases and the relationship among different power bases, of the two exercise of power patterns. The next two sections explain this in detail.

**Table 5.6 Power Bases in Two Exercise of Power Patterns**

Sub-category	Property	Case	Exercise of Power Pattern
Major power bases	Position power, empower power, knowledge power, relationship power	FCC	Interdependent
	Position power	BAIJIA; FOTON	Uni-polar
The relationship among different power bases	Comparatively equal	FCC	Interdependent
	Position power being decisive	BAIJIA	Uni-polar
	Knowledge power enhancing position power	FOTON	Uni-polar

### 5.4.2.1. Power Bases in the Interdependent Exercise of Power Pattern

Position power was one of the major power bases in FCC. Senior managers and middle managers held power in accordance with their positions in FCC. Position power was naturally legitimized. When senior managers and middle managers exercised position power, no employees of FCC would question their behaviour. In FCC, senior managers had the power of financial control, management of middle managers and lower employees, and strategic decision making. Middle managers had

the position power of budget control, management of lower employees, and the decision making and implementation in their professional areas. For example, the strategic cooperation of FCC with MAZDA should be decided by senior managers. Middle managers in the quality control department should take charge of the changes and improvements in product quality. If middle managers in the quality control department questioned the decisions of strategic cooperation or marketing, their behaviour would be regarded as improper. Overall, FCC was a bureaucratic organization.

Power also came from the empowerment of senior managers in FCC. This power base was related to and legitimized as position power. With empowerment, middle managers or lower employees could acquire more power than their position entitled them to. In the cooperation with MAZDA, some middle managers and lower employees were organized into a project team, which took charge of contact and communication within FCC and with MAZDA. Although they did not have a formal management position in FCC, they had management power, such as evaluating departmental work efficiency, during this cooperation process.

Knowledge was also an important power base in FCC. Senior managers gained more power by acquiring exclusive information and knowledge on the senior level. However, middle managers were the ones who got most from their information and knowledge advantages in FCC. During the M6 car introduction process, middle managers in FCC acquired new information and learned new knowledge through daily contacts with MAZDA. While describing the benefits middle managers secured by holding knowledge, a middle manager in the human resources department said:

*'This new training was designed by us and got approved by senior managers. By studying MAZDA's worker training and comparing it with ours, we developed the plan of this highly standardized worker training programme. Differently, we did not just simply report it this time. We presented it as the learning results from MAZDA. This is an education and communication process. We successfully educated them. Besides this training programme, we also triggered the re-thinking of the rewards system of workers.'*

*During this period, we began to feel like real managers in training area instead of just tools of senior managers....'*

(Interviewee: FCC, Middle Manager F, Department of Human Resources)

By proactively selling to senior managers, middle managers gained knowledge power, which helped them to escape from being controlled by senior managers' position power.

Another important power base was relationships with powerful persons. Middle managers' good relationships with senior managers of FAW put certain pressures on senior managers of FCC. Thus, middle managers acquired more power than their position power in the power-play games with senior managers of FCC. When a middle manager described the influences, he said:

*'Ever since I had communication with boss C<sup>10</sup> and he made good comments on my suggestions in important meetings, I could feel the differences. Senior managers of FCC are more likely to listen to me. My suggestions are more easily to absorb their attentions....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This middle manager was a powerful manager in FCC. According to the same logic, middle managers' relationships with senior managers of FCC influenced the judgement of lower employees. From the perspective of lower employees, middle managers with good relationships with senior managers had more power. As a lower employee described:

*'The tasks from D<sup>11</sup> (a middle manager)? You got to listen. He has unshakable relationship with E<sup>12</sup> (a senior manager). Maybe his idea is just E's idea....'*

(Interviewee: FCC, Lower Employee A, Department of Planning and Control)

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<sup>10</sup> C: a Senior Manager in FAW.

<sup>11</sup> D: FCC, Middle Manager A, Department of Planning and Control.

<sup>12</sup> E: FCC, the Chief Manager.

This showed that lower employees were inclined to adopt or implement the ideas of the middle managers who had close relationships with senior managers. Middle managers' relationships with powerful persons changed their perceived power.

#### **5.4.2.2. Power Bases in the Uni-Polar Exercise of Power Pattern**

In BAIJIA and FOTON, managers' authorized positions were also their most important power bases. Chief managers and other employees exercised power in accordance with their positions in the two enterprises. Thus, the chief managers were the most powerful persons in the two enterprises. While deciding and implementing SBU management, the chief manager of FOTON had the power to reallocate middle managers, deciding the budget and revenue and profit plans of business units, and the independence of business units. As a middle manager described the promotion of middle managers during this change process:

*'These (promotion and reallocation of middle managers) were decided by our boss (the chief manager). In FOTON, he is the only person with this power....The current heads of marketing and media management were both former secretaries of the boss....The head of truck works was changed because our boss was not satisfied with the sales revenue....Although most of the business units were comparatively independent, there are three, which our boss thinks are too small, still being managed as second level units. These three units look more like factories....'*

(Interviewee: FOTON, Middle Manager B, Department of General Management)

It was shown that the chief manager of FOTON had almost absolute power over human resources and financial management during this change process.

Similarly, position power was also decisive in BAIJIA. Although the chief manager had to get approval from ZHONGXING group before any decisions on middle managers' promotion and reallocation, he could always get support by legitimizing these decisions as necessary for the realization of the profit objectives in the contract. Since the chief manager of BAIJIA had signed his employment contract with

ZHONGXING group, he had the obligation of realizing the profit objective, which was clearly shown in the contract. At the same time, the chief manager of BAIJIA got support from the group. As shown in the discussion of learning patterns, middle managers had deeper understanding of the car distribution and repair industry and professional skills in their own areas because of their experience. They also had a knowledge advantage in the local market through employing their external personal relationships. However, their knowledge advantage was not transformed into power. Middle managers were still tightly constrained by their positional power in BAIJIA and controlled by the chief manager. The power of the chief manager was described by a middle manager as:

*'After he (the chief manager) came to BAIJIA, he has already fired and hired several middle managers. The current assistant chief manager was formerly the head of sales department. The current head of human resource department was promoted by him. The heads of service department was newly hired....All these changes in human resources management were his ideas. After all, he is the boss....'*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

It was shown that the chief manager of BAIJIA also had the greatest power based on his senior management position.

Slightly different from the situation in BAIJIA, his position power was enhanced by knowledge power. As discussed in the two learning patterns, the chief manager was the major new knowledge acquirer, distributor and interpreter in FOTON. Therefore, the chief manager of FOTON held both position power and knowledge power. Middle managers also respected the chief manager's knowledge power. As a middle manager said:

*'The chief manager led us to achieve every success from the good beginning, from the choice of vehicle manufacture industry to the management improvement....He is very good at learning....He is the most valuable and powerful man in FOTON. Many of our*

*partners chose FOTON because of him. In FOTON, nobody dare to doubt his ideas. Nobody wants even.'*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

It showed that the chief manager of FOTON gained more respect from his quick learning and creative ideas, which facilitated the exercise of his position power.

### **5.4.3. Power Intention**

Data in the category of power intent showed the intent of different parties while exercising power. Senior managers and middle managers were important parties in the exercise of power in all three cases. However, the intents of their exercise of power were different. In FCC, senior managers and middle managers tried to enhance their influence in decision making and implementation by exercising power. In BAIJIA, control was the major aim of the chief manager. Middle managers in BAIJIA tried to seek protection by exercising power. In FOTON, the chief manager of FOTON employed power to serve his need of leading the enterprise. Middle managers tried to show their obedience by playing power games. Although the intentions of the chief managers and middle managers in BAIJIA and FOTON were different, the chief managers in both enterprises dominated the exercise of power; thus, the employment of power in BAIJIA and FOTON was clearly uni-polarized, as summarized in Table 5.7. Below, power intents in two patterns will be discussed in detail.

**Table 5.7 Power Intention in Two Exercise of Power Patterns**

<b>Category</b>	<b>Property</b>	<b>Case</b>	<b>Exercise of Power Pattern</b>
Power intent	Enhancing influences	FCC	Interdependent
	Control and safety	BAIJIA	Uni-polar
	Leading and obedience	FOTON	Uni-polar

#### **5.4.3.1. Power Intention in the Interdependent Exercise of Power Pattern**

In FCC, power was employed by both senior managers and middle managers to enhance their influence on decision making and implementation. Although the ways of exercising power (which will be discussed in the next section) might be different



for the two parties, the aim was the same: exerting influences on strategic decision making. For senior managers, it was traditionally treated as their responsibility to make important decisions. However, while the cooperation proceeded, they increasingly relied on middle managers to make decisions and get things done. As for middle managers, they learned and also wanted to exert their influence on important managerial and strategic issues. Thus, to enhance their influence in strategic decision making was the intent of both senior managers and middle managers to exercise power. For example, during the process of formulating the cooperation plan, senior managers asked the external project evaluation institution to issue a report. Middle managers in the production department, the product design department, the quality control department and the human resources department made estimations based on their experience. Managers in the project team organized middle managers from different departments to produce the original draft plan of cooperation. At the same time, with the project proceeding, middle managers monitored the process and suggested adjustments accordingly. During this process, senior managers provided overall requirements, such as the resources available, time limit and aims, and made judgements on the suggestions from middle managers. However, a middle manager designed the plan. When middle managers described their intention of enlarging their influence on decision making, they said:

*'We don't think it (decision making) is one person's thing. FCC's strategic development should not be in one person's mind either. We also want to be involved in the process and are making our efforts....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This showed that middle managers in FCC were trying to extend their power as senior managers in the decision-making area.

#### **5.4.3.2. Power Intention in the Uni-polar Exercise of Power Pattern**

Control and safety can be used to describe the power relationship between the chief manager and middle managers in BAIJIA. The chief manager of BAIJIA had just

been promoted to his position. He had previously worked in the ZHONGXING group. Moreover, the chief manager did not have much experience in the car distribution industry. The chief manager exercised power to control middle managers and lower employees and get his decisions implemented. The concerns of the chief manager were described by middle managers as:

*'He (the chief manager) has done a project in BAIJIA before. But his experience was less than ours. We have already been working in this industry for more than ten years. It is understandable that he felt insecure and was eager to control....'*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

Middle managers in BAIJIA played power games to avoid being reallocated or fired:

*'Since he (the chief manager) came, there have been a lot of changes in managers. The chief manager prefers using his people for important positions in China....We have kind of feeling that we need to be his people if we want to continuously develop our career in BAIJIA. This requires us to play power games sometimes....'*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

It showed that the chief manager tried to control middle managers by employing his power in managing human resources, and middle managers tried to keep their positions.

The chief manager exercised power to lead FOTON. Middle managers exercised power to show their obedience to the chief manager. Due to the success achieved by FOTON under the leadership of the chief manager, he had a good reputation and had gained respect from the employees of FOTON. Differently from the situation of the chief manager of BAIJIA, the chief manager of FOTON had no concern for his position and power in FOTON. He employed power to get things done. Middle managers in FOTON trusted the chief manager and believed that FOTON could achieve greater success under his leadership. Thus, middle managers exercised power

to implement the decisions of the chief manager in FOTON. This was shown in middle managers' discussion:

*'Our boss is an excellent leader. The successful development of FOTON proved it. We cannot say all his decisions are right. But we can say most of his decisions, especially the big decisions, are right. For middle managers like us, we should try our best to realize his plans. The employment of power is unavoidable....'*

(Interviewee: FOTON, Middle Manager B, Department of General Management)

From the perspective of middle managers, their responsibility was only to implement the chief manager's decisions. They exercised their power to follow the chief managers' orders.

#### 5.4.4. Means of Exercise of Power

Data regarding the exercise of power showed the means employed by different parties while exercising power in the three enterprises. In FCC, managers made good use of communication, both personal and formal, as a major way to exert influence. Besides, managers proactively employed relationships within FCC to get things done. In BAIJIA, managers used their power while transferring the chief manager's decisions downwards and lower employees' feedback upwards. At the same time, their personal relationships were also used to secure their power. Similarly to BAIJIA, this transfer process was also the major area to exert power for managers in FOTON. However, middle managers believed that the perfect fulfilment of their duty was the most important thing. These characteristics are summarized in Table 5.8.

**Table 5.8 The Exercise of Power Means in Two Exercise of Power Patterns**

Category	Property	Case	Exercise of Power Pattern
Exercise of power means	Communication, employment of relationship	FCC	Interdependent
	Order and report process, employment of relationship	BAIJIA	Uni-polar
	Order and report process, duty fulfilment	FOTON	Uni-polar

#### 5.4.4.1. The Exercise of Power Means in the Interdependent Exercise of Power Pattern

Communication, both personal and formal, was an important way for managers to exert influence in FCC. Although managers showed and exchanged their ideas in formal meetings, important decisions were made with a great deal of personal and informal communication in FCC. As the researcher observed during the data collection period, communication was found to be greatly used by managers of FCC. They treated communication as an effective way to exert influence. This situation was described as:

*'Communication is very important.... It (communication) gives you the chance of influencing and changing their (the other managers in FCC) ideas. In China, many important things are decided under the table, for example, as for the future of the strategic cooperation with MAZDA, F<sup>13</sup> has mentioned it and discussed it with us (the middle manager of product design department and the interviewee, which is the middle manager of planning department) several times. We all have passion for national car manufacture industry and want to make our contributions. Obviously it will be perfect if the cooperation will benefit the nationalization of MAZDA cars. That is also G<sup>14</sup>'s idea. However, I don't think it is realistic. Marketing area will be our strength and the future cooperation points. After several rounds of discussion and comparing with the cooperation results, I think they all agree with me now on the decision that FCC's cooperation with MAZDA centred around marketing rather than production.....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This process showed that managers make big decisions through communication. This was also in accordance with the researcher's observation, which indicated the great use of communication in FCC (also see section 5.2.3.1).

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<sup>13</sup> F: FCC, the Chief Manager.

<sup>14</sup> G: FCC, Middle Manager, Department of Product.

The employment of relationships was also an important means of exercising power in FCC. From the perspective of middle managers, it was a good strategy to use their good relationship with senior managers in FAW and FCC. During the strategic cooperation, middle managers used their relationships with senior managers to secure more resources, like a bigger budget, and more control power. As a middle manager said:

*'My power empowered by Mr Big (the chief manager) is infinite. I always think I am the head of 'zero-management department'. It means that I can manage (or control) (anybody, any department) if I want and I can also choose not to manage or control (anybody, any department) if I don't want. I think the empowerment from Mr Big (the chief manager) is also important, for example, the usage of money. Although there is no record in budget sheet about certain money usage, I can still get the money with my signature. This is very important....We (the chief manager and the middle manager) share the same vision of Chinese car industry and trust each other....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

The process of using relationships was also the process of exercising power for managers in FCC.

#### **5.4.4.2. The Exercise of Power Means in the Uni-Polar Exercise of Power Pattern**

The order and report process was the major area for managers to exercise power in BAIJIA and FOTON. The chief managers announced their decisions in formal meetings and allocated tasks to middle managers. Middle managers collected information and reported to the chief managers. Their exercise of power was mainly in this area. Just as described by middle managers in FOTON:

*'Big decisions are announced in important meetings. You can see our boss's power. I don't think anybody will question his decisions.'*

*For us, what we can do is just to finish our tasks and make him satisfied. We compete for the best implementers....'*

(Interviewee: FOTON, Middle Manager C, Department of Technology)

This also showed that managers in FOTON concentrated on fulfilling their duties: the chief managers making the right decisions and middle managers finishing their tasks. However, managers in BAIJIA preferred to use personal relationships. The chief manager employed personal relationships with middle managers to get his decisions approved and drive them to work harder. Middle managers employed their personal relationships with the chief manager to help them make a good impression and get a good evaluation. The chief manager of BAIJIA said:

*'I am a new manager here. I need a little time to know people here. I also need their support. A chief manager without middle managers can do nothing. You know. The best way to do that is to become good work partners or friends. Now, I cannot say I know them all. But I can say I know some of them well....'*

(Interviewee: BAIJIA, Senior Manager A, the Chief Manager)

Middle managers of BAIJIA also mentioned:

*'Here, only his (the chief manager) men can have the important positions. No matter how well you do, you cannot get promotion without becoming his man (insiders or followers). The heads of service department, repair department and sale department are all his men. But the vice chief manager is not. I think he is trying to force him to leave....'*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

This showed that the potential rule of competition for middle managers in BAIJIA was to develop close relationships with the chief manager. Middle managers employed relationships to exert their influence.

## 5.5. The Interplay between Organizational Learning and the Exercise of Power

The category ‘the interplay between organizational learning and the exercise of power’ is further divided into two sub-categories: ‘power in organizational learning’ and ‘learning in the exercise of power’. The findings are summarized in Tables 5.9 and 5.10. It was found that power influenced all three learning behaviours – knowledge acquisition, information distribution and information interpretation. Power influences the probability of employees acquiring new knowledge. The exercise of power also decided the efficiency of knowledge distribution. Besides, power influences the results of information interpretation. As for the influences of knowledge on the exercise of power, knowledge constitutes an important power base. Knowledge acquisition was a natural exercise of power intent. Information interpretation and distribution were one kind of exercise of power. These interactions will be discussed in detail below.

### 5.5.1. Power in Organizational Learning

**Table 5.9 Power in Organizational Learning**

	<b>Knowledge Acquisition</b>	<b>Information Distribution</b>	<b>Information Interpretation</b>
<b>Power Base</b>	Power influencing the probability of employees developing new knowledge	-	Power influencing the results of information interpretation
<b>Exercise of Power Mean</b>	-	The exercise of power means decided the efficiency of knowledge distribution	-

#### **Power influencing the probability of employees developing new knowledge**

First, the current power structure influenced organizational members’ chances of contacting new information and knowledge. During the M6 introduction process, managers at different formal authority power levels had different opportunities to reach new information and knowledge. It was found that the higher the level, the wider and shallower the knowledge managers developed. At the same time, special

empowerment could break through the current power structure. The temporary project team working on the M6 introduction project often had more chances to reach new information and knowledge. As a member of the project team said:

*'In this project, we took in charge of the overall communication with MAZDA. For specific activities in each area, like purchase, supply and, production, the relevant departments directly contact with MAZDA. The middle managers in these departments are familiar with the issues in their professional areas....'*

(Interviewee: FCC, Middle Manager C, Department of Planning and Control)

It showed that, in FCC's strategic cooperation with MAZDA, the members in the project team and middle managers in relevant departments were the main people in contact with new information. In BAIJIA's dual-brand strategy and FOTON's SBU management processes, the chief managers and the people they trusted were the people reaching new knowledge first.

*'If you want to know something that has not been discussed in BAIJIA yet, you can talk to H<sup>15</sup> or I<sup>16</sup>. They are the hot persons. The chief manager always discussed with them first....'*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

Since organizational members who can reach new information are potential candidates for developing new knowledge, the power structure influenced the development of new knowledge by influencing the organizational members who were in contact with new information.

Secondly, managers' power influenced their experimental learning process. It was observed that the development of new knowledge not only relied on the direct transfer of explicit knowledge, but also relied on experiments. Before new information and knowledge were legitimized, managers should have the power to test it in practical work. Thus, the space that managers could get in the current power structure to test new information and knowledge became an important factor in developing a new

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<sup>15</sup> H: BAIJIA, Head of Decoration Department.

<sup>16</sup> I: BAIJIA, Head of BIANXIA Village Station.



knowledge advantage. As shown in the discussion of organizational learning, experimental learning happened to middle managers in FCC. An example was shown in section 5.2.2.1. When a middle manager was describing the importance of power for their experimental learning, he said:

*'If you want to do something new, you got to have some power. Or else, nobody will listen to you. In order to test the new quality control system on one lot of our 'HONGQI' cars, we have to persuade the group taking in charge of 'HONGQI' cars' production. Without certain power, they won't allow us to intervene in their daily production....'*

(Interviewee: FCC, Middle Manager D, Department of Quality Control)

This showed that managers' power was a prerequisite for their experimental learning.

### **Power influencing the efficiency of information distribution**

First, the power of new knowledge holders greatly influenced whether new knowledge could be distributed to the whole organization and how new knowledge was distributed. In BAIJIA and FOTON, the new knowledge holders, the chief managers, were also the people who held the highest authorised position power in the organization. Thus, their power could facilitate the distribution of new knowledge:

*'Our boss is the most powerful person in FOTON. If he asks us to learn something, I think there will be no employees dare to ignore it. For example, in order to facilitate SBU management, he asked us to learn the case of GM and proposed a meeting to discuss the learning results. Later, he also asked us to learn from the materials he specially prepared....'*

(Interviewee: FOTON, Middle Manager B, Department of General Management)

This showed that the chief manager of FOTON could easily set up the learning orientation and schedules by employing his legitimate position power. However, in FCC, middle managers, as the new knowledge holders, were not the holders of the highest position power. Therefore, a process was required for middle managers to

acquire more power to facilitate knowledge distribution. Without the support of authorised power, the possibility of getting the whole organization to learn was smaller. As a middle manager described:

*'Our suggestions have to get support from senior managers. If they do not approve it, the probability of implementing it is smaller. For example, in order to produce MAZDA cars, we learned from MAZDA and designed a highly standardized training programme. This programme has to be connected with workers' rewards system. Without the connection, workers don't have enough motivation to adapt to the new standard work procedures....We successfully educated or persuaded senior managers to support the plan. I don't think we will be able to adjust the rewards system without senior managers' permission. The new training will certainly have less desirable influences....'*

(Interviewee: FCC, Middle Manager F, Department of Human Resources Management)

In short, the support of legitimized position power was important for efficient knowledge distribution.

Secondly, the rules of power play in organizations decided the ways of distributing information and knowledge. In FCC, senior managers and middle managers were interdependent and focused on communication and relationships. Thus, they made use of power tension, employed communication, and explored relationships to distribute knowledge. A middle manager said:

*'In FCC, if you want to do something successfully, you must know the rules. What we said are not necessarily accordant with what we did. You must be able to know the meaning beyond the words and actions. For example, our boss (a senior manager) has power tensions with the new manager of quality control department. In the first several meetings after the new manager came, I always rejected his proposals. Without actually taking orders from my*

*boss, I know it is what he expects me to do. As a return, my suggestions will certainly easy to get approval from my boss....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

However, in BAIJIA and FOTON, the chief managers dominated the power relationships with other employees. The chief managers made use of their authorized position power to distribute information and knowledge. Moreover, the chief manager also employed relationships to distribute information and knowledge in BAIJIA. This has already been discussed in section 5.3.4.2.

Finally, the current power relationship influenced the recipients' attitudes towards information. One phenomenon needs to be mentioned. If new knowledge was developed in the minds of less powerful employees, like middle managers, the more powerful persons, like senior managers, were likely to minimize its importance. At the same time, the ideas of managers with greater legitimate power were more likely to catch organizational members' attention. Thus, in FCC middle managers actively employed alternative power bases in order to enlarge the range of influence of their opinions. The discussion of middle managers and lower employees can be seen in section 5.3.2.1.

### **Power influencing the results of information interpretation**

The mental models employed by interpreters to interpret information were constrained by their power positions within the organization. Since people interpreted information by continuously referencing their existing mental models, power status indirectly affected the results of information interpretation. Interviewees in all three enterprises admitted that their knowledge and thinking were constrained by their power positions, and that there were regulations and routines to limit their exposure to certain information to a greater or lesser degree. In comparison, senior managers often had a broad knowledge basis but lacked specific knowledge in each business area. Lower employees held the most specific knowledge within organizations. The knowledge basis of middle managers was in the middle of this scale. Thus, middle managers had certain advantages to interpret information to serve all the listeners in the organization. A middle manager said:

*'I have to admit that I am more or less constrained by my positions in FCC. For example, I have been working in product design area. All my thinking focuses on product design. During this strategic cooperation with MAZDA, the starting point of my thinking was always the strategic implication of this cooperation for the future product design of HONGQI cars. Comparatively, our senior managers probably think wider. My subordinates probably have more specific skills, like how to use the design tools....'*

(Interviewee: FCC, Middle Manager B, Department of Product)

This showed that managers' positions refined their mental models and influenced their interpretation results.

### 5.5.2. Knowledge in the Exercise of Power

**Table 5.10 Knowledge in The exercise of power**

	<b>Power Base</b>	<b>Exercise of Power Intent</b>	<b>Exercise of Power Means</b>
<b>Knowledge Acquisition</b>	New knowledge as power base	Knowledge acquisition as a natural exercise of power intent	
<b>Information Distribution</b>	-	Knowledge distribution as means of exercising power	-
<b>Information Interpretation</b>	-	-	Information interpretation as means of exercising power

#### **Knowledge as power base**

As discussed above, knowledge power was one kind of important power in FCC. It was knowledge power that entitled middle managers to a nearly equal power status in transactions with senior managers. There were two important knowledge power bases. One was the power derived from new knowledge. The second was the power based on contextual knowledge. Through their daily contacts with senior managers and lower employees, middle managers held a contextual knowledge advantage. Their contextual knowledge facilitated the distribution of information and knowledge to

both senior managers and lower employees. Middle managers' advantage of contextual knowledge could also be seen in BAIJIA and FOTON:

*'Anytime, the chief manager needs us (middle managers) to implement their decisions....We know the language of our subordinates and the chief manager. We also know exactly the reaction of our subordinates and the chief manager about issues. But they may not know each other.'*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

### **Knowledge acquisition as a natural exercise of power intent**

Managers, especially middle managers, increasingly exercised power to obtain good positions for acquiring knowledge. Since knowledge was increasingly recognized as an important power base, middle managers, with less position power than senior managers, gradually realized that having access to new information and knowledge was important for them to acquire more power. As a middle manager said:

*'Now is knowledge century. If you want to do something big, you have to be an expert in certain areas. In FCC, the managers having access to new information and knowledge are always more powerful. Now, more and more people noticed this and wanted to get these kind of positions. For example, a lot of employees showed their interests in and played hard to get the positions of cooperation project team member. I think most of them see the value of these positions as information and knowledge flowing gates for FCC....'*

(Interviewee: FCC, Middle Manager C, Department of Planning and Control)

It was shown that knowledge acquisition had already become the intent of the exercise of power by many managers in FCC.

### **Information interpretation and knowledge distribution as the exercise of power**

It was also observed that information interpretation and knowledge distribution could serve as important ways of exercising power. When interpreting information, there

was space for interpreters to make amendments to interpretation results in order to cater for certain interests. These amendments might be made to content. Most frequently, the amendments were on how to report or interpret results, such as the time, the importance of the extent, and the relationship with current events. These amendments, though very subtle, could influence the decision-making process. Combined with information interpretation, knowledge holders could control the knowledge, time and objects to distribute in order to enhance the influence of their interpretation. All managers in the three cases used such practices:

*'The time to discuss these things is important. Sometimes, when critical problems emerged, the relevant suggestions that helped solve these problems will be easily accepted.... It is not necessary to change the meaning significantly, minor changes sometimes work better. Besides, it is comparatively easier to legitimize minor changes than major changes. After all, everybody has his own interpretation.'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

## **5.6. Summary**

This chapter has discussed two organizational learning patterns, 'middle-up-down' and 'top-down', two exercise of power patterns, 'interdependent' and 'uni-polar', and their interplay. In order to link these data analysis results to field data, the researcher first introduced the data analysis process employed to identify these patterns, which consisted of five steps: field coding, reflection, recoding, comparison and integration. Based on the analysis results, FCC had a middle-up-down learning pattern and an interdependent exercise of power pattern. In contrast, BAIJIA and FOTON had a top-down learning pattern and a uni-polar exercise of power pattern. The middle-up-down learning pattern was characterised by middle managers' domination in the learning process: middle managers as important new knowledge acquisition points, as knowledge distributors to senior and lower employees and as important information interpreters. However, in the top-down learning pattern, the two chief managers in BAIJIA and FOTON acquired new knowledge, distributed information downward and behaved as important information interpreters. The interdependent exercise of power

pattern was characterised by multiple power bases, the aim of enlarging strategic influence, and the employment of personal communication channels. In comparison, the uni-polar exercise of power pattern was centred on the position power of the exerciser of power, the aim of securing position and the focus on formal order and report channels. As for the interplay between learning and power, it was found that power influenced the probability of employees acquiring new knowledge, the efficiency of knowledge distribution and the results of information interpretation. At the same time, knowledge constituted an important power base. Knowledge acquisition was a natural exercise of power intent. Information interpretation and distribution were one kind of exercise of power. The discussion in this chapter provides a solid basis for the analysis of middle managers' roles from the combinative perspective of organizational learning and power, which will be discussed in the next chapter.

## Chapter 6

# TWO ROLES OF MIDDLE MANAGERS – ‘STRATEGISTS IN THE MIDDLE’ AND ‘IMPLEMENTERS’

### 6.1. Introduction

This chapter presents two roles of middle managers in strategic change: ‘strategists in the middle’ and ‘implementers’. Based on the data coded in the category of middle managers, two roles – ‘strategists in the middle’ and ‘implementers’ – were found to be able to define the behaviours and influences of middle managers in FCC, and BAIJIA and FOTON individually. Middle managers were proactive in FCC’s strategic cooperation with MAZDA. The proactive role was characterized by middle managers’ involvement in strategic decisions and implementation. Thus, they could be called ‘strategists in the middle’. In comparison, middle managers’ reactive role was constrained by their power positions in BAIJIA and FOTON. Thus, they were ‘implementers’. A communication model and an interpretation model were used to explain these two roles of middle managers. It is expected that two questions – ‘what are middle managers’ roles and contributions to strategic change?’, and ‘how do they play these roles?’ – can be satisfactorily answered.

This chapter begins with the introduction of the analysis methods employed to develop two descriptive models for these two roles. Then, it continues to discuss two



roles of middle managers – ‘strategists in the middle’ and ‘implementers’. In this section, four characteristics are employed to clarify these two roles. Next, two theoretical models – the communication model and the interpretation model – explaining middle managers’ two roles are introduced in detail.

## **6.2. The Development of Two Descriptive Models**

The analysis of middle managers’ roles was different from that of organizational learning and exercise of power patterns in two aspects. Firstly, the analysis focused on middle managers instead of the whole organization. Thus, the data irrelevant to middle managers was treated as contextual data, which facilitated concentrating upon understanding of middle managers’ roles. Secondly, the analysis of middle managers’ roles required the researcher to not only to identify the roles but also to provide descriptive models for them. In order to identify middle managers’ roles, the researcher employed similar procedures to those used in the analysis of organizational learning and the exercise of power patterns (see section 5.2). However, since the analysis of the descriptive models followed different procedures from those outlined earlier, this section begins with the process of analysis used to develop the descriptive models.

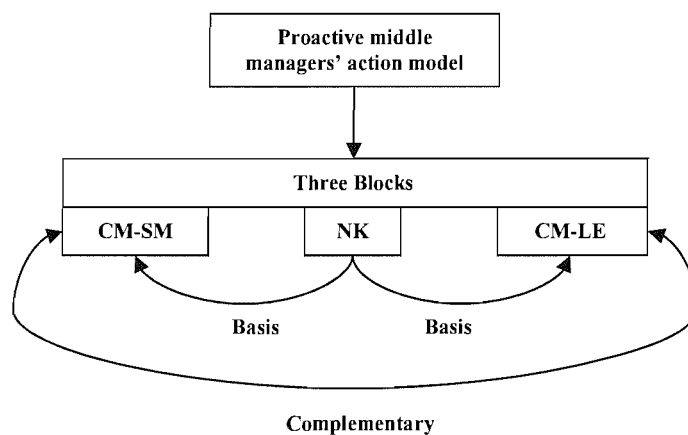
The development of the descriptive models was based on detailed analysis of middle managers’ two roles. After finishing the analysis of middle managers’ two roles, the empirical data on middle managers were coded into 12 categories (see the codes under MM in Table 3.13). Eight pattern codes (see codes under RL-SM and RL-IP in Table 3.13) were also added. Thus, the data on middle managers’ roles were clearly classified into two roles: a proactive role and a reactive role. These codes constituted the basis for the descriptive model analysis.

The establishment of descriptive models began with re-examining of the data on middle managers. The researcher re-read the data on middle managers again: first proactive middle managers, then reactive middle managers. The researcher focused on the data on middle managers’ actions, especially the *sequence* of their actions, since the time dimension is important for recognizing causal relationships (Miles and Huberman, 1994). The researcher found that the examination of the *sequence* of middle managers’ actions also benefited the analysis of action models by identifying

loose relationships among their actions. For example, proactive managers always considered time, breakpoint and strength before they actually made any suggestions for senior managers. This showed that the proactive managers were rational.

Next, the analysis of descriptive models proceeded to re-categorization. At this stage, the researcher coded the data on middle managers into several major blocks. For proactive middle managers, there were three major blocks – the development of new knowledge advantage (NK), communication with senior managers (CM-SM) and communication with lower employees (CM-LE). At the same time, the relationships among these blocks were also identified. The development of new knowledge advantage (NK) was the basis of proactive middle managers’ communication with senior and lower employees (CM-SM and CM-LE). The analysis of reactive middle managers employed the same methods. Since middle managers in both BAIJIA and FOTON were identified as reactive, the researcher focused on what was held in common by them rather than on the differences. Please see Figure 6.1 for an illustration of this process.

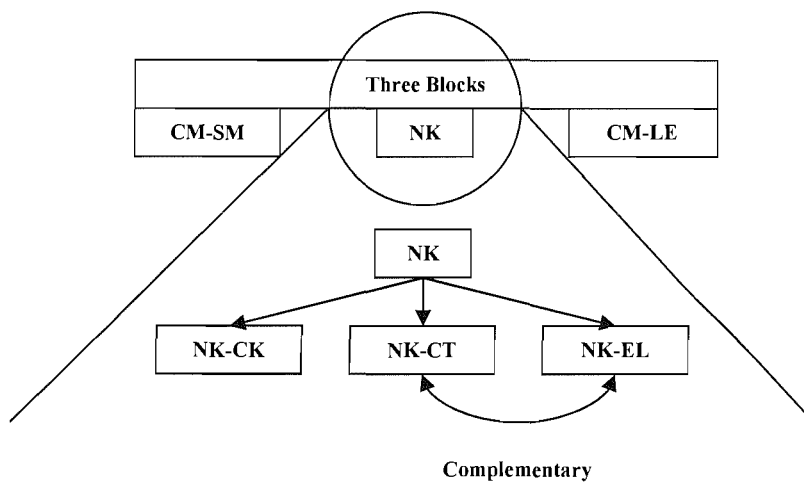
**Figure 6.1 An Illustration of Re-Categorization Process**



In the next step, the researcher developed the concepts to describe each block. Within each block, the researcher further coded data into sub-categories, which were used to describe the block. For example, within the block of new knowledge advantage, three concepts – contacts with new knowledge (CT), experimental learning (EL) and contextual knowledge (CK) – were found to be important in describing the process of developing a new knowledge advantage. These concepts were further transformed

into interpretive codes (see the codes under MS and IP in Table 3.13). At the same time, the relationships between these concepts were also identified. For example, contacts with new knowledge (MS-NK-CT) and experimental learning (MS-NK-EL) were complementary. However, contextual knowledge (MS-NK-CK) was a comparatively separate concept. The analysis of reactive middle managers followed the same procedures.

**Figure 6.2 An Illustration of Developing Concepts**



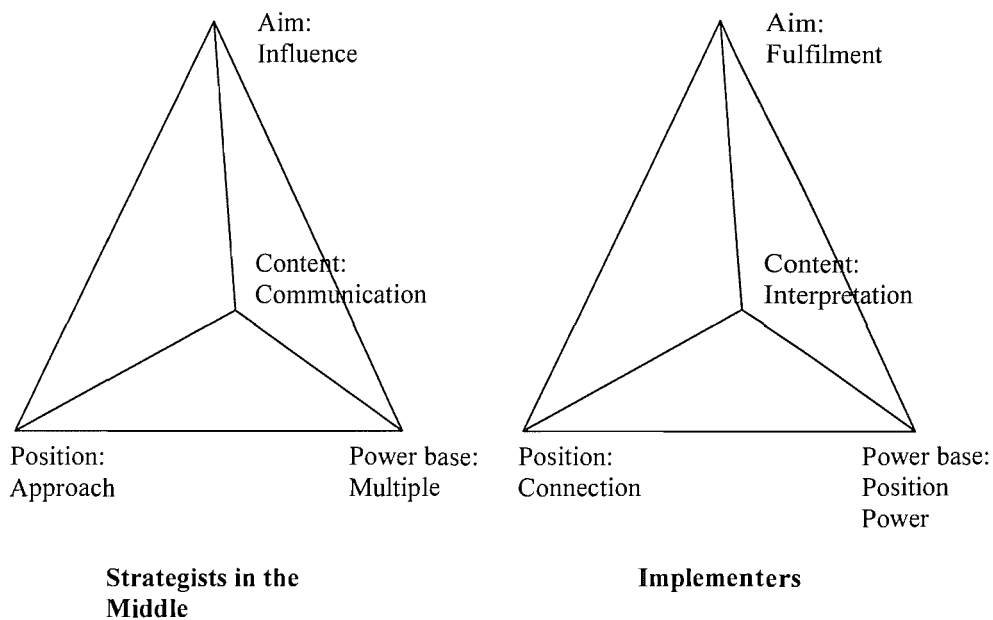
Finally, the researcher integrated all the relevant codes and designed the data presentation format. By integrating all the relevant codes in each model, the researcher chose highly condensed words to grasp the most distinguishing characteristic of this model. ‘Communication’ and ‘interpretation’ were chosen to represent the models of proactive middle managers and reactive middle managers respectively. At this stage, designing a proper data presentation format was also an important task. The researcher established two standards. The first was completeness: including all the relevant information. Further, second, the presentation format also had to be simple and easy to understand. Flowcharts with three blocks (see Figures 6.2 and 6.3) were used. This format highlighted three important blocks, which were essential for understanding the two roles, and employed arrows to show the relationships among the blocks. Below, the researcher will introduce the major analysis results in detail.

### **6.3. Two Roles of Middle Managers – Proactive Role ‘Strategists in the Middle’ and Reactive Role ‘Implementers’**

The terms ‘Strategists in the middle’ and ‘implementers’ are used to define the proactive role of middle managers in FCC and the reactive role of middle managers in BAIJIA and FOTON. ‘Strategists in the middle’ means that middle managers, as well as senior managers, were strategists in FCC. ‘Implementers’ meant that middle managers in BAIJIA and FOTON could only have influence on the implementation of decisions. The comparison of the two roles is shown in Figure 6.3.

Two roles were compared in four dimensions: aim, position, content and power base. The first dimension – aim – described the intent of middle managers to play two roles. The dimension of ‘position’ showed middle managers’ position relative to other actors in their environment. The major behaviours of middle managers while they were playing two roles were included in the dimension of content. The power bases of middle managers were included in the last dimension. It was found that ‘influence’, ‘approach’, ‘communication’ and ‘multiple power bases’ could be used to summarize the characteristics of the proactive role, ‘strategists in the middle’, and that ‘fulfilment’, ‘connection’, ‘interpretation’ and ‘position power base’ are the characteristics of the reactive role, ‘implementers’. These two roles will be discussed in detail.

**Figure 6.3 ‘Strategists in the middle’ and ‘Implementers’**



### **6.3.1. Proactive Role – ‘Strategists in the Middle’**

Firstly, in FCC middle managers aimed to influence senior managers in both decision making and implementation during the strategic cooperation process with MAZDA. Besides the successful fulfilment of their duties, middle managers had a strong desire to challenge senior managers’ monopoly of decision making. A quote from middle managers showing this desire can be seen in section 5.3.3.1. Besides, middle managers also had confidence in making their special contributions by developing knowledge. The third quote in section 5.2.2.1 shows their advantages.

Secondly, middle managers proactively approached senior managers and lower employees during the strategic cooperation with MAZDA. Their behaviours were not strictly constrained by their authorized positions in FCC. Their power distances with senior managers and lower employees were proactively shortened by their proactive behaviours. These activities included making suggestions on FCC’s development orientation, on the improvement of FCC’s management efficiency and on the cooperation among departments. As the researcher observed:

*'Although it is easy to identify senior managers, middle managers and lower employees from their titles, I find it is highly improper to make judgement on their actual power based on their titles. For example, the middle manager A<sup>17</sup> in planning and control department has clearly bigger power than he should have if judged from his title. He seems have a very good relationship with senior manager B<sup>18</sup> and be able to influence B's decision making. B also treats middle manager A as his people. The budget applied by A can easily be approved by B even it is far beyond the departmental budget limit, for example, the special budget of brand marketing research project. At the same time, the ideas of A can also gain support from B even it is strategic, for example, the plan on manager stock ownership. A also has many supporters in middle and lower management level. The managers in quality control department and product department are his close workmates. He is often the one to be consulted when suggestions are needed in these departments, for example, he supported the introduction of new quality control system. His followers are from different departments....'*

This observation clearly shows that middle managers proactively approached other parties during the change process in FCC.

Thirdly, communication was the major means employed by middle managers in FCC. They proactively created communication opportunities with senior managers of FCC and FAW. Middle managers influenced senior managers through the communication. At the same time, they also communicated with lower employees of FCC to gain support. The importance of communication in middle managers' exercise of power was explained in section 5.3.4.1. At the same time, it was also found that middle managers distributed information through communication. This was observed by the researcher. One paragraph of the observation note can be seen in section 5.2.3.1. From all these data, it can be seen that middle managers exerted their influence through communication.

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<sup>17</sup> A: FCC, Middle Manager A, Department of Planning and Control.

<sup>18</sup> B: FCC, the Chief Manager.

Finally, while middle managers were taking the role of ‘strategists in the middle’, they employed multiple power bases in FCC. Compared with authorized position power, knowledge and relationship power were more important for middle managers in order to acquire an equally important position to that of senior managers in decision making. The importance of middle managers’ knowledge and relationship power bases can be seen in section 5.3.2.1.

The four dimensions discussed above are not separate, but combined. In order to achieve their aims of influencing senior managers in the existing power structure of FCC, middle managers adopted communication as their main method of persuasion. They employed knowledge and relationships as their major power bases in communication. Middle managers proactively approached senior managers and lower employees through effective communication.

### **6.3.2. Reactive Role – ‘Implementers’**

Firstly, the aim of middle managers in BAIJIA and FOTON was to fulfil their duties. Thus, middle managers exerted their influences mainly on implementation. Compared with middle managers in FCC, middle managers had no intention of influencing the chief managers in these two enterprises. In BAIJIA, the researcher observed:

*‘In the meeting of this morning, the change of customer club was announced. The chief manager placed the customer club under the supervision of the assistant chief manager and moved it out of the sale department. Apparently, two managers, the head of the sale department and the assistant chief manager, were involved in this decision. The power of the head of sale department was cut. However, the pass of this decision did not encounter any difficulty. Even the head of the sale department showed his consent quite happily. In the informal talk after the meeting, I asked him about the decision. He insisted that it was the chief managers’ decision and what he could do was just to accept it...’*

It showed that middle managers in BAIJIA had no power to break the boundary with to senior management. In FOTON, middle managers were tied to their positions by

their respect for and trust in the chief manager's leadership. An example of their discussion can be seen in section 5.3.3.2. This showed that middle managers in FOTON had no intention of breaking boundaries.

Secondly, middle managers in BAIJIA and FOTON connected the chief managers and lower employees. The power distance between middle managers and chief managers and lower employees remained stable with their reactive behaviours. Thus, middle managers behaved also as connectors between management on the strategic level and the implementation level. As a middle manager in FOTON said:

*'The boss is taking charge of the big thing, like strategic decision making. The front line workers deal with their own technical things, like designing car door or promotion brochures. For us in the middle, I think the most important task is to connect them to make sure that the boss's decisions can be implemented and that the situations of front line employees are fully aware by the boss....'*

(Interviewee: FOTON, Middle Manager D, OUMAN Truck)

It showed that middle managers viewed themselves as the connectors that held FOTON together. The same situation was also found in BAIJIA.

Thirdly, interpretation was middle managers' main activity when they played the role of 'implementers' in BAIJIA and FOTON. Although the chief managers were major new knowledge interpreters in these two enterprises, middle managers made their contributions by interpreting the information flowing through them. They interpreted the chief managers' orders, and explained the interpretation results to lower employees using the language of the lower employees. At the same time, they interpreted the information collected from lower employees and presented the interpretation outcomes to the chief managers. During this interpretation process, middle managers made good use of both parties' language and focused on their needs. As a middle manager of FOTON said:

*'Sometimes, our boss, he is too high to know the situation of front line. While we were implementing SBU management, he just provided an overall picture for us. As for how we should do, he*



*had no interest. What he wanted from us was just the good results. It is us to transform his picture into specific plans, solve the problems during implementation and reported him the situation of front line. For example, it was required to separate the supply of two brands a<sup>19</sup> and b<sup>20</sup> in the plan. However, in implementation, it was found that the supply of certain spares could not be separated; thus, costs could not be calculated individually for these two brands. I think our boss has never think of this kind of situations. We decided to make compromises by deciding the extent to which two brands are separated. It is our responsibility to explain this to the boss. Certainly, we have to make both sides understand it and feel satisfied....'*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

This showed that middle managers actually did interpret the information from senior and lower levels and served the results to the other level.

Finally, authorized position power was what middle managers in BAIJIA and FOTON employed for interpretation. Since middle managers decided their behaviours based on their positions in these two enterprises, their authorized position power was the most convenient and effective power base they could use. At the same time, their authorized position power was enough in order to fulfil their responsibilities. Furthermore, the risk of using authorized position power was the lowest. It was observed by the researcher in BAIJIA that:

*'In recent several meetings, I found that middle managers tried to explain their behaviours by claiming that they were authorized to do that. In the case of enhancing the efficiency of repair service, the middle managers in repair department asked for more resources, like repair worker training session. Before their requirements, they firstly highlighted the problem of high resign rate of skilful workers and treated the proper training and rewards redesign to be the key. Middle managers clearly drew up their*

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<sup>19</sup> Brand a: a less profitable production line.

<sup>20</sup> Brand b: a less profitable production line.

*territories and prevented the other managers from intervening. It seemed that there was a common sense in BAIJIA that middle managers should take care of their own things and it was not encouraged to evaluate or suggest on those of other managers....'*

This situation showed that middle managers mainly relied on their position power to get things done.

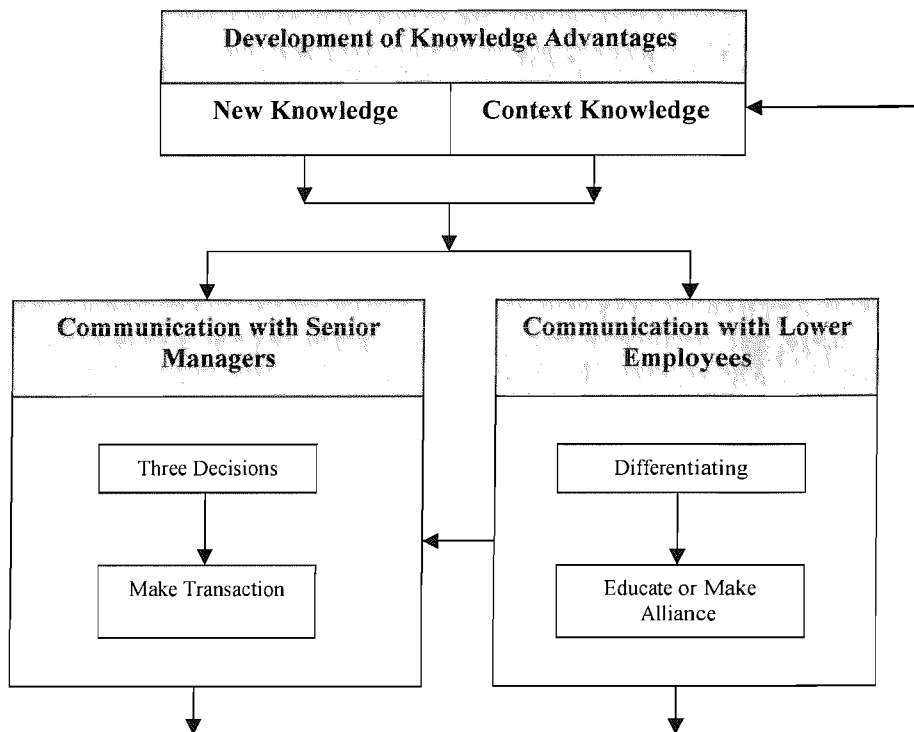
As in the description of the proactive role, the four characteristics of the reactive role 'implementers' were also related. Since middle managers were mainly concerned with the fulfilment of their duties, they would like to employ position power, which was authorized. As connectors between chief managers and lower employees, middle managers interpreted the information and knowledge from one party and distributed to the other.

#### **6.4. The Theoretical Models of Two Roles**

In this section, the theoretical models of the two roles of middle managers – 'strategists in the middle' and 'implementers' – will be discussed in detail. Two theoretical models – one a communication model and the other an interpretation model – were derived from the data on middle managers' behaviours to illustrate middle managers' proactive role and reactive role in the three enterprises. In the communication model (as shown in Figure 6.4), middle managers developed advantages in new knowledge and context knowledge. Relying on this, they sold their ideas to senior managers by having direct communication with them and indirectly influencing them through changing the behaviours of middle and lower employees. In the interpretation model (as shown in Figure 6.5), middle managers interpreted the information and knowledge flowing through their positions based on their context knowledge advantage. They employed different tactics – reporting for the chief managers and indoctrination for lower employees – when interpreting and distributing to recipients on senior and lower management levels. It is expected that the question as to how middle managers play the roles of 'strategists in the middle' and 'implementers' can be satisfyingly answered after the discussion.

### 6.4.1. Middle Managers as ‘Strategists in the middle’ – A Communication Model

Figure 6.4 Middle Managers as ‘Strategists in the middle’ – A Communication Model



#### Development of Knowledge Advantages

Middle managers developed their new knowledge advantage in FCC. As in the discussion of knowledge acquisition in middle-up-down learning (section 5.2.2.1), middle managers became the important information and knowledge interface between FCC and MAZDA. Through their daily working contacts with MAZDA, middle managers learned many new practices. At the same time, they began to use the new knowledge in their daily work to test it. Thus, middle managers gradually developed new knowledge, which was adapted to FCC’s context.

The other advantage of middle managers was their contextual knowledge. The development of contextual knowledge was based on middle managers’ positions – below senior managers and above lower employees. Benefiting from their position,

middle managers had extensive contacts with both senior managers and lower employees. They were the first stop when senior managers gave an order and when lower employees reported their progress. In other words, both top-down and bottom-up information had to flow through middle managers. Thus, they knew senior managers and lower employees' reactions towards new information and knowledge. As a middle manager in FCC described:

*'Apparently, we know both of them (senior managers and lower employees). For the employees below us, their opportunities of contacting senior managers are far less. It is also unusual that senior managers had close relationship with front line workers in FCC. There are potential rules of playing games here. Only senior managers and certain middle managers are included in the circle of playing games. Lower employees are not. For example, senior managers don't always ask middle managers to do something for them. You need to notice these and supported senior managers in important meetings, like preventing the new manager of quality department from acquiring bigger power in last meeting. The employees below us did not have access to this kind of game....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This showed that middle managers were involved in senior managers' power games and had frequent contacts with lower employees. Middle managers would be able to develop their context knowledge advantage based on their positions in FCC.

### **Communication with Senior Managers**

Middle managers needed to make three decisions and make transactions with senior managers. The three decisions middle managers needed to make were time, breakpoint and strength. Time was an important factor that middle managers considered when they were distributing information. Middle managers learned from MAZDA, which was well ahead of FCC in management and production systems. At the same time, they knew the difficulty of carrying out the changes in one step in FCC due to the big distance from MAZDA. Thus, middle managers intended to break down the big change into a series of small steps in time. What they tried to do was to

distribute information that was strongly related to the important issue at that time. In this way, the risk of rejection of their suggestions was also minimized.

The choice of breakpoint was another important decision middle managers had to make. As mentioned above, suggestions related to the important issue would be more valuable and easily accepted. Thus, middle managers were required to choose the important issue on which the value of their suggestion would be based. The last decision middle managers had to make was strength. The strength decision of middle managers was about how many suggestions they could make at one time and how confident they were that the suggestions could solve the problem. In order to make this decision, middle managers had to think about the risk of being rejected.

These three decisions could be clearly seen when middle managers were making suggestions during FCC's strategic cooperation with MAZDA. With the proceeding of the cooperation, FCC began to consider the development direction of the cooperation. Middle managers believed that cooperation in the marketing area would further enhance the position of FCC in MAZDA's strategic development in China. In order to get their suggestions accepted, middle managers chose the time when the first stage of cooperation, the introduction of M6 cars, was nearly finished and the next stage of cooperation was beginning to be considered by senior managers. As middle managers described, 'It was a proper time to make suggestions for future development'. The breakpoint they chose was the decline of sales of M6 cars after the first selling peak. The reasons why middle managers chose this point are that the 'employees of FCC began to cool down after the sales moving downward and question the sustainable development of FCC' as commented by a middle manager. In order to promote their ideas, middle managers provided two plans for senior managers to consider. One was to develop in the product and production area. The other was in the marketing area. Middle managers provided two plans at the same time to make comparisons and increase the possibility of having their suggestions accepted.

Third, middle managers had to make transaction with senior managers in order to make good use of and get rewards from their knowledge advantages. The transactions between middle managers and senior managers were an exchange of knowledge for power. However, middle managers faced the dilemma of knowledge sharing.

The characteristics of knowledge sharing made middle managers more cautious. First, power declined when knowledge was shared. Second, power would not be enhanced or might even deteriorate if the value of knowledge was not recognized. However, the value of knowledge would only be recognized when certain knowledge was shared. Thus, middle managers had to carefully choose the people and the ways of sharing their knowledge so that they could enhance their power and get rewards from the knowledge sharing. Senior managers who had legitimate position power and whom middle managers trusted were certainly their first choice. While middle managers expressed their concern over making suggestions, they said:

*'You got to be careful (while sharing your ideas). Improper suggestion will only bring you troubles and give the wrong impression of showing up. The suggestions will also be treated as meaningless. The persons who made suggestions would probably lose their prestige. You must carefully select the persons you want to share information and knowledge with. That is why we always have personal communication with trust senior managers first....'*

(Interviewee: FCC, Middle Manager B, Department of Product)

This showed that middle managers emphasized trust with the senior managers with whom they shared ideas.

The transaction between middle managers and senior managers in FCC was based on personal trust. Along with the discussion above, the power balance in the transaction was inclined to senior managers who had absolute authorized power and had the choice of ignoring the knowledge power that middle managers held. At the same time, middle managers increasingly lost their power when they shared their knowledge. Thus, middle managers' information distribution decision relied on the expected rewards they could obtain. The reward might not be money or higher position. Sometimes, it was senior managers' commitment on middle managers' future in FCC. No matter what kind of reward middle managers expected to get, they did not feel secure in the transaction. Personal trust developed with senior manager undoubtedly could solve this problem to some extent. Therefore, the transaction between senior

managers and middle managers only happened within the circle of intimate partners. Continuing the discussion shown in the last paragraph, middle managers also said:

*'We have been worked for a long time. He (one senior manager) has the passion of developing China car manufacture industry, which I really respect. We have the same ambition and share the same value. I believe that we can have the real communication....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This showed that personal trust played an important role in their selection of communication objects.

Transactions between middle managers and senior managers were exchanges of power and knowledge. Middle managers and senior managers made transactions in order to gain support from each other. Middle managers aimed to develop their preferred decisions together with senior managers and to gain the support from senior managers on their suggestions. For example, a new manager was transferred from FAW to take charge of the quality control department of FCC. Since he had connections with senior managers in FAW, he was treated as a potential threat to senior managers' power. Middle managers read the thoughts of senior managers. In order to support senior managers, they continually denied several of the new middle manager's proposals, such as rotation in the quality control department, in important meetings. In return, senior managers seriously considered middle managers' suggestions for enhancing the planning and control department's strategy-planning function.

### **Communication with Lower Employees**

Middle managers also communicated with lower employees to indirectly influence senior managers. In order to successfully indirectly influence senior managers, middle managers differentiated lower employees into three groups, and educated or made alliances with them. According to the middle managers' definition, the first group consisted of people 'having the same interests'. Another group of people were 'followers'. The third group of people were those to whom middle managers had to

‘provide rewards or punishments in order to get them behave in certain ways’. As a middle manager mentioned:

*‘They (the people having the same interests) did not need us to make any promise. We treated each other as long-term partners. They could also provide valuable suggestions. For followers, we just need to explain our intentions clearly. They will support us. However, for the third kind of people, we have to attract them by providing a good future and to force them by punishing them....’*

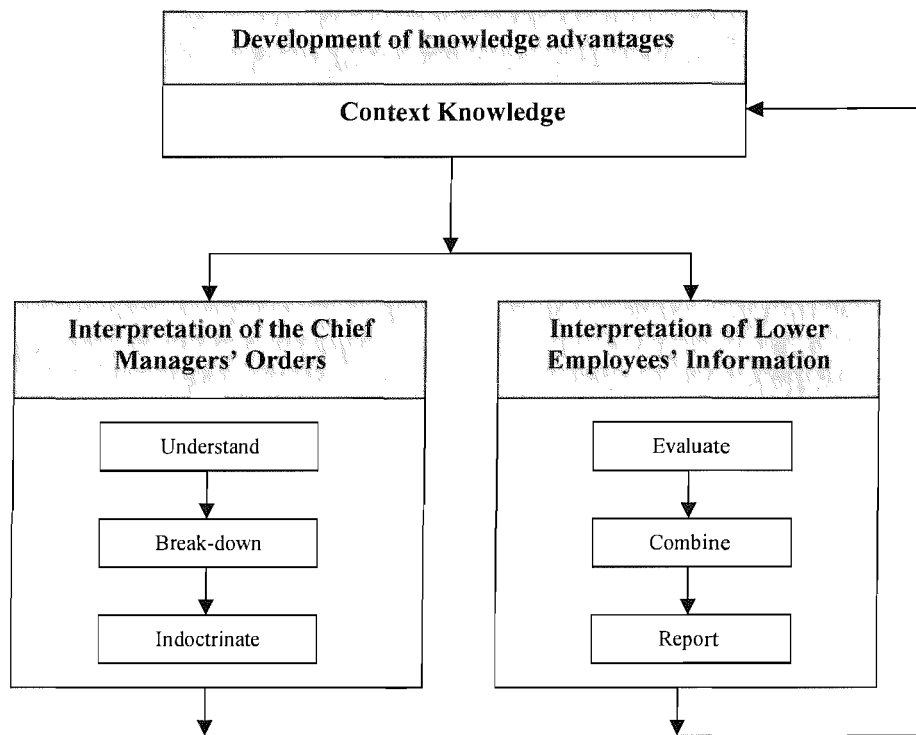
(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This showed that middle managers simply employed an education strategy to clearly communicate their intentions and ambitions for the first two groups, and an alliance strategy to gain support from the third group of lower employees. The changes in the behaviours of middle managers and lower employees indirectly influenced senior managers’ decision making.



## 6.4.2. Middle Managers as ‘Implementers’ – An Interpretation Model

Figure 6.5 Middle Managers as ‘Implementers’ – An Interpretation Model



### Development of Knowledge Advantage

As with the situation in FCC, middle managers in BAIJIA and FOTON also developed their context knowledge advantage. The development of this advantage was also to the benefit of middle managers' positions below senior managers and above lower employees and their extensive contacts with both senior managers and lower employees. This was also proved by middle managers' arguments in FOTON:

*'For the big company as FOTON, you can not expect our boss to have extensive communication with front line employees. The monthly visit is a show more than a function. It is much better for us. At least, we can have the opportunity of discussing things in meetings. We are also able to reach front line employees easily. I think we are the bridges connecting them....'*

(Interviewee: FOTON, Middle Manager D, OUMAN Truck)

This showed that middle managers in BAIJIA and FOTON held the same context knowledge advantage as middle managers in FCC.

### **Interpretation of the Chief Manager's Orders to Lower Employees**

Middle managers' interpretation of the chief manager's orders to lower employees in BAIJIA and FOTON consisted of three phases – understanding, breaking down and indoctrinating. First, middle managers needed to understand the chief manager's orders themselves. Next, they broke down the orders to prepare for the transfer to lower employees. Finally, middle managers indoctrinated lower employees about the glorious future and the importance of their tasks. The three phases will be discussed individually below.

#### Understanding Orders

The interpretation of the chief manager's orders to lower employees in BAIJIA and FOTON began with middle managers' understanding, which relied on their own experiences and knowledge. The reference maps middle managers employed while interpreting were developed from their daily work. Thus, middle managers' interpretation was highly contextual. In FOTON, the strategic meaning of SBU management was defined by the chief manager. However, middle managers' interpretation gave practical meanings to SBU management. The middle managers in the production department said:

*'We need to work out the change plans for our production department. SBU is a big company issue. But, for us, the changes in the production area are real and practical issues. We chose to focus on separate the resources of different product lines. We believed that it was the basis of independent management and cost and profit calculation. Certainly, we also considered the size, the potential growth and the expected position of different product lines in FOTON's product development. Another issue we had to consider was the quality of our workers....'*

(Interviewee: FOTON, Middle Manager F, Department of Production)

This showed that middle managers in FOTON tried to understand the chief manager's strategic decisions in their professional areas, and produced action plans according to FOTON's situation.

### Breaking down Orders

Based on the understanding of the chief manager's orders, middle managers in BAIJIA and FOTON broke down these orders. First, middle managers tried to define their contributions in the overall plan. Next, middle managers still had to break down the plan into several sub-department plans. While implementing BAIJIA's dual-brand strategy, middle managers in the repair and maintenance department defined their contributions as 'enhancing the brand value of BAIJIA by improving the quality of repair and maintenance services'. In order to make this contribution, middle managers set up different tasks for different teams. The repair team focused on shortening the waiting period and increasing the satisfaction of customers. The maintenance team focused on the management of customer materials. The challenge for middle managers was keeping experienced workers. These tasks were allocated to each team.

### Indoctrinating

The allocation of the tasks to lower employees was an indoctrination process. After breaking down the orders from the chief manager, middle managers in BAIJIA and FOTON tried to give 'big' meanings to these specific orders. They believed that the connection to a glorious future and a big career would help lower employees know exactly the meanings of their work and have the motivations for implementation. Thus, it was an important task for middle managers in BAIJIA and FOTON to show these connections to lower employees. This process was more or less an indoctrination process. As a middle manager in BAIJIA said:

*'If you want your people (lower employees) do their best, you got to make them believe that what you ask them to do is for their sakes and also benefit the development of BAIJIA. After all, most of people want to work in a company with good future and can achieve personal goals in the company....In the recent series of changes in rewards (incline to experienced workers), we tried to explain to repair workers that these changes would establish the*

*strength of BAIJIA in repair area, and encouraged experienced and high skill workers. Besides, we would provide more on-site trainings to help them grow quickly....'*

(Interviewee: BAIJIA, Middle Manager D, Department of Sales)

There were three characteristics for this process. First, this process aimed to make lower employees automatically think and behave in the ways the managers preferred rather than being controlled by rewards and punishments. Second, there were clear mission statements when middle managers allocated tasks in order to involve more and more lower employees into this mission. Third, middle managers believed that it would improve management efficiency if lower employees could solve probable problems by themselves.

### **Interpretation of Lower Employees' Information to the Chief Managers**

In BAIJIA and FOTON, middle managers' interpretation of the information coming from lower employees also consisted of three phrases. First, they evaluated the information and made their own judgements on whether or how to report it. Second, middle managers combined the information before reporting it to the chief managers. Finally, they reported it to the chief manager.

#### Evaluating

Middle managers in BAIJIA and FOTON always evaluated information from lower employees first. The aim of evaluation was to make sure that their status would not be jeopardized by the information reported to the chief managers. The evaluation included analysing its importance and identifying any conflicts with personal or departmental interests. Within the whole flood of information, only some was treated as important enough for recipients such as chief managers. During this process, personal interests also played an important role. Middle managers were inclined to retain any information that might incur an unsatisfactory evaluation of their performance. As a middle manager of the product department in FOTON said:

*'We are not going to report everything. For some small things, like the re-training of managers in supply team and the allocation of management resources in department, we just solve it by*

*ourselves....From the feedbacks of supply team, we realized that it was difficult to completely separate supply of two product lines. However, we cannot just simply tell the chief manager that it was impossible or we cannot do that. It will deteriorate our image as professionals in product management. We will explain the problem in detail and try to provide alternatives. If the boss insists the separation, we normally ask for more time....'*

(Interviewee: FOTON, Middle Manager F, Department of Production)

This showed that middle managers filtered the information from lower employees before they reported it to the chief managers.

### Combining

The next task for middle managers in BAIJIA and FOTON was to combine the information from different subordinates. The information from one subordinate normally represented the work results from one aspect. An overall result could only be attained by combining information from all subordinates. The combination job was done by middle managers employing their professional knowledge within their areas. The aim of combining information was to get a more general and less specific conclusion and thus facilitate the understanding and decision making of the chief managers. For example, in BAIJIA the middle managers in the repair and maintenance department obtained information from the repair team, the maintenance team and the customer service team while implementing the dual-brand strategy. The information they got from the repair team centred on the shortage of experienced repair workers. The information got from the maintenance team centred on keeping important customers. The customer service team was more concerned with the update of historical customer data. By combining the information from the three teams, the middle managers of the repair and maintenance department reported to the chief manager and proposed a plan for identifying and retaining profitable customers. This plan began with identifying profitable customers through an on-going updating of customer data, continued with retaining profitable customers by enhancing the routine maintenance contacts with them, and was further finalized by providing high quality

repair services. This shows that middle managers reported a comprehensive plan to the chief manager by combining the information from different teams.

## Reporting

The final task for middle managers was to report to the chief managers. After finishing the first two jobs, middle managers had already got the basic ideas of what to report. At this stage, they would figure out how to report the information. Formal distribution channels like meetings were their first choices. At the same time, they also used private communication channels when they had an opportunity to contact the chief manager face to face. Another trick for middle managers was to connect the suggestions quickly to the event that was happening. Middle managers would improve their professional image before the chief manager. Their communication skills played an important role in this process. When middle managers described their reporting process in BAIJIA, they said:

*‘Sometimes, we need to be flexible. For example, the problem of lacking experienced repair workers was reported by us following the decrease of repair profit. We believed it was a perfect time. We mentioned this problem in the week meeting and quickly got attention. The boss asked us opinions after the meeting while having the lunch together. He thought it might be a good idea to have some changes in rewards. We totally agreed with him....’*

(Interviewee: BAIJIA, Middle Manager A, Department of Repair and Maintenance)

Middle managers intentionally chose the proper time to report important information and preferred formal and face-to-face meetings.

## 6.5. Summary

This chapter has discussed two roles of middle managers – ‘strategists in the middle’ and ‘implementers’ – and two descriptive models – ‘communication model’ and ‘interpretation model’. Since the analysis process of identifying the two roles was similar to that of identifying patterns in chapter 5, the researcher chose only to

introduce the analysis process of the two descriptive models in order to avoid repetition. 'Strategists in the middle' and 'implementers' were differentiated in four dimensions: aim, position, content and power base. 'Influence', 'approach', 'communication' and 'multiple power bases' were used to summarize the role of 'strategists in the middle'. However, 'fulfilment', 'connection', 'interpretation' and 'position power base' were the characteristics of 'implementers'. 'Strategists in the middle' developed advantages in new knowledge and context knowledge, and sold their ideas to senior managers by having direct communication with them and indirectly influencing them through changing the behaviour of middle and lower employees. 'Implementers' interpreted the information and knowledge flowing through their positions based on their context knowledge advantage. The discussion in this chapter finishes the presentation of the descriptive data analysis results. In Chapter 7, the researcher will try to explain why middle managers have different roles in the three cases.

## **Chapter 7**

### **THE ‘GUANXI’-CENTRED**

### **EXPLANATION NETWORK OF MIDDLE**

### **MANAGERS’ ROLES IN STRATEGIC**

### **CHANGE**

#### **7.1. Introduction**

Based on the examination of middle managers’ two roles and their contexts, an explanation network was developed to answer the question ‘why did middle managers behave more proactively in FCC than in BAIJIA and FOTON?’ Based on the discussion in Chapters 5 and 6, proactive middle managers were those who developed advantages of new knowledge and context knowledge, proactively shared their knowledge with senior managers and lower employees, and efficiently influenced senior managers’ decision making and implementation in strategic change. In comparison, reactive managers relied on their context knowledge advantage, interpreted the chief managers’ orders to lower employees and the information coming from lower employees to the chief managers, and made their contributions to the implementation. Thus, the question was transformed into two sub-questions:



1. Why did the middle managers of FCC obtain a greater learning and power manoeuvre space than those of BAIJIA and FOTON?
2. Why did the middle managers of FCC have more motivation to influence senior managers than those of BAIJIA and FOTON?
3. Why did the middle managers of FCC have greater capability of influencing senior managers than those of BAIJIA and FOTON?

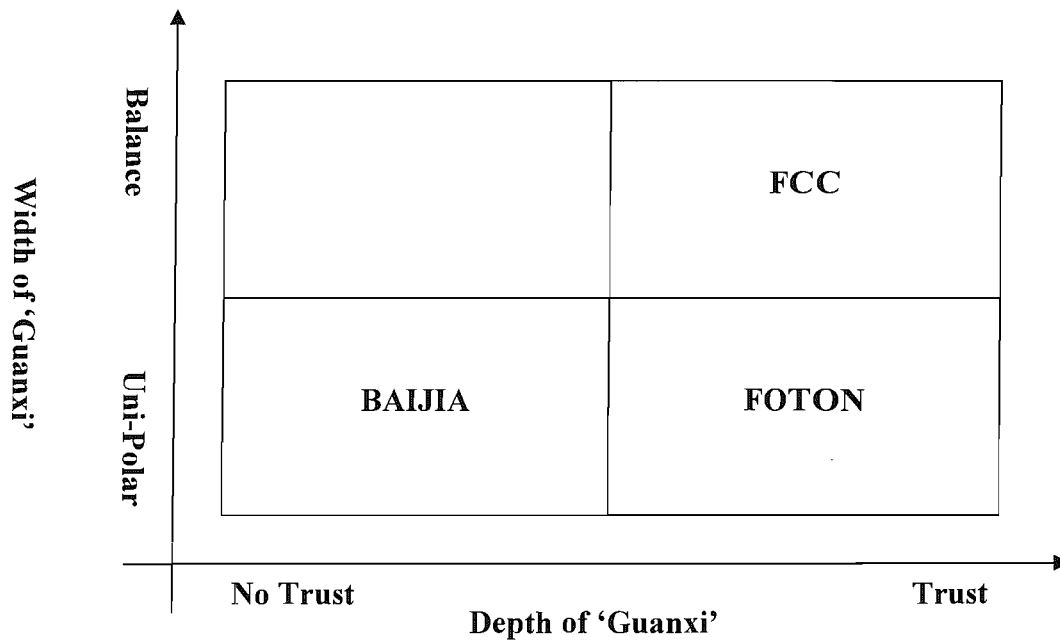
It is expected that these two questions will be answered by the explanation network shown in this chapter.

The explanation network was found to centre on the concept of middle managers' 'guanxi' with senior managers. Two dimensions – 'depth of guanxi' and 'width of guanxi' – were used to describe 'guanxi' and illustrate the differences of middle managers' 'guanxi' with senior managers among the three cases. Middle managers' 'guanxi' with senior managers included trust and balance in FCC. However, middle managers' 'guanxi' with the chief manager was uni-polar without trust in BAIJIA, and with trust but uni-polar in FOTON. The differences in 'guanxi' in these two dimensions were found to be closely related to the motivation and ability of middle managers to influence the chief managers' decision making. 'Guanxi' with trust enhanced middle managers' perceived power. The enhanced power legitimized their boundary-exploring activities, their knowledge distribution behaviours, and their interpretation. At the same time, it also made middle managers feel more secure by minimizing their expected loss. Moreover, 'guanxi' was also a process of informal communication with senior managers for middle managers and helped them develop strategies for efficient knowledge distribution. In addition, 'guanxi', as an important factor in deciding middle managers' positions in FCC, influenced their chances of contacting new knowledge. In this explanation network, 'rule of men' of Chinese enterprises was an important prerequisite for 'guanxi' to exert its influence. Since the development of this 'guanxi'-centred explanation network has already been introduced in section 3.7.4, the researcher will proceed directly to the discussion of this explanation network.

## **7.2. Middle Managers' 'Guanxi' with Senior Managers in Three Cases**

Middle managers' 'guanxi' with senior managers in the three cases was found to be different in two dimensions: whether middle managers trusted senior managers and whether 'guanxi' between middle managers and senior managers worked in decision making. As discussed in section 2.4.1.1, 'guanxi' is a multi-faceted concept: relationship, resource and process. In the following discussion, the researcher bore this characteristic in mind. Thus, it was unavoidable that 'guanxi' emphasized different aspects of the concept in different situations. However, in most situations, the researcher used 'guanxi' to refer to one type of relationship. The first dimension – 'trust or not' – was used to reflect the depth of middle managers' 'guanxi' with senior managers: how far 'guanxi' exists between middle managers and senior managers. The second dimension – 'balanced or uni-polar' – was employed to describe the width of middle managers' 'guanxi' with senior managers: in which areas 'guanxi' exists between middle managers and senior managers. In Figure 7.1, a matrix was employed to illustrate the characteristics of middle managers' 'guanxi' with senior managers in the three cases. Along the two dimensions – 'no trust' to 'trust' and 'uni-polar' to 'balance', middle managers' 'guanxi' with senior managers in FCC, FOTON and BAIJIA could be placed in three areas of the matrix.

**Figure 7.1 Middle Managers' 'Guanxi' with Senior Managers in Three Cases**



Middle managers and senior managers developed trust 'guanxi', which worked in the decision-making process in FCC. Senior managers' trust in middle managers could be seen in their empowerment. Once middle managers were empowered to take charge of a task during the strategic change process, they normally had nearly complete power related to the task, including budget negotiation, relevant decision making, and implementation. At the same time, middle managers also regarded senior managers as the right people to secure them a glorious future. The decisions of senior managers were efficiently implemented by middle managers. For example, a middle manager in the quality control department was empowered to take charge of the implementation of TPS (Toyota Production System) for producing MAZDA cars. It was easy for him to have his budget approved by senior managers, including a budget of RMB 20 million (about £1.33 million) for an advance installation project. He also held the power to hire and fire unqualified workers. The pressure was shared by senior managers. In return, he also treated senior managers as leaders for the long-term development of FCC. When he defined his relationship with the chief manager, he said:

*'We are long term partners. He is the graduate of Tsinghua University. You know, the graduates of Tsinghua University usually have the passion of making contributions to national industry. I have the same ambition. I think this common constitutes the basis of our 'guanxi'. Thus, we could be trust partners running towards the same direction....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

In their 'guanxi', middle managers also had comparatively equal positions as senior managers. Although senior managers in FCC had unquestionable authorized power, they still needed middle managers in order to successfully retain and exercise their power. FAW Group decided the positions of middle managers instead of senior managers. Middle managers' value to senior managers was reflected in three aspects: their efficient implementation to realize the value of senior managers' decisions, their internal support of senior managers' ideas to enhance their legitimization in a democratic way, and their suggestions and behaviours guided by senior managers' intentions, which would have been highly improper or dangerous for senior managers to make or do by themselves. Middle managers' 'guanxi' with senior managers in the group was also another factor increasing their weight in their 'guanxi' with senior managers in FCC. Also, see sections 5.4.2.1 and 5.5.1. To sum up, middle managers in FCC had a trust and balance 'guanxi' with senior managers.

Middle managers' 'guanxi' with senior managers in BAIJIA showed a completely opposite pattern: uni-polar without trust. There was no trust between senior managers and middle managers in BAIJIA (see section 5.4.4.2). This situation was described by the chief manager as 'no trust partners found to go with'. The intentions between senior managers and middle managers were mainly of control (see sections 5.4.2.2 and 5.4.3.2). Complete empowerment was seldom seen in BAIJIA. At the same time, senior managers were dominant in their 'guanxi' with middle managers. With authorized position power, senior managers in BAIJIA might not be able to fire certain middle managers for no reason, but would be able to select persons to fill important positions. In this situation, middle managers in BAIJIA could only be obedient.

In comparison, in FOTON middle managers' 'guanxi' with senior managers could be positioned between the above two patterns: trust but uni-polar. With the long successful development history of FOTON, middle managers highly trusted the chief manager and treated him as the desired leader (see section 5.4.4.2). The prestige of the chief manager in FOTON was unquestionable. This situation also helped to create uni-polar 'guanxi' between the chief manager and middle managers. The power of the chief manager was unchallengeable (see sections 5.4.2.2 and 5.4.3.2). Besides, middle managers in FOTON did not want to challenge his power. The chief manager dominated the 'guanxi' with middle managers.

### **7.3. 'Guanxi' and Proactive / Reactive Middle Managers**

Middle managers' 'guanxi' with senior managers in three cases was found to influence their roles in strategic change. First, middle managers' 'guanxi' had decisive effects on their positions in FCC, which further influenced their exposure to new knowledge. Secondly, middle managers' trust 'guanxi' helped them feel more secure while sharing ideas, and enhanced their perceived power in FCC, which facilitated the efficiency of sharing. Thirdly, middle managers' 'guanxi' with senior managers was also an important informal communication channel for knowledge sharing. At the same time, 'rule of men' was an important prerequisite for 'guanxi' to exert these influences. Finally, other factors in the causal network were also identified.

#### **7.3.1. 'Guanxi', Position and Knowledge Advantage**

Middle managers' 'guanxi' with senior managers influenced their learning space through its decisive influence on their positions in enterprises and changes. In FCC, the trust 'guanxi' of middle managers with senior managers greatly increased their chances of getting promotion. First, the great amount of informal communication derived from the trust 'guanxi' provided middle managers with crucial opportunities to show their abilities. Senior managers made their judgements on the ability shown. In addition, senior managers liked to allocate important positions to the middle managers they trusted, even without considering their actual abilities. As a result, those middle managers that senior managers trusted were more likely to occupy

important positions, especially during change processes when the original power structure might be challenged, thus being a perfect preparation for later promotion. When a middle manager described this situation in FCC, he said:

*'In FCC, a good 'guanxi' with senior managers is important for middle managers who want to promote. Even though you have abilities, you still won't get promotion without good 'guanxi' with senior managers. You can have a look at middle managers. Majority of them work well with senior managers. Compared with excellent people without trust, I think they prefer those less excellent ones they trust. As said by senior managers, ability can be developed....'*

(Interviewee: FCC, Middle Manager E, Department of Quality Control)

The same situation was found in FOTON, where middle managers had trust 'guanxi' with senior managers. However, control was always the topic for the chief manager in BAIJIA due to the absence of basic trust. The chief manager of BAIJIA tended to pick easily controlled people to fill important positions.

Middle managers' positions in enterprises and changes directly determined their exposure to new knowledge and further influenced the development of their comparative knowledge advantage. During changes, people in different positions were exposed to different knowledge. Middle managers in the position of contacting strategic partners or experiencing greater changes constituted the gatekeepers. These positions were important and thus were usually occupied by trusted middle managers. Therefore, such trusted middle managers would have more opportunities to develop their comparative knowledge advantages over other employees in the enterprises. This was the situation in FCC. The project team was organized by senior managers to take charge of communication with MAZDA. The project team consisted of middle managers in relevant departments and lower managers with great development potential. These were the managers that senior managers trusted. They also had better chances of developing knowledge advantages. However, middle managers in BAIJIA were found to have difficulties in developing comparative knowledge advantages under tight control during change. On the other hand, their major contacts with new

knowledge came from their personal relationship with other employees in other enterprises.

### **7.3.2. 'Guanxi', Perceived Power and Legitimization**

Middle managers' 'guanxi' with senior managers strongly influenced their perceived power in enterprises and further provided legitimization for their boundary-exploring activities, knowledge distribution behaviours and interpretation in the three cases. Trust and balance 'guanxi' between middle managers and senior managers was found to be able to exaggerate middle managers' power as perceived by other employees more than trust but uni-polar 'guanxi' or uni-polar 'guanxi' without trust. In all three cases, the greater the middle managers' perceived power, the more easily middle managers' behaviours and interpretation were legitimized during the change processes.

Middle managers' 'guanxi' with senior managers greatly influenced their perceived power in enterprises. It was found that middle managers' 'guanxi' with senior managers became an important power base. For senior managers, trust 'guanxi' with middle managers directly influenced their reactions to middle managers' suggestions and behaviours. In FCC, senior managers fully supported middle managers with trust 'guanxi' even before totally understanding their meanings. To some extent, trust 'guanxi' could even direct senior managers' judgements away from the results of rational analysis. Similar phenomena were found in FOTON. This meant that trust 'guanxi' between middle managers and senior managers invisibly enlarged the power of middle managers. For lower employees, the power they felt about middle managers was greatly influenced by the attitudes of senior managers towards middle managers. The more support middle managers received from senior managers, the greater the power of middle managers perceived by lower employees (see also section 5.4.2.1). The power middle managers' received from their trust 'guanxi' with senior managers was not constrained by their positions. Middle managers' trust 'guanxi' with senior managers accounted for more in lower employees' judgements than even middle managers' positions. These phenomena were found in both FCC and FOTON.

A balanced power relationship in middle managers' 'guanxi' with senior managers helped break down the walls normally existing for middle managers between implementation and decision making; thus, implementation was no longer the only

area in which middle managers could manoeuvre. Although trust ‘guanxi’ might exist between middle managers and senior managers, trust could still be only applied to specific areas, like the implementation area in FOTON’s case. This meant that if middle managers’ suggestions and behaviours went into the decision-making area in FOTON, trust between middle managers and senior managers was reduced. Their perceived power in the decision-making area was not as high as in the implementation area. The long-term domination of senior managers in ‘guanxi’ with middle managers forced middle managers to behave more as implementers than decision makers in FOTON. A middle manager in FOTON made the following comments:

*‘From the perspective of our boss, we are just the persons who help to realize his decisions. He does not need us to provide any suggestions. It is enough that we become qualified followers. Actually, we are....’*

(Interviewee: FOTON, Middle Manager A, OUMAN Bus)

However, if there was a balanced power relationship in ‘guanxi’ between middle managers and senior managers, middle managers would gain more opportunities to exert their influence on both implementation and decision making. This meant that the dependent power relationship between middle managers and senior managers helped increase the perceived power of middle managers in both implementation and decision making in FCC (see section 5.5.1). As another pattern, middle managers in BAIJIA who had uni-polar and non-trust ‘guanxi’ with senior managers failed to develop trust in implementation or decision making, and received no further contributions to their perceived power in both areas.

The greater the perceived power of middle managers in the organization, the more easily their behaviours and interpretations were legitimized during the change processes in FCC. Legitimization mainly focused on three aspects: boundary-exploring activities, knowledge distribution behaviours and information interpretation. The legitimization of middle managers’ boundary-exploring activities provided them with important experimental learning space and further helped them develop comparative knowledge advantages (see section 5.3.2.1 and 6.4.1). The legitimization of knowledge distribution behaviours facilitated the acceptance of their suggestions



by other organizational members (see section 6.4.1). Finally, the legitimization of middle managers' interpretations encouraged other employees to understand the information interpreted by these middle managers (see section 5.3.4.1). The legitimization of these behaviours further contributed to middle managers' successful knowledge distribution based on their knowledge advantages. In comparison, middle managers in FOTON benefited from trust 'guanxi' only when their behaviours described above were related to implementation. However, middle managers in BAIJIA encountered more difficulties in obtaining legitimization for their behaviours during the change process.

### **7.3.3. 'Guanxi', Security and Motive**

Middle managers' 'guanxi' with senior managers also influenced their knowledge distribution motives through enhancing their feeling of security. Overall, trust 'guanxi' would enhance middle managers' feeling of security related to knowledge distribution, while 'guanxi' without trust might not. At the same time, a balanced 'guanxi' would also enlarge the application of middle managers' feeling of security from merely implementation to a larger area. Then, middle managers' feeling of security exaggerated the gains and minimized the losses related to their knowledge distribution behaviours. This encouraged them to behave proactively from this aspect.

Middle managers' trust 'guanxi' with senior managers provided them with precious feelings of security in knowledge sharing in FCC. First, it was found that trust 'guanxi' could behave as a mediating variable between punishment deserved and punishment actually received. If suggestions made by middle managers proved to be highly improper and resulted in losses for FCC, the trust 'guanxi' that middle managers had with senior managers could protect them from more serious punishments. Secondly, according to the same logic, once the suggestion proved to be highly beneficial and profitable for FCC, trust 'guanxi' would provide middle managers with more opportunities for promotion or other rewards. Thus, middle managers' trust 'guanxi' with senior managers could make them feel more secure when they were going to share knowledge within FCC. Trust 'guanxi' helped middle managers secure rewards and avoid punishment from their knowledge distribution

behaviours. When a middle manager described the benefit of trust 'guanxi' with senior managers in FCC, he stated:

*'I know that I cannot go that far without the supports of A<sup>21</sup>. Actually, I offended many employees while implementing TPS. In order to avoid being the conflict centre, A arranged me several easier tasks. Through successfully finishing these tasks, I regained my prestige so that I can continue my work. Later, the TPS project became the basis of my promotion....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

The situation in FOTON was similar. However, in BAIJIA, where no trust 'guanxi' existed, middle managers turned out to be more worried about the consequences of distributing knowledge and thus often chose to withhold it in order to avoid putting themselves in danger.

The balanced 'guanxi' middle managers in FCC had with senior managers helped them break the psychological barrier to distributing knowledge even when related to decision making. Balanced 'guanxi' spread trust into a much wider area for FCC's middle managers. As described in section 7.2, the dependence between senior managers and middle managers determined that they would continually exchange favours in the future. Thus, senior managers would become more tolerant of middle managers' suggestions in the decision-making area. Furthermore, the more middle managers made suggestions in the decision-making area, the more balanced power was shown between senior managers and middle managers. It became an increasingly stronger loop until senior managers or middle managers intentionally broke it, which would harm the trust 'guanxi' between them and probably meant the closure of the balanced 'guanxi'. In comparison, middle managers in the uni-polar 'guanxi' with senior managers in FOTON felt secure only in the traditional implementation area and were afraid of crossing the line.

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<sup>21</sup> A: FCC, the Chief Manager

### 7.3.4. 'Guanxi', Informal Communication and Sharing

Middle managers' trust 'guanxi' with senior managers also provided them with an informal communication channel to distribute knowledge. Trust 'guanxi' between middle managers and senior managers could not be developed without frequent communication and exchange of ideas. At the same time, trust 'guanxi' also produced more opportunities for middle managers and senior managers to communicate, some being quite personal, for example going to restaurants or fishing together. These opportunities were not available for senior managers and middle managers without trust 'guanxi'. Although these were just informal communications, they were found to be equally important and efficient. Some serious and big decisions were often made before the formal procedures. Middle managers in FCC and FOTON had comparatively more opportunities. A middle manager in FCC said:

*'I think my communication with B<sup>22</sup> is comparatively more sufficient. How to say...I think our guanxi is pretty good. Thus, I have more chances of meeting him, from drink after work to on-job chats, compared with others....'*

(Interviewee: FCC, Middle Manager B, Department of Product)

Furthermore, trust 'guanxi' also benefited formal knowledge distribution by providing more information about the best way of sharing ideas. In the discussion above, it was mentioned that middle managers in trust 'guanxi' with senior managers had many informal communication opportunities. Therefore, middle managers became more acquainted with senior managers, for example with when and through which way of persuasion or negotiation they would be more likely to accept suggestions. This became an important part of middle managers' contextual knowledge. Based on the knowledge, middle managers could produce better strategies to share ideas. All these decisions would greatly increase their probability of successfully making suggestions (see the development of contextual knowledge advantage in sections 6.4.1 and 6.4.2). Therefore, middle managers in FCC and FOTON apparently had more advantages than those in BAIJIA.

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<sup>22</sup> B: FCC, the Chief Manager.

Balanced ‘guanxi’ influenced informal communication and formal knowledge distribution mainly through the content of communication. More knowledge related to decision making was exchanged in FCC. However, middle managers in FOTON mainly distributed knowledge of efficient implementation through formal knowledge distribution opportunities and even informal communications. Without trust and balanced power, middle managers in BAIJIA kept their feet neatly in their implementation territories, and seldom showed their opinions before being fully confident in their answers even when they were asked to do so. While explaining the choice, a middle manager said:

*‘You should not trust what he said. Although he might say that he wanted your suggestions, he actually did not mean that. If we did make a lot of suggestions, he probably would think you were not satisfied with his leadership. You will be in real trouble....For safety reason, I think it is better to keep quiet....’*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

It showed that the lack of trust between the chief manager and middle managers prevented normal knowledge sharing between them.

### **7.3.5. ‘Rule of Men’ as Prerequisite**

In this ‘guanxi’-centred explanation network, ‘rule of men’ was an important prerequisite for ‘guanxi’ to function in the ways described above. One common characteristic of three enterprises was ‘rule of men’. As discussed in section 2.4.1.2, ‘rule of men’ describes governance by men instead of regulation in Chinese enterprises. ‘Rule of men’ was shown mainly in the following three aspects. Firstly, there was no clear or strict system to assign power. Promotion in the three enterprises was not transparent. Decisions were made by a minority of people, for example, senior managers in the enterprise or group. The control system to assign power to the proper candidates did not work well, though it existed formally. Secondly, there was no strict or clear reward and punishment system either. The evaluation of employees’ performance or contributions was governed by senior managers’ personal judgement rather than by an objective system. The large space of manoeuvre for senior managers

in the objective evaluation system made control become soft. Finally, it was a routine that regulations were more official signs than actual guidance for behaviour. Employees behaved by potential rules, which might not be accordant with formal regulations. These rules changed along with the power structure and the shift of senior managers. The characteristic of 'rule of men' could be found in the discussion of a middle manager:

*'Actually the power in State Owned Enterprises is very funny. It cannot be clearly identified that who owns the power....I always think I am the head of zero-management department. It means that I can manage (or control) (anybody, any department) if I want and I can also choose not to manage or control (anybody, any department) if I don't want....'*

(Interviewee: FCC, Middle Manager A, Department of Planning and Control)

This characteristic of 'rule of men' was found to help create a management environment of soft control, thus offering 'guanxi' an important role in the power system, the rewards system and the activity system.

### **7.3.6. Personal Interests, Abilities and Learning Systems**

Besides the influences of 'guanxi' discussed above, three groups of factors – middle managers' personal interests, abilities and enterprises' learning systems – were also found relevant to middle managers' behaviours during strategic change. Middle managers' interests governed the intentions of their actions. The deviation of middle managers' interpretations from the ones they thought right was driven by their personal interests. At the same time, their personal interests also served as motives for their knowledge distribution behaviours. In FCC, middle managers' interests mainly rested in the power area. The pursuit of greater power was their desire. In FOTON, the situation was similar. Moreover, short-term rewards also played an important role. In contrast, middle managers in BAIJIA were more focused on their incomes and did not relate to the development of the enterprise. They were more concerned with their personal development. The personal interests were clearly shown in their comments:

*'We have to think of ourselves. How to survive in this fast changing business environment is the most important thing. This is why you can see that almost all middle managers have good personal relationships with competitors in the same industry. We all prepared for a way of escape....'*

(Interviewee: BAIJIA, Middle Manager D, Department of Sales)

Middle managers' abilities served as the necessary bases of their actions. Senior managers were expected to have different abilities from middle managers in the three enterprises: communication ability, thinking ability and implementation ability for middle managers in FCC, and implementation ability for middle managers in FOTON and BAIJIA. Finally, enterprises' learning systems, especially internal learning opportunities, the design of the knowledge distribution system and the knowledge sharing culture, partially decided middle managers' exposure to new knowledge, efficient knowledge distribution and the motives for sharing knowledge. The comparatively complete knowledge management system of FOTON contributed to middle managers' efficient internal learning. The great amount of training provided by FCC helped middle managers build up their knowledge basis. The lack of internal learning opportunities in BAIJIA forced middle managers to develop external learning opportunities through their personal relationships.

#### **7.4. The Development of Middle Managers' 'Guanxi' with Senior Managers in Three Cases**

As discussed above, middle managers had different 'guanxi' with senior managers in the three cases. These differences were argued to account for their different roles in strategic changes. In this section, the researcher will try to answer the question as to why middle managers developed different 'guanxi' with senior managers in the three cases. It is expected that the discussion here will further deepen the understanding of middle managers' 'guanxi' with senior managers. It was found that middle managers' ability in 'la guanxi', unchangeable 'guanxi' bases and external control, historical development and leadership constituted three major categories of influencing factors. The ability in 'la guanxi' was the ability of middle managers to develop trust 'guanxi' with senior managers. It could create new 'guanxi' bases and more efficiently use the

current 'guanxi' bases. Unchangeable 'guanxi' bases endowed holders with advantages to develop trust 'guanxi'. Finally, external control, historical development and leadership decided the width of trust in middle managers' 'guanxi' with senior managers in the three cases. These three categories will be discussed separately below.

#### **7.4.1. Middle Managers' Ability in 'La Guanxi'**

'La guanxi' was a special ability of middle managers to develop desired 'guanxi' with senior managers. 'La guanxi' means 'try to establish a relationship with somebody' (A Chinese-English Dictionary (Revised Version), Foreign Language Teaching and Research Press, 2001: 576). Ability in 'la guanxi' thus could be understood as the ability to establish the desired 'guanxi' with somebody by making good use of current 'guanxi' bases or even to create new 'guanxi' bases. Ability in 'la guanxi' had its specialities in many aspects; thus, it would be highly improper to simply define it as the combination of these abilities. Firstly, the ability in 'la guanxi' was personal. Everybody has their own style of 'la guanxi'. The same skills of 'la guanxi' might not function in the same way for different persons. Secondly, the ability in 'la guanxi' was hard to interpret and transfer. Only a small section of 'la guanxi' skills could be interpreted and therefore transferred. Most of the ability in 'la guanxi' was embedded in individuals' daily behaviours, which might not be noticed. Finally, the ability in 'la guanxi' did not need to have the positive relationship with other abilities. The person who had great communication ability might not be good at 'la guanxi'. According to the same logic, the person who was good at 'la guanxi' also did not need to be a good communicator. All these specialities decided that the ability in 'la guanxi' should be better understood as an independent factor.

Middle managers' ability in 'la guanxi' was found to be important in developing 'trust' guanxi with senior managers. Its influences could be shown in two aspects. First, without good ability in 'la guanxi', middle managers could not use their current 'guanxi' bases efficiently. This included choosing the right 'guanxi' bases to work on and elaborating on these bases. Secondly, without good ability in 'la guanxi', middle managers could not create new 'guanxi' bases. Middle managers with good ability in 'la guanxi' would be able to create more opportunities to communicate with senior managers and have more in common to derive 'guanxi' or differences that senior

managers appreciated. However, the process of creating strong ‘guanxi’ bases required much more time than simply working on current ‘guanxi’ bases. In addition, it was also found that appropriate ‘la guanxi’ behaviours combined with long-term cooperation could develop as strong ‘guanxi’ bases as the unchangeable ‘guanxi’ bases, which will be discussed in the next two paragraphs. When a middle manager described the ability in ‘la guanxi’ of another middle manager, he said:

*‘He is very good at ‘la guanxi’. Therefore, he always has good guanxi with senior managers. I think it is a natural gift. He could grasp every small opportunity of developing guanxi with senior managers....With the time going by, his guanxi network can compete with those subordinates having the same education background and birth city....’*

(Interviewee: FCC, Middle Manager G, Department of Production)

Middle managers in FCC without pre-existing unchangeable ‘guanxi’ bases employed their good ability in ‘la guanxi’ to successfully shorten the distance with senior managers and gain their trust after long-term cooperation. A similar situation was found for middle managers in FOTON. However, middle managers in BAIJIA failed to develop trust ‘guanxi’ with senior managers in a limited time.

#### **7.4.2. Unchangeable ‘Guanxi’ Bases**

Although middle managers’ ability in ‘la guanxi’ could create new ‘guanxi’ bases, it might not be able to work on certain ‘guanxi’ bases. In other words, they were unchangeable. Three such ‘guanxi’ bases – blood relationship, hometown emotion and educational background – were found to be very determinative in middle managers’ developing ‘guanxi’ with senior managers in the three cases. In Chinese society, blood relationships cannot be replaced by others and thus are one of the strongest ‘guanxi’ bases. If middle managers had a direct or indirect blood relationship, even very remote, it would still help them obtain superior positions in front of senior managers. Although senior managers avoided having direct relatives in the enterprises, people recommended by relatives also had similar advantages in developing trust ‘guanxi’. Another important ‘guanxi’ base was hometown emotion.



If middle managers and senior managers had been born or grown up in the same city or even just in the same province, they would naturally be much closer. An example could be seen when a middle manager described the power relationship within FOTON:

*'Here, many middle managers were old subordinates of our boss while FOTON was still a small factory in Shandong Province. They were fellow-townsmen. This constitutes the base of their trust guanxi and is difficult to break. It is highly unwise to ignore the power of this group of managers....'*

(Interviewee: FOTON, Middle Manager E, Department of Group Media and Advertisement Management)

The third 'guanxi' base was similar educational background. 'Classmates relationship' is treated as one of the most important relationships for Chinese people. Sometimes, it plays an even more decisive role than blood relationships in developing 'guanxi'. In FCC, middle managers who graduated from the same university, Tsinghua University, as a senior manager had important positions in his eyes. It was also found that these unchangeable 'guanxi' bases were more stable than other 'guanxi' bases recently developed through the employment of 'la guanxi' skills and were thus long lasting.

The pre-existence of any such unchangeable 'guanxi' base could be a big advantage for the holders. In certain situations, these unchangeable 'guanxi' bases could simply be equal to trust relationships. In other situations, these unchangeable 'guanxi' bases could be developed into trust relationships after employing certain skills of 'la guanxi'. Besides, these bases were naturally strong, and thus functioned very quickly in developing trust 'guanxi'. At the same time, these unchangeable 'guanxi' bases also had the power to expand the width of trust. In other words, strong unchangeable 'guanxi' bases supported middle managers in making their suggestions in the implementation area and even in the decision-making area. Middle managers in BAIJIA had limited former 'guanxi' bases to work on when strategic changes began; therefore they had to rely on their ability in 'la guanxi' within a short period. In comparison, middle managers in FOTON and FCC had more in common in their long-term cooperation; therefore it was easier to develop trust 'guanxi' based on them.

### **7.4.3. External Control, Historical Development and Leadership**

Compared with ability in 'la guanxi' and unchangeable 'guanxi' bases, which mainly influenced the development of trust 'guanxi', three major factors – external control, development history and leadership – mainly decided the width of trust in 'guanxi'.

The greater the external control of the organization, the more balanced the power relationship between senior managers and middle managers. In FCC, as mentioned in the second section of this chapter, senior managers did not hold absolute power and were controlled by the group. Thus, middle managers had the potential for developing a more balanced 'guanxi' with senior managers. However, in FOTON, there was little external control of the chief manager's decisions and behaviours. Thus, he controlled the relationship with senior managers. Similarly, although the chief manager in BAIJIA was not quite familiar with the operations, he still held important human resources power within the organization and was without external control except from the financial aspect. He was still able to dominate the 'guanxi' with middle managers. See also section 5.3.2.1.

In addition, enterprises' development history also influenced 'guanxi' between senior managers and middle managers. First, a successful development history would enhance senior managers' power and influence middle managers' expectation of senior management. In FOTON, the long-term successful management greatly increased the chief manager's esteem. At the same time, middle managers also had great respect for the chief manager in the decision-making area. Thus, the chief manager was dominant in 'guanxi' with middle managers and only trusted them in the decision implementation area. In comparison, FCC had a struggling development history, which did not provide senior managers with high esteem in the decision-making area. The trust developed between senior managers and middle managers could influence the decision-making area. Second, the frequency of change among senior managers also influenced the development of trust in their relationship with middle managers. In BAIJIA, the chief managers changed so fast that middle managers had not enough time and motive to develop trust 'guanxi' with them, even though the overall development could also be described as successful. In comparison,

senior managers in FCC and FOTON did not change that quickly; thus middle managers had enough time to develop trust ‘guanxi’ with them.

Finally, the different style of leadership could also influence the ‘guanxi’ between senior managers and middle managers. Middle managers would decide their tactics based on senior managers’ style of leadership. Generally speaking, a democratic style helped develop a balanced ‘guanxi’. If senior managers did not like to be challenged in the decision-making area, which was normally their domain, middle managers did not risk making suggestions in this area. This was the case at FOTON and BAIJIA. As a middle manager in BAIJIA said:

*‘No matter what he (the chief manager) said, he wants to be the only person making decisions in BAIJIA. He needs good followers, not thinkers. Sometimes, he likes to play some tricks by asking your opinions. However, you can feel that he did not expect your honest answers....We all know that. Why should we bother to make any suggestion then?’*

(Interviewee: BAIJIA, Middle Manager F, Department of Human Resources)

This showed that the chief manager’s leadership influenced middle managers’ expected guanxi with him.

## **7.5. Summary**

This chapter has provided a ‘guanxi’-centred explanation for the different roles of middle managers in the three cases. Firstly, the researcher employed two dimensions – ‘trust or not’ and ‘balance or uni-polar’ – to differentiate middle managers’ ‘guanxi’ with senior managers in the three cases. These two dimensions reflected the depth and width of ‘guanxi’ respectively. In FCC, ‘guanxi’ was trust and balanced. In BAIJIA, ‘guanxi’ was uni-polar without trust. In FOTON, ‘guanxi’ was uni-polar and trust. Then, the researcher discussed the relationships between ‘guanxi’ and middle managers’ two roles. ‘Guanxi’ was found to influence middle managers’ perceived power, which provided the legitimization for their boundary-exploring activities, knowledge distribution behaviours and interpretation. ‘Guanxi’ also enhanced middle managers’ feelings of security while they were distributing information or knowledge.

Moreover, 'guanxi' also provided middle managers with informal communication channels. In this 'guanxi'-centred explanation network, 'rule of men' was the prerequisite for 'guanxi' to function in the ways described above. Finally, the researcher examined the development of 'guanxi' in the three cases. 'Guanxi' was influenced by middle managers' ability in 'la guanxi', the existence of unchangeable 'guanxi' bases, external control, historical development and leadership. This chapter finishes the presentation of all the important data analysis results. In Chapter 8, these results will be discussed further in the context of the current literature.

# Chapter 8

## DISCUSSION

### 8.1. Introduction

In order to further develop the theoretical models derived from the research, this chapter will discuss them in relation to the current literature. This chapter consists of three sections. After the introduction, the newly developed theoretical models will be discussed in the developed literature. The discussion will mainly focus on three theoretical contributions of the research: the combination of learning and power, middle managers in strategic change from the perspectives of learning and power, and Chinese enterprises' strategic change. The chapter ends with a brief summary.

The discussion in this chapter is organized into three parts, which correspond to the three main theoretical contribution areas developed in the research. Firstly, the findings will be discussed in relation to the combined area of organizational learning and power studies. As important themes, power in organizational learning and organizational learning within power relationships will be re-examined by incorporating the findings here. Secondly, the findings will also be discussed in relation to studies on middle managers. Connecting to former studies on middle managers in organizational learning and power studies, a deeper exploratory and explanatory theory on middle managers will be presented. Finally, the findings will be examined in a Chinese context. Through discussing 'guanxi' in Chinese enterprises, amendments and further developments in this area will be clarified.

## **8.2. The Combination of Organizational Learning and Power Studies**

The findings further highlighted the importance of combining the organizational learning perspective and the power perspective in management research. Although attempts at combining both views have been highly favoured by many researchers (Easterby-Smith & Lyles, 2003; Ortenblad, 2002), power is still a less visible factor in organizational learning studies. Besides, in comparatively limited studies of power within the organizational learning context (Coopey and Burgoyne, 2000; Senge, 1990), power is more or less treated as an obstacle in the way of organizational development towards becoming a learning organization. In Senge's (1990) book, a highly political environment disguises the intrinsic merit of a vision with a political objective; thus, openness is needed to unlearn political game playing (p. 276). Similarly, it is also argued by Coopey and Burgoyne (2000) that an open form of political environment can provide organizational members the freedom to voice their opinions. Thus, the political environment became something researchers tried their best to eliminate. Researchers seldom consider the proactive use of power by organizational members to achieve the aim of organizational learning in a political environment. However, as shown among proactive middle managers in FCC, power is also an important part of organizational management practice. Therefore, more attention is required for the examination of the proactive combinative use of power and knowledge.

Moreover, the findings also provide more practical evidence for research on knowledge and learning in power studies. Knowledge and learning can be found in the research on power (Alvesson and Deetz, 1996; Foucault, 1980; Leirvik, 2005; Pettigrew, 1972; Schein, 1995). Alvesson and Deetz (1996) believe that knowledge would gain the power to counteract domination by evaluating various viewpoints and arguments in open dialogue. Pettigrew (1972) specially examines the power of gatekeepers to regulate the flow of demands and control decision outcomes by sitting at the junction of a number of communication channels (p. 190). In a more comprehensive view, Foucault (1980) regards power and knowledge as inseparable concepts: 'truth is not outside of power nor itself lacking in power' (p. 131). Schein (1995) studies culture as organizational power and highlights that organizational and managerial culture could be either a facilitator or an inhibitor of organizational

transformation. Leirvik (2005) highlights a dialogue or communicative perspective on organizational change. However, current research has not provided satisfying answers to practical questions, like ‘how do organizational members employ their knowledge advantages to achieve more power?’ The proactive model of middle managers, which was observed in the case of FCC, partially answers this question. The findings here extend power studies by providing practical evidence.

### **8.2.1. Power in Organizational Learning**

In attempting to combine power and organizational learning, this research partially answers the questions frequently asked by critics of organizational learning about the critical learners and dominators of the organizational learning process. From the data collected in the research, it is shown that organizational learning is likely to happen when the people who hold the most legitimized and strongest power positions learn. If this convergence does not occur, new knowledge holders may have to influence the people holding the strongest position power to understand the meaning of organizational learning and support it. If the knowledge holders do not hold authorized power and are not influencing others, organizational learning is unlikely to happen and stops at the level of personal learning. This means that power can be a neutral issue in organizational learning and can be employed to either encourage or prevent organizational learning. Thus, the learning of authorized power holders is important for organizational learning. This finding partially agrees with the opinion of Senge (1990) that powerful people have more influence on learning. However, this finding does not deny the possibility that new knowledge holders may dominate the organizational learning process. In FCC, middle managers, as new knowledge holders without authorized power, successfully influenced senior managers to facilitate an organizational learning process. At the same time, the evidence also shows that there is probably less resistance to organizational learning when the organizational new knowledge map coincides with the power structure. The justification of this argument may imply important improvements in the design of the learning organization. Further studies are required in this area.

The findings here also suggest that individuals can still obtain a certain learning space in traditional bureaucratic structures though they may obtain a greater space in an

organic structure (Mintzberg, 1983). Since all three enterprises in the research had bureaucratic structures, no evidence was found to support the size difference of individual learning space in two kinds of organizational structures. However, the findings indeed showed that individuals could obtain a learning space in a bureaucratic structure, and that the size was highly influenced by the organizational power structure and their personal power status. As a prerequisite, the power structure of the company decided employees' opportunities for coming into contact with new knowledge. Moreover, the power of middle managers also influenced their space to test and improve newly acquired knowledge in the organizational context, which was an essential part of new knowledge development. In FCC, middle managers in different departments were responsible for contacting relevant departments on the cooperation partner's side. They also had the power space to employ new knowledge in their departments' daily activities. However, middle managers in FOTON were strictly fixed in their positions without many opportunities for contacting external new knowledge. Middle managers in BAIJIA failed to fully control their own departments' activities and lost the opportunity of testing new knowledge, though they had the opportunity of contacting external new knowledge through their personal relationships. Evidently, middle managers in FCC obtained a bigger learning space than those in FOTON and BAIJIA. This finding further justifies the opinion that organizational power structure constrains the opportunity for individual learning.

The findings also suggest that power influences the development from individual learning to organizational learning. Under the situation where new knowledge owners are not authorized power holders, the effective exercise of power by new knowledge holders was found to increase the possibilities of successfully promoting new knowledge to other members in the organization, especially authorized power holders. Where new knowledge holders were authorized power holders, their effective exercise of power also contributed to effective knowledge sharing downwards. These findings do not contradict the arguments in former multi-level learning studies (Crossan, Land & White, 1999; Nonaka, 1994), but further develop their research. New knowledge holders' judgement of their power status influences their decisions on whether or not to share the new knowledge. This is an inevitable part of the externalization process (Nonaka, 1994). Authorized power holders' intentions were found to be the important reference in the other employees' mental models in all three Chinese enterprises. The



organizational members who had the right ‘guanxi’ with authorized power holders also acquired equally important positions. This would unavoidably influence the development of shared mental models from individual mental models, which connect the individual learning level to the organizational learning level in Kim’s (1993) integrated framework, the socialization process (Nonaka, 1994) and the institutionalization process (Crossan, Land & White, 1999). The effective exercise of power facilitates the realization of these processes. The path from individual learning to organizational learning is then full of the traces of power.

### **8.2.2. Knowledge and Learning in Power Studies**

The findings provide more practical evidence for the argument that information control is an important power resource (Pettigrew, 1972). It was found that managers in the three organizations who occupied important positions in the information flow paths normally had more power than other managers who did not. Furthermore, a way was found to establish power through their new knowledge and learning. If managers became gatekeepers during change, any new idea or change in their behaviour was often connected to their gatekeeper positions and assumed by other members in the organization to come from their cooperation partners. If their cooperation partners were superior in one way or the other, their new ideas or changes in behaviour would easily receive attention from others. These gatekeepers’ opinions weighed more in the decision-making process. Another way for managers to establish power through knowledge was through developing ‘guanxi’ by employing knowledge advantages. This point will be discussed in detail in later sections. The fact of middle managers as gatekeepers in FCC obtaining a new platform and a starting point to exert their power provided a greater possibility for changing relationships within the organization by managing the flow of information.

Besides information control, information distribution was also found to be an important platform for managers to assert their influence. It is shown that power enhancement constituted an important part of managers’ motives in information distribution behaviours in all three cases. At the same time, the research also provides evidence of the fact that information holders can enhance their own power by choosing distribution objects, recipients and distribution paths. In FOTON, managers

chose to keep silent on certain information, but voice their opinions on other information. In FCC, middle managers made their own judgements on distribution time and distribution method based on their contextual knowledge about senior managers. These findings support the assertion that distributors can obtain a certain space to employ knowledge distribution as a tool for serving their own interests (Huber, 1991). Furthermore, it was also found that managers prefer certain kinds of distortion, such as changing the importance level or reporting time, which were often treated as a small mistake, to other kinds of distortion, such as changing or disguising certain information directly, which was regarded as a big mistake and highly risky for them. These findings echoed Foucault's (1980) opinion that knowledge comes only with more power, instead of being free of power.

The research also provides strong support for the importance of communication in the exercise of power. From the evidence of FCC, communication, especially informal communication, is the important way of exercising power for middle managers. Major decisions and compromises were made and achieved in their informal communication with senior managers. Tasks were allocated when they communicated with lower employees. Communication was soft yet the strongest way to assert influence for middle managers in FCC. This certainly supports Alvesson and Deetz's (1996) argument on the power of dialogue to facilitate knowledge in counteracting domination and Leirvik's (2005) argument on the importance of dialogue in participatory change. However, communication in FCC was full of tricks and personal interests, which might influence the evaluation of various viewpoints and arguments. Besides, the lack of communication in BAIJIA and FOTON partially supports Schein's (1995) opinion that 'at the organizational level there must be a shared commitment to open and extensive communication' (p. 13) in a learning culture. Although the data collected were not enough to support the conclusion that that FCC was a learning organization, FCC was certainly more likely to be than the other two. The existence of extensive communication in FCC could be seen as an enhancing factor for its learning capability. However, communication in FCC was not particularly open and was initiated mostly by middle managers. It is still unpredictable whether this kind of communication can sustain and facilitate FCC's learning in the long run.

### **8.3. Middle Managers in Strategic Change from the Learning Perspective and the Power Perspective**

Whether middle managers are ‘strategists in the middle’ or ‘implementers’ in organizational change, they surely occupy important positions in either initiating or facilitating change. Since middle managers’ behaviour is examined from the learning and power perspectives in this research, this section is designed to relate the present research to the current literature from these two perspectives. Specifically, middle managers’ combinative use of learning and power methods will be discussed.

#### **8.3.1. Middle Managers in Strategic Change from the Learning Perspective**

The research shows that middle managers play a key role in the development of new knowledge. This argument is consistent with Nonaka and Takeuchi’s (1995) research, but extends it to the inter-organizational context. In FCC, middle managers not only ‘synthesize the tacit knowledge of both front line employees and senior executives, make it explicit, and incorporate it into new products and technologies’ (Nonaka and Takeuchi, 1995: 16), but also interpreted the tacit knowledge of MAZDA, tested it in their daily work, and made it explicit for the whole of FCC to learn. Furthermore, senior managers emphasized the inter-organizational learning process more than the internal one during this strategic cooperation. However, opposite attitudes could be found in BAIJIA, where intra-organizational learning was highlighted and middle managers’ external learning through their personal social networks was neglected. The reasons might be the difference in middle managers’ ‘guanxi’ with senior managers. Middle managers’ inter-organizational learning would develop their advantage in knowledge compared to that of senior managers. This knowledge advantage could become an important power base for middle managers. If there was lack of trust between senior managers and middle managers, senior managers would be more controlling towards middle managers’ inter-organizational learning. Top-down internal learning would be more likely to become the dominant learning pattern. However, this assumption was not fully proved in this research and might need further study.

Whether middle managers behaved as ‘strategists in the middle’ or ‘implementers’, they were important in the information distribution process in all three cases. As implementers, middle managers mainly dealt with routine information. Their major contribution to this process was to facilitate the understanding of information by information receivers. As ‘strategists in the middle’, middle managers’ information distribution involved more non-routine information. Since non-routine information was hardly included in the organizational information system, it was important to identify useful non-routine information, clarify its meaning for organizational development, and include it in the organizational information system, thus finally transforming non-routine information into routine information. Middle managers’ efforts in these areas would enhance organizational adaptation to environmental change, and increase organizational change capability. In addition to the propositions on information distribution summarized by Huber (1991), it was also found that middle managers’ perceptions of their responsibilities strongly influenced their information distribution behaviour, especially for non-routine information. The more that middle managers regarded their responsibilities for enterprise development as important, the more efficient was non-routine information distribution by middle managers. Furthermore, middle managers’ perceptions were influenced by their ‘guanxi’ with senior managers.

Middle managers were also found to be critical in ‘translating events and developing shared understandings and conceptual schemes’ (Daft and Weick, 1984: 286). It was found that middle managers in the three enterprises could make their own judgements on information receivers’ absorption ability and the distance of new knowledge from receivers’ mental models. According to these judgements, middle managers made right decisions on the content, ways and the times of information distribution. At the same time, middle managers also exercised power to facilitate the successful distribution of their interpretations within the enterprise.

The findings also show that middle managers made a contribution to the connection of individual learning with organizational learning. As Mumford (1997) suggests, discussion of individual learners with other individuals and group reflection on learning are important steps toward organizational learning. The results of this research show that communication is very important for individual learning to ascend

to organizational learning (Nonaka and Takeuchi, 1995; Tushman and Nadler, 1996). Middle managers in FCC communicated with persons to transfer what they had learned and thought to the whole organization. However, this was not the whole story. The research also shows that there were two types of persons with whom individual learners wished to communicate. The first type of person held authorised power in and around the organization. The aim of communication was to gain power support. Middle managers in FCC proactively communicated with senior managers in both FCC and FAW in order to be more powerful in the decision-making process. The second type was people whom they wanted to influence. In individual learners' eyes, they were potential followers. Middle managers in FCC communicated with lower employees to influence their behaviour, which also had indirect influence on senior managers. Thus, individuals' communication with other individuals or groups contained a certain power ingredient, and was a mixture of power and learning. Without doubt, effective communication skills became an important factor for organizational learning.

### **8.3.2. Middle Managers in Power Studies of Organizations**

From the discussion above, it can be seen that the use of power in organizational learning in this research was a combination of individual power (Boonstra, 1997; French and Raven, 1959), group power (Perrow, 1970; Pfeffer, 1992) and organizational power (Lukes, 1974; Pettigrew, 1977). The levels of power interrelated and influenced each other in the organizational learning process.

First, the organizational culture of FCC influenced both attitudes towards new knowledge and the image of middle managers in FCC. It also decided which kind of behaviours could be easily accepted by FCC. At that time, FCC was at a turning point shifting from Chinese technology to trying out international technology. In a significantly uncertain environment, which FCC had never previously experienced, the whole of FCC was full of unconfident feelings and both thirsty and respectful regarding new knowledge. Undoubtedly, this facilitated the organizational learning process in FCC. Second, the bonding of certain senior managers and middle managers enlarged middle managers' influence on the decisions of the whole organization and

group on the use of knowledge. This finding is in line with Pettigrew's (1973) assertion that tensions between groups are evitable. But there was no proof that a balanced power relationship among groups with different interests could be attained during the change process (Pettigrew, 1973). Instead, through change, certain groups in FCC enlarged their power. Finally, versatile power resources constituted organizational members' personal power basis. The most obvious elements were senior managers' position power (Bass, 1960) and reputation power (Beer, 1980), and middle managers' information and knowledge control power (Beer, 1980) and group support power (Beer, 1980). The combination of knowledge power and formal power, either in one person or in a group, was critical for organizational learning.

Furthermore, the three levels of power were not totally separated, but combined. The research showed that individuals' personal power decided their positions and their behaviour and gestures in the group. Since an employee could be in multiple groups without conflict of interest, he or she possibly held different positions in different groups: a leader in one group being a follower in another. Moreover, if a group consisted of both members with authorized power and those with knowledge power, the members with authorized power showed more power compared with those with knowledge power. At the same time, group power also depended on its members' personal power in the organization, especially the leaders'. Finally, organizational power decided the acceptance of group power and individual power and their influence. As Pettigrew (1971) argues, organizational power may not be controlled by management behaviour, but work through organizational culture and so on. All power activities at the personal and group levels were potentially framed by organizational power. In all three cases, organizational members tried to keep their political behaviour within the organizational value system. If they had to go beyond the line, they would choose to do it step by step and leave absorption time for the organizations to change.

### **8.3.3. Middle Managers' Combinative Use of Knowledge and Power**

Although there are few discussions of transactions between middle managers and senior managers during change, certain characteristics could be predicted from

Stinchcombe's (1990) discussion of diffusion. In his book, it is argued that knowledge holders need to share most of their knowledge with others if they want to achieve their goals (p. 85). In FCC, middle managers became new knowledge holders during the change process. Thus, they had 'the power to put that knowledge to use' and 'the power over those who do not possess that knowledge' (p. 85). It was apparent that the second power of knowledge would decrease if they shared their new knowledge. Thus, middle managers faced a dilemma in sharing knowledge. In order to achieve their goals, middle managers needed guarantees in exchange. By exploring their relationships with senior managers, middle managers in FCC tried to obtain rewards for sharing knowledge. They desired to increase their importance in senior managers' mental reference, and to have suggestions based on their new knowledge implemented. The trust between middle managers and senior managers was an important component of their relationship. Thus, the exchange transaction happening between middle managers and senior managers in FCC involved not only knowledge exchange but also power exchange. Knowledge exchange brought out power exchange. Power exchange enhanced knowledge exchange.

#### **8.4. Chinese Enterprises' Strategic Change**

As for the organizational learning of Chinese enterprises, the findings develop Weir and Hutchings' (2005) discussion on the different characteristics – the departmental focus and individual's fear of admitting mistakes (p. 97) – of four processes of knowledge creation (Nonaka and Takeuchi, 1995) in China culture. Firstly, the individual's fear of admitting mistakes was less strong in the learning-by-doing process than in the implementation-only process. It was widely accepted that no innovation could guarantee success. However, implementation did not allow any mistakes. It was found that middle managers in FCC could finish the internalization process by first applying new and immature knowledge to the areas under their control and getting feedback. Thus, their comparatively greater control power minimized their fear of making mistakes. Furthermore, it was also found that middle managers' exercise of power on the middle manager level could help destroy departmental barriers in a combination process. Classic behaviours, like making alliances based on similar personal interests, could be seen in this process. In comparison, externalization was more constrained by middle managers' power

positions. Thus, it can be seen that power plays an important role in Chinese enterprises' learning process.

The findings also enriched the study of 'guanxi' in Chinese enterprises' organizational learning and power studies. As discussed by Hofstede (1988 and 1994) and Martinsons (1994 and 1996), power relationships in Chinese enterprises are characterized by high distance and the acceptance and tolerance of uncertainty. In all three cases, legitimized authority power was treated as unshakable. However, 'guanxi' was embedded in the power structure. Employees' trust or non-trust 'guanxi' with authorized power holders often signified their greater or smaller power in the organization. Further, it was found that cross-boundary behaviours were necessary for developing new knowledge advantages for proactive middle managers. Although cross-boundary behaviours were not employees' favourite behaviours (Weir and Hutchings, 2005), trust 'guanxi' in the exercise of power could increase the possibilities of cross-boundary behaviours happening. In FCC, middle managers' trust 'guanxi' with senior managers enlarged middle managers' area of influence.

However, the focus on 'guanxi' in this explanation network did not reduce the importance of senior managers in middle managers' decision making and behaviours in strategic change. It was found that senior managers' democratic leadership significantly contributed to a balanced 'guanxi' with middle managers, and further influenced middle managers' motivation to share information and knowledge. Since Chinese enterprises have the high acceptance of hierarchy (Pun, Chin and Lau, 2000), middle managers are used to reading senior managers' real intentions before taking any action. Thus, democratic leadership has the potential to be an important facilitator of a middle-up-down information system, which is not usually found in Chinese enterprises (Pun, Chin and Lau, 2000). Besides, 'rule of men' even enhanced the importance of senior managers in this 'guanxi' explanation network due to Chinese enterprises' high acceptance of uncertainty (Pun, Chin and Lau, 2000). However, there were also other factors senior managers could not control, for example, external control, influencing the development of trust and balanced 'guanxi', further the knowledge acquisition, distribution and interpretation processes in this explanation network. In order to understand how important or decisive senior managers are in this explanation network, more studies are required. These findings also imply the



possibility of alternative explanations for middle managers' different roles in strategic change with more and more studies conducted in this area. The research here is a starting point rather than an end to understand middle managers' decision making and behaviours in strategic change in Chinese enterprises.

As Ralston et al. (1999) describe, Chinese managers were 'cross-verging their eastern and western influences' 'on the road of modernization' (p. 415). Mixed characteristics were shown by middle managers during change. The 'individualistic' characteristic was shown clearly by middle managers in FCC. However, they also valued certain traditional rules of Confucianism, for example, pursuing the appearance of harmony. Middle managers highlighted the importance of self-confidence/charisma in a successful career. Decisions were made by the characteristic of 'rule of men': there were no clear actual responsibility lines or management system beyond relying on people. Furthermore, a good educational background was also important for middle managers to succeed. It was found from the present research that a sound educational background would contribute a lot to the relationship with senior managers and other members. These findings verified those developed by Neelankavil, Mathur and Zhang (2000). However, middle managers in FCC were also found to assign more value to the importance of communication. It seems that communication was more likely to be the characteristic of proactive middle managers rather than that of reactive middle managers. All these findings suggest that middle managers in China are experiencing changes corresponding to economic changes. Traditional Confucianism, collectivism and a conservative image are being challenged by individualism and the fashion for modernization. However, the extent of change depends on different enterprises' managerial environments and middle managers' absorption ability.

## **8.5. Summary**

In this chapter, the research findings have been discussed in relation to the current literature. The discussion was carried out in three areas – the combination of learning and power, middle managers in organizational learning and power, and Chinese enterprises' organizational learning.

The findings of this empirical research highlight the importance of and provide more empirical evidence for the combination of the organizational learning perspective and

the power perspective in management research. Power was a neutral issue and could be employed to either encourage or prevent organizational learning. Organizational learning was more likely to happen when the person holding the most legitimized and the strongest position power learned. Moreover, power influenced the possibilities for successfully promoting new knowledge within the organization and the effective knowledge sharing, and thus the development from individual learning to organizational learning. At the same time, the findings also support the arguments that information control is an important power resource, that information distribution is an important platform for managers to assert their influence, and that communication is an important means of exercising power.

The research also provides solid evidence on middle managers' key roles in strategic change. They were found to be important actors in the development of new knowledge, in the information distribution process, and in the development of shared mental models. In organizational learning, the bonding of certain senior managers and middle managers enlarged middle managers' influence in organizational decision making. Knowledge exchange between middle managers and senior managers brought about the exchange of power. The exchange of power further enhanced knowledge exchange.

Finally, the research further develops discussion on knowledge development in China culture. The individual's fear of making mistakes was less strong in the learning-by-doing process than in the implementation-only process. Middle managers' exercise of power could help destroy departmental barriers to knowledge combination. 'Guanxi', as an embedded element in the power structure, could influence the possibilities of cross-boundary behaviours happening. At the same time, Chinese managers were influenced by both eastern and western culture. Communication was more likely to be the characteristic of proactive middle managers rather than of reactive middle managers.

# Chapter 9

## CONCLUSIONS

### 9.1. Introduction

This chapter will complete the dissertation by drawing conclusions from the research. It begins with the reiteration of the research aim and key findings, and follows by summarizing the theoretical, methodological and practical contributions. At the same time, research limitations are identified. At the end, directions for future research will also be provided.

### 9.2. Reiteration of the Research Aim and Key Findings

The research aim of this study is to gain a deeper understanding of middle managers' roles and contributions to strategic change from a combinative perspective of learning and power in a Chinese context. First, the present research aims to study both the proactive and reactive behaviours of middle managers in strategic change. Although middle managers are treated as strategic assets to organizations (Floyd and Wooldridge, 1992, 1994 and 1997), research on middle managers in the strategy change area has mainly focused on their reactive behaviours during change (Thomas and Dunkerley, 1999). Less research has been specially designed to understand their proactive behaviours in strategic change. The present research has aimed to fill this gap. Secondly, the present research has also aimed to make contributions by combining the organizational learning perspective and the power perspective. Since 'a political perspective widens our understanding of the processes that constitute learning in organizations' (Coopey and Burgoyne, 2000: 881), it is particularly important to take power issues into consideration while studying organizational

learning. Moreover, middle managers have not absorbed sufficient attention from researchers in organizational learning studies. The current literature on middle managers in organizational learning is overshadowed by the study of change agents. As an attempt to study the combination of learning and power, the present research assumed middle managers as valuable starting points for examining the interrelationship between learning and power. Finally, due to the special characteristics of Chinese enterprises, the research setting in a Chinese context will benefit both Chinese enterprises' managerial practices and Western managerial theories. A deeper understanding of middle managers achieved through the research is particularly significant for those enterprises that have or will have business in the Chinese market.

Therefore, three research questions were developed.

*What are middle managers' roles in strategic changes of Chinese enterprises from the organizational learning perspective and the power perspective?*

*How do middle managers fulfil their roles in strategic changes of Chinese enterprises from the organizational learning perspective and the power perspective?*

*Why do middle managers play these roles in strategic changes of Chinese enterprises?*

This empirical study was carried out in three Chinese enterprises – FCC, BAIJIA and FOTON – in China over a period of more than two years – 2004 and 2005. FCC and FOTON are in the vehicle production industry and BAIJIA in the related car distribution industry. Data were collected through interviews, observation and document studies. Data analysis employed the strategy and methods of Yin (1994) and Miles and Huberman (1994).

Three strategic change processes were examined. FCC introduced a new car model from MAZDA and achieved strategic cooperation with MAZDA. It was the first time that FCC had produced cars of other brands, except for HONGQI, and had cooperated with international car producers. BAIJIA introduced a dual-brand strategy, which

highlighted the brand value of BAIJIA itself besides the brand of FAW-VOLKSWAGEN. This strategy differentiated it from its former single-brand strategy and ensured its own survival and development ability in increasingly severe market competition. In FOTON, SBU management was introduced. This change retained the organizational flexibility of product units during expansion.

Two organizational learning patterns and two power exercise patterns were found in the three cases. FCC had a middle-up-down learning pattern and an interdependent power exercise pattern. In contrast, BAIJIA and FOTON had a top-down learning pattern and a uni-polar exercise of power pattern. In the middle-up-down learning pattern, middle managers were new knowledge acquisition points. They distributed knowledge to senior managers and lower employees. Moreover, they also served as important information interpreters. Senior managers held exclusive information at the senior level and distributed it downwards. In the top-down learning pattern, chief managers acquired new knowledge, distributed information downward and behaved as important information interpreters. The interdependent exercise of power pattern of FCC was characterised by multiple power bases, the aim of enlarging strategic influences and the employment of personal communication channels. The uni-polar exercise of power pattern found in BAIJIA and FOTON was centred on power players' positional power, the aim of securing positions and the focus on a formal order and report system.

Middle managers can be seen as 'strategists in the middle' in FCC and 'implementers' in BAIJIA and FOTON. Four dimensions – aim, position, content and power basis – were used to define and differentiate the two roles. When middle managers played the proactive role of 'strategists in the middle', they aimed to influence senior managers. They proactively approached other organizational members. At the same time, communication was the main behaviour that middle managers employed based on their multiple power bases including position power, knowledge power and relationship power. In comparison, reactive middle managers in BAIJIA and FOTON tried to fulfil their responsibilities and connected senior management to lower employees. Their major activity was interpretation. Position power was their main power base.

Two models – a communication model and an interpretation model – were developed to understand proactive and reactive middle managers' behaviour during change. It was found that proactive middle managers in FCC could be well accommodated into a communication model. Middle managers developed advantages in new knowledge and context knowledge. Relying on these advantages, they sold their ideas to senior managers by having direct communication with them and indirectly influencing them through changing the behaviour of middle and lower employees. Reactive middle managers in BAIJIA and FOTON can be understood through the interpretation model. Middle managers interpreted the information and knowledge flowing through their positions based on their advantage of context knowledge. They employed different tactics – reporting for the chief managers and indoctrination for lower employees – when interpreting and distributing to recipients on senior and lower management levels.

In order to explain middle managers' behaviours in the three cases, a 'guanxi'-centred explanatory network was developed. Two dimensions – 'depth of guanxi' and 'width of guanxi' – were used to describe 'guanxi' and illustrate the differences in middle managers' 'guanxi' with senior managers in the three cases. Middle managers' 'guanxi' with senior managers was with trust and balanced in FCC. However, middle managers' 'guanxi' with the chief manager was uni-polar without trust in BAIJIA, and with trust but uni-polar in FOTON. The differences in 'guanxi' in these two dimensions were found to be closely related to the motivation and ability of middle managers to influence chief managers' decision making. Trust and balanced 'guanxi' enhanced middle managers' perceived power. The enhanced power legitimized their boundary-exploring activities, their knowledge distribution behaviour, and their interpretation. At the same time, it also made middle managers feel more secure by minimizing expected losses. Moreover, it was also a process of informal communication with senior managers for middle managers, and helped them develop strategies for efficient knowledge distribution. In addition, 'guanxi', as an important factor in deciding middle managers' positions in FCC, influenced their chances of contacting new knowledge. Besides the influences of 'guanxi' discussed above, three groups of factors – middle managers' personal interests and abilities, and enterprises' learning systems – were also found to be relevant to middle managers' behaviour in strategic change. At the same time, middle managers' ability in 'la guanxi',

unchangeable ‘guanxi’ bases and external control, historical development, and leadership constituted three major categories of influencing factors in the development of ‘guanxi’.

### **9.3. Summary of Theoretical and Methodological Contributions**

#### **9.3.1. Theoretical Contributions**

The research enriches Western theories of organizational learning, power studies and middle managers, and further extends them to the Chinese context. Firstly, the contributions of the research to Western management theories will be clarified in three areas: organizational learning, the combination of learning and power perspectives and middle managers. Then, the researcher will discuss the contributions of the research in extending current Western learning theories to the Chinese context.

##### **9.3.1.1. Theoretical Contributions to Western Management Theories**

This research supplies important empirical evidences for two organizational learning patterns: middle-up-down learning (Nonaka, 1994) and top-down learning. It also provides a comparison in three learning behaviours within one study: knowledge acquisition, information distribution and interpretation. This is especially insightful for the studies on middle-up-down learning due to the lack of empirical research in this area. It was found that middle-up-down learning differed from top-down learning in middle managers’ development of new knowledge advantage and their dominance in information distribution and interpretation both upwardly and downwardly. The comparison of the three learning behaviours in one study further contributes to clarify these two learning patterns.

By considering power issues in organizational learning studies, the present empirical study deepens our understanding of the influences of power on the organizational learning process. Firstly, the research answers the question about the critical learners in organizational learning by discovering that organizational learning is more likely to

happen when the person who holds greater legitimized position power learns. Secondly, the research supplies empirical evidences for the influences of power on individual learning space (Coopey and Burgoyne, 2000). It was found that even in a bureaucratic structure, like FCC, individuals also had certain learning space, and that the size of their learning space was decided by their power status in the current organisational power structure and could be expanded by their proactive employment of power, such as developing trust 'guanxi' with senior managers. Finally, the research supports Crossan, Land and White's (1999), Kim's (1993) and Nonaka's (1994) discussions on the links between individual learning and organizational learning by presenting two patterns of individual learning leading to organizational learning. It was found that middle managers were able to successfully sell their new ideas to senior managers. Thus, middle managers not only learned by themselves but also successfully invoked an organizational learning process. It was also found that senior managers could create organizational learning by employing their authorized power to set up an organizational learning schedule. The key to success in this top-down learning process was to legitimize the information and knowledge. These findings show the development process from individual learning to organizational learning, and provide two patterns for creating organizational learning.

This research also provides empirical supports for information control as an important power resource (Pettigrew, 1972), and for the importance of communication in the power exercise (Leirvik, 2005). It was found that, in FCC, middle managers who had contacts with correspondent departments in MAZDA on a daily basis and who were the members of the project team were the ones senior managers consulted, thus had the potential to influence their decisions. During this process, communication was employed by middle managers to exert their influences. In comparison, middle managers in BAIJIA held the information from their external personal relationships, but had no motivation to share it with the chief manager. These findings further enrich the power studies by connecting power resources, intent and means.

In addition, the research clarified middle managers' two roles, strategists-in-the-middle and implementers, in four dimensions: aim, position, contents and base. Two action models were also developed: a communication model and an interpretation model. This remedies the problem of lacking a clear classification of two roles in



current literature on middle managers. It was found that strategists-in-the-middle aimed to influence and proactively approached the other members in the organization by communication, and that their power was based on multiple power bases, including position power, knowledge power and relation power. In comparison, implementers tried to fulfil their responsibilities, which were constrained by their positions, through interpreting information flowing through them. The position power was their major power resource. This clarification constitutes one of the bases for future research on middle managers' roles. The two description models serve to deepen the understanding of this clarification.

### **9.3.1.2. Theoretical Contributions to Chinese Management Theories**

The research developed a 'guanxi'-centred explanation network for middle managers' proactive and reactive roles in Chinese enterprises. This fills the gap of no systematic and local explanation for middle managers' decision making and behaviours in strategic change in the Chinese context. 'Guanxi' between middle managers and senior managers was found to be a decisive factor in explaining middle managers' roles in three Chinese enterprises. 'Rule of men' was the prerequisite for 'guanxi' to be decisive. Besides, middle managers' 'guanxi' with senior managers in three enterprises were differentiated along two dimensions: trust or not and balanced or uni-polar. This 'guanxi'-centred explanation network provides a highly contextual and cultural explanation for Chinese middle managers' roles in strategic change.

In addition, this study further developed Weir and Hutchings' (2005) discussion on Nonaka and Takeuchi's (1995) SECI model of knowledge creation in the Chinese context. They argue that two characteristics of Chinese enterprises, the departmental focus and individual's fear of admitting mistakes, make the application of SECI processes to the Chinese context questionable. This research found that individual's fear of admitting mistakes was less strong in learning by doing during the socialization process. At the same time, proactive middle managers' power exercise was also found to help destroy departmental barriers during the combination process in FCC. Besides, individual's power status in the organization had significant influences on their decision to externalize information and knowledge in all three

cases. These findings are especially significant for understanding the organizational learning process within the Chinese context.

### **9.3.2. Methodological Contributions**

This study contributes to widening case study methodology by extending it to the Chinese context. With the global development of case study methods, many issues have to be considered in order to effectively carry out case studies in multiple cultural settings. In the Chinese context, the significant difficulties of conducting case studies rest in three areas – access negotiation, winning trust during data collection, and data analysis and presentation in a bilingual setting. The researcher highlighted the importance of adopting a relationship-centred negotiation style, a proactive activity-based social style and a quality-oriented coding and presentation principle. When negotiating access to enterprises, the researcher tried to look for a third party who had a relationship with senior managers in the target enterprises, and persuaded them to introduce the researcher to these senior managers. Since Chinese society values relationships highly, it was much easier for the researcher to make an impression of trust in this way. Based on these efforts, the researcher obtained full access for FCC and BAIJIA and half access (no observation) for FOTON. However, permission to walk into offices was just the first step on the road leading to high quality data. The researcher proactively participated in employees' off-the-job activities, for example, having lunch and dinner together, taking the shuttle bus together and even planning weddings together. These activities helped the researcher develop trust relationships with employees. Thus, they were prepared to talk more in interviews. This strategy proved to be successful. Most of the interviewees in FCC and BAIJIA were open, even for sensitive topics like politics. As for the data analysis, the researcher chose to use Chinese, the language used in the interviews, instead of English. English was only employed in the coding process. It was found that the loss of meaning was minimized by avoiding translation in the analysis process. The researcher was able to present the data as originally as possible. From this aspect, the study identified issues especially important in the Chinese context, and provided practical suggestions for researchers who intend to conduct case studies in this context.

The difficulties experienced by the researcher during the field work have significant meanings for researchers who intent to do empirical studies in a highly political Chinese environment. Firstly, the competition between the chosen enterprises for case study will influence the access negotiation. The original research design focused on 4 vehicle manufactures. However, one of them was competing against FCC in order to gain a new car model; thus, the access to this company was denied when senior managers knew FCC's involvement in this field research. Secondly, the power status of the researcher's key contact person might change over time and will influence the access negotiation. This was with one enterprise in the original research design. The key contact person was experiencing a career crisis when the researcher tried to negotiate the access; therefore, the request for the field work was refused. Thirdly, the researcher should be cautious of any involvement into the political games during the field work. For example, while the researcher was collecting data from FOTON, the key contact person (manager A) had serious conflicts with another manager (manager B). The researcher was treated as 'manager A's man' by majority of the organizational members because manager A was the key contact person of the researcher. Thus, the researcher's interview requests were rejected by the managers supporting manager B. Although things were getting better after the researcher successfully had an interview with manager B, the accidental involvement in this conflict still resulted in the loss of observation opportunities in FOTON. The highly political research environment requires the researcher to select key contact persons carefully, and choose interviewees from different internal political parties in order to enhance the reliability of the data collected.

The data analysis process was also a reflexive learning process. The presentation of this process is especially meaningful for less experienced researchers who want to know more about how to improve their data analysis skills while doing the research. At the very beginning of the research, the researcher chose to employ Miles and Huberman's (1994) interactive data analysis model. This approach worked quite well in the data collection process because it emphasized the technical side of data analysis and was easier to use. However, when the data analysis went into the post-field analysis stage, the researcher found it difficult to make sense from the great amount of data by using Miles and Huberman's (1994) methods only. The researcher began to review more literature on qualitative data analysis and expected to find the logic

between data and meanings. Finally, the researcher integrated Stake's (1995) and Yin's (1994) arguments on within-case and cross-case data analysis methods into Miles and Huberman's (1994) data analysis model. In order to make sense from the data, the researcher used Stake's (1995) direct interpretation technique. When more and more data accumulated, his category aggregation technique was employed to provide a better understanding of the major themes. While comparing three cases, the researcher used the pattern-matching strategy (Yin, 1994) to recognize patterns by connecting research findings to current literature. This integration in data analysis proved to be highly effective. Furthermore, the researcher also designed or created the data analysis procedures by herself when facing different analyzing tasks. The five analysis stages (see Section 5.2) in recognizing organizational learning patterns and power exercise patterns, and the four analysis stages (see Section 6.2) in establishing two action models were two examples. The effectiveness of data analysis procedures was judged by two standards: following the logic and being comfortable to use. Certainly, the design of data analysis procedures was also based on the exploration of relevant literature, for example, the seven data analysis stages of Easterby-Smith's (2003) and the coding techniques of grounded theory (Strauss and Corbin, 1998).

### **9.3.3. Implications for Practice**

This study provides practical advice for Chinese enterprises that want to uncover the potential of middle managers. Firstly, 'Guanxi', as a 'two-edged sword', needs to be carefully exploited. It was found that middle managers' trust and balanced 'guanxi' with senior managers facilitated their knowledge-sharing behaviour in FCC. However, it was also found that extra-trust 'guanxi' had the potential of blinding senior managers by focusing on the suggestions of certain middle managers and preventing other managers from participating in the decision-making process. Therefore, how to minimize the negative influence of exploiting 'guanxi' and continue to optimize its positive influence on organizational learning will be the next task for Chinese enterprises. Secondly, it is necessary to encourage intra-organizational communication if senior managers want to involve more middle managers in the decision-making process. Intra-organizational communication was found to be widely employed by proactive middle managers and helped both to cultivate knowledge resources residing in the corners of organization and to initiate organizational learning.

Thus, senior managers could facilitate organizational learning by encouraging communication within the organization. Finally, democratic leadership will also help employees express their own ideas. Although high distance is the characteristic of power in Chinese enterprises, democratic leadership will decrease the perceived power distance of middle and lower managers from senior managers. Sharing this perception, these managers are more likely to discuss important issues with senior managers. Besides, democratic leadership also decreases the perceived punishment of middle and lower managers for providing wrong ideas. Without this fear, these managers feel freer to talk about their ideas. Therefore, a democratic leadership style is another area in which senior managers can make efforts to facilitate organizational learning.

This study also suggests that it is necessary for any Western enterprise that aims to develop in the Chinese market to understand the importance of 'guanxi' in Chinese management life, and to learn to make good use of it. Since organizational learning in Chinese enterprises is centred on 'guanxi', Western managers should actively participate in Chinese managers' on-the-job and off-the-job activities and try to become 'insiders'. Only through this can they become part of Chinese organizational life and improve their management efficiency.

#### **9.4. Research Limitations**

The research limitations were firstly reflected in the area of research design. Although the research was carried out to an acceptable standard in three Chinese enterprises, there were still certain limitations due to budget, human resources and time constraints. At the very beginning of designing the research, it was assumed to be impossible to select more than four cases while still retaining the good quality of the research, given that only one researcher was involved and that there was a three-year time limit. Although the researcher did her best to negotiate access, the research proposal was only accepted by three enterprises. Thus, three cases were examined in the study. Moreover, access to one of the enterprises was limited (observation data is absent from FOTON). Although many valuable findings were discovered, more case studies are still required on this topic in order to provide more comparative results by using a replication strategy (Yin, 1994).

Another research limitation was shown in the data analysis area. Guided by the research questions, the researcher did the fieldwork in Chinese. In order to avoid missing meanings and to understand the field data in the original context, the field data was analysed in Chinese. Since the codes showed condensed meanings, the researcher assumed there would not be much loss of meaning if using English codes. Thus, the codes used were English. The presentation of field data was also in English. Although the researcher has done her best to avoid missing meanings, there is still a probable loss of meaning in this analysis and presentation process due to the problem of translation.

Finally, the researcher is also aware that there might be alternative explanations for middle managers' roles in strategic change in Chinese enterprises due to two limitations of the case study data analysis. Firstly, the employment of the theoretical framework implies the possibility of data bending. Although the theoretical framework was designed to be as loose as possible, the researcher still could not deny the possibility of data bending in data collection and analysis process while accommodating these data into the theoretical framework. For example, since the researcher adopted mainly a knowledge oriented view of organizational learning based on the nature of research questions, the data on learning in group level, such as 'community of practice', were not emphasized. This will inevitably increase the possibility of developing a narrower explanation. However, the adoption of the theoretical framework is still a wise choice because it greatly enhances the comparability among cases in this multiple case studies. Secondly, as Eisenhardt (1989) argued, the analysis of case study is not good at recognising 'proportions' in explanation. Even if there is no constrain from the theoretical framework, the data analysis of case study is by nature weak in 'weighting' the influences of different factors. For example, in the 'guanxi'-centred explanation network, it was easy to identify that both historical development and democratic leadership had influences on middle managers' 'guanxi' with senior managers. However, it was difficult to know which one had a bigger influence. Although the researcher had already done her best to probe it in interviews, a more accurate comparison of the influences of different factors was still needed. More work is required to further deepen the understanding of this explanation network.

## **9.5. Directions for Future Research**

More studies on organizational learning including its power components are required in two areas – organizational learning in current power relations and the exercise of power in the organizational learning process – in order to fertilize or extend the established terrain of organizational learning. With the development of learning theory, more and more researchers (Brown and Duguid, 1991; Lave and Wenger, 1991) have realized that organizational learning is integral to the exercise of power instead of being external to power relations. From the findings of the research, it was noticed that the study of power in organizational learning theories is very necessary in two areas – organizational learning in current power relations and the exercise of power in the organizational learning process. As the three cases have shown, organizational learning processes within different organizational power structures are different. At the same time, it was also shown in the FCC case that organizational learning has the potential to change the organizational power structure. Studies on organizational learning in current power relations are more concerned with the filtering and moulding functions of power relations in connection with the organizational learning process. However, studies on the exercise of power in organizational learning mainly focus on individuals' exercise of power to facilitate or constrain organizational learning. This might involve the breaking of current power relations. Both areas of study will facilitate the understanding of the interrelationship between learning and power. Recently, researchers (Contu and Willmott, 2003; Ortenblad, 2002) have begun to pay attention to power relations in learning theory, which could be classified in the first category, though from a different perspective. However, there are still few empirical studies examining these theories in real managerial life, not to mention few studies on the exercise of power in organizational learning.

More empirical research focusing on middle managers is required to understand the combinative influence of power and learning on managerial performance. Compared with other actors described in the literature of organizational learning and power, middle managers have their own specialities that require them to be seen as important in the study of the combination of power and learning. They are not in the most authorised powerful group in the organization. At the same time, it was found from

the research that they were the contextual knowledge holders – ‘the only men in the organization who are in a position to judge whether issues are being considered in the proper context’ (Bower, 1970: 297-298) – and occasionally new knowledge holders in the organization. Furthermore, middle managers also have certain opportunities to make contact with senior managers, the people with the most authorized power in organizations. Finally, middle managers are the ones who still have space for promotion within organizations. All these special circumstances mean that middle managers have a willingness to deal with and often make good use of power issues in order to promote new knowledge, and that their behaviour can have the potential to enhance organizational performance. Thus, middle managers are the natural objects of research in studies on the combinative influence of power and learning on managerial performance. These studies will help disclose the real picture of organizational learning within power structures and of individuals’ efforts in the exercise of power to facilitate organizational learning. Although many researchers have already focused on middle managers’ upward (Dutton and Ashford, 1993; Floyd & Wooldridge, 1992; Schilit, 1987) and downward influence (Kanter, Stein & Jick, 1992), there are still not enough empirical studies within the combinative area of learning and power, and on the link between their behaviour and managerial performance.

It is necessary to carry out more research on organizational learning theories in Chinese enterprises in three areas – knowledge sharing, the political organizational learning process, and the major actors in organizational learning. From the findings of the research, it is easily identified that organizational learning in Chinese enterprises has its own specialities. There were sediments of knowledge in different parts of the enterprises. Compared with new knowledge acquisition, knowledge sharing seems more important for Chinese enterprises to achieve organizational learning. Since Chinese enterprises normally have a hierarchical structure and highly respect authorized power, studies on organizational learning will never grasp the essence of successful learning without taking power components into consideration. Any organizational learning theory without power for Chinese enterprises will lose practical meaning. Thus, political learning theories are more suitable for explaining the organizational learning process of Chinese enterprises. Holding this in mind, the actors in organizational learning in Chinese enterprises naturally need more research attention. Based on the findings of this research, Chinese middle managers have a



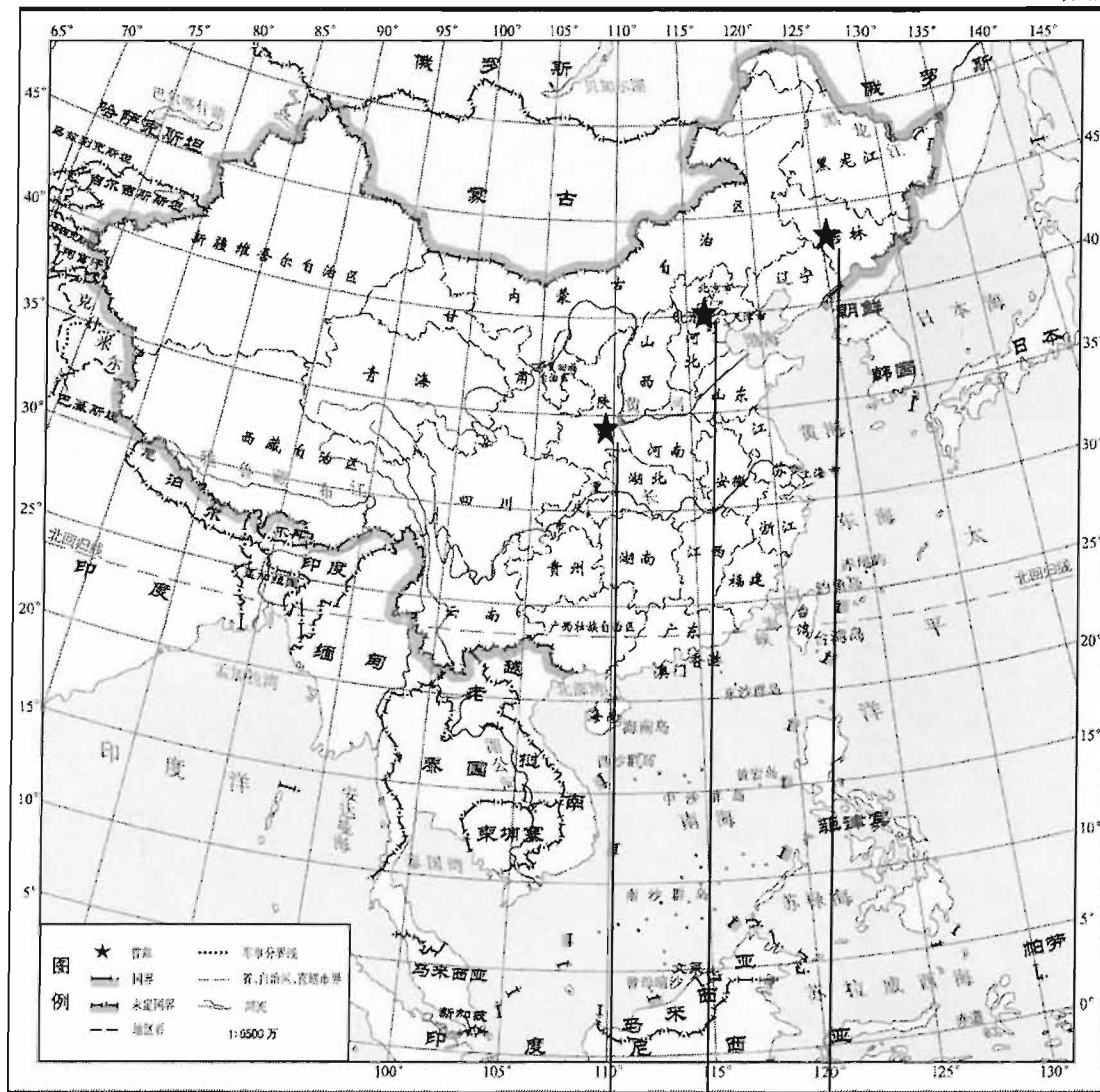
different reasoning framework from Western middle managers. They treat knowledge sharing as an influencing process and focus more on sharing results. At the same time, middle managers pay more attention to power and relationship issues within the enterprise. Furthermore, their thinking and behaviour need not necessarily be aligned. Basically, power plays a more important role in middle managers' behavioural decisions than in their thinking decisions. Thus, their final behaviour in sharing knowledge has to be studied taking power into consideration.

# Appendix

The Map of China and the Locations of Three Enterprises

## 中华人民共和国地图

政区版



审图号: GS(2006) 2040号

2006年3月 国家测绘局制

Xi'an  
Beijing  
Changchun

**Beijing:** Capital of China, the city where FOTON is located;

**Changchun:** Capital of Jilin Province of China, the city where FCC is located;

**Xi'an:** Capital of Shanxi Province of China, the city where BAIJIA is located.

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