

# A Case Study on the Evolution and Consequences of Middle Man in T Company

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**Abstract:** This paper tried to discuss the core social networks of general manager and the “middle man” which might hoodwink general manager (GM) from the employees through immersive observation and inductive inference. The author studied 3 successors with their subordinates of a fortune 500 company for 16 years. It can be concluded that the middle man emerge from nobody but a subordinate of some GM by frequent formal communications and personal interactions and eventually gets trusted and promoted to high level position. The reliance of GM on middle man in emotions establishes middleman’s personal authority by monopolizing communication channels of GM, and thereby hastening, delaying or influencing decision making process of the GM. The middle man grasps ability of pursuing self-interests when turning into “the real” decision maker by controlling communication process, thus might have negative impact on operational performance and career of GM.

**Keywords:** Organizational Behavior, Relationship, Circle, Middle Man, Personal Interaction

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## 1. Introduction

Corporate firm is a unique form of organization with complexity in that interrelationship between members is formal, distinct from social ranks, obligation, interests, and so on, and lies in the social network and bonds. The interrelationship between members in a group has been a hot spot through history in academia. Consensus perception is that interrelationship among members in an organization is key to the formal institution and informal groups - either groups with common interest [1] or separate cliques fighting for benefits and political power [2], or a centripetal resource-distribution circle [3] - play an important role. The unofficial network used to bypass the formal reporting procedure, and impose influence on decision-making [4] [5]. Blau & Scott render in 1962 that without a prudent study on informal network, there is no way of making a good understanding of the essence of formal groups. Above all, an important implication comes out that structural decisions and behaviors are likely to be back on the unofficial participations.

Through a long term observation and the view of a third party, this paper puts informal circle in perspective: during the

16-year regime of three successively incumbent administrations in T Company with well-established corporate governance, it implies a periodic cycle in employees’ recognition to general managers, along with that the stagnant recognition is relevant to certain people and circumstances; ultimately, the conflict between base-level staff and management can be attributed to the existence of the latter’s imbalanced trust and coterie. To be precisely, this said coterie is associated with unfair treatment to the interior minority and outsiders – the minorities hold important posts and are followed by their own worshippers, just like planets and satellites surrounding around the sun in the solar system. The minority blocks communication channels, turns other staff outside away from the Forbidden Circle, inflicting blindness on the decision making, and even worse more that, manipulation on the execution of the GM’s final decision; bad examples have been set up and exterior staff have no choice but perform these worshippers’ orders and decisions. Overwhelmingly, worshippers become to some extent the material decision makers at the detriment of the GM’s status and dignity. Hereon, these worshippers and their followers are called “Middleman in the business”.

## 2. Literature Review

Chinese society is a classic relation-based society, characterized by the differential social pattern with strong social bond connections. In other words, bonding connections have more influence on the routine behaving patterns than demographic factors, and play a more important role than trusts, obligations, or mutual benefits in Chinese social activities [6]. Above all, daily life, occupational promotion, and commercial exchanges are all built on favor and social bonds.

The concept of favoritism (*guanxi*), originated from Mark Granovetter's study on labor market, is interpreted by Bian in 1994 [7], as a bonding connection among people and organizations via communications and contacts. More specifically, an ethics-centered, favoritism-oriented differential pattern network lays the foundation of Chinese society, and individuals fight for their own benefits. Regularly, the social network (*guanxi*) is constituted of concentric circles from close to alienated by behaving standards and rules of engagement, and the distance between circles and the center represents difference in the extent of acceptance – the outer most circle the mere acquaintance; the more closer to the center the more acceptance and trusts; the center circle the most intimacy and favors with mutual benefits [8]. Researchers classify the social bonds and connections into strong-ties, weak-ties and absent: social acquaintance as weak-ties; nodding acquaintance as absent [9].

There is a difference, in terms of the extent of acquaintance or acceptance, between Chinese and western studies on strong and weak relationships. In China, there are three types of acceptance: family, acquaintances, and strangers. The classification is based upon individual favors and social habits, and means differently to distinct groups. In each type of acceptance, there are different understandings. Generally, family means forever, stable and far-reaching connections; stranger stays out of a family circle and gains no substantial trusts and acceptance from family members; while, casual acquaintance lie between strangers and family. Concurrently, Chinese society is experiencing transition from the far stranger end to the closer intimate one. In contrast to Chinese similar studies, western studies on strong and weak relationship show the convergence in the classification of connections – absentness resembles the stranger relationship, while the strong-tie implies the same situation as the acquaintances in China [10].

Interrelationship among members in the same institution can be classified by circles or by working zones. Persons inside and outside the circles abide by different social protocols [11]. A circle evolves from a self-centered informal organization, in which a resource allocator is enclosed by a number of scattered action sets, and interior members exchange their emotions and tools impulsively with each other [3]. Not only that, leaders treat differently towards insiders and outsiders in their regime of governance: it seem like a long term contractual relationship between insiders and their leaders, and favor matters; on the contrary,

“Business is business” rule mostly applies to outsiders dealing with the top management regardless of favors and acceptance, except for some potential incoming, only beneficial outcomes count [11].

Notwithstanding the strong persuasion of the “Circle” theory, pertinent research on bond-oriented structural behavior just commenced. The structure of and actions in the social network are reciprocal causation in an outward system, in which individuals are constructing a structural network out of their own goods; conversely, the social grid and collective behaviors impose restrictive power over members, in spite of the mere influence on the temporary relationship. This social network serves as a media connecting each other, and their contributions to the whole network are accumulative other than alternative [12].

To be specific, the prevalent studies agree with that the temporary relationship between leaders and subordinates pertains to the dominance of the leaders or supervisors, and the structural incentive for maximization of performance. These studies signify leader's idiosyncrasy and extend to two more essential qualities to a positive leader: noble morality and positive psychological ability (including integrity, self-recognition, self-discipline, altruism, trust, and so on) [13]. Another prominent theory is Leadership-Member Exchange theory (LMX) that believes in the existence of leader's circle and holds that it's a chronically evolving process that can be divided into three stages: validation and evaluation, trust building, emotional acceptance. According to LMX theory, though subordinates in the circle have more access to resources and licensing, they have to show their outstanding performance and caliber in advance [14]. Chinese classical relationship is an acquaintance relationship, standing between an instrumental bond and an emotional bond, relying on personal favors, implying peculiarity and individualism (Huang & Hu, 2004). In the past decade, Chinese academia has accepted the localized concept of supervisor-subordinate bond and will pass it on [15]. Considering merely the relationship between leaders and their subordinates, it is unpersuasive for a large multi-layer organization to illustrate the effects of circles on overall performance and, furthermore, the influence of the lower-level members' interaction on all participants, not mention to the leaders' reputations.

In sum, although there are several studies on the leadership, acceptance, and their bilateral interactions, most of them focus on short term events and one-sided evaluation, and very few of them dig more into the specific circumstances. Besides, studies on structural and political conflicts provide no solutions to the T company case in the paper. In recent years, scholars paid more and more attentions to topics that cannot be solved from the perspective of research design. However, these thoughts and behaviors related to bonds and personal favors are based on logic order in reason law, and they are pretty complex and wide-ranging. Without long-run in-depth research, these judgement by researchers and the ordinary would be quite distinct from their own point of views.

### 3. Methodologies

#### 3.1. Overview

The surveyed, T company, is a historical food processing company, founded in 1902 and nationalized by the state in 1953, and then became a Sino-foreign joint venture by cooperating with an international giant in 1989. From then on, this company started using the foreign brand and entered a highly competitive industry. In terms of corporate governance structure, the surveyed company kept consistency with its parent group, a top Global 500 entity in the past half century. This firm prudently selects general manager who execute his duties on behalf of the board of directors and appointed suitable operation team as needed. Every selected general manager is an experiential and well performed expert in his/her career. The firm is characterized by: 1) stable lower-level staff flow, low quit rate and rotation rate; 2) historical evolution and cultural deposits; 3) consistent corporate structure and settlement – no significant alteration of the top management in the past 5 year.

The corporate structure in the surveyed company is a classic pyramid pattern. General Manager is on the top of the pyramid, and most divisions in the first level are divided by function, and there are three more levels of subdivisions under each division. During past three administrations, the number of the 1<sup>st</sup>-level divisions varied; the counts in the 2<sup>nd</sup> and lower layers don't change much. Along with that, there are different number of subdivisions and levels in different functional departments. For instance, there are 5 subdivisions under Marketing Department; 7 layers under Sales Department, each of 5 under Financials, Manufacturing, Warehousing, and Logistics Departments, and much fewer under HR and Administrative.

Usually, orders are given by general manager through formal structure and procedures, and divisional supervisors in the first layer make direct contact with GM and serve as the distributor of information and executioner at the same time. Essentially, it's vital for GM to exert his influence on the company. Generally speaking, directing heads of 1<sup>st</sup> level of divisions who respond to GM directly and key supervisors in the 2<sup>nd</sup>-layer subdivisions constitutes the core circle around the GM. Each of 1<sup>st</sup> level heads speaks and pass words directly to GM through separate channel. Therewith, for those staff outside of the core circle, subordinates or base-level staff reports to GM via formal or informal channels, such as step-by-step reporting, GM mailbox, comprehensive Performance Evaluation, field GM inspection, staff meeting, team building activities, etc. GM therefore can be reached by the outermost to some extent.

#### 3.2. Data and Analysis

This paper has been keeping track of T Company for 16 years, from 1997 to 2003, covering term sessions of three general managers – L, M, and H in T Company. One important member in our research group held a major position in T Company and worked with these three successive GMs in

question. Through immersive observations and pictures, this colleague in our research team managed to obtain very detailed first-hand materials, including every aspect of events happened and of working staff's behaving. These observations are important part of processing ingredients. To reduce the negative impact of observer's subjectivity and other mental factors on original materials, research group made use of Trigonometrical Survey and placed more than 2 interns into the surveyed firm since 2000, and this practice didn't stop until February 2013. Some other archives – corporate financials and internal personnel files like formal designation – were also accessible. For business confidentiality, this paper utilizes code names for the management and working staff involved, and for the same reason some other classified information are modified as needed.

This paper mainly focuses on the following data: (1) the number of incumbent GMs in question and the frequency of subordinates directly reporting to managing directors in the target company, aimed at members' emotions, conversation, working status - 3 GMs (L, M, and H) in charge and totaled more than 30 directing followers; (2) Divisional performance, working status, and teamwork condition in position; (3) Change of the divisional morale, whether resulting from endogenous or from exogenous variables; (4) Change of individual's behavior in a division, such as the attitude towards personnel fluctuations, and effects of fluctuations of their emotions on working performance. To be certain, immersive observation is a good way of acquiring first-hand authentic ingredients, researchers are able to grasp more insights than minor details.

This paper adopts inductive reasoning to summarize regularities based on observed behaviors and collected feedback, applicable to natural science studies. By fully communicating with all layers of working staff and expertise in researching area, our researchers utilize the prevalent trigonometrical thoughts to validate our thoughts and come to a conclusion. In the meantime, this paper refers to consensus rules and procedures in academia [16] [17], with reference to socialists' thoughts and concurrent data analysis methods in researching studies [18] [19] [20].

### 4. Case Studies

#### 4.1. Periodic Cycles and Little Circles

Researching group did a summary of individual characteristics by each of the GMs – L, M and H. Obviously, all of them have unquestionable competent qualifications and experiences to their job. Surprisingly, in their early stages, three general managers got acknowledge of their performance and staff recognition; however, things changed in the later stages, low staff recognition and pretty poor performance.

By comparing, a periodic chronical cycle can be found in staff recognition to GM. In the early stage of each GM, less than one year, one can see a soaring lift in the overall acceptance to general manager. Subsequently, the acceptance level plunges in the 2<sup>nd</sup> year and the descending trend slides to

unacceptance level after 3 years, thereafter the unacceptance level continues going up. The implied staff acceptance/recognition (in decimal) indicates a ratio of the number of votes for “Approved” to the total staff. Zero

represents wait-and-see; *positive* means the approved outnumbers the unapproved, and vice versa. Put together, we can see a periodic cycle pattern in Figure 1.

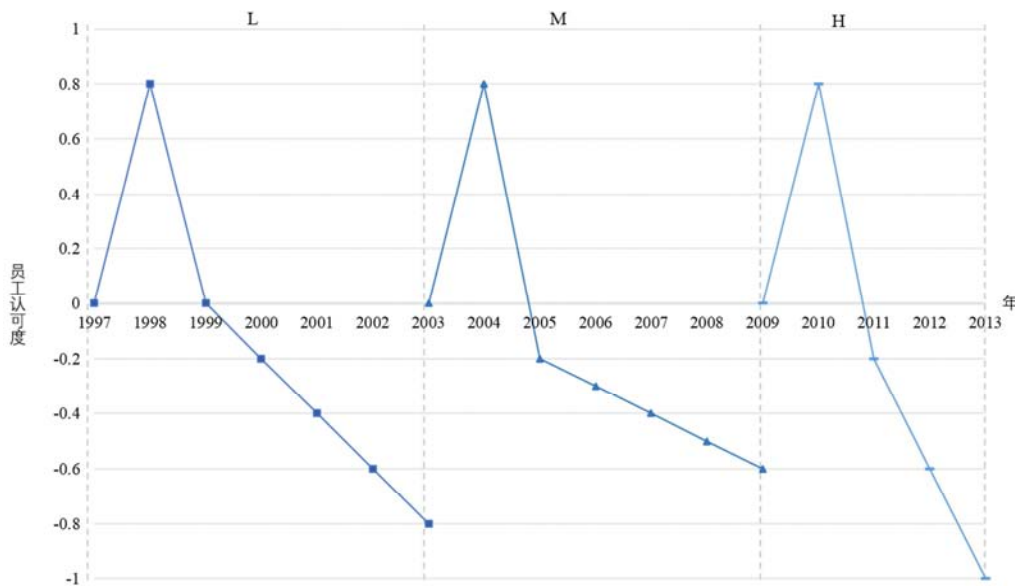


Figure 1. Chronical Change in Staff Recognition to Each GM.

By further analysis, the cyclical pattern of staff recognition is directly involved with the little circle surrounding around general managers. Starting from 2<sup>nd</sup> year of their terms, GM L and H mainly obtained their information from two of their own faithful guys, L-A and L-B around L, or H-A and H-B for H. Basically, information accepted by GMs is always favorably selected by their filters for their own benefits. Likewise, there are invisible circles around these dominant followers. When outsiders of the core circle find that they can gain beneficial welfares by pitching either dominant A or B instead of contribution to their company and building up their capabilities, they have more motivation to take a shortcut. The more outsiders prefers to change sides and choose this shortcut, the more would be complaining with antagonism. As for M, relying on his formal reporting forks, he has a much larger and wider circle than a 2-person parity. Notwithstanding functioning of the formal reporting, substantial information are filtered through, blocked or variated by A or B based on their “necessary” selection and understanding. Therefore, general manager is separated from the lower-level staff by the little circles, and unable to hear the truth from others; similarly, ordinary workers witness too many unfair treatment and situations, feel alienated from the top management, and become sluggish in their duties.

#### 4.2. Little Circles and “Middlemen”

Combining the cyclical pattern with little circle structure, we find that followers like L-A/B, H-A/B and M’s direct subordinates, set a safety perimeter (small circles) around such GMs as L, H, and M, and core knots. Common things followers have in common are frequent access to their chief, unconditional trusts and favors by their leaders, influential

power to decision-making process, even distortion of facts so that they could bully others by flaunting their powerful connections. These influential followers and corteges are defined the “Middlemen”.

Resemble characters can be traced back to 2000 years ago in China, written in such Chinese classical documentations as <guanzi>, < Intrigues of the Warring States>, and so on, these middlemen were featured by their camouflaged deeds and magic of fooling their kings or head chiefs. Illy, these deceitful tricks inflicted destructive damage to a regime or even collapse of a dynasty.

Pitifully, no clear explanation for existence of middlemen has been found in western management theories, but what is certain is that concepts of structural hole and tie strength are perceived helpful in illustrating formation of circles in a group and moreover the occurrence of middlemen. The Structural Hole Theory states two associated persons in a social network with a structural hole contribute cumulatively to the network – that is, the possibility of information flow from one to another is positively related to the strength of their relationship, according to Marsden & Hubbert and Burt [12] [21]. Note that structural hole describes a unilateral and ruptured relationship that is not a repeating tie; while middlemen in this paper is not applicable to this case.

Tie strength in Chinese is a psychological classification as family, acquaintance, and strangers [22]. Chinese believe that strangers can become acquaintance by frequent visits and contacts (usually in private time), so trusts is growing in them and drawing them closer. What’s more, they can even treat each other like family with no blood. This phenomenon helps explain where middlemen come from and how they deal with general managers.

## 5. Discussions

### 5.1. Formation of “Middlemen”

Before we put where and how middleman grow into perspective, we need to make sure the existence of middlemen. During three successive terms of office in T Company, *middlemen* in each term is closely related to three GMs. With exception for GM M, L-A/B and H-A/B serve as L's and H's middlemen, respectively.

Starting from President L's term, let's see how middlemen L-A and L-B grow from base level. L-A acquires no advanced degree but a continuing educational degree in Law, which was rare for L's team, and was allocated to a position in base-level backup team. L-A's turning point hadn't come until a dispute lawsuit case was botch by a legal specialist, for some reason L-A took over and handled it so well that he's paid back with L's trusts and touched some projects that mismatched to his rank and even some private matters, and L-A didn't live up to boss's trust and performed well. Other than that, L-A was quite observant and considerate, catering to L's appetite for Tai Chi and Sinology by communications, mutual learning, and recommendation.

Differently, H-A was relocated to T Company along with GM H. He didn't obtain diploma and worked for a long time. But he knew GM H for quit a long time and frequently paid visits to H's home and took good care of H's parents like his own grandparents till their pass-away. In addition, H-A is high-profile and shows off his overtime stay to the taste of H.

Middlemen derive from plain workers gradually to trusted executioners of the will. Clearly, these corteges value these chances, and exploit wisdom / tricks to earn trusts and promotions from leaders, and they end up with more manipulative power and greater self-interests.

In addition to absolute trust and over-performance, researchers find that the frequency of contacts and the degree of emotional intimacy in Structural Hole and Tie Strength

Theories matter. An interesting finding draws our attention: middlemen make more frequent contacts with their general manager; especially frequent unofficial contacts at off working time signifies. As the aforementioned above, middlemen know their chief very well including personal habits and hobbies, have good communication and social skills, and match with GM's schedule, adding exposure to GM.

It is interesting to find that during meeting sessions general managers always digress from the subjects and turn to their favorite topics. According to psychologists, people have social needs and are inclined to favor their “serious listeners”; Moreover, mutual affections and consensus on the same point can produce more catalyst for their friendship and intimacy; furthermore, you are inclined to affectionate about someone that you never see before but your trusted friend always speak highly of this listener was a total stranger before this conversation. Those off-topic conversations are usually reflecting GM's emotional needs and personal favors as a basic unit in a society, and create very opportunities for middlemen to get good use of.

As Figure 2 below, a clear evolving path of middlemen can be seen from a plain nobody to a indispensable wingman. Initially, it's hard to distinguish this potential middleman from other staff, until some random opportunity comes out he or she grasps the opportunity to make business contacts with the boss. Through consistent endeavor in contributions and enthusiasm, the inferior is paid back with trusts, favors, and accessibility to GM's personal affairs and social circle. Ideally, once there comes an appropriate post, the inferior's name would be tagged to the office chair and get escalated. According to Jade Luo in 2010 and 2013, only if a lower-level subordinate breaks through boss's interior private life circle, he can possibly be accepted by the chief and be presented a quick pass to top level.

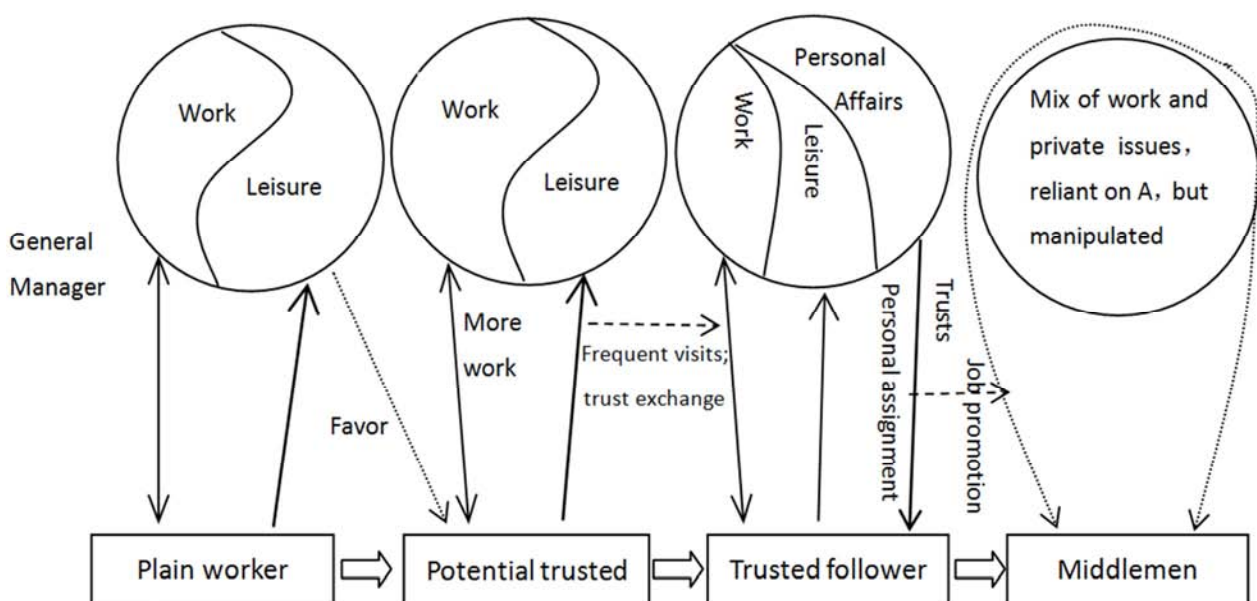


Figure 2. Chart of Evolving Progress of “Middlemen”.



## 5.2. Impact of Existence of “Middlemen”

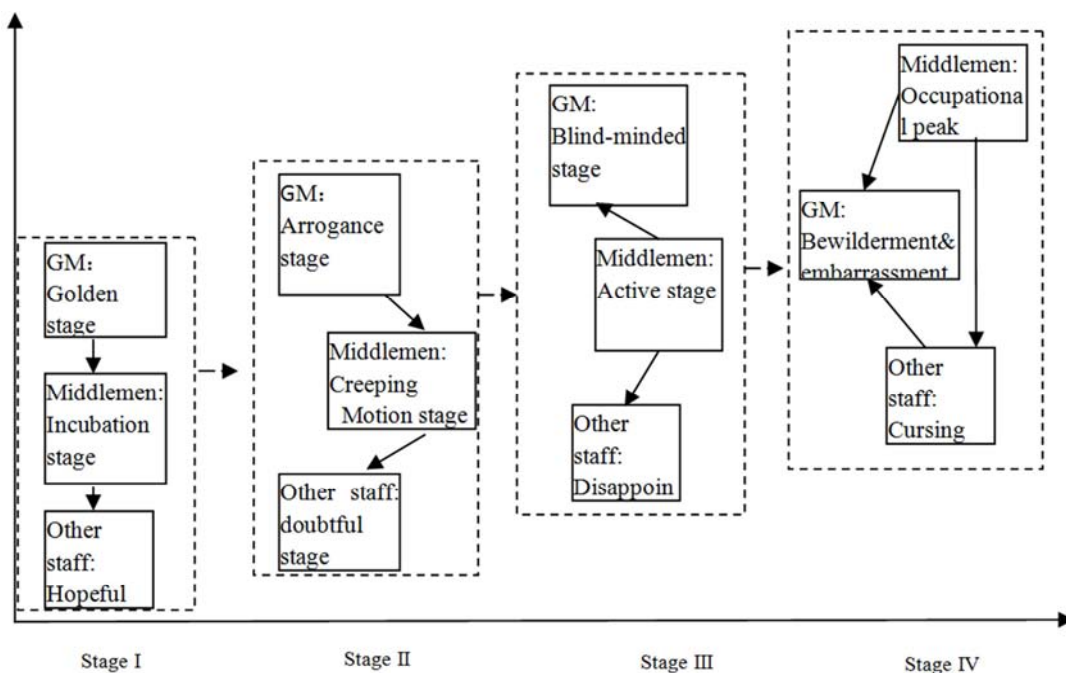
This papers renders that this middleman does damages to either general manager or the overall firm in a dynamic manner. For a pyramid organization, decisions made by general manager are passed down from top layer by layer, demonstrating two triangular information flow patterns [23]. Because every participants in the structure would filter some selective information out of their own benefits or preferences, at the detriment to inaccuracy of facts [24]. In occasional circumstances, little circles can be positively utilized by GM, even so, once middlemen get advantage over GM, there is high probability of blocking information channels, distorting decisions, and suffering a great setback.

There are three different types of information passage: firstly, the intents from GM are 100% accurately passed down to execute and perform, which is positive transmission effect; secondly, decisions during spreading are not only to be passed down and executed with all due respect, but also with initiatives and efficiency, which is called amplification effect of transmission; lastly, executioners refuse to follow the

original intention of their supervisor, distort their decisions during information expansion, which is called diminishing effect or transmission distortion.

Middlemen just utilize the third transmission distortion to impose their own influence, which consumes the passion in the front-line staff and leads to poor morale that undermines the overall performance and eventually the authority of general manager. Common staff cares about their compensation level and fair promotion opportunity. While middlemen just happen to break these balance, creating widespread unsecured feeling.

The research shows different features during the evolution of middlemen, and the cyclical pattern of staff recognition of general manager can be divided into 4 stages: (I) 1 year from the inaugural: Prosper Stage, (II) 1-2 years from initiation: Doubtfulness Stage, (III) 3rd year: Disappointment Stage, (IV) after 3 years: Anger & Curse & Anticipation Stage. Figure 3 shows the dynamic change in relationships between GM, middlemen and common staff.



Source: Sorted by author

Figure 3. Dynamic Middlemen Effects on Morale in Different Stages.

In Stage I with initiation of a new GM, overwhelmingly disappointed about previous leader, employees are inspired by his/her encouraging inaugural address and institutional and personnel adjustment, readily for accepting their new master, and the uplifted morale motivates overall. The Golden Stage is featured by free information flow, frequent GM visits and widespread contacts, and decisions can be well implemented, and resulting financial targets are unexpectedly optimized. While, middleman are striving to impress new GM with appropriate behaviors, and struggling for consensus recognition from colleagues, this is called incubation stage.

In the second stage, the boss shows that some points of views outweigh counterparts', like L's wingmen L-A and L-B, or H's H-A. Additionally, they don't quite meet qualifications and rumors rose from somewhere. This would lead to some doubts in chief's authority. As arrogance and self-satisfaction grows in the GM, it's a good time for middlemen to implement tentative actions to cater to GM's interests and hobbies, which is called Creeping motion stage. As for disfavored outsiders, gaps between promises and personal expectations like cutting paycheck hurt feelings and creates doubts on GM in outsiders. And they know clearly about the middleman's little tricks.

In Phase III, GM nominates more incapable personnel, pays few visits to operational divisions, and turns to tackling problems based on information inflow from informal channels or insiders. The divergence between payroll target and their incomings enlarges. He prefers to being surrounded by complements and occasional crisis in the company. Pandora box booms! Unfortunately, this is a happy hour for middlemen who can take advantage and manipulate information and decision-making process. Notwithstanding not crossing over bottom line, GM along with middlemen have totally lost their supports and trusts from grassroots. For frontline employees, to their disappointment, their compensation plus the whole corporate earnings have breached bottom line.

In the last stage before resignation, GM was at the disposal of middlemen, the actual decision maker, who would do at their wills for their own sake ignorant of company's target and low level of income package. The company is shrinking and facing with all kinds of issues, even emergency protocols don't take effect at all. In a word, this is embarrassing for a manager no matter what; while Mid-men are at peak of their life. Disappointment in outsiders has grown into curses about worsen working conditions with unbearable burdens, and into complaints about deprives of reasonable personal welfares. They cannot wait to send top management off and see their relocation.

These conclusions agree partially with Jade Luo, 2013 that a small circle in the company is developed from a self-centered social network, and circled around the resource controller, showing differential pattern of small-scale action sets. What's difference is Jade Luo, 2013 used a hypothesis that the influential power of members in circles around general manager is decreasing from inside to outermost and middleman acts as a media connecting the core and the outsiders; while this paper believes that middlemen is core to central network, and is able to block or interfere with decision-making, and finally become virtual controller in a company.

## 6. Conclusions

To conclude, each of the three general managers in the case study is surrounded by his little powerful circle, but surprisingly, it is middlemen rather than executives themselves take control of the pillar of the circle. The material power of GM is actually impaired by this circle. As mentioned before, middlemen is the crime culprit detrimental to managerial influence and should be responsible for poor overall performance and low-spirit in the labor force. Through long term observation, the occurrence of middlemen is not accomplished at a stroke, but it is accumulated and transformed from frequent informal contacts in off-working hours. This research is sampled on T Company, a classic large Sino-foreign joint venture with performance-oriented goals which are used to evaluate the management's professional qualification and determines their leave-or-stay. To be noted that these findings are applicable only to T Company, whether it can be applied to other firms is to be seen.

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