Exploring the Strategizing of a Human Resource Management Practice by Business Line Managers from a Middle Management Perspective

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A Thesis in

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements for

The Degree of

Doctor of Philosophy (Business Administration) at

Concordia University

Montreal, Quebec, Canada

January 2023

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CONCORDIA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

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Entitled: Exploring the Strategizing of a Human Resource Management Practice by Business Line Managers from a Middle Management Perspective

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Doctor Of Philosophy (Management)

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ABSTRACT

Exploring the Strategizing of a Human Resource Management Practice by Business Line Managers from a Middle Management Perspective

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This Ph.D. research explores the strategizing of a HRM practice from a middle management perspective. Adopting the Strategy-as-Practice perspective (Whittington, 2006) as a backdrop, this research studies both an organization's *practice* and its practitioners' *praxis* to enact HRM practices. In other words, it examines what middle managers (*practitioners*) do (*praxis*) to enact one new performance management practice, and how these activities and processes unfold within internal and external environments to result in specific outcomes.

Adopting a grounded theory approach, this research conducts a single case study with a professional service firm (ABC Company) in mainland China. Data are collected mainly by conducting semi-structured interviews with business line middle managers, top management team members, and lower-level employees. Document analysis, observations and subject matter expert meetings are also utilized to complement interviews for data analysis.

Applying Floyd and Wooldridge's (1992) four types of middle managers' strategic influence that are based on two dimensions (upward vs. downward influence and integrative vs. divergent relative to the strategic intent), middle managers in ABC Company are found to exhibit more divergent influence downward to employees, no obvious divergent influence upward to the TMT, and some degree of integrative influences both downward and upward.

The strategizing processes are found to unfold over four phases. In each phase, middle managers' sensemaking, the following actions and the consequent results reinforce each other to drive the process to evolve to the next phase. After a few years of implementation, ABC company had come to a strategic stalemate with two conflicting performance cultures coexisting, where the intended pay-for-performance culture was not fully established, and it was difficult to go back to its initial pay egalitarianism.

The working mechanisms that explain middle managers' activities and the strategizing processes in ABC Company are represented as four mismatches between: (1) its goals and strategy design, (2) its strategy and human capital, (3) its organization and strategy, and (4) sensemaking and sensegiving.

This research has implications for strategic HRM in professional service firms. Firms need to build HRM infrastructure and human capital so as to better involve business line managers in HRM activities.

RESUME

Une exploration de l'établissement de stratégies entourant une pratique de gestion des ressources humaines par des gestionnaires d'activités du point de vue des cadres intermédiaires

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Cette recherche doctorale explore la stratégie entourant des pratiques de GRH du point de vue des cadres intermédiaires. Adoptant comme référence la perspective dite « strategy-as-practice » (Whittington, 2006), cette recherche étudie à la fois la pratique d'une organisation et celle des praticiens dans la mise en oeuvre des pratiques de GRH. En d'autres termes, elle examine ce que les cadres intermédiaires (praticiens) font (praxis) pour adopter une nouvelle pratique de gestion de la performance, et comment ces activités et processus se déroulent dans des environnements internes et externes pour aboutir à des résultats spécifiques.

Adoptant une approche théorique éprouvée, cette recherche présente une étude de cas auprès d'une entreprise de services professionnels (la société ABC) en Chine continentale. Les données ont été collectées principalement à travers des entretiens semi-structurées avec des cadres intermédiaires, des membres de l'équipe de direction et des employés de niveau inférieur. L'analyse de documents, les observations et les consultations avec des experts ont également été utilisées pour compléter les entretiens et étoffer l'analyse des données.

En appliquant les quatre types d'influence stratégique des cadres intermédiaires de Floyd et Wooldridge (1992) basés sur deux dimensions (influence ascendante ou descendante, et intégrative ou divergente par rapport à l'intention stratégique), nous avons observé que les cadres intermédiaires de la société ABC manifestent une influence divergente vers le bas vis-à-vis des employés, aucune influence divergente évidente vers le haut pour le TMT, et un certain degré d'influence intégrative à la fois vers le haut et vers le bas.

Chez ABC, les processus d'élaboration stratégique se déroulent en quatre phases. Dans chaque phase, le faire-sens (*sensemaking*) des cadres intermédiaires, ainsi que les actions et les résultats qui en découlent se renforcent mutuellement, faisant évoluer le processus vers la phase suivante. Or, depuis que cette stratégie est appliquée, la société ABC se trouve dans une impasse stratégique caractérisée par la coexistence de deux cultures de la performance antagonistes: d'une part, la culture de rémunération à la performance prévue n'est pas pleinement établie; et, de l'autre, il semble difficile de revenir à l'égalitarisme salarial initial.

Les mécanismes de travail qui expliquent les activités des cadres intermédiaires et les processus d'élaboration de stratégies dans la société ABC sont représentés par quatre décalages entre: (1) ses objectifs et sa conception stratégique, (2) sa stratégie et son capital humain, (3) son organisation et sa stratégie, et (4) la création et la transmission de sens synchrones.

Cette recherche a des implications pour la GRH stratégique dans les entreprises de services professionnels. Les entreprises doivent renforcer leur infrastructure de GRH et leur capital humain afin de mieux impliquer les responsables des secteurs d'activité dans les activités de GRH.

ACKNOWLEDGEMENTS

I would like to thank my supervisor, Dr. Kathleen Boies, for her ongoing support, valuable feedback and inspiring leadership in guiding me through my PhD research journey. Kathleen has given me full freedom to explore my academic interests, has shown her confidence in my study, and has helped me maintain momentum and drive at every critical turning point. Kathleen also showed great compassion when my research and life hit obstacles during the Covid-19 pandemic. Without her support, my Ph.D. research would not have progressed as well as it did.

I would also like to thank my other committee members, Dr. Yu-Ping Chen and Dr. Denis Chênevert, for their constructive feedback and valuable suggestions to my thesis. In addition to my supervisor and supervisory committee members mentioned above, my thanks also go to all the people who helped me during my study in the joint Ph.D. program at Concordia University. They either influenced my research interests and direction or wrote letters of recommendation for me when I was looking for an academic job, including Dr. Ann Langley, Dr. Rick Molz, Dr. Ingrid Chadwick, Dr. Linda Dyer, and Dr. Tracy Hecht. I am particularly grateful to Dr. Ann Langley for fostering my interest in and eventual choice of qualitative inductive research.

Finally, I thank all my family in China for their unconditional support and my partner JC for accompanying me through this long difficult but rewarding journey.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

This Ph.D. dissertation examines the strategizing processes surrounding the implementation of an HRM practice under the HR-Line manager partnerships from a middle management perspective. This HRM practice is primarily concerned with performance and compensation management in a Chinese asset appraisal company. However, this practice goes beyond a single HRM practice and has strategic implications for the entire HRM function. This is because it brings about fundamental changes to many aspects of people management and business management, given the company's history, culture and lack of HRM infrastructure. In this introduction chapter, I first describe the practical issues in implementing HRM practices, especially when involving line managers in the process. I then introduce the research objective and the specific research question. Finally, I relate the current research to several relevant theoretical lenses.

1.1. PROBLEM STATEMENT: SETTING THE CONTEXT

In the workplace, one may easily observe that well-planned strategies often get out of hand and die when they are implemented, and similar patterns repeat over time. Similarly, one may very often hear organizations claim that people are their most valuable assets and find very few to deliver their well-intended people strategy, ending up with employees feeling treated more as a number than a member of the collective. When it comes to enacting HRM strategies or practices, HR managers and (business) line managers often point fingers at each other, accusing the other side of not doing their job.

Strategies, either for business management or for people management, are normally well planned but ill implemented (e.g., Kaufman, 2015). Failure to deliver strategies as planned, which can be regarded as one form of the knowing-doing gap (e.g., Pfeffer & Sutton, 2000), partly lies in organizations' false assumption of complete rationality (e.g., Kahneman, 1994) and/or in their unwillingness or inability to address those misconceptions. In other words, organizations fail to realize great strategic ideas partly because they see strategic management as a static one-time purely rational top-down process, where the top management team weighs options and makes compromises to draw final decisions at the firm level, and assumes that this rationalized strategic choice will be heartily accepted and enacted by all individuals. This assumption is misguided, and it may derive from, or lead to, other fallacies. For example, organizations may mistakenly assume **strategic consensus** (e.g., Bourgeois, 1980; Kellermanns et al., 2005) across organizational levels, believing that employees are able to fully understand strategies made from the above and they will make sense of these strategies rationally as the top management team did. Or employees at all levels are motivated to deliver the chosen strategy as long as the organization provides them with role opportunities with or without relevant training. Or all employees share the same interests and align their interests with those of the organization toward one specific strategy. The absurdity of assumptions like these may look too obvious for some to believe that organizations will make such mistakes. But this kind of thinking and doing is very common in organizations partly because using heuristics (simplified schemas) can reduce cognitive load in decision making (e.g., Shah & Oppenheimer, 2008).

One major manifestation of this complete rationality assumption is that human agency in strategizing processes is largely neglected. **Human agency** reflects individuals' influence on their structural environments. It occurs when actors purposefully reflect on and act differently from their role expectations, or even act to change their roles and working conditions (e.g., Giddens, 1984; Mantere, 2008; Whittington, 1992). A strategy process is a function of human agency, full of sensemaking and deviation, where various players interact to negotiate meaning, roles, and working conditions over time, which shape and reshape the strategic courses. Contrary to the assumption of rationality and cooperation, strategy processes unfold depending on the interaction of various players under certain contexts, which is driven by perceptions, biases, emotions, conflicts, manipulations, and so on.

Human agency is essential in strategic management processes for two reasons. First, communicating strategies across at least three organizational levels, senior management, middle managers, and frontline employees, require human agency. Strategies are normally designed by the senior management team, and lower-level employees may not immediately, if ever, see what the management sees. This is the area where middle managers play a key role to facilitate two-way information flow, sensemaking, and sensegiving (e.g., Gioia & Chittipeddi, 1991). Second, revising strategies to adapt to changing conditions demands human agency. Human agency drives the interaction between strategy formulation and implementation. This is especially key when the strategic environments are volatile or dynamic, which require individuals to act quickly under **strategic ambiguity** (e.g., Jarzabkowski et al., 2010).

When it comes to HRM strategizing, things become even more complicated because enacting HRM strategies calls for both HR's and business line managers' agency and their collaboration. Involving business line managers into HRM strategy processes entails amplified communication and relationship building in terms of levels and scopes. It may take different forms for different organizations to involve business line managers in HRM depending on the organization's overall context and/or the strategy's characteristics, but in any case, it requires a partnership between HR professionals and business line managers so that the initiative results in synergy rather than incoherent application. Therefore, HRM strategies are to be formulated, communicated, and implemented, not only along the HR function hierarchy and business line hierarchy respectively but also across different functions and levels. This brings more variables into the equation and makes the interaction more dynamic and harder to predict. Despite the growing recognition of the importance of involving business line managers in HRM practices, little is known on how it is done (Kurdi-Nakra et al., 2022), especially on how the strategizing processes of one specific HRM practice unfold under the collaboration of the two roles. This is the focal phenomenon that the current Ph.D. research aims to examine.

In short, this research studies the making and doing of one HRM strategy that involves various players, including HR professionals, line managers, and others, who constantly interact to enact the strategizing processes within certain organizational and institutional environments.

1.2. RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

This Ph.D. research aims to explore the strategizing of a HRM practice by various players. **Strategizing** captures the whole iterative strategy processes, from its inception to implementation, and all players' actions and their interactions with others and with their environments in these processes. In Whittington's terms, this research studies both an organization's practice and its practitioners' praxis to enact HRM strategies. According to Whittington (2006), ***practice*** refers to "shared routines of behavior, including traditions, norms and procedures for thinking, acting and using ‘things’”. ***Praxis*** refers to “actual activity, what people do in practice” and ***practitioners*** refer to “strategy’s actors, the strategists who both perform this activity and carry its practices” (p. 619). To apply these terms, this Ph.D. research examines what people (practitioners) do (praxis) to enact one specific HRM strategy under HR-line manager partnerships within a general context of devolving HR responsibilities to line managers (practice), and how these activities and processes unfold to result in specific outcomes.

Empirically, this research conducts a single case study to examine the processes of enacting one specific HRM practice under the HR-Line manager partnerships in a Chinese asset appraisal company (ABC Company). The focal HRM practice is referred to as the “2017 Practice” as it was initiated in 2017 to change the company’s performance and remuneration management practice at that time. The 2017 Practice aims to achieve four strategic goals: (1) create a pay-for-performance culture based on outputs replacing the old pay egalitarianism; (2) enhance company growth in business volume; (3) improve project management to decrease costs and increase profitability; (4) align interests among the company, departments and individual employees for long-term sustainability by introducing two new performance indicators (revenues and profits). Therefore, the 2017 Practice, despite being simply a four-page document, goes beyond a simple individual HRM practice such as performance or compensation management and has important implications on various levels of fit between HRM and its environmental contingencies (Chênevert & Tremblay, 2009).

In this thesis, while the “2017 Practice” refers specifically to the strategic HRM initiative enacted in 2017, the terms HRM strategy and HRM practice are used interchangeably. In fact, this research captures the overall strategizing processes of HRM strategies that are triggered by the 2017 Practice. It examines factors at individual, organizational and institutional levels, which answers the call for integrating micro, meso and macro research on middle managers’ sensemaking in strategy processes (e.g., Seidl & Whittington, 2014). While this research focuses on the 2017 Practice, special attention is paid to the **activities** various players do (praxis) during the strategizing processes (including making and doing and revising between makings and doings). **Praxis** (activities that people do) is not limited to practitioners’ observable actions. **Sensemaking**, mainly regarded as a social process to construct meaning, is one major part of praxis and has been well studied as a working mechanism to explain middle managers’ role in strategy processes (e.g., Balogun & Rouleau, 2017; Maitlis & Christianson, 2014). This is also the focus of the current research.

Professional service firms, emblemized by accounting and law firms, provide an appropriate context for this research because people in professional service firms are regarded as the most valuable assets. Professionals are also highly mobile in the job market and have relatively more power in their interaction with HR or the management due to their high knowledge intensity compared to employees in most other industries (e.g., Harlacher & Reihlen, 2014; Von Nordenflycht, 2010). Professionals are equal to each other, and therefore collaboration rather than top-down direction is the main means for organizing, including between HR professionals and business line managers. Therefore, the quality of the HR-line manager partnership is critical for a firm’s success. Moreover, a professional identity, such as being a lawyer or a certified public accountant, will also add complexity to the strategizing process.

ABC Company offers an interesting context with rich data for this research due to a few reasons. First, professional service firms are relatively new in mainland China compared to western developed market economies. Early success of Chinese professional service firms are mainly due to first mover advantages and beneficial market positions. Management practices are largely not designed and implemented systematically, and HRM infrastructures are typically weak in local professional service firms. In the case of ABC Company, it lacks necessary HRM infrastructure and professional HR teams despite being a market leader, and yet it aims to devolve people management activities such as performance management to business line managers. It is particularly interesting to examine how HR and line managers interact to negotiate role expectations when HRM is not professionally designed, and line managers are not fully supported. Second, Chinese professional service firms, despite their short history, have achieved very fast development and have adopted management concepts and practices from the West (especially the U.S.) with the globalization of western professional service firms such as the Big Four accounting firms. Nevertheless, the management and governance of professional service firms at the global level are also evolving, for example, there has been a shift from partnerships to corporatization. In the case of ABC Company, it is in the sector of asset appraisal, which is more or less at the bottom of the financial service food chain in mainland China and is generally ten years behind accounting firms in their development. Therefore, due to its stage of development, management practices in ABC Company are shaped by various factors including its own history and culture that are embedded in Chinese cultural and institutional environments and external management concepts and practices borrowed from other sectors and countries. It will be interesting to examine how various players make sense of the 2017 Practice under the influence of multiple internal and external forces. Finally, the 2017 Practice had already been implemented for a few years when data collection of this research took place in 2021. Therefore, strategy practitioners' thinking and doing have accumulated over time into stable patterns, which provide sufficient information and concrete data to understand the activities, processes and working mechanisms of strategizing the 2017 Practice. Most importantly, ABC Company was committed in participating in this research because it has been constantly looking for ways to improve its performance management practice and business results.

Involving business line managers to enact HRM strategies bridges current trends in two fields. Within HRM research (and practice), **HR devolution**, the shift of HRM roles to business line managers, is still in the ascendant after four decades of development (e.g., Kehoe & Han, 2020; Kurdi-Nakra et al., 2022). Strategy process research sees a shift of focus from the top management team to middle managers (e.g., Floyd & Wooldridge, 2017; Wooldridge et al., 2008). Business line managers, under the context of enacting HRM strategies, are facing dual mediating roles because they are middle managers both for business management and for people management. Middle managers or line managers, labeled by different terms with the former used in strategy research and the latter in HRM research, are assumed to have similar responsibilities in strategizing processes. The terms "middle managers" emphasize managers' position in the organizational hierarchy and their middle-top-down role in strategy processes (e.g., Dutton et al., 2001; Floyd & Lane, 2000). The terms "line managers" imply a functional division between business units and support functions such as HR. Nevertheless, line managers fall under the range of middle managers because they normally take the middle to low level of management positions. In this research, I choose to use the terms "middle managers" because the focus here is beyond the shift of HRM responsibilities from HR professionals to line managers. Instead, this research aims to capture business managers' comprehensive middle-up-down influence in the strategizing processes despite the fact that the examined strategy is about HRM in nature. Literature on middle managers' role in strategy, especially that on middle managers' sensemaking in Strategy-as-Practice research (e.g., Balogun & Rouleau, 2017; Maitlis & Christianson, 2014; Sandberg & Tsoukas, 2015), provides a solid theoretical foundation for the current study.

To summarize, this research aims to examine the strategizing processes of one specific HRM strategy enacted by various practitioners under the context of HR devolution in a professional service firm, answering the general question of how do strategy practitioners act and interact to enact HRM strategy? This research is based on a few premises that provide a general context for its theoretical framework and data collection. First, involving line managers in HRM is regarded as a strategic change because HRM roles are traditionally assumed to rest with the HR department or function. Second, like those of other strategies, HRM strategizing takes place dynamically and is embedded in its broader environment. Third, involving line managers to enact HRM strategies complicates the strategizing processes because diverse players entail intricate interests, communication, and relationship building. Fourth, practitioners' praxis, including both thinking and doing, is a function of their sensemaking because meanings constructed through sensemaking motivate people to behave differently. Fifth, practitioners' sensemaking may focus on various themes or triggers and attribute meanings through their own lenses that are tied with their past experiences and current situations. Sixth, this study empirically adopts a qualitative case study method and a grounded theory approach where data collection and theory building constantly inform and adapt to each other (Corbin & Strauss, 2008; Strauss & Corbin, 1990).

1.3. THEORETICAL FOUNDATIONS

This Ph.D. dissertation aims to explore how HRM strategizing processes unfold as a result of practitioners' (mainly middle managers from business departments) thinking and doing to result in certain outcomes. Empirically, this research conducts a single case study with a professional service firm in China to examine how various players act and interact to enact a specific HRM practice. Therefore, this research rests at the intersection of a few research streams across the management domain in a broader sense including both HRM and strategic management. The literature that provides theoretical foundations for this research mainly includes those that study management in professional service firms, the middle management perspective of strategy (especially Strategy-as-Practice and middle managers' sensemaking in strategy processes), and HR devolution (involving line managers in HRM).

Research on **HR devolution or line managers' involvement in HRM** works as a starting point for this Ph.D. research to explore a complex management phenomenon that involves various players, factors, and perspectives. Capturing the management phenomenon of involving line managers in HRM practices, the current state of research on this topic is rather narrowly framed, seeing line managers more, if not merely, as passive implementers of HRM practices (e.g., Kehoe & Han, 2020). The current study aims to extend this stream of research by empirically examining the interaction, during the strategizing processes of HRM strategies, between individual activities and the environmental conditions within which various players act and interact.

The legitimacy of examining business line managers' (and other players') active influence in HRM strategy processes is supported by the **Strategy-as-Practice** research, a perspective in the strategy field which considers that what people do matters more than what an organization plans. This claim is rooted in the acknowledgment of individuals' agency against the environments in which they are embedded. A major part of Strategy-as-Practice research is about **middle managers' role in the strategy process** because middle managers are at the pivotal mediating position in this strategy process, functioning in various roles such as messengers, interpreters, communicators, negotiators, implementers, feedback-givers and so on. In the research on middle managers' role in strategy, sensemaking is extensively studied as one major element of middle managers' doing of strategies. Sensemaking and sensegiving entail the interaction between individual behaviors and their environment because sensemaking is defined as a social process where organizational members interact, based on perceptions of their environment, to construct meaning collectively, which provides the context for further interpretation, action and interaction (e.g., Maitlis, 2005).

As the case study is with a professional service firm, understanding the characteristics of a professional service firm and its management are key to understanding how an HRM practice can be effectively enacted in that context. The logic of governance (e.g., Alvehus, 2018) and the form of organization (e.g., Greenwood et al., 1990; Harlacher & Reihlen, 2014) in professional service firms are especially important because they define professionals' role identification and how professionals make sense of, and act on, strategy implementation.

These bodies of literature provide theoretical foundations for this research because the current study explores middle managers' role, especially that of their sensemaking, in the HRM strategy process, emphasizing the interplay among various players and contextual factors. What makes this study different from other studies on middle managers is that it examines business middle managers' role in enacting one HRM strategy. This complicates the strategizing processes because the roles of managing business and managing people are integrated, which provides a specific context to examine middle managers' strategic influence. Moreover, this research examines the focal research question with Chinese professional service firms, which have unique characteristics and challenges in people management.

CHAPTER TWO: LITERATURE REVIEW

In this chapter, I review literature that provides theoretical foundations for the current research in three parts. Each stream of literature is either from the (strategic) HRM field or from a micro view of the strategy process, and they are integrated with the middle management perspective and the management of professional service firms, which is the research context of this study.

In the first part, I will introduce literature on the management of professional services firms because this sets up the context for the case study, where an HRM practice is enacted by various players in an asset appraisal company in China. Professional service firms have their own characteristics, such as in management control, organizational form, professional identity, and so on, which provide a special environment that either enable or hinder the realization of the studied HRM strategy. Specifically, I will introduce the definition and characteristics of professional service firms, the governance of professional service firms and the HRM in professional service firms.

In the second part, the literature review focuses on strategy process research from a middle management perspective, which will be introduced in three sub-sections. Section 1 presents an overview of the middle management perspective, which provides a broad background for other sections. Section 2 introduces research on Strategy-as-Practice, one perspective in the strategy process research field that specifically emphasizes strategy practitioners' praxis in practice. Section 3 focuses on middle managers' sensemaking in the strategy process, which is a special case of Strategy-as-Practice study, and of course, of middle management activities. These streams of literature are the major theoretical lenses for the current research because the single case study examined mainly how middle managers made sense of one HRM practice, acted on the practice, and interacted with each other accordingly to enact the practice.

The third part of the literature review introduces research on line managers' involvement in HRM in relation to the broader context of strategic HRM research. Engaging business line managers in implementing HRM strategies or practices is becoming popular, and this is the context of the single case study, where business middle managers are expected to implement one HRM Practice. Research on line managers' involvement in HRM treats line managers more as simple implementers of HRM strategy who exert influence more on the process than on the content of the HRM strategy. On the contrary, the middle management perspective in strategy research tends to believe that middle managers have more influence on strategy processes, both on strategy process and on strategy content. It will be valuable to empirically examine the two streams of research in one context, that is, middle managers' role in strategizing HRM strategies.

2.1. MANAGEMENT IN PROFESSIONAL SERVICE FIRMS

This Ph.D. research conducts a single case study with one asset appraisal company on its strategizing of one new performance management practice. Therefore, it is helpful to review literature on management practices in professional service firms including their governance and HRM practices.

2.1.1. Definition, Characteristics and Challenges of Professional Service Firms

What is a professional service firm? It is not an easy task to give a universally accepted definition. The ambiguity of this term derives from the difficulty to define a professional or a profession. Despite various differences between them, firms in accounting, law, and management consulting are among the most studied categories in professional service firms research followed by firms in engineering, advertising, architecture and investment banking (Von Nordenflycht, 2010).

It is important to study professional service firms not only because they play critical roles in national and global economies but also because their management practices can be very informative to non-professional service firms as the global economy is turning increasingly knowledge-based (e.g., Empson, 2007; Greenwood et al., 2006; Lowendahl, 2005; Maister, 1982). Professional service firms have achieved exponential growth after a few decades of expanding domestically and globally. Accounting firms, for example, are among the largest organizations in terms of both their employees and revenues (Suddaby et al., 2007).

The term of professional service firms used to be conflated with the term of professional partnerships as early day professional service firms research focused more on professions such as law and accounting where professional partnerships are the dominant governance and organization form even though professional partnership was less universal in other fields such as advertising and management consulting. The major question of research then was "how to reconcile bureaucratic versus professional principles or how to deal with the asymmetry of expertise" (Von Nordenflycht, 2010, p. 158). With a managerial turn, when professional service firms research shifted its focus from the professions to more general managerial issues such as motivating and retaining highly skilled and mobile professionals, the term of professional service firms became more ambiguous because a broader set of firms turned out to be relevant (e.g., Greenwood et al., 2005). This shift came across with the rising of management consultancy industry and research on knowledge-intensive firms, of which professional service firms were typical examples (e.g., Alvesson, 1995; Starbuck, 1992; Winch & Schneider, 1993).

To address the ambiguity problem of the term of professional service firms and its hindrance to the advancement of professional service firms research, Von Nordenflycht (2010) reviewed the definitions of professional service firms out of 52 major works on professional service firms and developed a theoretical framework to define professional service firm distinctiveness based on three central characteristics of professional service firms, which are high knowledge intensity (or human capital intensity), low capital intensity, and highly professionalized workforce. Based on this three-characteristic framework, Von Nordenflycht (2010) further developed a taxonomy of knowledge intensive firms, termed as Classic Professional Service Firms (or Regulated Professional Service Firms), Professional Campuses, Neo-Professional Service Firms, and Technology Developers, with each category representing a varying degree of professional service intensity based on a combination of these three characteristics. Professional service firms, therefore, are further differentiated and the more nuanced distinctive characteristics point to more specific managerial challenges and organizational responses for each type of professional service firms.

All four categories of Von Nordenflycht's taxonomy of professional service firms share one characteristic, knowledge intensity (or human capital intensity), which means that, to succeed, a firm relies heavily on its workforce's knowledge and skills that are often highly transferrable to other firms or even other industries. This characteristic enables employees as professionals more bargaining power relative to the firm and nurtures employees' higher preference for autonomy. This causes the challenge of "herding cats", the difficulties to retain and direct employees who are capable and independent (Lowendahl, 2005). Another complication caused by knowledge intensity is "opaque quality", a term Von Nordenflycht uses to resemble the idea of "asymmetry of expertise" (Abbott, 1988; Gross & Kieser, 2006), meaning that it is difficult for non-experts to evaluate professionals' deliverables because the work takes intensive knowledge and human capital. For example, a client is unable to decide to what extent its market share growth is due to a marketing campaign.

To address the cat herding problem, professional service firms are tempted to adopt alternative incentives mechanisms (e.g., Coff 1997) with one typical example being alternative compensation and another being autonomy and informality in the organizational structure. Contingent compensation, such as commission-based pay, performance bonuses and equity stakes, is applied to align individual and organizational goals. Deferred compensation, such as stock options and pensions, is employed to retain talents to stay with the firm. Similarly, professional service firms provide employees with more autonomy and more informality in their organizational process to meet employees' autonomy preference (Greenwood & Empson, 2003; Greenwood et al., 1990).

The problem of opaque quality exerts pressure on professional service firms to signal quality. Von Nordenflycht (2010) summarized four mechanisms to signal quality: bonding, reputation, appearance, and ethical codes. Bonding mechanisms work to ensure service quality by aligning stakeholders' interests either positively or negatively. For example, the unlimited liability partnership, in which one partner is responsible for another's actions financially and legally, encourages partners to monitor each other to maintain quality standards (Greenwood & Empson, 2003). Another example of bonding is to share profits equally among employees, which induces owners to hire fewer but better employees so that the service quality is guaranteed and profits for each owner is not diluted (Levin & Tadelis, 2005). Building and maintaining reputation can be used by professional service firms for the purpose of business development and contract negotiation as reputation can be regarded as a proxy for quality when service quality is hard to evaluate (e.g., Greenwood et al., 2005). The appearance of a firm or a professional works in a similar way as their reputation does because clients are able to observe their appearances and behaviors and tend to infer quality evaluation based on their observations (Alvesson 2001; Empson 2001; Starbuck, 1992). Establishing ethical codes is another mechanism to signal quality. It is believed that the quality of service is better assured when professionals are committed to protecting the interests of their clients by adhering to a code of ethical conduct and when professional bodies enforce ethical compliance (Abbott, 1988; Gross & Kieser, 2006; Leicht & Lyman, 2006).

The second characteristic of professional service firms, after knowledge intensity, is low capital intensity. This characteristic is exemplified by the Classic Professional Service Firms (e.g., firms in law and accounting) and Neo-Professional Service Firms (e.g., firms in consulting and advertising) while, on the contrary, Professional Campuses (e.g., hospitals) and Technology Developers (e.g., R&D labs) have high capital requirements to build up infrastructures. The low capital intensity eases the needs to protect outside investors for Classic Professional Service Firms and Neo-Professional Service Firms; at the same time, it reinforces individual professionals' negotiation power and worsens the cat herding problem because the relative importance of intellectual capital is enhanced. As a result, the need for alternative incentives is enhanced in these two types of professional service firms.

The third characteristic of professional service firms according to Von Nordenflycht's summary is the professionalized workforce, typified by the presence of self-regulation and professional ideology. This characteristic is obvious for Classic Professional Service Firms (e.g., firms in law and accounting) and Professional Campuses (e.g., hospitals) but not relevant for Neo-Professional Service Firms (e.g., firms in consulting and advertising) and Technology Developers (e.g., R&D labs). The professionalization requires firms to accommodate the institutionalized trusteeship to clients by excluding external and commercial ownership. At the same time, it offers opportunities for muted competition, which may cause inefficiency and/or more autonomy and informality in organizational structure. This has a lot of overlaps with Torres' (1991) identification of four features of a profession. That is, (1) there exists a particular knowledge base, (2) acquiring and applying that knowledge is regulated and controlled among insider professionals, (3) professionals adhere to explicit ethical codes of conduct and implicit professional behaviors, and (4) there is a professional association to regulate the behaviors and practices of individual and firm members.

A professional ideology is exemplified by a few professional norms, for example, a strong preference for autonomy that may arise either from knowledge intensity or from professionalization. Another professional norm is the belief that professionals are obligated to protect the interests of clients and/or the public. Having kinship with multiple ideas such as conflict of interest (Nanda, 2002) and trusteeship (Suddaby & Greenwood, 2005), the norm of serving clients' and/or the public's interests is often contrasted against the commercial/economic logic of maximizing self-interest. One organizational response to the trusteeship norm is the dislike and resistance to outside non-professional ownership of professional service firms. For example, a professional qualification is often necessary to become a partner in either an accounting or a law firm in most western countries although this requirement has been loosened in recent years. Another way to counter the commercialization of professional service firms is to organize the organization as a nonprofit such as in hospitals. Self-regulation is exemplified by a central association who certifies memberships which is necessary to practice in the profession. This practice creates a self-regulated monopoly (Friedson, 1970) as it weakens competition from outside and among professionals. The monopoly may encourage a slack in management practices, which is possibly mistaken as a best practice (Von Nordenflycht, 2010).

Other characteristics, some of which may overlap in essence with those summarized by Von Nordenflycht (2010), and their implications for management practices are also identified and discussed in professional service firms research. For example, professional service firms normally serve clients with intangible customized services delivered by professionals working in temporary project teams (e.g., Bredin & Söderlund, 2011). Professional service firms, therefore, are unique in their forms of governance and organization (e.g., Suddaby et al., 2008) to tackle particular challenges in managing human capital, such as building reputation, attracting and motivating talents, managing performance and developing leaders, managing employee mobility, gaining revenue and profitability while complying with quality standards to mitigate risks of litigation, managing knowledge across borders, and so on (e.g., Suseno & Pinnington, 2017). However, professional service firms, despite their distinctiveness, are facing similar challenges as do other organizations that employ professionals, such as attaining and retaining top talents, managing work-life balance and managing change. In recent years, some firms started to adopt non-partnership forms and more bureaucratic structures although professional partnerships remain the dominant form of ownership and governance for large accounting and law firms (Empson & Chapman, 2006; Greenwood et al., 1990; Von Nordenflycht, 2007). In the next section, I introduce the governance and HRM in professional service firms.

2.1.2. Governance in Professional Service Firms

Taking a configurational approach (Meyer et al., 1993; Miller, 1987, 1996; Mintzberg, 1979), Harlacher and Reihlen (2014) synthesize research on professional service firms into a comprehensive framework of PSF (professional service firm) governance typology, in which four types of governance are identified including Founder Dominated Governance, Collegial Governance, Managerial Governance and Entrepreneurial Governance. A configurational approach consolidates the gains of contingency theory, but they have different underlying assumptions, which is shown by Meyer and colleagues' (1993) comparison of the two perspectives:

> In contrast, configurational inquiry represents a holistic stance, an assertion that the parts of a social entity take their meaning from the whole and cannot be understood in isolation. Rather than trying to explain how order is designed into the parts of an organization, configurational theorists try to explain how order emerges from the interaction of those parts as a whole. Social systems are seen as tightly coupled amalgams entangled in bidirectional causal loops. Nonlinearity is acknowledged, so variables found to be causally related in one configuration may be unrelated or even inversely related in another (p. 1178).

Harlacher and Reihlen's (2014) typology of professional service firm governance is based on three sets of design parameters and six contingency factors. Taking ownership and control as key governance considerations, the design factors of professional service firm governance are grouped into three sets of parameters, which are legal form (locus of ownership; degree of liability), organization structure (specialization; centralization; decision-making; formalization), and management systems (remuneration system; promotion system). The contingency factors that affect the governance design originate from three sources, which are firm strategy (service commoditization; service diversification; firm size), organization (capital intensity; firm culture), and environment (risk of litigation).

Of the four configurations of professional service firm governance by Harlacher and Reihlen (2014), "collegial governance" and "managerial governance" are the most commonly studied in professional service firm research, and there has been a shift, since the late 20th century, from the Collegial Governance toward the Managerial Governance configuration while firms are growing in size, diversification and service commoditization, and when the risk of litigation is rising (Brock et al., 2007; Cooper et al., 1996; Harris, 2005; Malhotra et al., 2006; Morris & Pinnington, 1999; Morrison & Wilhelm, 2007; 2008). The Professional Partnerships model originally developed by Greenwood, Hinings and Brown (1990) with large accounting firms is seen as a hybrid of the Collegial and the Managerial configuration although it has moved closer to the Managerial side (Harlacher & Reihlen, 2014).

The collegial governance design is rooted in the principles of professional autonomy and self-regulation, which attracts internal ownership where partners share collegial control and decision making based on consensus. The typical legal form of this configuration is unlimited liability partnership (also called as the general partnership) where all partners are obligated to share unlimited personal liability for other partners' actions that are done in the name of the partnership. Over the past three decades, a new legal form, limited liability partnership (LLP), has been adopted by many professional service forms whenever the local jurisdiction allows (Harris, 2005). A limited liability partnership (LLP) combines the characteristics of a partnership and a corporation (McCahery, 2004) where partners usually do not take personal liability for other partners' actions. The organizational structure in Collegial Governance design is not formalized (i.e., control rights are exercised ad hoc without well-defined rules and regulations) but centralized at the firm level resembling a "one firm" firm. The organization structure is less specialized (i.e., there are few organizational units, regarding the distribution of control rights, categorized on factors such as geography, client industry and type of service) and the staffing is mainly driven by specific client cases. For the management systems, a collegial governance configuration resembles a professional partnership archetype, in which remuneration is based on a lockstep system (i.e., income is distributed according to seniority contingent on firm performance; Levin & Tadelis, 2005) and promotion on an up-or-out system (i.e., professionals are expected to leave the firm if they are not elected partner within a time limit; Morris & Pinnington 1998). The lockstep remuneration system is relied upon to encourage collaborative behaviors such as sharing knowledge and referring clients among professionals because individual remuneration depends on overall firm profits. The up-or-out promotion system can function to signal quality as professional service quality is often hard for clients to evaluate and this is especially true when services are novel and/or customized. However, exceptions to this up-or-out promotion system have become more common. For example, permanent non-partner positions are often available in many firms (Gilson & Mnookin, 1989; Morris & Pinnington, 1998; 1999; Sherer & Lee, 2002). Appropriate conditions for collegial governance include small firm size, customized and non-diversified service, low capital intensity, traditional or entrepreneurial values shared among professionals, and low risk of litigation.

The managerial governance design is established on principles of managerial control, formalization and a more hierarchical decision-making. Many professional service firms nowadays exhibit some features of a managerial configuration after large firms who used to be Collegial transformed into a Managerial Governance (Reihlen et al., 2009), including law firms, accounting firms, and IT consulting firms. Firms of managerial governance are typically owned by external owners who have limited liability. Major accounting firms such as the big four are still against external ownership but have changed their legal form to limited liability partnership (LLP) when it is allowed by local jurisdiction (Harlacher & Reihlen, 2014). The organizational structure of managerial governance has high degree of specialization (on service areas and client industry for example) and formalization (with well-defined rules and standards). For the management systems, contingent remuneration is less required in a managerial governance firm than in other forms of professional service firms because services are more standardized, and the quality of individual professionals' work is relatively more under control. When contingent remuneration is retained, most likely for senior professionals, a scorecard remuneration that is based on a combination of behavioral measures will be applied. Non-partner permanent positions are available when the up-or-out promotion system is discarded in a Managerial Governance configuration. A Managerial Governance is appropriate when a firm grows large in size and requires high capital intensity, services are diversified and commoditized, there exist heterogeneous values among professionals that are ideally captured under corporate values, and the risk of litigation is high.

2.1.3. HRM in Professional Service Firms

Swart et al.'s (2015) review of strategic HRM practices in professional service firms finds that there are basically two types of HRM systems, expertise-oriented and efficiency-oriented. Swart and colleagues (2015) then suggest two models of HRM practice to manage human capital and social capital in professional service firms to enhance firm performance. The first model is called centripetal (firm-centered) HRM practices, in which firm-specific human capital is managed through value-driven recruitment and selection, broad job designs, rotation of roles between projects, firm-specific skills, and profession-focused pay and rewards. Social capital in the centripetal (firm-centered) HRM model is managed through fluid project-team boundaries, multiplicity of team membership, T-shaped professionals (who possess both specialized knowledge/skills and generalist knowledge to easily connect with multiple disciplines), informal knowledge-sharing events, and balance scorecard form of pay and rewards that serve long-term organizational objectives. The second model is called centrifugal (client-centered) HRM practices, in which human capital is managed through the recruitment of KSAs that can be immediately applied to client superior services, profession and industry-related training, and individual-based competitive pay and rewards that are normally target-based. Social capital in the centrifugal (client-centered) HRM model is managed through client contact at all levels in client project teams, works with a limited number of client teams, limited rotation between teams, client involvement in development processes, limited internal non-client/industry specific mentoring, tournament-based pay (i.e., a system that recognizes individual rather than collective objectives encouraging professionals to compete for professional advancement and financial rewards) and rewards system that involve clients in objective setting.

Financial measures have taken a central place in the management and control of corporations (e.g., Aglietta & Breton, 2001; Froud et al., 2006; Roberts et al., 2006), and professional service firms played an important role in the financialization process (Folkman et al., 2007). However, there is a trend to show that professional service firms themselves are experiencing a shift from the value-based professional management to the financialization-based corporate management. A few studies found that various HRM practices based on different logics are applied in professional service firms and the grappling between professionalism and financialization is indeed a hot topic both in research and in practice.

Richter, Dickmann and Graubner (2008) examined the HRM patterns in two organizational archetypes of consulting firms, the professional partnerships (P2) and the managed professional businesses (MPB) and found that each type takes fundamentally different approaches to HRM practices. In P2-type consulting firms, common values and identifications are emphasized through extensive socialization processes, and HRM is practiced by consultants rather than by specialised HR staff. MPB-type consulting firms, however, exhibit corporate features in their HRM systems, in which there are more specific HRM policies and regulations, more adaptation to local conditions, and more reliance on HR specialists for implementation.

Alvehus and Spicer (2012) examined how financialization is used in a Big Four accounting firm as a workplace control mechanism and how it affects professionals' experience of work life. They found that financialization worked to transform professionals' working into an investment activity, in which "billable hours" are perceived as an investment to harvest future returns in their career development. Professionals engaged in skillful manipulation behaviors to gain investment appreciation.

Drawing on the potential conflicts between professional service firms' professionalism logic and HRM's bureaucracy logic (e.g., Bévort & Poulfelt, 2015), Alvehus (2018) conducted an in-depth case study with an accounting firm's tax consultancy department and described how professionals applied strategies such as replication, revision and rejection to reconcile two (conflicting) logics and resulted in "inverted appropriation". The inverted appropriation of HRM suggests that HRM logic does little in changing the professionalism logic at the level of daily practice, while HRM has an ideological and symbolic influence seeing a hybridity of two logics at the organizational level.

2.2. MIDDLE MANAGEMENT PERSPECTIVE OF STRATEGY RESEARCH

The second research stream of relevance is the middle management perspective from strategy research, given that this study examines the doing of HRM strategies under a partnership between business line managers and HR managers, who both fall within the scope of middle managers. This is organized into three subsections. Section 2.2.1 provides an overview of the middle management perspective explaining its theoretical roots, classical models, and key constructs, which will set up foundations for many other research bodies. Strategy-as-Practice, introduced in section 2.2.2, can be viewed as a special branch of strategy process research paying attention to the micro process and (middle) managers' activities in strategizing. Middle managers' sensemaking, introduced in section 2.2.3, is one specific practice or praxis that has been extensively studied in Strategy-as-Practice research. Although these streams of literature are highly intertwined, the middle management perspective tends to focus more on middle managers' upward influence in the strategy-making process while Strategy-as-Practice looks more at middle managers' lateral and downward influence in the strategy-implementing process.

2.2.1. An Overview of The Middle Management Perspective

A middle management perspective (e.g., Wooldridge et al., 2008) emerged in the 1970s when strategy process research turned its attention from the top management to middle managers, broadly referring to all managers who are neither top managers nor first-level supervisors. When a firm expands beyond the direct control of a few top managers, middle managers become crucial intermediaries in strategy processes because they have access both to the top management and to on-the-field operating knowledge. Empirical studies found that middle managers are more likely to consider the feasibility issue of a strategy, for example, capabilities (King & Zeithaml, 2001). Middle managers' roles and contributions were also associated with many organizational outcomes, such as corporate entrepreneurship (e.g., Burgelman, 1983b), innovation (e.g., Kanter, 1982), organizational learning (Nonaka, 1994; Nonaka & Takeuchi, 1995), strategy implementation (Balogun & Johnson, 2004; Guth & MacMillan, 1986; Huy, 2002), and strategy-making processes (Currie & Procter, 2005; Dutton & Ashford, 1993; Floyd & Lane, 2000; Pappas & Wooldridge, 2007; Wooldridge & Floyd, 1990).

The middle management perspective differs from the upper echelons perspective in that it assumes a different nature of strategy work, or, more broadly, the nature of management work (Wooldridge et al., 2008). The upper echelons perspective (e.g., Hambrick & Mason, 1984), rooted in economics and organizational theory, sees strategy making as a decision-making process, typically top-down and analytical, and separates strategy implementation from its formulation. The role of middle managers in this perspective is to provide input to the top management to make strategic decisions, and to implement strategies made from the top. On the contrary, the middle management perspective roots in a social learning view of strategy making, where the strategic context is regarded as so complex that it takes multiple players to integrate fragmented power and knowledge to generate ideas, take initiatives and reintegrate strategic activities to adapt to the changing environment (e.g., Crossan et al., 1999; Wooldridge et al., 2008). In this perspective, middle managers are important mediators between levels and units, and their role in strategy is more as integrators rather than sole implementers.

Mintzberg's (1978) concept of realized strategy, criticizing the separation between strategy formulation and implementation as a false division of labor between the top management and others, emphasizes the actual pattern of actions and decisions under the emergent influences at middle and lower levels, complementing the deliberate influences from the top (Mintzberg & Waters, 1985). The seminal work of Mintzberg and others' (e.g., Bower, 1970; Kanter, 1982) provides a solid theoretical foundation for the middle management perspective to highlight an expanded role for middle managers in strategy work. Burgelman's (1983a) evolutionary model of strategy making pictures strategy development process as driven by autonomous strategic initiatives and internal selection mechanisms (i.e., resource allocation processes). These autonomous initiatives stem mainly from lower levels and are recognized and championed by middle managers. The role of top managers here is to approve strategic initiatives championed by middle managers, and to create necessary infrastructures and resources for strategy processes to be adaptive. This model also provides a theoretical basis for a new division of work between middle and top management in strategy making.

Based on early theorizing such as those of Mintzberg and Burgelman, a growing number of studies in the 1990s helped to further clarify and redefine the strategic roles performed at various levels of management (e.g., Bartlett & Ghoshal, 1993; Hart, 1992; Nonaka, 1994; Wooldridge & Floyd, 1990;). Coming together with a more substantive role for middle managers in the strategy process was a flatter and more entrepreneurial form of organization. In this decentralized structure, middle managers are supposed to assume responsibilities more on providing resources and support for entrepreneurial activities from the frontline than on supervising the work of subordinates. Accordingly, top managers delegate operational decision making and turn their focus on managing the entrepreneurial process such as developing objectives and standards. Empirical studies indeed found that middle managers play an important role both as vertical mediators connecting the top and the operating levels to develop core competence (e.g., Burgelman, 1994) and as horizontal integrators sharing knowledge across the organization (e.g., Bartlett & Ghoshal, 1993). Decentralized organizations, especially those operating in dynamic environments, were found to perform better than those more hierarchical organizations (e.g., Andersen, 2004). According to Wooldridge and colleagues (2008), middle managers' vertical and horizontal influences in strategy processes are perfectly exemplified by Nonaka's theory of the knowledge-creation company (Nonaka, 1991; 1994). In a knowledge-creation company, the visionary knowledge at the top and the operational knowledge from the bottom is mixed in the middle, and new knowledge is constantly created through a spiral of integration of explicit and tacit knowledge where middle managers keep interacting horizontally and vertically; and strategic change is a function of knowledge-creating activities. In short, middle managers' strategic role grows in importance because they are at the center of two sub-processes of strategy formation: creating knowledge and developing core competence. This social learning perspective of strategy processes encouraged the shift of middle managers' role in strategy and continues to provide theoretical support for studies on middle-level strategic management (Wooldridge et al., 2008). A review of the middle management literature found three popular broad topics: middle managers' strategic roles and their antecedents, middle managers' involvement in strategy and organizational cognition, and the relationship between middle managers' strategic behavior and organizational outcomes (Wooldridge et al., 2008).

A classic framework of middle managers' strategic roles by Floyd and Wooldridge (1992) describes four major roles: implementer, synthesizer, champion, and facilitator. Each role is distinguished by a unique combination of "thinking" and "doing" components. The cognitive dimension concerns the degree to which middle managers' influence intends to change the organization's concept of strategy (divergent or integrative), and the behavioral dimension concerns middle managers' direction of influence (upward or downward). An implementer exerts managerial interventions downward to integrate subordinates' activities around the deliberate organizational strategy. A synthesizer interprets information and channels it upward to the top management, which may help the top management's decision making such as in resource allocation. A champion sells to the upper management strategic initiatives that diverge from the current concept of strategy, which may reshape the senior management's strategic thinking. Lastly, a facilitator encourages subordinates and peers to experiment or generate ideas that diverge from the current concept of strategy, which may enhance adaptability. Floyd and Wooldridge's framework (1992; 1994; 1996; 1997) has inspired a substantial number of studies relating to middle managers' strategic roles, including important topics such as: what techniques middle managers use to influence strategy, how organizational factors affect middle managers' role enactment in strategy, how role conflict results and affects middle managers' influence on strategy, and how middle managers' network position and relationship affect their influence on strategy. In this Ph.D. research, Floyd and Wooldridge's (1992) model is applied to analyze middle managers' activities in enacting one HRM practice at an asset appraisal company in China.

A few key concepts are identified that intertwine with middle managers' strategic role enactment (Wooldridge et al., 2008). The concept of issue-selling captures middle managers' upward championing and synthesizing roles to influence which issues catch top managers' attention and therefore shape the strategic agenda. A lot of research has examined issue-selling and most of them focus on the techniques middle managers use to improve the effectiveness of issue-selling (e.g., Dutton & Ashford, 1993; Dutton et al., 1997; Dutton, et al., 2001; Ling et al., 2005). Middle managers' downward influence has been studied in association with leadership styles (e.g., Beatty & Lee, 1992) and managing emotions (e.g., Huy, 2001; 2002). Laterally, middle managers are also found to use various tactics and practices to build relationships intra- and extra-organizationally (e.g., Kodama, 2005; Rouleau, 2005). Role conflict is another main concept in middle management studies. Strategic role conflict occurs when "managers face inconsistent behavioral expectations based on the need to efficiently deploy existing competencies and the need to experiment with new ones" (Floyd & Lane, 2000, p. 154). Managers may interpret environmental cues differently and form diverse role perceptions that may conflict with each other, especially across levels of management. Floyd and Lane (2000) distinguished strategic roles specifically for managers at the top, middle and operating levels, and proposed that middle managers are more likely to experience role conflict than managers at other levels.

Organizational structure and control systems are found to affect significantly managers' strategic role perception and participation. For example, role conflict is regarded as inevitable when facing strategic change and it can be minimized by fine-tuning control systems that are appropriate to the environmental conditions (Floyd & Lane, 2000). Drawing from Simons (1990; 1991; 1994), Marginson (2002) showed that management control systems can take different forms: (1) belief systems and boundary systems, (2) administrative controls, and (3) performance measures or KPIs (key performance indicators). These different management control systems are found to affect (1) middle managers' willingness and likelihood to initiate and develop new strategic ideas, (2) the location of new initiatives and if a polarization of roles will result, and (3) the ongoing development of strategic initiatives. This study suggests that managerial perceptions of management control systems are crucial to determine the effects that control systems may have on managers' strategic activities. How managers interpret the strategic use of management control systems counts more than the systems themselves. Similarly, flat organizational structures are perceived by middle managers to enhance communication and enable involvement in strategy processes (Carney, 2004), and inconsistent cues and expectations from top managers and other key stakeholders cause role conflict and ambiguity that hinder middle managers' effective role enactment (Currie & Procter, 2005). To enable middle managers to perform strategic roles successfully, it is important to clarify consistent and reciprocal role expectations and enhance two-way interactions vertically and laterally (e.g., Mantere, 2005; 2008).

Another research stream parallel to middle managers' strategic roles examines the relationship between organizational cognition and middle managers' strategic involvement. A premise of this body of research is that middle managers may perceive and behave in a way that pursues function- or subunit-oriented goals that are possibly suboptimal for the organization's overall strategy (e.g., Kiesler & Sproull, 1982; Markoczy, 2001; Walsh, 1988). Under this assumption, a shared understanding of strategic goals and priorities becomes necessary to ensure that middle managers enact influence in strategy development in ways that integrate the efforts of various stakeholders (Wooldridge & Floyd, 1989). This stream of research examines how middle management cognition influences, and is influenced by, strategy processes, with earlier studies examining strategic consensus (as one form of shared cognitions) as an antecedent of organizational outcomes (Kellermanns et al., 2005) and later studies focusing more on shared strategic thinking as an outcome of strategy processes. The shared strategic thinking is believed to enhance managers' coordination and integration of collective efforts, and therefore to improve strategy implementation and firm performance (Bourgeois, 1980). This is the basis of strategic consensus studies, but strategic consensus is mainly studied within top managers, with middle and other managerial levels largely excluded. It is generally agreed that no amount of top management consensus will lead to effective strategic change without middle managers' understanding and commitment to top management's strategic goals (e.g., Floyd & Wooldridge, 1992; Wooldridge & Floyd, 1989). Wooldridge and Floyd (1990) found that middle managers' involvement in the strategic planning process increased strategic consensus, measured as the agreement between the strategic priorities expressed by the chief executive and a cohort of middle managers. This finding is consistent with another study finding that excluding middle managers from strategy-related conversations reduced motivation to implement strategies and increased intra-organizational alienation and conflict; on the other hand, organizational responsiveness and innovation in strategy were enhanced by two-way conversations between top and middle managers (Westley, 1990). In short, even though a consistent relationship between middle managers' shared strategic consensus and firm performance is not fully established, sufficient evidence shows that managers' involvement in various facets of the strategy process, such as participation in strategic planning and communication of strategic priorities, enhances their knowledge, understanding, and support of the strategy and decreases their pursuit of subunit-oriented goals over organizational goals (e.g., Ketokivi & Castañer, 2004; Lines, 2005; Mangaliso, 1995; Vilà & Canales, 2008).

To achieve a shared strategic understanding is not an easy process. From a discursive perspective, Laine and Vaara (2006) found that middle managers achieved a shared strategic understanding by starting their own strategic conversation, and thereby resisted an attempt to achieve consensus at the corporate level. From a sensemaking perspective, Balogun and Johnson (2004) show how middle managers made sense of a change initiative imposed by top management and managed tensions caused by conflicting interpretations of change. During the process, diverse schemas were eventually reconciled through lateral interactions wherein middle managers negotiated a new set of shared understanding that emphasized a common purpose. From a resource-based view, King and Zeithaml (2001) found that in successful firms, middle managers shared a clearer understanding of what constituted their organization's competencies that drive firm performance, while top managers tended to believe that their organizations' core competencies were causally ambiguous. Middle managers, as a group, therefore, serve as important catalysts to exploit existing firm capabilities and explore new ones (Wooldridge et al., 2008).

The middle management perspective in strategy research also examines relationships between middle management activity and organizational outcomes, mainly in the form of economic performance, and emergent or realized strategy. Middle managers' effects on firm financial performance mainly come from middle managers' direct involvement in the strategy process. Wooldridge and Floyd (1990) found that middle managers' involvement, but not their agreement with the CEO's priorities, was related to firm financial performance. Floyd and Wooldridge (1997) found that firm performance was enhanced when most middle managers engaged in integrative roles and only some performed divergent strategic roles. Middle managers' demographics, such as gender, education, and work experience, were also found to have an effect on middle managers' behaviors and unit-level performance (e.g., Mair, 2005).

Studies also examined how middle management behaviors affect the emergence of realized strategy (Mintzberg, 1978). For example, relating to Miles and Snow's (1978) four categories of strategy (prospector, defender, analyzer, and reactor), Floyd and Wooldridge (1992) found that middle managers' championing activities are important for firms who take a prospector strategy because they help to build up competence to explore new markets and business opportunities. On the other hand, integrative roles (such as synthesizing and implementation) are more beneficial to a defender strategy. In addition to enacting strategies induced from the top, middle managers can directly lead strategic change processes. For example, as illustrated by Burgelman (1994), Intel's exit from memory markets was found to be a result of middle managers' emergent behaviors helping the firm to redefine its competitive position and its core competencies. Boyett and Currie (2004) offers another example where middle managers in an Irish telecommunications firm failed to realize the deliberate corporate-level strategy but succeeded in forming an emergent strategy to open up a new strategic vision for the firm.

The influence of middle management activity to realized strategy is not always positive. Instead, middle managers can be a hindrance to strategy implementation. For example, Guth and MacMillan (1986) argued that middle managers' perceptions of the strategy process can be colored by personal and unit self-interests, and they identified specific techniques middle managers used to obstruct strategy implementation, including foot-dragging and sabotage. Similarly, Meyer (2006) showed how middle managers' individual and group-level self-interest inspired destructive interventions and finally failed a merger strategy induced by the top management. Other studies also showed evidence of middle management opportunism and ethical concerns, where middle managers exerted influence to serve their self-interest at the cost of paralyzing the strategy (e.g., Kuratko & Goldsby, 2004; Sillince & Mueller, 2007).

To summarize, according to Wooldridge and colleagues' (2008) review of the middle management literature, previously studied strategy processes mainly include middle managers' involvement in strategy making, role enactment and conflict, issue selling, emotional balancing, sensemaking, and strategy practice. The outcomes in this literature include both economic performance and intermediate outcomes. Some positive relationships were found between middle management activities and economic performance, although evidence also showed that middle managers can, at times, have a negative influence. The intermediate outcomes, rather unique for the middle management perspective, consist of the shared strategic understanding and commitment, the realization of strategic change, organizational learning, and capability building, modification, and deployment. What is less studied, and therefore deserves more effort in the future, is the contingency relationship between middle manager activities and organizational outcomes, and the concrete process of how realized strategies emerge as a result of middle management influence. Wooldridge and colleagues (2008) further recommended to pay more attention in future research on investigating strategic roles holistically, connecting thought and action, linking antecedents, processes and outcomes, and building multilevel theory. The contingency relationship of variables of different levels of management is important because it enables a holistic understanding of the connections among managers' thinking and doing, micro and macro contexts and organizational outcomes. This kind of research acknowledges reciprocal influences among various factors (such as individual action, internal and external conditions, and organizational outcomes) that are often complex, recursive and bidirectional (Wooldridge et al. 2008).

The middle management perspective provides broad theoretical support for this Ph.D. research because of its comprehensive theoretical system, a vast range of research topics, and classic models of middle management such as Burgelman's (1983a) evolutionary model of strategy making and Floyd and Wooldridge's (1992) typology of middle managers' strategic roles. Nevertheless, it is Strategy-as-Practice research that provides a direct theoretical foundation for this study because the focus of this study is on the nexus of practitioners, praxis, and practice of HRM strategies. In the next two sections, I will provide more details on Strategy-as-Practice and middle managers' sensemaking respectively.

2.2.2. Strategy-as-Practice

Strategy-as-Practice is an emerging approach to studying strategic management and managerial work (Golsorkhi et al., 2010; Jarzabkowski et al., 2007; Johnson et al., 2003; Whittington 1996). It has its roots in various theoretical sources including those classical strategy process studies (e.g., Burgelman, 1983b; Mintzberg et al., 1976; Mintzberg & Waters, 1985; Pettigrew, 1973) and later works that pioneered the practice turn in strategic management (e.g., Eisenhardt, 1989a; Gioia & Chittipeddi, 1991; Johnson & Huff, 1998; Knights & Morgan, 1991; Langley, 1989; Oakes et al., 1998).

The special issue on "Micro Strategy and Strategizing" (Johnson et al., 2003) in the *Journal of Management Studies* marks the establishment of Strategy-as-Practice as a sub-field in strategy research (Johnson et al., 2007). Since then, this stream of research has been gaining popularity, witnessed by a booming number of journal articles and special issues, books and book chapters, conference papers, and interest groups that address the umbrella approach, Strategy-as-Practice (Golsorkhi et al., 2010). The rise of Strategy-as-Practice research reflects the "practice turn" in strategy research, as happened in many social sciences (e.g., Bourdieu, 1990; Giddens, 1984; Sztompka, 1991), including organizational research (e.g., Brown & Duguid, 1991).

As a sub-field of strategy research, Strategy-as-Practice has been compared with other strategy studies (e.g., Chia & MacKay, 2007; Johnson et al., 2007; Whittington, 2007). It is commonly agreed that Strategy-as-Practice research, because of its interest in what people do in strategy, is distinctive from research that focuses on strategy content, although it is at times regarded as complementary to the resource-based view (Johnson et al., 2003; 2007) and dynamic capabilities (Regnér, 2008). While Strategy-as-Practice research has a close affinity to the strategy process approach, the former focuses its analysis more at the individual level and the latter has more interest in the organizational level of analysis, for example, identifying patterns of strategic practices (Balogun & Rouleau, 2017). Johnson and colleagues (2007) provide a framework to map strategy research into a 2X3 matrix according to whether they focus on strategy content or process and according to the level of analysis (individual activities/praxis, organizational actions, institutional field practices). Strategy-as-Practice studies largely fall under the box of individual actors' process activities. This is where this Ph.D. research is located to examine what middle managers do to enact one HRM practice and how their activities unfold.

The fundamental characteristic of Strategy-as-Practice research is that it defines strategy in terms of what people **do** in strategizing rather than what organizations **have,** emphasizing the micro-level activities by individual strategy practitioners. Its focus on the micro side of strategy (i.e., the micro-level social activities, processes, and practices in strategizing) makes Strategy-as-Practice a research area that connects traditional strategy research with practice-oriented organizational studies (Golsorkhi et al., 2010). Strategy-as-Practice research is interested in what actually takes place in the whole organizational strategizing processes, which is different from the traditional strategy research that mainly examines strategies' effects on firm performance. Due to its focus on practice and activities, Strategy-as-Practice research contributes to theoretical advancements in strategic management that are especially relevant to the world of work because it is done by directly interacting with practitioners, and its research topics and methods are fully grounded in existing practices.

Despite its primary emphasis on practice and relevance, the Strategy-as-Practice community tries to make it an open research field that keeps extending its boundaries by incorporating various perspectives (Campbell-Hunt, 2007; Chia & Holt, 2006; Denis et al., 2007; Golsorkhi et al., 2010; Jarzabkowski, 2003; 2004; 2005; 2008; Johnson et al., 2007; Seidl, 2007; Vaara et al., 2004). The most influential conceptual framework of Strategy-as-Practice is Whittington's (2006) framework of three elements of strategizing: practitioners, praxis, and practices. This framework builds on Johnson et al.'s (2003) original idea of an "activity-based view of strategy" that aims to understand "the myriad, micro activities that make up strategy and strategizing in practice" (p. 3). Whittington (2006) emphasizes the importance of understanding strategizing activities under their broad context (both intra-organizational and extra-organizational) considering the interactions among the three key elements. Jarzabkowski et al. (2007) further elaborated the 3-element framework of Strategy-as-Practice proposing that empirical studies should focus on different nexus between praxis, practices, and practitioners depending on the research problems, and use this framework to address 5 key questions: What is strategy? Who is a strategist? What do strategists do? What does an analysis of strategists and their doings explain? How can existing organization and social theory inform an analysis of Strategy-as-Practice? This Ph.D. research answers these calls by conducting a single case study where middle managers' upward and downward activities are examined under internal and external environments. Focusing on the strategizing processes of one HRM practice, strategy practitioners' (mainly middle managers') activities, the processes of how those activities take place and the working mechanisms of why those strategizing processes unfold in certain ways are analyzed through existing organization and HRM theories such as HR attribution, HRM strength, organizational justice, professional identity, organizational identification and commitment, and so on.

Strategy-as-Practice research has addressed many topics. The most examined topic is how strategizing is done under specific contexts (i.e., through organizational processes, activities, and practices of strategizing). Other themes that have drawn significant attention or have been gaining popularity include formal strategic practices (such as strategy workshops, meetings, committees, teams, administrative routines), sensemaking in strategizing, strategists' role and identity in strategy and strategizing, discursive analysis of strategy, tools and artifacts utilized in strategizing, and power issues. It is worth emphasizing that a considerable part of the research has examined middle managers' role in strategizing processes (e.g., Balogun & Johnson, 2004; 2005; Mantere, 2005; 2008; Rouleau, 2005; Sillince & Mueller, 2007). Works that are most relevant to the current research are those that study middle managers' roles, especially that of their sensemaking, in strategizing processes. In the next section, I introduce separately middle managers' sensemaking in more detail.

2.2.3. Middle Manager's Sensemaking in The Strategy Process

Sensemaking plays an important role in middle managers' strategic influence, and middle managers' sensemaking has been well studied in strategy research. Sensemaking is not regarded as a theory but is referred variously as a "perspective" (e.g., Weick, 1995), a "lens" (e.g., Sonenshein, 2009), or a "framework" (e.g., Helms Mills et al., 2006). Weick's (1995) classic work defines the sensemaking process with seven key characteristics including: 1. Grounded in identity construction; 2. Retrospective; 3. Enactive of sensible environments; 4. Social; 5. Ongoing; 6. Focused on and by extracted cues; 7. Driven by plausibility rather than accuracy.

Maitlis and Christianson's (2014) review on sensemaking research found that the term of sensemaking is sometimes used vaguely without a clear definition, and when definitions are available, their meanings differ from each other. Despite the different definitions, Maitlis and Christianson indeed found a few characteristics common to most sensemaking definitions. First, it is dynamic and transient. Second, it is normally triggered by cues that violate expectations. Third, it is generally regarded as "social" despite different beliefs about whether it happens within or between people because even individual sensemaking is socially embedded. Fourth, there are repeated mutual influencing cycles between people's actions and meaning construction in sensemaking. Given these common themes, Maitlis and Christianson (2014) provide an integrated definition of **sensemaking** as "a process, prompted by violated expectations, that involves attending to and bracketing cues in the environment, creating intersubjective meaning through cycles of interpretation and action, and thereby enacting a more ordered environment from which further cues can be drawn" (p. 11). This is the definition of sensemaking that the current research adopts.

Related to the diversity in the definition of sensemaking, there exist various forms of sensemaking and other relevant constructs. Some categorizations of sensemaking are simply combinations of sensemaking and its application fields, such as market sensemaking or ecological sensemaking. Some forms are based on the nature of the cues, for example, interpersonal or intercultural sensemaking. Of these different forms of sensemaking, prospective (or future-oriented) sensemaking is relatively new and has significant implications for our understanding of sensemaking because it shakes the well-established belief that sensemaking is retrospective in nature, which is one of Weick's (1995) classic seven key characteristics of sensemaking.

Sensegiving and Sensebreaking are two constructs of importance, in addition to sensemaking, in the extant literature. **Sensegiving** is defined as "the process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality" (Gioia & Chittipeddi, 1991, p. 442). Sensegiving is often studied top-down, but the influencing process can happen in various directions. In other words, anyone can influence others' sensemaking and meaning construction regardless of their position and power. **Sensebreaking**, defined as "the destruction or breaking down of meaning" (Pratt, 2000, p. 464), intertwines with sensemaking and sensegiving, but it is less studied. Sensebreaking has the potential to explain how organizational cognition such as strategic consensus forms when old schemas or meanings are replaced by new ones to affect middle managers' involvement in the strategy process. Leaders or managers are primarily studied as the subjects of sensegiving or sensebreaking (Mantere et al., 2012; Pratt, 2000), but how others of less power use these processes is also attracting growing attention (Monin et al., 2013; Vaara & Monin, 2010; Vlaar et al., 2008).

Addressing the question of "how sensemaking is accomplished", Maitlis and Christianson (2014) found three main themes in the process of sensemaking: events as triggers of sensemaking, intersubjective meaning construction through sensemaking, and the role of action in sensemaking. This is consistent with the typical flow of sensemaking process, noticing or perceiving cues, forming interpretation or meaning, and taking action (Daft & Weick, 1984; Rudolph et al., 2009; Thomas et al., 1993; Weber & Glynn, 2006).

An event can trigger sensemaking when people notice, out of the event, cues of ambiguity or uncertainty, feel the disruption of their normal experience, and become disoriented in understanding and acting (e.g., Louis, 1980; Maitlis, 2005). Here, violation of expectations is necessary, and it needs to be significant enough so that people start to ask, individually or collectively, what is going on, and what they should do next. This subjective experiencing of violation of expectation is a function of various factors, including its impact on identity (Corley & Gioia, 2004; Pratt et al., 2006) and goals (Balogun & Johnson, 2004; Maitlis et al., 2013). However, despite significant threats to identity or goals by discrepant cues, people may manage to rationalize or accommodate these cues and, as a result, sensemaking is not happening, if, for example, the organizational culture or group norms discourage it (e.g., Dunbar & Garud, 2009; Weick, 1988). Various contexts in which sensemaking is triggered by surprise or confusion as a result of violated expectations have been studied, such as environmental jolts (Meyer, 1982; Milliken, 1990), organizational crises (Brown & Jones, 2000; Weick, 1988; 1993), threats to organizational identity (Dutton & Dukerich, 1991; Elsbach & Kramer, 1996), and planned organizational change initiatives (Balogun & Johnson, 2004; Gioia & Chittipeddi, 1991). For this Ph.D. study, a new HRM strategy or the very act of asking business line managers to enact an HRM strategy may well serve as an event to trigger line managers' sensemaking, which is related to their identities and goals, and which may further affect their attitude and behaviors toward this focal strategy.

Meaning is not necessarily shared in organizations, and it is often constructed through negotiation among various players (Berger & Luckmann, 1967; Brown, 2004; Brown et al., 2008; Humphreys & Brown, 2002). This process of organizational sensemaking has been described differently, taking place either within individuals or between individuals. If sensemaking is regarded as a within-person activity, collective meaning construction happens when individuals promote certain points of view to change others' cognitive schemas and then influence their understanding (e.g., Bingham & Kahl, 2013; Fiss & Zajac, 2006; Labianca et al., 2000). Contrasting this within-person view of sensemaking, most scholars believe that sensemaking takes place between individuals, where intersubjective meaning is constructed when people collectively engage in, and make sense of, an issue of common interest through various discursive processes to produce "accounts", "narratives" or "stories" rather than new schemas (Boje, 1995; Brown, 2004; Maitlis, 2005; Martens et al., 2007). In this Ph.D. study, I broadly accept both the within-person and the between-person views of the sensemaking process. That is, both the individual cognitive activities and the collective discourses can have an impact on the process of enacting the HRM strategy.

Maitlis (2005) categorizes four types of organizational sensemaking according to how active leaders are in the process relative to other stakeholders. They are called "Guided" sensemaking (both the leader and others are active), "Fragmented" sensemaking (others are active while the leader is less active), "Restricted" sensemaking (the leader is active while others are less active), and "Minimal" sensemaking (both the leader and others are not active). According to this framework, Maitlis and Christianson (2014) found that most organizational sensemaking in extant research is restricted in nature: the leaders direct the process and elicit input from other stakeholders as necessary (Corley & Gioia, 2004; Gioia & Chittipeddi, 1991; Gioia et al., 1994; Howard-Grenville et al., 2013; Mantere et al., 2012; Ravasi & Schultz, 2006). Fragmented sensemaking is also identified, where middle managers (Balogun & Johnson, 2004; 2005) or other organizational members (Walsh & Bartunek, 2011) championed the process.

Typically, there lacks a coordination role in fragmented sensemaking, where "member sensemaking was highly animated but uncontrolled as leaders neither organized the vigorous member sensemaking activities nor integrated members' constructions into coherent collective accounts" (Maitlis & Christianson, 2014, p. 80). Middle managers are well-placed between the senior management and ordinary employees, constantly shifting their roles as either sense-makers or sense-givers. It is found that middle managers can be very effective in playing an integrative role in sensemaking, to facilitate, blend, and synthesize emerging meanings constructed from various sources (Beck & Plowman, 2009).

Organizational sensemaking is mostly described as a discursive practice concerned mainly with language (Nicholson & Anderson, 2005; Sonenshein, 2006; Taylor & Robichaud, 2004; Weick, 1995), although some earlier scholars highlight its cognitive element (Kiesler & Sproull, 1982; Louis, 1980; Thomas et al., 1993). Organizational members turn to conversations to explore and share their understanding of equivocal situations to construct meaning gradually and collectively so that they feel comfortable acting accordingly (e.g., Huber & Daft 1987; Weick 1995). To construct meaning, organizational actors utilize narratives and metaphors as sensemaking resources (Abolafia, 2010; Boje, 1991; 1995; Brown, 2000; 2004; Brown & Humphreys, 2003; Brown et al., 2008; Cornelissen, 2012; Cornelissen & Clarke, 2010) or engage in discursive practices that root in localized context (Maitlis & Lawrence, 2003; 2007; Rouleau, 2005; Rouleau & Balogun, 2011).

Most discursive studies of organizational sensemaking are on narratives. A narrative lens describes how meaning is constructed among organizational actors, and most importantly, it emphasizes the existence of multiple voices, stories, and therefore meanings by different groups of different interests. These different meanings are constantly negotiated to form collective accounts, which are not necessarily fully aligned (e.g., Brown et al., 2008; Sonenshein, 2010). Metaphor is gaining interest in sensemaking research (Cornelissen, 2005; Cornelissen et al., 2008; Nicholson & Anderson, 2005). It is important for sensemaking because it works as a rhetorical device to connect cues and frames (Gioia et al., 1994; Hill & Levenhagen, 1995). Except for the focus on narrative and metaphor, some works emphasize the role of sociocultural context for meaning construction in discursive practices (Rouleau, 2005; Rouleau & Balogun, 2011). Sensemaking and sensegiving are accomplished not only through the use of language but also through the skillful maneuvering of the situation. Managers need to be aware of, and appreciate, the specificity of the context so that they may choose the appropriate language and manners to fit with specific audiences and settings (Maitlis & Christianson, 2014).

Sensemaking research contributes to organization studies because sensemaking impacts other organizational processes and outcomes. Maitlis and Christianson's (2014) review found three especially relevant bodies of research, including strategic change (Gioia & Chittipeddi, 1991; Gioia et al., 1994; Nag et al., 2007; Yu et al., 2005), organizational learning (Christianson et al., 2009; Colville et al., 2014; Haas, 2006; Kayes, 2004; Thomas et al., 2001), and innovation and creativity (Drazin et al., 1999; Hill & Levenhagen, 1995; Jay, 2013; Ravasi & Turati, 2005). Sensemaking is particularly inspiring for these bodies of research because it functions both as an enabling and as a disrupting force to result in these outcomes.

To summarize research on middle managers' sensemaking and Strategy-as-Practice, I present Balogun and Rouleau's (2017) integrative framework that organizes extant research in these areas. Drawing on models by Wooldridge et al. (2008) and Johnson et al. (2007), this framework classifies concepts/constructs into three themes (sensemaking processes, practices, and performance) at three levels (individual, organizational, and institutional). Within the theme of sensemaking processes, sensemaking and sensegiving interact to result in intended and unintended outcomes. With the ongoing processes of sensemaking and sensegiving, the shared schemas (and meanings) are fractured (i.e., the old ones are broken), clustered (i.e., the new ones develop and establish locally), and recomposed (i.e., the new ones are shared). Within the theme of sensemaking practices, middle managers' sensemaking practices are grouped into three broad categories: framing, selling, and balancing. Framing reflects the influence of schemas on people's perception and meaning construction that recursively shape their experience, emphasizing the role of how people interact and use language to construct meaning (Cornelissen & Werner, 2014). Middle managers participate in framing practice by engaging in conversations, dialogues, narratives, and rhetoric. Selling practices basically refer to the same activities as sensegiving, i.e., attempts to influence others' sensemaking (e.g., Gioia & Chittipeddi, 1991; Maitlis & Christianson, 2014; Maitlis & Lawrence, 2007). Middle managers engage in selling practice by valuing people, shaking and moving networks, and setting organizational and material arrangements. Balancing refers to a set of sensemaking practices in which middle managers engage to deal with conflicting roles and mixed messages especially when facing organizational change (Bryant & Stensaker, 2011). Middle managers balance competing expectations by mitigating and amplifying contradictions, working through paradoxes, and hybriding competing logics. Under the theme of sensemaking performance, middle managers' strategic sensemaking role is performed by maneuvering through informal issues and organizational dynamics, and by drawing on their sensemaking skills, abilities, or efforts.

At the three levels of analysis, Strategy-as-Practice research efforts distribute unevenly. Factors at each level, individual (such as cognitive and affective capacities), organizational (such as relations with top managers, colleagues and subordinates, the organizational context of change, organizational resources), and institutional (such as relations with external stakeholders, environmental pressures, socio-cultural systems) have received different degrees of attention. The institutional level has been largely neglected by middle managers' sensemaking studies despite various calls for integrating micro and macro research (e.g., Seidl & Whittington, 2014; Vaara & Whittington, 2012; Whittington, 2006). The organizational level of analysis of how middle managers make sense of their world is the most integrated area of research. This is not a surprise because middle managers are defined based on their relative mediating position within an organization, and their relationships with others (upward, downward, and lateral) are important to understand their sensemaking (Wooldridge et al., 2008). Extant Strategy-as-Practice research on middle managers' sensemaking mainly focuses on how they leverage their relationship with others to make sense of change. The role of individual ability in sensemaking is seldom studied, although some factors, such as the role of emotion in sensemaking, has caught a growing attention (e.g., Balogun et al., 2015; Bartunek et al., 2011; Huy et al., 2014). This Ph.D. research collects data and conducts analysis extensively at all three levels (and beyond), examining how institutional (such as legal litigation and governmental regulation), professional (such as competition and professional identity), organizational (such as culture and client structure), and individual (such as ability, motivation and opportunity) factors work together to affect strategy players' actions and interactions and drive the strategizing processes of one HRM strategy.

2.3. LINE MANAGERS' INVOLVEMENT IN HRM

Research on line managers' involvement in HRM is relatively new and different from traditional strategic human resource management (Strategic HRM) scholarship. Strategic HRM research, focusing its analysis on HRM systems, aims to explain the relationship between HRM and firm performance (e.g., Becker & Huselid, 2006; Steffensen Jr et al., 2019), regarding strategy implementation as a key mediator and assuming that HRM systems and practices will be implemented as intended (e.g., Becker & Huselid, 2006). Contrary to this assumption, empirical studies show that HRM practices can be implemented very differently by various line managers of the same organization (e.g., Kehoe & Han, 2020), resulting in significant variations on the HRM practices' intended outcomes such as performance (Pak & Kim, 2018), commitment (Shipton et al., 2016), and turnover (Sikora et al., 2015). Acknowledging human agency (e.g., Giddens, 1984), research on line managers' involvement in HRM examines line managers' impact on enacting HRM practices, although the current focus lies almost solely on line managers' role in practice implementation, seeing line managers simply as messengers of the HR function (Kehoe & Han, 2020). To differentiate Strategic HRM research and research on line manager's involvement in HRM, according to the differentiation of strategy content and process (Bowen & Ostroff, 2004; Ostroff & Bowen, 2016), Strategic HRM research typically studies the **content** of HRM systems (i.e., what the practices are), while research on line managers' involvement in HRM focuses more on the **process** aspect of HRM systems (i.e., how the practices are enacted).

Kehoe and Han's (2020) review of extant studies of line managers' involvement in HRM points to the fact that line managers' role in HRM has been oversimplified as mere implementers of HR practice, whereas they argue that line managers are capable of exerting their agency to shape not only the process but also the content of HRM practices. According to Kehoe and Han, there are three streams of research that provide foundations for conceptualizing line manager's roles in both process- and content-based variance in HRM: HR practice implementation, workforce differentiation, and autonomous strategic behavior. These are elaborated upon below.

2.3.1. HR Practice Implementation

The first relevant stream of research is called **HR Practice Implementation**, a term used generally to cover work that studies line managers' implementation of HR practices. Results of this research stream show that line managers vary in how much they implement an HR practice as it is expected. From this stream, two concepts are important: HR Devolution and HR Practice Implementation Behavior.

HR Devolution research studies the antecedents and consequences of delegating HRM roles and responsibilities from HR to line managers. Antecedents of HR role delegation to line managers have been associated with factors at multiple levels, for example, economic systems, organizational support, and individual capabilities (e.g., Brewster et al., 2015; Op de Beeck et al., 2016). The outcomes of HR responsibility delegation to line managers include HR practice adoption and effectiveness (e.g., Mitchell et al., 2013; Ryu & Kim, 2013).

HR Practice Implementation Behavior research studies antecedents and consequences of line managers' behaviors in implementing HR practice, seeing line managers as passive actors. Some studies examined the degree and the perceived effectiveness of line managers' HR implementation behavior, and their contextual antecedents, such as support (from HR department, a supervisor and peers), high-performance HR practices, strong HRM process, and line managers' HR competency (e.g., Bos-Nehles et al., 2013; DeWettinck & Vroonen, 2017; Gilbert et al., 2015; Op de Beeck et al., 2017; Sikora et al., 2015; Vermeeren, 2014). Other studies showed that employee attitudes and team/firm performance were affected by the degree and perceived effectiveness of line managers' HR practice implementation behavior (e.g., Azmi & Mushtaq, 2015; Farndale & Kelliher, 2013; Gilbert et al., 2011; Pak & Kim, 2018; Purcell & Hutchinson, 2007; Sikora et al., 2015).

The two concepts are closely related but focus on different scopes and stages of having line managers implement HR practices. HR Devolution examines the phenomenon of shifting HRM roles from HR professionals to business line managers as an institutional design. The state of HR devolution can be regarded as one type of organizational system that provides conditions for line managers' activities in specific HRM practices. On the other hand, research on HR Implementation Behavior captures the processes after HRM roles have been assigned to line managers and assume that line managers are willing and capable to implement the HRM practices as they are designed. For example, while HR Devolution research may ask what factors make an organization more likely to delegate its HRM roles to line managers, HR Implementation Behavior may ask what factors make a line manager implement an HRM practice successfully.

2.3.2. Workforce Differentiation

The second stream of research that is supportive of the line managers' role in HRM practice is called **Workforce Differentiation**. This stream of research demonstrates the need and evidence to adopt varied HR practices, planned or unplanned, targeting employees of different jobs or groups. This shows that line managers are affecting not only how HRM practice is implemented but also what HRM practice (variance) is implemented. The idea of Workforce Differentiation is captured by two concepts: Differentiated HR Architecture and Idiosyncratic Deals. While both concepts suggest that line managers treat different employees differently when enacting HRM practices, they are different in whether the variance is planned or systemic.

The concept of **Differentiated HR Architecture** emphasizes the benefits of a system design in dividing workforce into different categories and treating them differently (Becker & Huselid, 2006; Becker et al., 2009; Lepak & Snell, 1999; 2002). For example, Lepak and Snell (2002) emphasizes the importance of an employment level of analysis to adapt a customized set of HRM practices (HR configuration) to a specific employment mode. More specifically, the concept of **HR Architecture** locates the workforce into four quadrants based on two dimensions of the human capital characteristics, strategic value (high/low) and uniqueness of the human capital (high/low). The idea of HR Architecture claims that different modes of employment and then specific HR configurations should be applied to each of these four groups.

For workers of high strategic value and high uniqueness, a knowledge-based employment is suitable, and a commitment-based HR configuration should be adopted. A knowledge-based employment mode is structured around employees' skills and competencies rather than the execution of programmed tasks and job routines. A commitment-based HR will invest heavily in employees' training and development, particularly in firm-specific skills. For workers of high strategic value but low uniqueness, it is more appropriate to deploy a job-based employment and a productivity-based HR configuration. A job-based employment mode indicates that employees are hired to conduct predetermined tasks implying a focus on staffing rather than developing. A productivity-based HR hires this type of employees to fill openings to get jobs done by paying them a market-based salary and focusing on their job performance. The firm will not invest heavily on their development because they may leave due to their highly transferable skills. When both the strategic value and the uniqueness of workers are low, contractual work arrangements and compliance-based HR configuration should be applied. In contractual arrangements, a company will make sure workers comply with pre-established rules, regulations and procedures. With human capital of high uniqueness but low strategic value, employment is better to take the form of alliances or partnerships and a collaborative-based HR configuration is more appropriate. A collaborative HR configuration aims to share information and develop trust between partners to realize joint production. It is important to select alliance partners who can work together as a team to integrate their knowledge and experience. In the case of professional service firms, professionals are normally of high strategic value and high uniqueness, and firms usually take a knowledge-based employment mode and a commitment-based HR configuration. Firms invest heavily in people's training and development because employee competencies are the building block for work organization and performance management.

The concept of **Idiosyncratic Deals** examines line managers' modification of HRM practice in content to meet individual employees' needs (Liao et al., 2016; Rosen et al., 2013; Rousseau et al., 2006). Idiosyncratic deals are limited to personalized modification of HR practice and/or work arrangements by line managers for specific employees, without an intention to apply the change to the unit level. While Idiosyncratic Deals pay attention only to line managers' isolated behavior in modifying the HRM practice content, Differentiated HR Architecture concerns both HRM process and content enacted by both line managers and the HR function.

2.3.3. Autonomous Strategic Behavior

The third stream of research that is supportive of line manager's role in HRM practice is called **Autonomous Strategic Behavior**, which belongs to strategy process scholarship. Autonomous Strategic Behavior (Burgelman, 1983a; Mintzberg, 1978) differs from deliberate strategy, and it is regarded as the foundation of emergent strategy (Mirabeau & Maguire, 2014). While deliberate strategic behaviors are integrative with an organization's major strategic design, autonomous strategic behaviors are divergent from an organization's extant strategic intent. The prevalence of autonomous strategic behavior reflects line and middle managers' agency in organizations.

Research on Autonomous Strategic Behavior studies the antecedents, processes, and outcomes of line managers' intentional deviation from intended organizational strategies and practices (Burgelman, 1983a; 1991; Burgelman & Grove, 2007; Floyd & Wooldridge, 1997; Mirabeau & Maguire, 2014; Wooldridge et al., 2008). **Autonomous Strategic Behavior** studies differ from **Idiosyncratic Deals** studies in that the former emphasizes the prevalence that line managers will intentionally modify the concept of the strategy, while the latter examines the possibility that line managers can customize strategy implementation to individual needs without the intention to change the strategy itself on a large scale. Extant Autonomous Strategic Behavior studies mainly examine middle managers or line managers' influence on the content of strategy but have paid little attention to the HRM context (Kehoe & Han, 2020). It is worth noting that research on autonomous strategic behavior has a close affinity with the middle management perspective, which has been introduced in previous sections.

Among the above three research streams, the first stream of research (HR Practice Implementation) is typical and dominant for current studies of line managers' involvement in HRM. The latter two streams (Workforce Differentiation and Autonomous Strategic Behavior) provide broader theoretical support for the first stream to expand its theoretical scope in terms of line managers' role in HRM, for example, for both HRM process and content at various levels of analysis. Consistent with these bodies of research, some empirical case studies exemplified line managers' typical HRM delivery behaviors as summarized by Kehoe and Han (2020), including implementation, i.e., enacting the HR practice as designed (Evans, 2017; Trullen et al., 2016), translation, i.e., refining the HR practice according to local condition (Bredin & Söderlund, 2011; Currie & Procter, 2001), and adaptation/introduction, i.e., explicitly modifying or replacing the HR practice (Maxwell, 2005; Mirabeau & Maguire, 2014).

Integrating insights from these relevant streams of research, Kehoe and Han (2020) propose four broad areas for future research: (1) "line managers' downward influences (i.e., through different HRM delivery behaviors) on both HRM process and content; (2) the lateral and upward influence efforts through which line managers seek broader support for their localized HR practice deviations; (3) the interplay between line managers' downward, lateral, and upward HRM influences and the horizontal and vertical fit of HR systems across organizational levels and over time; and (4) the influence of individual line managers' qualities on their HRM involvement" (p. 125). Their proposed conceptualization of line managers' involvement in HRM and research agendas provide a theoretical foundation for this Ph.D. research because this study answers their call and captures elements from all four of these areas. This study addresses these proposed research agenda directly and naturally integrates various factors into one research context to examine their interaction.

In the next two chapters, I report the case study findings. In Chapter 3, I introduce the asset appraisal profession/industry, the ABC Company, the 2017 Practice, and the problems the company encountered while implementing the Practice. The research methods of the single case study is also introduced in Chapter 3. In Chapter 4, I report the research findings by answering the research question, including what middle managers did to enact the 2017 Practice, how the strategizing processes unfolded in various phases, and the working mechanisms to explain why the implementation of the 2017 Practice came to a strategic stalemate. Finally, in Chapter 5, I draw broad conclusions and provide implications of these findings as well as future research directions.

CHAPTER THREE: SINGLE CASE STUDY: OVERVIEW AND METHODOLOGY

3.1. INTRODUCTION

This empirical study is a single case study (Eisenhardt, 1989b; Eisenhardt & Graebner, 2007; Yin, 2014) with a Chinese asset appraisal company (hereafter referred to as ABC Company or the Company). The case studied is the implementation of an HR practice of performance and remuneration management that was introduced by ABC Company since 2017 to deal with external and internal challenges. In this general introduction, I provide a broad-brush picture on how this performance and remuneration management practice (hereafter referred to as the 2017 Practice or the Practice) came into force and how it impacted the company under external and internal conditions. I first briefly introduce the asset appraisal industry (the terms "asset appraisal industry" and "asset appraisal profession" are used interchangeably) and ABC Company. Then, I explain what the 2017 Practice is and the new challenges facing ABC Company after implementing the 2017 Practice.

3.1.1. The Asset Appraisal Profession

Like all other professional service firms in mainland China, the asset appraisal companies (the terms "company" and "firm" are used interchangeably) were established after China's reform and opening to the outside world since 1978. The birth year of China's asset appraisal profession is regarded as 1988 when the first asset appraisal report was issued in the city of Dalian to support a local state-owned enterprise's international investment in fixed assets. Resonating with the strong growth of socialist market economy, the asset appraisal profession has seen significant development over the last three decades. An asset appraisal firm organizes professionals to assess the value of assets in accordance with specific purposes, following appropriate principles, methods, and pricing standards. Asset appraisal is normally required when property rights change. The asset appraisal business mainly serves clients' activities in the securities market meeting their goals such as the restructuring of state-owned enterprises into share-issuing enterprises, restructuring assets by listed companies, issuing annual reports by listed companies to fairly reflect the value of their assets. According to the data from the official website of the China Appraisal Society (CAS), by the end of 2020, the number of appraisal organizations had reached 5300 in this profession with 41,000 Certified Public Valuers (CPVs) and a total annual revenue of over 25 billion RMB (China Appraisal Society, 2021 September). Despite the asset appraisal profession's strong development in size and scale, the growing number of firms has triggered fierce competition and lowered the average profit level, making it increasingly difficult for the once lucrative industry to attract and retain top talents.

In Von Nordenflycht's (2010) taxonomy of knowledge-intensive firms, an asset appraisal organization, like an accounting firm, belongs to the Classic professional service firms as it fully exhibits all three characteristics of a Classic professional service firm. Knowledge intensity (or human capital intensity) is obvious for an asset appraisal organization since it relies on professionals' knowledge and skills to serve clients. An appraisal work is project based and often customized to clients' situations, and the quality of work is hard to evaluate. The requirement of capital is low for an asset appraisal organization to establish an operation. Asset appraisal businesses in China are professionalized, which is marked by the presence of self-regulation and professional ideology under the China Appraisal Society (CAS). In the following parts of this thesis, I will use the terms of profession and industry interchangeably due to the existing practice and the fact that many asset appraisal organizations are taking a corporate form rather than partnerships. Similarly, I will also use both the terms "firm" and "company" to refer to an asset appraisal organization in the same meaning.

3.1.2. The ABC Company

The participating asset appraisal company, ABC Company, is one of the industry leaders in mainland China. Like other professional service providers in mainland China, be it accounting or law firms, ABC company was formerly affiliated to a governmental organization. It was later transformed, in the late 1990s, into a limited liability company with individual Certified Public Valuers (CPV) as its shareholders. Since its inception in the 1990s, ABC Company has been a spearhead in the asset appraisal industry. As of 2020, ABC Company had grown as a corporate group, providing both asset appraisal and other professional services, consisting of 20 plus branch companies operating in various Chinese cities with more than 1000 professionals including about 400 Certified Public Valuers (CPVs). However, the 2017 Practice applies only to asset appraisal business departments at the headquarters. For the purpose of simplicity, when the term "ABC Company" is used in the following part of this thesis, it specifically refers to the company's headquarters that govern the asset appraisal business departments. This is the scope of this case study.

The ABC Company's main business is to provide appraisal services for large and medium-sized state-owned enterprises (SOEs) for the purposes of restructuring and listing, mergers and reorganization. It also provides a variety of consulting services for private enterprises and foreign-funded enterprises. In the international market, it has undertaken overseas listing projects of mega enterprises, alongside other services, such as overseas asset quality inspections, enterprise asset quality analysis, cash flow forecasting and management consulting, and so on.

The ABC Company's brand has been highly regarded in the eyes of clients, graduates, peers, governments, and professional associations because of its reputation of high-standard professionalism, client service, and employee experience. The Company's influence in the industry is also achieved by actively engaging in activities to establish the profession's standards. For example, the Company has seats in various governmental or professional supervising organizations including the China Appraisal Society (CAS), the Issuance Review Committee and the Mergers and Acquisitions Committee of the China Securities Regulatory Commission (CSRC), and the China Accounting Standards Committee of the Ministry of Finance. As claimed on the Company's website, the Company has contributed greatly to the reforms of state-owned enterprises, the "Go global" strategic implementation of state-owned enterprises and the capital market construction and industrial development.

3.1.3. The New HR Strategy of Performance and Remuneration Management

In 2017, the ABC Company put in force a new strategic HR practice regarding performance and remuneration management (i.e., the 2017 Practice). This HR practice has exerted a significant impact on stakeholders mostly at three levels: the company (i.e., shareholders or the top management team), the departments (i.e., the basic unit managing revenue, cost, and profit), and the employees. The stake is high for all parties because it redefines how everyone will be evaluated and rewarded.

This new strategic HR initiative is a product of ABC Company's intention to deal with external and internal challenges. Externally, competition in the asset appraisal industry has become increasingly fierce when a growing number of firms rushed into this area. Although asset appraisal services cover a wide range of businesses, high-end lucrative businesses such as appraisal service for the purpose of initial public offering (IPO) are shrinking because most large enterprises have finished IPOs. At the same time, governmental regulations are tightening both on a firm's service quality and on its clients' buying behaviors, especially when the clients are state-owned enterprises. Competition is not limited to attracting clients; talents become more and more difficult to attain and retain. After 30 years of fast development of the Chinese capital market, there are enough appealing industries and companies to attract professionals to leave the appraisal industry. Talents in appraisal firms are also easy to lose to clients, be it a large state-owned enterprise or a listed private company. As a result, the average profitability of the appraisal industry is suffering because of its relative weak power in charging clients and the rising labor cost.

Internally, ABC Company was also experiencing major changes, one of which is that the company's primary founder was retiring. The over 20 years of leadership of the founder shaped the company like a family in which employees were decently paid with a pay raise every year. This highly regarded practice coincided with the golden age of the appraisal industry when the market was on the rise and professionals were highly respected. The strong market growth concealed many internal issues such as a slack in performance management and neglect of pay inequality. No big issues were heard since after all personal income was increasing year by year and the founder was always able to solve occasional frictions using the long-standing influence and the art of balancing. However, the environments were changing rapidly. When competition grew and profit drove low, the original ever-raising pay policy became unsustainable. The next generation of management team strongly felt the need to develop more business, cut costs, and increase profitability. That was when the 2017 Practice came into birth and it solely focused on financial performance indicators, i.e., revenue and profitability, aiming to incentivize the business department (and some individual employees) to generate more businesses while managing projects effectively to save costs.

The 2017 Practice is a far departure from previous practices in performance and remuneration management. The goal of the new practice is to boost the company's growth by motivating departments to develop more businesses and improve project management by connecting pay and performance. Its logic and procedure seem rather straightforward. **First**, the company will assign yearly revenue objectives to departments based on each department's employee number and position. Departments with more and higher-rank employees will be expected to generate more revenues. The Practice stipulates that a 2% reward will be given to departments who exceed the performance objectives (based on the excess revenues), and similarly a 2% penalty will be given to those who fail to achieve objectives (based on the gap of the revenue objectives). **Second**, revenues generated by departments will be divided between the company and the department based on a fixed percentage, for example, A% to the company and B% to the department where A% + B% = 100%. The division of revenue is based on revenue realized, i.e., revenue received from the client, and this provides an incentive for departments to follow up with receivables. At times, it is possible that receivables cannot be collected after the services have been provided. **Third**, after this division, the share of revenue a department receives will cover the department's employees' (including the department head) compensation plus some other costs. The department head has full authority to distribute income among employees in his/her department. **Fourth**, employee performance evaluation is carried out at the department level although the general policy is formulated by the Company and the evaluation results need to be approved by the Company before they can be implemented. In reality, however, one department can be very different from another in terms of how they evaluate and reward employees' performance. The company will normally approve what the departments propose.

3.1.4. The Problem

Despite the rosy picture envisioned by the 2017 Practice, business results did not meet expectations and new challenges emerged following the implementation of this Practice. The 2017 Practice turned to be associated with various complications. **First,** the yearly revenue goal was not fully met partly due to market forces and partly due to the departments' lacking motivation and initiatives to engage in business development activities. **Second**, the pay-for-performance practice polarized individual income between high-performing and under-performing departments, which heightened the concerns around fairness and justice. **Third**, departments started to study the rules of the game and take advantage of it to maximize utility from a departmental and/or individual perspective. For example, some departments (heads) tended to prioritize managing projects' profitability over developing more businesses, which to a certain extent caused the company's failure to achieve its annual revenue target. Or some departments were reluctant to promote employees because higher rank employees will cause the company to assign more revenue tasks to the department. **Fourth**, more importantly, the consequence of this game playing trickled down to front-line employees. This is illustrated by the rising turnover rate and the pervasive belief that the company has taken away their cakes and it is too big a portion of it! The once collaborative and harmonious culture has been eroded.

Facing the unpleasant surprises, the top management team was committed to changing the situation but did not know how to address the under-performing departments and what changes to make for a long-term development. This situation helped the researcher to maintain the company's interest and commitment to participating in this case study in exchange for management advice. Actually, the ABC Company had consulted with other external resources for change before this case study, but no major change or improvement had been made.

3.2. METHODS OF THE CASE STUDY

3.2.1. Data Collection

The ABC Company was seeking external support to improve its performance and remuneration management practice when the person in charge of this initiative heard that the researcher was conducting research on HRM strategizing under HR-line manager partnerships. After an initial contact under an intermediary at the beginning of March 2021, ABC Company and the researcher agreed that the researcher will study the ABC Company's 2017 performance and remuneration management practice as a case and provide management advice to the company as an exchange at the end of the research project.

The data collection activity started officially in the middle of March 2021 and the major part (interviews) lasted over two months by the end of May 2021. Data were collected mainly by conducting one-on-one interviews. In addition to the interviews, five meetings were organized to communicate findings and plans, where doubts were clarified, findings verified, and interactions observed. Other activities including document analysis and observations were also utilized to complement interviews for data analysis. Outside of ABC Company, data collection activities also included searching for public information from websites and meeting with subject matter experts in the profession.

Interviewees were recommended by ABC Company and included people from different departments at various organizational levels, the senior management team, the business department heads, and front-line employees. Fifteen interviews were conducted including four with department heads, five with senior management team members, and six with lower-level employees. Although the focus was middle management's perspective, it was important to interview individuals at different levels, in order to validate this perspective and triangulate information. This method is consistent with other studies (e.g., Porter, 2006) and it answers the call to build multilevel theory by using cross-level sampling (Wooldridge et al., 2008). The benefits of sampling across levels of management for the study of middle managers' influence in strategy processes are clarified by Wooldridge and colleagues (2008) as: "In contrast with studies focused exclusively or primarily at one level of management, multilevel studies of this type have the potential to shed light on the 'black box' that intervenes between top management's intent and the realized strategy." (p. 1217)

Each interview lasted from 90 to 120 minutes. Therefore, the interviews lasted long enough to ensure that they were conducted with sufficient depth, with each question being fully answered, probed and discussed. Interviews were semi-structured, but questions were adapted to the interviewees' position at the organizational hierarchy. For example, questions on the rationale of the initiative were targeted to the senior management team; personal experiences of performance evaluation processes were elicited mainly from lower-level employees; and middle level managers were invited to share their understanding and experience of the contents and processes of introducing and implementing the new performance and remuneration management practice. All interview guides are provided in appendices. Appendix A lists the interview questions for middle managers; Appendix B lists the interview questions for the top management team; and Appendix C lists the interview questions for lower-level employees.

3.2.2. Data Analysis

To analyze the interview information, I listened to each interview recording a few times at different times. The first listening of the recordings was done within 24 hours after an interview to verify and maximize understanding, when messages captured on the spot, for example nonverbal information, were still fresh to my memory. This is important because observing and making sense of nonverbal information such as emotions and facial expressions is an effective way to analyze data by enhancing description and interpretation (Denham & Onwuegbuzie, 2013). Out of the fifteen interviews, one interview was not recorded following the interviewee's will. In this case, the researcher, within 12 hours after the interview, reflected on the interview process, reviewed, and revised the interview notes to add further elaboration of the interviewee's answers in context so that key ideas were documented in a complete and accurate way. The purpose of this first-time listening of interviews was mainly to grasp the essence of the interview at a high level and to verify the on-the-spot notes on ideas that were regarded as important during the interview. For example, after the first listening, I developed a general understanding of how positively or negatively the interviewee evaluated the 2017 Practice, to what extent the interview provided answers to the research questions, what major topics could be further mined, and where in time to find them in the recording.

The second time listening to the interview recordings was to find out in-depth key messages of each interview. During the process, one segment of a recording was rewound a few times when necessary to document the answers into texts. Although the researcher did not intend to transcribe the whole interviews word for word, it turned out that most of the interviews were transcribed, and in a word for word manner with those parts that contained key information. Despite the interview transcription, the analysis of the interviews was mainly based on listening to the interviews, again and again, because the oral version of the conversations provides critical extra information a transcribed text cannot convey with interviewees' voice, tone and pitch signaling their attitude and reminding me of the interview scenes, overall atmosphere, and their facial expressions and body gestures (Denham & Onwuegbuzie, 2013).

The third time listening to the interview recordings was less intense than the second time, and its main goal was to cross-analyze interviewees' answers to find out emerging themes, commonalities, and differentiations, first at the same level (for example, among middle managers, i.e., department heads in the case of ABC Company) and then across levels (for example, between the senior management team and the middle managers).

Further listening to the interviews was either deliberate or casual. Deliberate listening was to pinpoint key answers to major themes and to transcribe the segments in exact words so that they can be used as quotations in the dissertation. Some casual listening was done when the writing was less productive. Listening to the interviews without purposefully seeking evidence for presumed understanding helped to focus and inspire insights.

While the data analysis was mainly based on the interviews, the researcher also examined organizational documents (e.g., the 2017 Performance Management Policy, and a set of Performance Appraisal Procedures and Forms), management team profiles, industry regulatory protocols from internal and external sources such as organizational, governmental, and industrial websites.

Since all interviewees are native mandarin speakers, all interviews were conducted in Chinese mandarin. The interview recordings were also transcribed into Chinese. Relevant transcripts were only translated into English when they were used as quotations in the thesis. Similarly, data from sources other than interviews were translated into English only when they were cited.

To validate my understanding of key issues from the interviews, I kept communicating the key findings in a written format periodically with ABC Company's senior management. Five documents were finished and four of them were sent to the senior management. One document that summarized key findings from the interviews with lower-level employees was not sent to the firm to protect the interviewees' confidentiality. Positive confirmation was received with each communication document showing that the management team recognized the key issues the researcher identified as being relevant and accurate. Except for the written communication during the data collection process, the researcher reported the findings and offered management advice to the management team in face-to-face meetings. These meetings are as informative as those interviews because the management team's interaction in meetings and their reaction to the problem framing and the solutions provided powerful explanation to the strategizing processes of the 2017 Practice. Moreover, the data validation was on-going with one issue of concern being cross-checked with different interviewees from different departments and different organizational hierarchies. That is why the interviews went long, typically 90-120 minutes with middle managers and 60-90 minutes with lower-level employees.

To analyze the data from the interview and other data collection activities, I conceptualize strategy practitioners' behavior patterns, processes and mechanisms under "what", "how", and "why" of the strategizing processes of the 2017 Practice. Reporting of the data is organized in these three broad categories, in Chapter 4. One part of the research question "what do middle managers do to enact HRM strategy" is answered in the "what" part where I apply Floyd and Wooldridge's (1992) model of middle manager's involvement in strategy. Another part of the research question "how do strategizing activities and processes unfold under internal and external environments" is answered in the "how" part where I connect meanings constructed by the research participants into motions and sequences. These meanings (or reasonings) are mainly constructed by the research participants. As a researcher, my understanding of their constructed meanings was verified by continuously adapting interview questions and communicating key findings, as described earlier.

The data analysis was a continuous process starting right when the data collection began. Actually, the informants was involved in the analysis process. This is reflected in the design of the interview questions and the continuous adaptation of the questions. For example, one of the planned probing questions is: "If possible, can you draw a timeline for me, listing the key turning points and events and explaining why they happened and what impact they had?" This kind of question invites interviewees to engage in explicit analysis of their experiences of the strategizing processes of the 2017 Practice.

The coding of data was also ongoing, throughout the processes of my taking notes during the interviews, listening to the recordings repeatedly afterwards, and communicating my understanding with both internal (e.g., TMT members) and external informants (i.e., subject matter experts). The coding process was both inductive and deductive (e.g., Linneberg & Korsgaard, 2019). It was inductive in that the key issues (concepts or themes) emerged from different informants' own discourses, which were interrelated. It was deductive because an existing theoretical framework (i.e., Floyd and Wooldrige's typology of middle managers' involvement in strategic management) was applied to code middle managers' activity types. Specifically, the entire analyzing process, from raw data to conclusions, involved the following steps.

The first step was to code each informant's general experience with the Practice at the high level (e.g., positive or negative) and their affective commitment to implementing it in the past and in the future. This normally occurred during the interviews and after the first listening of the recordings. At the second step, I focused on identifying the key factors (or concepts) in the discourses and reasonings of all informants about their experience with implementing the Practice such as what happened and why. For example, increased competition and competitor behavior were considered to be important external environmental factors, and the characteristics of the projects were believed to be a key differentiator of departmental performance. At the third step, middle managers' activities related to implementing the Practice were grouped into Floyd and Wooldrige's typology to distinguish whether their strategic impact was downward or upward, and whether they were integrative or divergent to the strategic design (see Table 1). At the fourth step, I compared the discourses from various informants (from different departments) to identify themes of common concern, although people's views may diverge (see Figure 2). This process inevitably involved the researcher's judgement to decide whether a theme was relevant. For example, regarding the regulatory penalties the Company received, one underperforming department emphasized its negative effect on its business development because the company's reputation was affected negatively, but high performers did not mention this factor. I decided that this was a relevant factor, but its effect might not be as serious as described by the underperformer. At the same time, this pointed to other factors that may explain the difference, for example, middle managers' ability, motivation and opportunities in developing new businesses. At the fifth step, I built relationships among these identified themes into 4-phase processes (see Figure 3) by applying the sensemaking-action-result framework (see Figure 1) and other relevant current theories (see Table 2). At the last step, I further abstracted those themes and their relationships from the Practice level to the firm level to explain why the Strategic Stalemate occurred by integrating factors at all levels and various current theories (see Figure 5). These above steps were not linear but recursive.

There is a debate currently about the use of "templates" in qualitative research (Gioia et al., 2022), which focuses on whether a standard format, such as a data structure, is an important (or the only) criterion to judge the quality of qualitive research. This Ph.D. dissertation follows the logic of the Gioia Methodology (e.g., Gioia, Corley, & Hamilton, 2013; Langley & Abdallah, 2011), albeit not strictly. Although a data structure builds rigor for qualitative research, it was not possible to apply it strictly in this study. This is due to the following reasons.

First, this Ph.D. study aims to answer the research questions by exploring and describing middle managers' praxis in practice under a unique context that captures various factors at different levels of analysis. It does not intend to establish concrete theories or propositions, although this does not prevent it from resulting in important theoretical and practical implications. Second, although this study generally takes a grounded theory approach, it was difficult to differentiate strictly among raw data, 1st order concepts, 2nd order themes and 3rd order dimensions. This is because their relationship is hardly linear. As discussed earlier, meanings are mainly constructed by research participants in this study. They are able and indeed provided their "theories" not only raw data. For example, the idea of "one-big-pot-eating has become a few smaller-but-still-big-pot-eating" was offered by the interviewees, from which I conceptualized the concept of the co-existence of two conflicting performance cultures. Third, given the above considerations, I have chosen to present many and long direct quotations including long interview conversations. The intent is to place the "raw data" in context to allow readers to make their own "theories". One data structure may not capture the full picture of rich data and their complex relationships, and this is especially true in this study as a chapter-based thesis. In the following Chapter 4, I present the research findings.

CHAPTER FOUR: FINDINGS OF THE SINGLE CASE STUDY

In this chapter, I explain what I found from the case study with ABC Company answering the main research question, i.e., how do middle managers act and interact to enact an HRM Practice (the 2017 Practice of performance and remuneration management in this case)? The research findings are structured under the themes of WHAT, HOW, and WHY of the strategizing processes of the 2017 Practice. Each theme (what, how and why) consists of a few sections.

In the WHAT part, I describe what ABC Company's middle managers do (praxis) to enact the 2017 Practice and to cope with new demands that it brings, under other general practices in internal and external environments. A middle management perspective (Wooldridge et al., 2008) and Floyd and Wooldrige's (1992; 1994; 1997) model of middle managers' role in the strategy process are adopted to analyze department heads' (i.e., the middle managers in this case study) thinking and doing. While middle managers' praxis is the focus, other practitioners' behaviors are also analyzed mainly as responses to and consequences of middle managers' attitudes and behaviors.

In the HOW part, I identify major processes, through which various actors' perceptions, behaviors, attitudes, and motivations iteratively interact and result in the trajectory of implementing the 2017 Practice in ABC Company. Adding time as an extra dimension, I found four major phases of strategizing processes. In each of these phases, practitioners' sensemaking and acting reinforce each other to drive the strategizing processes to evolve over time. The main theme of thinking and doing in each phase differs and different processes may co-exist in one phase. Again, while the analyses focus on middle managers (i.e., the department heads), factors at other organizational levels are also discussed to show middle managers' middle-top-down influence under the constraints of internal and external environments.

In the WHY part, I explain the major working mechanisms, supported by relevant theoretical frameworks, that drive how strategy practitioners act and interact in each phase to enact the 2017 Practice under internal and external conditions. Working mechanisms are mainly discussed through theoretical lenses such as strategic consensus (ambiguity), HR attribution, organizational justice, HRM strength, identity and identification, person-organization fit, and the logic of governance in professional service firms.

4.1. PRACTICE AND PRAXIS: WHAT MIDDLE MANAGERS DID TO ENACT THE 2017 PRACTICE

From a micro strategic management perspective, what strategy practitioners do matters more than what a strategy envisions. At the same time, a practitioner's agency is deeply conditioned under internal and external structures (e.g., Whittington, 2006). In this section, I describe the activities of ABC Company's strategy practitioners during the strategizing processes of the 2017 Practice. Taking a middle management perspective (e.g., Wooldridge et al., 2008), this study focuses on middle managers' activities. Middle managers in this case study are the business department heads. Moreover, one member of the top management team is responsible for the company's HR management but does not have the support of a professional HRM team. I regard this person, hereinafter referred to as the HR Head, also as a middle manager because this role's influence is middle-top-down in people management. The HR Head needs to report to the top management team and communicate to other department heads when designing and implementing HRM strategies such as the 2017 Practice. While middle managers are the focus, the top management team's behaviors also play an important role to enable or hinder the processes. Similarly, lower-level employees' behaviors are also examined, but to a lesser degree.

According to the interviews and the follow-up analysis of issues that emerged during the interviews, a series of external and internal factors are identified as being material for the strategizing processes of the 2017 Practice, which I summarize into three categories: external environments, internal structures, and middle managers' agency. I first introduce the external environments and internal structures that shaped the strategizing processes of the 2017 Practice. I then describe the actions and interactions by strategy practitioners, mainly those of middle managers (i.e., business department heads).

Analyses below are based on data collected from interviews, document analysis, archival data, and subject matter expert meetings. Direct quotations of interview transcripts are frequently provided in the third category (i.e., Middle Managers' Activities), while they are less frequently used in the sections of External Environments and Internal Structures for the purpose of parsimony and clarity.

4.1.1. External Environment

The 2017 Practice was born under specific external and internal conditions. According to interviews with interviewees from the ABC company and subject matter experts in the industry, there are a few external forces that have shaped the formulation and implementation of the 2017 Practice, including the industry's characteristics, younger generations' change in work attitude, and governmental regulations.

The asset appraisal industry has become more competitive and less profitable over time. One may easily draw this conclusion after a brief five forces analysis (Porter, 1979; 2008). This industry used to be highly profitable. However, the high profit and relatively low barriers to entry have brought an increasing number of new players. As a result, competition has become fierce, and a certain degree of price war is often used in project bidding. Except for competition among current players, buyers of asset appraisal services have more power to negotiate a contract. As major buyers of asset appraisal services, state-owned enterprises are very price-sensitive, and tend to give projects to the company who offers the lowest bidding price. This concern is especially serious in the context of a nationwide anti-corruption campaign. One department head described the situation like this:

> *"We all know that the gross profit margin of the industry is declining year by year, which is caused by competition. How many new companies have we seen just in the last year? My impression is that we now have more than 6,000 organizations. We had just over 4,000 two to three years ago. It's because of the deregulation. After the deregulation, many real estate companies, [who were not allowed to conduct asset appraisal business before the deregulation], now also do appraisal business. In addition, no special verification is required anymore to engage in securities market related businesses. All these factors have caused more and more severe competition."*

From the suppliers' side, talents are the most important factor that differentiates one appraisal company from another. However, the appraisal industry has become less attractive to young talents and faces increasing difficulties to attract and retain high performers. ABC Company is not alone in suffering from rising labor costs and turnover rates. This trend at the industry level is largely a function of a mix of outside opportunities and professionals' perception of their income level, social status, and work-life balance relative to other professionals such as accountants and investment bankers. At the organizational level, some company-specific characteristics, for example HRM practices such as performance management, may counter this industry trend to varying degrees. Even so, sometimes it is impossible to retain a talent anyway because the new offer is just irresistible. Moreover, younger generations of workers, born in post 1990s, are very much different in work centrality (e.g., Bal & Kooij, 2011) and achievement motivation from senior and middle managers who were typically born in the 60s, 70s and 80s of the last century (Generation X and Y in American society). The Post-1990 generation in China has a growing awareness and needs for self-actualization and work-life balance and has a decreasing tolerance for power distance and inequality. Monetary incentives are less effective for this generation partly because their parents have accumulated sufficient wealth for the family. Therefore, younger generations are much more likely to change jobs than older generations whenever they are not happy or do not see a promising future, or when they are too busy to have a quality life.

The difficulty of retaining and motivating young talents in this industry is reflected in the dialogue between the researcher and one employee who had decided to quit his/her job when the interview took place. Here below is an excerpt of the interview conversation, where R represents the researcher and E represents the interviewed employee:

R: What are your expectations for your career?

E: *First of all, between career and life, I hope to be in a balanced state. There should still be life, rather than being completely occupied by work. Professionally, I hope my job is recognized by the public or others*.

R: So, it has something to do with the social status. As a CPV (Certified Public Valuer), this need can be met, right?

E: *But in recent years, the social status [of a CPV] is not particularly high. This is also because the public has a misunderstanding of the valuation work; that is, they think [that our work is subjective] and can give a valuation as we wish. This is also something that we have always wanted to change [i.e., the public perception of the valuation work]. That is to say, in fact, we [i.e., CPVs] have our professional judgments. The third point is to have an income that matches my ability and work intensity. This is also a recognition of my competence and contribution.*

R: Are these three elements in this order of importance to you?

E: *To order the importance [of the three elements], social recognition is the most important, income is the second, and work-life balance is the third*.

R: Do you think your ideas will represent the needs of your generation?

E: *I think, it is not entirely representative. In terms of the order, some people will put income first*.

R: What percentage can you represent?

E: *Probably one third*.

In addition to changes in social values, governmental regulations created another important macro environment that shapes the structure of the industry and the activities of its players. The institutions that supervise the appraisal industry and companies are mainly professional self-regulatory organizations, such as the China Appraisal Society (CAS), and governmental financial and securities market regulatory agencies, such as the China Securities Regulatory Commission (CSRC) and the Ministry of Finance. Governmental regulations affect the appraisal industry and its organizational and individual players, directly or indirectly, in a few ways.

First, supervising organizations have tightened regulating and monitoring activities to maintain a healthy market order. This increases firms' labor cost because more procedures are to be followed to ensure service quality and to avoid penalties. ABC Company has been known in the industry for its high professional standards and emphasis on service quality. There is a very high degree of consensus on this point among all interviewees regardless of their positions in the Company. ABC Company could have benefited from a more stringent regulatory environment because strict regulation could limit competitors' opportunistic behaviors and therefore make their cost structure converge. However, ABC Company received two administrative penalties after the 2017 Practice was implemented. These two appraisal reports were ruled to have flaws and led to the penalties by the governmental authorities. However, this was not caused by the 2017 Practice because those reports were issued in the years before 2017. Regardless of the reason, administrative penalties imposed by governmental supervisors have affected the company's reputation and its business development. I will provide quotations from interviewees in later sections to illustrate how these events affected various players' activities during the processes of enacting the 2017 Practice.

Second, governmental regulations have an important impact on appraisal companies' behaviors and outcomes in bidding for state-owned enterprises' projects because they stipulate who is legitimate to participate in bidding and what criteria are used for bid determination. As one of the market leaders, ABC Company used to be able to take advantage of its place in a relatively concentrated industry structure, because big projects usually required firms to meet certain criteria, such as their ranking, size, and credible records of practice, to be eligible to participate in bidding. However, this restriction in size has been relaxed and more and more medium-sized firms are allowed to participate in bidding. This fuels the intent and practice of price wars. According to the interviewees, as shown in the previous quote, the number of organizations who conduct asset appraisal business had raised about 50% in three years by the time of the interview. With more bidders to compete for state-owned enterprise business, firms tend to lower their service price, sometimes even lower than costs to get certain deals for strategic purposes. This unhealthy competition is partly encouraged by governmental policies and practices that give state-owned enterprise business to the company who offers the lowest bid price. Letting the lowest bidder win is a common practice for decision makers in state-owned enterprises. This practice is especially emphasized under the context of a nationwide anti-corruption campaign. This issue is faced by almost all professional service firms because of the opaque quality of their services (Von Nordenflycht, 2010). The quality of appraisal reports, as the only deliverable of appraisal services, is not easy to assess to untrained eyes. Therefore, decision makers in state-owned enterprises are particularly cautious about paying more for seemingly indistinguishable services when they are accountable for their buying decisions and find it difficult to justify them.

Third, industry rankings organized by professional self-regulatory organizations, at both national and provincial levels, have major implications on how firms organize operations and evaluate performance. Each year, the Chinese Institute of Certified Public Accountants (CICPA) and the China Appraisal Society (CAS) will announce the top 100 accounting firms and the top 100 appraisal companies respectively. These rankings are based on a set of comprehensive factors, of which annual revenues (as a plus item) and disciplinary records (as a minus item) are given particularly large weights. For example, the CAS's criteria for ranking the top 100 appraisal companies in 2021 included 7 factors, of which revenue accounted for 36%, the number of CPVs (Certified Public Valuers) accounted for 24%, and practice quality (which is solely related to disciplinary records) accounted for 26%. Other criteria accounted for a much smaller weight compared to revenues and disciplinary records. It is obvious that the government encourages firms to grow in size and to improve practice standards and quality (China Appraisal Society, 2021 November). Growing in size creates a virtuous cycle through which leading the ranking and developing more businesses reinforce each other. As a result, firms are incentivized to expand business scale and attach great importance to this goal in their internal performance management systems. This is the case for ABC Company and its 2017 Practice. It explains why the company values some businesses even if they are not that profitable. This breeds a divide in interest between the ABC company and its departments, given the design of the 2017 Practice, because a project of high-revenue but low-profit is more beneficial to the company but less so to a department.

Fourth, governmental regulations sometimes directly determine a firm's ownership and organizational form. The organizational form of partnerships has started to emerge in some appraisal companies. Although still rare in appraisal companies, partnerships have become common practice in accounting firms, especially for those who provide services to listed companies. A brief review of the changes in the organizational form of accounting firms will provide an important reference for the future of asset appraisal companies. Accounting firms have undergone transformations in organization forms over a history of four decades, from being subordinates to government agencies to limited liability companies and to partnership firms. Accounting firms were first established by central and local governmental agencies since the beginning of the 1980s to support the then new national economic development strategy under China's reform and opening policy. Twenty years later, the Ministry of Finance required all accounting firms across the country to decouple from governmental affiliation and restructure into limited liability companies. The rationale was to promote the separation of governments and enterprises to better serve the market economy. In 2010, the Ministry of Finance issued a mandate encouraging large and medium-sized accounting firms to adopt a special general partnership organization to urge accounting firms to become bigger and stronger, aiming for competing with global firms such as the Big Four accounting firms. Partnership organization is regarded as more appropriate for professional service firms, especially for accounting and appraisal firms, because their development is based on human capital rather than financial capital and, more importantly, they are expected to serve the public's interests (Nanda, 2002; Suddaby & Greenwood, 2005). Nowadays, partnership has become the main organizational form of accounting firms in China regardless of their size and services.

The development of the asset appraisal industry is roughly 10 years behind that of the CPA (certified public accountants) profession. However, these two industries are supervised under the same government agency, i.e., the Ministry of Finance, at the national level. At the provincial level, local finance departments (bureaus) are responsible for managing both accounting firms and appraisal companies in their respective regions. As self-regulatory institutions, the Institutes of Certified Public Accountants and Appraisal Societies, under the supervision of the Ministry of Finance (at the national level) and Finance Departments (at the local level), have traditionally operated under two brands but with one same group of people. Recently, in order to strengthen the management of asset appraisal industry based on its professional characteristics, local provinces have actively promoted the separation of these two self-regulatory institutions to oversee each industry independently. Nevertheless, management practices in the asset appraisal industry basically follow the shoes of the CPA industry. Therefore, transforming from limited liability companies into partnership firms is very likely the trend for appraisal companies. Although the governments have not yet mandated such a transformation, ABC Company has arrived at a crossroads wondering if a change in ownership and organizational form can solve its pain points.

Fifth, governmental regulations on employers' responsibility for employees' social benefits also affect ABC Company's management practice and its relative competitiveness vis-à-vis its competitors because relevant regulations have important implications for the firm's cost structure and employee perceptions. China's social security system is still in a stage of continuous improvement and its enforcement is not thorough enough. The social security law is made by the central government, and local governments are responsible for its administration and implementation. Details such as the employee and employer contributions rates and basis for each benefit differ in different jurisdictions and are subject to annual adjustments. Social security for urban workers consists of five mandatory insurance schemes, including pension fund, medical insurance, unemployment insurance, industrial injury insurance, and maternity insurance. Another scheme, housing fund, is not mandatory but is highly welcomed by employees, and therefore good companies will normally provide employees with this benefit to meet their expectations.

Employers are often complaining that they are overburdened with high costs in paying for employees' social benefits. Taking Beijing as an example, in 2021, an employer needs to pay a bit more than 40% of an employee's base salary to cover the five mandatory social benefits (28%) plus housing fund (12%), and the employee needs to contribute (by deducting from the salary each month) about 22% (8% for pension, 2% for medication, 12% for housing). While all employees are willing to be covered by medical insurance, some employees, especially younger generations, do not see the immediate value of a pension and housing fund. They prefer more net income each month to more benefits deferred until they retire or when they can afford housing. This type of needs on the employees' side resonate with the employers' needs to lower cost either for survival or for more profits. Therefore, there is a grey area along the legal line where an employer and its employees may agree on not or not fully contributing to certain social benefits. This practice is not unusual either in professional firms or in other industries. I call this illegal practice, according to the current law, a grey area because it finds a room and a time to exist even though the government is aware of it. The reason may be that the government does not have sufficient means to monitor all violations, or it understands that many companies may go bankrupt if they do take full responsibility for the social benefits of their employees. For ABC

Company, it chooses to treat employees well and abide by legal responsibilities paying full social benefits for them. However, this choice puts ABC Company at a cost disadvantage to competitors who do not do the same. Moreover, employees of ABC Company *"do not get a strong sense of gain from the company's efforts"*, as termed by some TMT members, at least not proportionally. This is another paradox, like the 2017 Practice, that ABC Company is facing. On the one hand, they see complying with the law as consistent with the organizational identity; on the other hand, they see this practice as placing the company in a competitive disadvantage.

In addition to industrial and institutional factors, competitors' management practices can also impact ABC Company's performance management practice. Except for the one about the social security benefits, two other practices are of particular importance. The first is the organization form of asset appraisal firms. While the most popular organization form for appraisal companies is limited liability company (LLC), the form of partnerships has emerged. This has implications for ABC Company and others due to the effect of organizational isomorphism, which provides legitimacy to try something new when peer firms are doing the same thing (e.g., DiMaggio & Powell, 1983). The second practice is how, in other companies, business revenues are divided between the company and the departments, because the department heads and employees of ABC Company often refer to other companies' practice to judge whether they are fairly treated.

4.1.2. Internal Structures

The 2017 Practice was a product of the ABC Company's effort to meet external challenges by changing internal management practices. The implementation of the 2017 Practice has been conditioned by both internal and external forces. In this section, I introduce major internal conditions that have shaped the strategizing processes and outcomes of the 2017 Practice, including (1) the company's organization and control (including organizational form, structure, performance culture, business processes); (2) the company's organizational brand, culture and identity; (3) HRM infrastructure. These internal structures had changed more or less since the inception of the 2017 Practice. However, there remains strong connection between the past and the present, and the transformation has been constant and gradual. Therefore, it is difficult to isolate the players from their environment at a point in time.

The ABC Company is organized as a limited liability company (LLC) consisting of a few business departments and functional departments. There were fewer business departments before the 2017 Practice and department heads had less decision-making power at that time. After the 2017 Practice, more business departments were spun off from the original departments. Although department heads were still not shareholders after the 2017 Practice, they were given significant decision-making power in managing projects and people within their departments, according to the design of the 2017 Practice.

A few shareholders constitute the senior management team and shareholders are traditionally responsible for growing businesses. Clients and projects have been traditionally assigned by the CEO to business departments according to each department's experience, expertise, and availability. Before the 2017 Practice, department heads and other employees were not expected to develop businesses and they were regarded more as professionals whose major role was to deliver projects and serve clients aiming to retain clients, and hopefully expand new projects with current clients. Under the 2017 Practice, the role of developing new businesses is implied by the performance indicator of annual revenue as, in order to meet the annual objective assigned by the company, it is not enough to only serve existing clients/projects despite the fact that serving current clients and delivering current projects remain the major responsibilities. While an implied business developer role becomes clearer, it remains vague and inconsistent among departments at which level developing businesses is expected. For example, should a Project Manager be evaluated on business development? As a result, departments vary in whether or not to break down department-level financial metrics to individual employees.

Business departments were established rather naturally as businesses grew in size. New departments were separated when one department grew big enough. For example, most of the current appraisal departments were separated from one department, which is the high-performing department before and after the 2017 Practice. While departments are not purposely organized according to service type or client industry, similar clients and projects tend to accumulate over time and characterize each department. So far, each department has accumulated certain types of client bases, one major differentiating characteristic being whether one project is asset-heavy or asset-light.

Job positions in a business department include three professional categories (Assistant Project Manager, Project Manager, and Senior Project Manager) and one administrative category. There are a few levels in some of the categories (e.g., there are three levels both for Assistant Project Manager and for Project Manager) and it makes ten levels in total with the highest being Department Manager (i.e., the department head and the middle manager in this case study). However, the department organization in practice is less hierarchical than it sounds as one business department typically consist of ten to twenty professionals most of them having CPV (Certified Public Valuers) qualifications. Business activities are typically organized based on projects. While one to two professionals will be able to handle smaller projects, it may take a hundred to deliver a large project. Outside experts are often hired for a project, which is a common practice in the asset appraisal industry. It is a fairly new practice to recruit new graduates as Assistants. ABC company used to prefer to hire project managers from the outside to develop from inside. When it became more difficult or too costly to recruit external managers, it started to recruit new graduates to develop its own project managers just a few years before the 2017 Practice. Managing projects efficiently and effectively is a key skill (such as managing a project's schedule and staffing) for a project manager to meet clients' expectations and internal performance indicators. Staffing is managed by the department head within each department and is rarely, if ever, organized across departments.

ABC Company has been a market leader since its establishment. Over time, it has created a strong market brand in the eyes of clients, competitors, and supervising authorities, known for its high standards in professional practice and client service. This professional image is highly shared internally across all organizational levels. For example, during the interviews, all interviewees agreed with the company's professionalism and were proud of it, even though their attitudes towards the 2017 Practice differed to a certain degree. Actually, when asked what the most important factor is that led to the success of ABC Company in the market, the consistent answer given by all interviewees was *"striving for high quality of practice"*. Believing in quality first has therefore become a central, enduring, and distinctive characteristic for ABC Company, which makes it a major element of the company's organizational identity (Albert & Whetten, 1985; Whetten, 2006), although this identification is stronger with higher levels (older) managers than with lower level (younger) employees.

This positioning (as a benchmark for industry professional standards) became a double-edged sword for ABC Company when external market conditions started to change quickly. It became increasingly difficult for ABC Company to maintain a balance between the conflicting demands of maintaining high quality and reducing costs. This is mainly because higher quality service takes more inputs (more hours and/or better people) but a quality or brand premium can hardly be charged to clients, especially when buyers are not able to distinguish or prove quality differences. This situation becomes worse due to opponents' opportunistic behaviors. For example, some firms, especially newer and smaller firms, may lower their bid price but cut corners on hours and procedures when delivering the project. Another controversial practice in the industry is that some companies do not pay full social benefits for employees as stipulated by law, which undermines ABC Company's competitive advantage as it pays full social benefits for employees. These issues set ABC Company into a dilemma, in which following suit on unethical practices violates its organizational identity but not following puts it at a disadvantage in a competition. This exerts more pressure on the Company to improve operation efficiency and the essence of the 2017 Practice reflects this need. This dilemma is reflected in the comments by one interviewed department head:

> *"To put it bluntly, in order to maintain professional image, brand and quality, the company cannot skip one single procedure, and that takes time and manpower. When you earn the same level of revenue, your gross profit will be lower [comparing with those who conduct less procedures]. But you do not have an option. It will be beneficial in the long run. But in the short term, although you have a brand, you cannot get a premium. The market basically does not allow you much brand premium. I think it takes a while to get through this. When the supervision becomes stricter in the future, all firms will have to further improve their quality, so at that time, maybe, our advantages [because of the high quality] will be more obvious. But now, there are too many organizations, and it is inevitable sometimes to see that 'bad money drives out good'. But we cannot lower our quality just because of that. Because you want a long-term development, you must have credibility. The credibility is reflected in the quality of your reports. Therefore, it is definitely no problem to emphasize quality; the question is whether there is a more efficient way to achieve this goal."*

ABC Company has started to actively seek change to meet challenges that originated from the outside but may also be rooted inside. Although the senior management asserted that the company would adhere to its traditional values of respecting professional standards and ethical conducts, this identity seems to be perceived more as a hindrance to its business expansion. As one member of the management team said, when asked to describe the company's culture: *"We're too harmonious, not wolfish enough." "Adhering to quality first is indeed a bit of a disadvantage under the current market conditions, but we have no plans to change."* These comments reflect a mixture of a little self-affirmation and a little self-doubt about the past, as well as a little hope and a little hesitation about making changes for the future. The 2017 Practice is therefore a logical initiative to win external competition by improving internal efficiency and effectiveness because internal factors are more under control. A side effect of implementing the 2017 Practice is that it revealed the once hidden values and identities that were embedded in the company's long-term practices. While the commercial side of a professional service provider's dual identity is catching more attention relative to its professional side, practitioners started to ask how practicing quality first affects the firm's financial performance (e.g., Alvehus, 2018; Bévort & Poulfelt, 2015). However, despite the new performance management practice, there are no clear answers to those questions such as "who we are" and "who we want to become" as a professional service provider. This strategic ambiguity provides sufficient space for the proliferation of sensemaking and discourse by various strategy practitioners (Weick, 1995), mainly to justify their responses to the performance expectations imposed on them by the 2017 Practice.

One major consequence of implementing the 2017 Practice is that the cost-benefit awareness has been significantly strengthened among employees at various organizational levels. Accordingly, employees have become increasingly sensitive to their input-to-output ratio (Adams, 1963) and to the distributive justice within and across departments (Greenberg, 1990). This shift of attention, from only serving clients with high-quality professional service to focusing on (who is) contributing more for the department or the company, creates an identity crisis and interpersonal conflicts. Professional identity is embedded in the company's years of practice of managing business and people. Department heads traditionally were not required to develop new business or at least developing new business was not directly evaluated and rewarded. This new role expectation of developing businesses, although not explicitly required but implied by the performance indicators, caused middle managers to reconsider themselves and their relationship to the company. Moreover, middle managers differ in abilities, motivation, and opportunities to participate in, and benefit from, this new practice. Therefore, middle managers are also struggling to fit into the new performance culture, with under-performers who feel wronged, and high performers who, on one hand, feel the need to justify their gains and, on another feel that they deserve more rewards. I will discuss in more details along this line in the following parts when introducing the processes and working mechanisms of enacting the 2017 Practice.

Relative to its business brand, ABC Company's brand as an employer is weaker to its employees. A senior executive attributed the success of ABC Company to its adherence to a people-oriented talent strategy. However, how being people oriented is defined and practiced remains vague both in the management's minds and in organizational policies. It is true that employees have been well paid in ABC Company especially when the market was good. And the company's high professional standards and requirements have developed employees with competency and professionalism. These elements attracted talented graduates and post-graduates to join the company. Ironically, it is the same factors that accelerated the turnover of some high performers because a few years' work experience in ABC Company can ensure that they have many more attractive job opportunities outside.

Before the 2017 Practice, the performance culture was rather a laissez-faire style and described by some interviewees as like a family and by others as "eating from one big pot (吃大锅饭)". Performance appraisal was mainly based on subjective factors and lacked quantifiable indicators such as work amounts and contributions. The remuneration was basically based on a lockstep system, in which personal pay is distributed, mainly, if not solely, according to seniority contingent on firm performance. This practice was well supported by the company's strong financial performance, due to the industry's growth and the company's first mover advantages, until a few years before the 2017 Practice.

In short, ABC Company treated its employees well financially when it had the resources in good times. However, this beneficial position caused a lack of a well-designed performance management and remuneration system because it was neither necessary nor urgent. Consequently, some high performers were demotivated when outstanding performances were not reasonably recognized and/or employees' career paths within the company were not carefully planned and communicated. This also contributed to the lack of key capabilities that are necessary to the 2017 Practice. For example, professionals did not have many opportunities to forge their business development skills as business development was not a part of a department head's jobs. This is a good example of a slack in management in professional service firms due to self-regulated monopoly (Von Nordenflycht, 2010). The 2017 Practice aimed to change the performance culture of "eating from one big pot". However, its implementation has been compromised to varying degrees in each department partly due to insufficient abilities and motivation, which can partly be explained by the weakness of their HRM infrastructure.

The HR function in ABC Company is not equipped with qualified HR professionals and the HRM systems are incomplete and weak. The HR department is actually subordinate to the Administration Department, which is headed by one member of the senior management team, who is a shareholder. This TMT member, whom I call the HR Head, is officially responsible for the HR function, although this person also takes on other roles such as client service. In addition to the lack of an independent HR department and qualified HR professionals, the deficiency in the HRM infrastructure is reflected in several aspects, including the limited scope of HRM practices and the lack of a firm-level protocols of human capital appointment, staffing, development and promotion, and as a result, the human capital is not well positioned, mobilized and motivated. Specifically, the lack of HRM infrastructure is reflected in the following four aspects.

First, HRM practices focus mainly on personnel management such as payroll and social benefits, and employees taking these job roles are normally shared with other departments such as finance and administration. The 2017 Practice was designed by the HR Head collaborating with the head of the finance department without the support of HRM professionals. While business department heads have suggested at different times to strengthen HRM systems and capacity at the company level, the company did not respond accordingly. During the interviews and meetings, the HR Head shared his/her plan to assign a current receptionist to take a full HRM role. It is obvious that the professionalism of HRM work is not fully recognized in ABC Company and the company seems to believe that as long as the top management created a HRM strategy, a junior HR assistant would be able to implement it successfully.

Second, although the Company reserves its right to approve a department's proposal of employees' performance appraisal and promotion results, people management activities are practiced *de facto* at the department level. The annual employee performance appraisal is organized by the company (HR Department) providing standard appraisal forms, in which the typical criteria include project outcomes, work attitudes, work abilities, and personal ethics. However, most of these indicators are subjective and the department heads have a lot of room to interpret appraisal criteria and evaluate employees' performance. The company will normally approve a department's proposal for employees' recognition and promotion making the approval process a mere formality. This situation remains more or less the same before and after the 2017 Practice. After the 2017 Practice, an employee's pay raise will be conditioned by a department's disposable resources that have been decided by the project revenues achieved by the department and further divided as a fixed percentage between the department and the company, according to the 2017 Practice. As a result, each business department has its own idiosyncrasies when it comes to people management, as a function of the department head's personal style. Among the various factors that reflect the different practices of people management between departments, two are particularly important, which are whether business development performance indicators are broken down from the department to each individual and whether a promotion entails a pay raise. These practices have a significant impact on employees' work attitudes and behaviors and the resulting performance culture. I will provide more details in line with this in the section on what middle managers do in enacting the 2017 Practice.

Third, people management practices, including performance appraisal, promotion, and compensation, are executed at the department level. While there are some high-level guidelines by the Company, the criteria are too general and vague to be implemented consistently among departments. One important issue is the inconsistent practice of employee promotion in different departments due to the lack of a set of concrete criteria at the company level. For example, according to one of the Company's requirements on annual performance appraisal, it stipulates:

> *"The prerequisite for the promotion of an assistant project manager of the business department to a project manager is to obtain the professional qualification certificate of CPV, to be able to independently undertake the work of being in charge of small and medium-sized appraisal projects, and to have good professional ethics."* (Company Document)

It is clear that one cannot be promoted to be a Project Manager if he/she does not have a CPV (Certified Public Valuer) qualification or has unethical behaviors. What is not clear is how to define being able to independently manage small and medium-sized projects. Specific competencies and skills required are not described for the job occupants at each level. Moreover, the difference in client bases of each department makes it more challenging to compare employees' experiences and competencies across departments. One consequence of this inconsistent promotion practice is that it may provoke perception of unfairness. Another implication is that it makes it difficult, if possible, to coordinate staffing on projects across departments when some departments lack manpower and others lack projects.

Fourth, there is a lack of concrete data on employees' workloads and contributions to projects as a basis for performance appraisal. For example, one department may have records on one employee's project work in terms of revenues received but not in terms of billable hours. This represents a barrier to improving employees' performance management if more indicators are to be added to the current indicators by the 2017 Practice. One possible solution to improve the 2017 Practice is to manage staffing at the company level so that each employee has a relatively equal chance to access projects. In this case, it is necessary to know who has overworked and who has underworked in terms of hours. Billable hours are a typical control system for many professional service firms such as the big four accounting firms (Alvehus & Spicer, 2012). However, no department heads in ABC Company showed much concern on the management of working hours or any interest in adopting more sophisticated system to manage billable hours. This attitude is rooted in the company's long history of family like culture and the weak foundations in client and/or project management.

After introducing the external environment and internal structures of enacting the 2017 Practice, I report in the following sections the evidence of what middle managers did to enact the Practice.

4.1.3. Middle Managers' Activities

In this section, I introduce what middle managers did to enact the 2017 Practice at ABC Company. Since middle managers in this case study are mainly the department heads, the analysis in this section sees all department heads as a whole focusing on their middle-up-down influence on the TMT and the lower-level employees. Although department heads' activities did vary to a certain degree, the purpose here is not to compare their differences in depth. In general, there is a polarization in performance among different departments according to the criteria of the 2017 Practice. Some departments successfully accomplished the annual performance objectives (revenue and profitability), and as a result, employees in those departments received significant pay raises. Most departments on the other hand failed to accomplish one or both performance indicators, and consequently the morale was low, and turnover increased. However, the consequences of substandard business results were not proportionally carried by the departments involved because the Practice lacked effective measures to enact either punishments or rewards, not to mention that sometimes those limited existing measures were not fully fulfilled. Therefore, while an ill performing department might survive, its talents kept leaving because the business volume did not provide sufficient opportunities for them to perform well. One thing in common for both high-performing and under-performing departments was that all of them were questioning the percentage of revenues taken away by the Company, called by the departments as *"administrative fee"*. This perception was widely shared not only by middle managers but also by lower-level employees in all departments.

The four departments I interviewed have distinct characteristics in terms of their performance in business revenue and profitability, which, as a result, differently guarded the department's interests relative to the company's. I call the best performer the Champion (department) who consistently met both performance indicators and therefore attained a win-win situation between the department and the company. The underperformer who failed to deliver on both performance objectives is called the Doubter (department) and a loss-loss situation was struck between the department and the company. Another department was skillful at effectively managing project profitability by streamlining staffing management. However, it showed little interest in, and underperformed on, the business revenue indicator. I call this department the Game Master (department) as its activities successfully ensured that the interests of the department were met, although to the degree of being satisfactory rather than ideal, while the company's interests were largely neglected, thanks to its thorough understanding and play of the rules of the game with the 2017 Practice. The last department can be called the Recipient as it tried to accommodate the new Practice and to align the interests of the two parties although its performances on the two indicators were neither too good nor too bad. The above labels I give to the departments are only for the convenience of description, and do not represent either approval or disapproval. These four departments should represent an overall picture of all business departments because they were selected purposely by the HR Head to take part in the interviews based on their distinct characteristics in enacting the 2017 Practice.

It is important to point out that there are complex factors and relationships that may not have emerged during the interviews behind each department's attitude, behaviors, and performances regarding the 2017 Practice. To verify the relationship among various complex factors may be an impossible task considering the limited access to data, possible perception bias and people's unwillingness to share their real thoughts.

Middle managers' activities (the praxis) played significant roles in enacting the 2017 Practice, both shaping it and being shaped by it. I summarize middle managers' (department heads in this case study) activities into two categories: business management (including business development and project management) and people management (e.g., job assignment, leadership, promotion, remuneration). To organize the analysis of middle managers' activities, I apply Floyd and Wooldridge's (1992) model to present department heads' middle-up-down influence based on the nature of their thinking and doing, either divergent or integrative to the deliberate design of the 2017 Practice. Floyd and Wooldridge's model demonstrates the idea that the realized strategy can be different from the deliberate strategy, and middle managers can influence both the process and the content of an intended strategy (Kehoe & Han, 2020; Nishii et al., 2008).

The four typical activities of middle managers under Floyd and Wooldridge's (1992) framework include championing alternatives, facilitating adaptability, synthesizing information, and implementing deliberate strategy. **Championing alternatives** refers to middle managers' upward communication of strategic options that are divergent from the deliberate strategic intention. **Synthesizing information** refers to middle managers' upward influence by interpreting and evaluating information to affect TMT's perceptions on the concept of the deliberate strategy. Although synthesizing information activities aim to serve the implementation of the deliberate strategy by integrating additional information and insights, they may breed the seeds for changing the concept of the deliberate strategy. **Facilitating adaptability** refers to middle managers' downward influence that encourages flexible and emergent adaptations to contexts despite it being divergent from the deliberate strategy. **Implementing deliberate strategy** refers to middle managers' downward integrative managerial interventions that align organizational activities with a company's intended strategic concept.

Before applying Floyd and Wooldridge's (1992) typology to analyze middle managers' enaction of the 2017 Practice at ABC Company, it is necessary to first clarify the strategic concept of the Practice so as to evaluate whether department heads' cognitive and behavioral activities are divergent or integrative to the Practice's strategic intention. The rationale of the 2017 Practice was to shift the company's performance culture from distributional egalitarianism to distribution based on individual output. This is stipulated in the company document, General Provisions of the 2017 Practice of Performance Management:

> *"The management of employees' remuneration follows the principle of distribution according to work outputs, taking into account fairness and sustainable development, and adopts the distribution means of determining salary by position, determining position by ability, and determining bonus by performance."*

The incentive principle of this Practice design is to realize the common development and common benefits of the company and the departments by encouraging departments' entrepreneurial spirit, and the results are measured by two indicators, business revenues and profits. A revenue sharing system is adopted in which all the project revenues conducted by a department (including those both assigned by the company and developed by the department) are split on a fixed ratio between the company and a department. A department's potential for entrepreneurship lies in its newly acquired authority from the 2017 Practice in managing its share of revenues, such as making decisions on business development, project management, cost management, employee performance appraisal, promotion and compensation. It is worthwhile to note here that the Company does retain the final decision-making power to approve major decisions proposed by a department such as employee promotion. However, the Company will normally approve departmental proposals as it has no means to judge the validity of those proposals.

Given the above, the essence of the 2017 Practice is characterized by four strategic intentions to: (1) create a pay-for-performance culture based on outputs replacing the old pay egalitarianism that is called by insiders as "eating from one big pot"; (2) enhance company growth in business volume; (3) improve project management to decrease costs and increase profitability; (4) align interests among the company, departments and individual employees by aiming for long-term sustainability and balancing the two performance indicators (revenues and profits) constructively.

As shown in Table below, department heads' typical activities during the strategizing of the 2017 Practice at ABC Company fall under Floyd and Wooldridge's (1992) typology of middle management involvement in strategy. In the following sections, I describe department heads' specific activities under each category regarding business management and people management. I will first introduce their downward influence on employees and then upward influence on the company's top management team (TMT). The downward influence consists of integrative activity (i.e., implementing deliberate strategy) and divergent activity (i.e., facilitating adaptability). The upward influence also includes integrative activity (i.e., synthesizing information) and divergent activity (i.e., championing alternatives).

4.1.3.1. Activities of Implementing Deliberate Strategy (Downward & Integrative)

According to Floyd and Wooldridge (1992), Implementing Deliberate Strategy activities are downward influence of an integrative nature relative to the strategic intention. As shown in **Table 1**, this kind of activities in strategizing the 2017 Practice mainly consists of two business management activities and two people management activities.

Business Management. To implement the 2017 Practice as it was intended, department heads engaged more in managing projects to reduce costs and improve profitability than in developing new businesses to increase the revenues. This is partly because the two tasks require different competencies, and the main role of department heads was traditionally to serve clients and manage projects, with little opportunity to develop business or receive relevant training.

First, few departments actively engaged in business development activities, except for the Champion department. The latter, who exceeded both revenue and profitability indicators, engaged in business development activities the most vigorously. As explained by the department head:

> *"The company's business growth mainly comes from three sources. The first source is the projects brought in through shareholders. The second is additional projects won from current clients and their acquaintances through a department's good service, collaboration and reputation. The third is new projects won by a department's engagement in project bidding."*

Table 1: ***What Middle Managers Did to Enact the 2017 Practice*** (Applying Floyd and Wooldridge's (1992) typology of middle management involvement in strategy)

	Upward Activities	Downward Activities	
	Championing Alternatives	**Facilitating Adaptability**	
Divergent	Business Management: • Not applicable in this category People Management: • Expect to establish a complete HRM system at the company level	Business Management: • Be inactive to develop new businesses • Be reluctant to respond to efficiency-oriented project management People Management: • Stick to pay egalitarianism • Develop employees' identification with the department (not the company)	Divergent
	Synthesizing Information	**Implementing Deliberate Strategy**	
Integrative	Business Management: • Negotiate revenue-splitting ratio between the department and the company • Call for detailed rules of implementing the pay-for-performance Practice People Management: • Not applicable in this category	Business Management: • Develop businesses actively • Strengthen project cost control actively People Management: • Align HRM to the Practice design • Promote change to establish a pay-for-performance culture	Integrative
	Upward Activities	Downward Activities	

The Champion tried to leverage all three sources deliberately to grow businesses. Other departments, however, relied more on the first and second sources. This is reflected not only by the departments' performance but also by the interviewed TMT members' statements stating that *"some departments are not active or responsive to business opportunities even under the Company's recommendation"*. This difference among departments may come from the diverse attitudes toward the role expectation of department heads as business growers, with the Champion believing that *"it's not realistic to rely only on shareholders to develop businesses"* and others thinking that *"developing businesses should be handled by professionals who have relevant skills"*. The varied opinion may also reflect differences in department heads' ability and confidence to develop businesses. While the Champion department did not brag about how capable they were in developing (new) business, which is consistent with traditional Chinese values, the Doubter and the Game Master did emphasize the difficulty in developing new business in the current environment and acknowledged that it required special expertise to grow the business.

Second, when it comes to improving project management to control costs, all departments made efforts to achieve this objective. Even the Doubter department recognized its importance although the doubts remained, wondering about the relationship between cost reduction and the company's traditions in valuing quality and customer service. Project cost control was best managed by the Game Master department as shown in the department head's sharing:

> *"When an employee knows that the cost of his/her project is linked to his/her own income, he/she will be very concerned about controlling project costs. Our department is the best in cost control, in other words, our gross profit margin is the highest…. Sometimes the project manager lacks flexibility in staffing external experts. For example, when the project is suspended temporarily, the project manager should reduce the number of external experts employed. But he/she may be afraid that when the project restarts, he/she will not be able to find enough experts in a timely manner. So, he/she tends to lock those experts into a project (even when the project is on hold). Those experts were paid while nothing was done. It was a cost to the company. We did a lot of work [on things like this] to cut the cost."*

While all department heads recognized the necessity to improve project cost management, their motivation, ability and commitment in leading change in general and in managing projects in particular were different, which resulted in varied performances in this regard. One example is project staffing. Staffing has important implications both on labor cost and quality, and the two tend to be negatively related although not necessarily. As introduced earlier, ABC Company has been the benchmark in the industry especially for its quality and customer service. To maintain high quality, sufficient hours by qualified professionals are key. However, it is difficult to define how much is sufficient. When the market was less competitive and more lucrative, project managers could afford to polish *"a perfect report"* (in an interviewee's own term) spending as much time as the professionals saw as appropriate. When the market changed and the 2017 Practice became in effect, some departments adapted faster than others. The reluctance to change was evidenced by the reflections of the Doubter department head:

> *"In the past, we had plenty of projects, and we had the most people in the company at that time. However, this is a bit of mistiming, that is, when we had the most people, there was not this performance management practice at that time; after this Practice, my personnel structure had to be streamlined. At the same time, we did not keep up with the market trends, including the asset-heavy projects. What the market is doing now is low-cost and high-efficiency projects. It is possible that people in my department are still immersed in the old style of practice, following practice standards for listed companies [which are higher]. Of course, at that time, there were many old employees, and young people were also relatively stable. Later, the fluctuations of the market and the industry came together with the 2017 Practice. We had a difficult one or two years since then, which led to the obstacles to implement the 2017 Practice. There was resistance, for example, the company was urging us to speed up project progress while we were emphasizing the characteristics of our projects. I believe this is a running-in process."*

Another related example is the role of innovating asset appraisal methods in cost saving, as reducing labor costs can be realized, at least in theory, not only by reducing project hours but also by improving efficiency and productivity. During the interviews, some employees talked about their experience in using new appraisal methods and how this could save working hours. This was recognized by one department head saying that *"it made a huge difference"*. However, innovating appraisal methods remained to be idiosyncratic with a specific project or project manager. It is difficult to justify and promote a new appraisal method in one whole department or the whole company. This is not only because each project may have unique characteristics but also because the change in methods has significant impact on service quality and potential risks such as administrative supervision or even legal proceedings.

People Management. Departments had more in common in people management than business management, although they also exhibited various characteristics. One thing in common was that department heads' people management activities in implementing the strategic concept of the 2017 Practice were not as vigorous as required. Activities that helped with realizing the strategic intention are reflected in two aspects, aligning HRM activities to the 2017 Practice and promoting a pay-for-performance culture.

First, in order to better meet the requirements of the new performance management practice, departments adopted a series of corresponding adjustments in human resource management activities. One example is that departments began to provide more opportunity and support to outstanding employees as described by one department head: *"I encourage employees to take challenges. I will assign more projects to those highly competent employees and then they will gain more benefits."* This is consistent with the ideas of a Differentiated HR Architecture (e.g., Becker & Huselid, 2006; Lepak & Snell, 2002) and Idiosyncratic Deals (e.g., Liao et al., 2016) in that employees are treated differently according to their characteristics in order to achieve optimal results.

Departments also started to pay more attention to employees' competence and productivity. Therefore, more training was organized to develop staff's abilities and skills. As one department head described:

> *"For a simple project, one or two people will be sufficient if they are highly competent. However, if they lack competence, more people must be equipped and longer time be scheduled, which will result in high cost for sure. I want to train my people so that they can be competent and efficient."*

Departments also increased transparency in the link between pay and output, which is a major content feature of the 2017 Practice, although the degree varied among different departments. For example, the Game Master department was recognized by another department head saying that *"in that department, the department head will tell you what you will get when the project is completed at the very beginning of the project. They have done more detailed work than us (in objective management)"*.

While all departments made efforts to tie people's pay with their outputs, departments varied in how performance is assessed and pay decided. For example, one department assessed employees' performance according to a set of comprehensive factors, as described by the department head: *"I will make differentiated allocation of departmental income considering employees' workload, work quality, fee collection, work attitude, cost control, business development ability, etc."* Another department tied employees' pay with their outputs more strictly by weakening the role of an employee's general position. This is shown in the department head's comments:

> *"If an employee has outstanding ability and the project that he/she is responsible for is difficult to manage, his/her income can be higher than that of the department leader. I*

will not necessarily earn more than him/her just because my position is higher than him/her."

This activity can be seen as being both convergent and divergent from the design of the 2017 Practice. It is convergent because the link between pay and performance (i.e., the employees' outputs or contributions) is strengthened. It is also divergent because an employee's career development is neglected or weakened, which was not part of the intent of the 2017 Practice. In fact, this reflects a major problem with the design of the 2017 Practice, which was to emphasize only financial performance metrics and ignore others, even though this omission may not be the Company's true intention.

Departments also had different practices regarding setting up performance objectives for employees. One important factor is whether to breakdown the departmental performance metrics onto each individual. For example, one department broke down the metrics as evidenced by the department head's comments:

> *"…regarding assessing employees' performance, it's up to each department. In our department, it's just to assign performance metrics [according to departmental metrics], and then follow up, one project after another. Make dynamic adjustments to performance indicators every month and ask each person to compare [their performance with the indicators]. The most direct indicator is revenue collected…other indicators will be [mainly] cost budget."*

Another department head did not break down metrics with his/her reasoning like this:

> *"…performance appraisal is just according to projects [they have done] … I do not break down metrics. I don't need to give him/her a target. Even though you assign an objective, it will not necessarily be completed. And the projects are supposed to come from you [i.e., the department head], right? Let's say you set up a goal of 2 million per year to him/her. And then he/she will ask, 'if you don't give me 2 million worth of projects, how could I achieve the goal?' So, I basically don't set up metrics [for them]. I just tell you that you will get more money if you do more projects. My income distribution is directly and strongly linked to the projects you do. So, if you say that you don't want to make so much money, it's okay, then you can do less."*

Breaking down performance metrics onto individuals is more aligned to the Practice's design because according to the 2017 Practice, each department's annual performance indicators are decided based on the number of its employees and their positions. It is logical to expect each employee to contribute to the performance metrics accordingly, assuming that they have the proper competencies matching their positions. On the other hand, not breaking down metrics can be regarded as a divergent activity from the Practice's strategic intention, i.e., Facilitating Adaptability, which will be introduced in another section.

Second, all departments responded quickly and actively to promote the idea of building a working-more-earning-more performance culture within their departments since the 2017 Practice was initiated. The most direct manifestation is that pay became tied with individuals' outputs in addition to their positions, and as a result, income differentiation of employees widened. One positive effect is that it enhanced talent mobility and optimization, especially when the market was not yet as competitive, as people who did not fit in this kind of culture left the company. This actually reflects one of the purposes of the new Practice, that is, to eliminate incompetent employees. Another effect is that the cost awareness was greatly nurtured across the company. This awareness of cost control and its resulting behaviors was meant to be beneficial to improving performance. However, it worked more as a dividing than uniting force for a coherent performance culture. One department head shared his/her observations and reflections on how this initiative affected people's actions and interactions at different levels:

> *"...let's see from the bottom up; for lower-level project members, it became more transparent, which is a good thing. Some people's incomes increased, transparency increased, and they now know that I work more and then I get more. This is for those who have done well. There are also some people whose comprehensive ability is not as good, which directly leads to a decrease in their salary and other aspects, and they may withdraw voluntarily. Some did. But the impact is multifaceted. Again, I will talk from the bottom up. For project managers, some people are under a lot of pressure, and the income is just acceptable. In this case, they may wonder if this level of pressure matches their life goals, considering the pressure of living in a big and expensive city. The contrast (between gain and loss) is sharp. There are two extremes. People who are really not competent have left, and so have those who are really talented. This has enhanced mobility, and I think our company's data in recent years has reflected it. For those high performers who left, they have higher expectations either for pay or for growth. What they are thinking is like this: I'm working hard here, but my expectations still can't be met; then I want to work harder elsewhere to get more added value. For those who left this industry, there are two types. One type is female employees who want to focus more on family at a certain point of time. The other type is job-hoppers, who always seek better opportunities elsewhere once they gain some experience, which is typical for professional service firms like ours."*

The interviewee further explained how the implementation of the 2017 Practice affected people's mentality at the higher level and the organizational culture: *"...for others, who are at a higher level, this Practice, no matter how much the ratio is, causes a split between the business departments and the TMT. We used to be a family, and now we have to separate accounts."*

As described by the interviewees, except for the positive effect of driving out some incompetent employees, promoting a real pay-for-performance culture was not consistently practiced across departments. Pay differentiation was not as wide as it could be or should be according to the Practice design because different departments had different levels of business volumes. Some employees did not have enough opportunity to perform well in some departments mainly due to the insufficient business volume. When business volume was not sufficient for each employee to perform and to meet their expectations, all department heads retained a various level of pay egalitarianism. Moreover, the new performance management practice caused more division than unity between departments and the company, and therefore employees shifted their locus of commitment from the company to the department. These behaviors are more divergent than integrative to the strategic intention of the 2017 Practice, which is the content of the next section, i.e., activities of facilitating adaptability.

4.1.3.2. Activities of Facilitating Adaptability (Downward & Divergent)

Middle managers' downward influence that is divergent from the 2017 strategic design is called Facilitating Adaptability in Floyd and Wooldridge's (1992) term. As shown in **Table 1**, this kind of activities mainly include two business management activities and two people management activities.

Business Management. How did the departments respond to the business development expectation, which is the primary goal of the 2017 initiative? Department heads reacted differently, and their performance was also polarized. While there was exceptional winners of the new game, most departments heads were not comfortable with this new role as a business grower. Therefore, middle managers chose to work more on managing current projects than on developing new businesses. Middle managers did not engage in business development actively due to three reasons. **First**, department heads were not used to this new role expectation because developing business was historically shareholders' responsibility in ABC Company (as a limited liability company). ABC Company was originally established as an affiliation of one national governmental organization and its clients were mostly state-owned enterprises (SOEs) at its start-up stage. Acquiring clients and businesses was not an issue when the asset appraisal industry was first forming, and professional services of asset appraisal was in short supply. Under the founder's excellent entrepreneurship, ABC Company built a strong reputation and brand in the eyes of clients, peers and regulatory authorities, marked by its spectacular projects serving mega state-owned enterprises for overseas listing in the late 1990s. Being a market leader in a growing industry enabled ABC Company to select high-end clients and businesses with little pressure for nearly two decades. **Second**, it is hard to justify middle managers' role as business growers given the company's organizational form. ABC Company is a limited liability company (LLC) like many Chinese asset appraisal companies. As a limited liability company, the top management team (TMT) are all shareholders. Department heads, however, are not shareholders, although they have high authority over many key issues including making a deal with clients, managing projects, managing budgets and people in their departments. It is unreasonable to require non-shareholders who are not qualified to participate in profit sharing to develop new businesses. **Third**, both the design and implementation of the 2017 Practice are problematic in encouraging middle managers to engage in growing the business. While the Practice offers opportunities for department heads to grow more business and then earn more, many important factors were not duly considered and no specific rules and/or procedures were available to make sure doubts were clarified and obstacles removed so that people could feel comfortable to proceed. The Practice divides revenues between the company and a department turning a department into a profit center. This design encourages departments' parochial objectives on financial indicators at the department level, ignoring the strategic goals at the firm level. As a result, departments showed no interest in those low margin projects and were reluctant to invest time in business development when the return was uncertain. This situation became worse when the expected rewards and punishments were not observed accordingly as it conveyed a message that the Company was not serious about this Practice, or it could not afford to be serious about it. The following comments by one department head explained middle managers' disengagement in business development activities:

> *"So, once you start to calculate, there will be some frictions, contradictions, or disputes, although not necessarily confrontational. This kind of interaction somehow affected the enthusiasm of department heads as they play a linking role being responsible both*

> *upward and downward. They want to complete the performance objectives, and if the performance exceeds the target, they will ask whether the extra effort has been rewarded accordingly. However, the 2017 Practice has only high-level principles and lacks detailed rules for implementation. In this case, it will be unavoidable to negotiate with the management when it comes to rewarding specific projects, and once conflicts of interest are in place, it's likely that each party emphasizes its own perspectives."*

To summarize, department heads were not used to the business developer role due to the company's organizational form and history. On the one hand, this role expectation seemed unjustifiable to department heads (although this was expressed in a very subtle way); on the other hand, their capabilities had not been developed accordingly. While the 2017 Practice offered potential incentives, more detailed rules were still required to ease reluctance and to make incentives a reality. Most importantly, when agreed incentives were not fulfilled, people would lose confidence and choose to stay in their comfort zone.

Another business management activity that is divergent from the strategic intention of the 2017 Practice was exemplified by some departments' reluctance in changing their project management methods. This activity was not typical among all departments. Under the 2017 Practice, efficiency became highly important as it would have a significant impact on the performance indicators, especially profitability. Not all departments were ready to change due to a variety of reasons, be it a lack of ability, motivation, or opportunity. When I was introducing the activities of implementing deliberate strategy, I discussed some opposite examples, which are facilitating adaptability behaviors. I will not repeat here in detail; instead, I discuss briefly below why some departments were not quick enough to change and enhance project management.

Except for the influence of each department's project characteristics, one major factor that prevented departments from engaging in improving project profitability is the potential conflict between the new Practice's focus on efficiency and the company's traditional emphasis on quality. For example, the Doubter department was used to the way they served the listed companies, in which it is crucial to ensure quality and control risk, but which also takes more time and is associated with greater labor cost. This reluctance to switch from a quality orientation to an efficiency orientation signaled a certain degree of disapproval of the strategic design. It is exemplified by one department head's comments: *"We should not only talk about performance; we need to talk about motivation at the same time."* Another factor is the composition of the team in a department. When the team has more older and established members, it becomes harder to change, as explained by one department head:

> *"…however, when delivering a project, I always feel that I need to give full play to my professional expertise and give full play to the traditional advantages of our company. So, now there is a dislocation. In performance appraisal, we assess contributions to the company in terms of the business volume. However, the culture of our company has formed under such a system [with an emphasis on quality]. It has an inertia, so sometimes I'm confused. What do you do with this kind of thing, maybe young people can accept it easily, but it's hard for our generation."*

While younger generations may tend to embrace change more easily and they are more likely to try new techniques in their work, it is not always easy for them to make things happen. For example, one interviewed employee expressed his/her disappointment by saying that *"company* *leaders always say that we do not give priority based on seniority, but in fact, it does exist sometimes".*

People Management. Middle managers' people management activities of facilitating adaptability, which are divergent from the strategic design of the 2017 Practice, are mainly exemplified by sticking to pay egalitarianism and developing employees' identification with the department rather than the company. As discussed in previous sections, the 2017 Practice was designed to turn the so-called "eating from one big pot" pay egalitarianism into output-based pay-for-performance culture, by which to motivate departments to grow businesses and improve profitability so that each party can benefit from the win-win situation. It is true that all departments made efforts to cut costs and, as a result, a strong cost consciousness was unprecedentedly established among employees, which I have introduced in the last section. However, pay egalitarianism remained a common practice across departments although each department practiced that in different ways and to various degrees.

The Game Master department provides a good example of adaptability away from the 2017 Practice design. While this department did a great job in managing profitability by improving project management, the business volume (and/or revenues) was not sufficient for each member to fully perform. Project assignment, therefore, was used as the major tool to manage performance and rewards to maintain a balance between pay differentiation and pay egalitarianism. The pay differentiation was reflected by the fact that those highly capable employees would be assigned more and more difficult projects, which normally result in more personal income for some than others. I say that pay egalitarianism was still in place because less competent employees would also get their projects although those projects could have been allocated to those high performers who still had the capacity. In other words, the performance management process was output-based with one single project; however, the overall outcome was actually pretty egalitarian because the high performers could not receive enough projects for their capacity. This was closely related to how the department treated underperformers. Underperformance was normally not addressed accordingly, for example, nobody wanted to fire an incompetent employee, and promotion or demotion was rarely used to motivate people as individual income was decoupled with position in this department. When asked what the difficulties were in performance management in his/her department, which was closely tied to projects, the department head answered:

> *"In my opinion, the difficult point is to balance project assignment, giving which project to whom…the fairness in project assignment? It is hard to answer; if the measures at the company level are not fair, then those at the department level would be definitely unfair. I can only choose to think it is fair at the company level."*

The way underperformance was treated in this department is consistent with the way the company dealt with underperforming departments. That is, high performers were not adequately rewarded to make them happy, and poor performers were not disciplined accordingly so they would not be starved.

The pay egalitarianism in the Doubter department was more or less a continuation of its previous practice and it did not change much in its performance management ideology. And the situation was made worse by the quick changes in the market and the department's slow response to the external and internal changes. Except for the unsatisfying business volume, leadership also played a role in the department's poor performance and its management. During the interview, the department head reflected on how his/her leadership style caused challenges in performance improvement. Here, he/she explained how the performance culture was compromised:

> *"Well, the challenge is actually related to myself personally, because I have a milder personality and I think I need to be stricter in some aspects. This is what I have said that we may need a division of labor, between managing people and managing projects. What is the challenge? The challenge is to change the status quo, to change yourself, to change your management style. It should be like this."*

I further probed if this was about being unable to deal with poor performance firmly, and the department head confirmed by saying:

> *"Absolutely, because the department in general did not perform very well, and there seems to be some gaps in terms of business sources... and now, you discipline them with an iron hand, what do you say? Do you want to keep him/her for a while, and see, in one year or two, when the business grows, if we can move forward by encouraging people to unite as one and making concerted efforts. Or do you want to deal with their poor performance now? This is a dilemma, you won't have the heart to be strict on them, especially when you see that some people have potential."*

According to these comments, which are highly consistent between the Doubter and the Game Master, some employees were not really regarded as incompetent by the department heads only because their performance indicators (revenue and profitability) did not look good. This is especially true when department heads believed that they had no control or it was not their responsibility, for example, to grow the business. This brings up the interesting question of how to define good performance under the 2017 Practice. This shows that the *de facto* criteria used by department heads to assess employees' performance, formally or informally, were not really based on the 2017 Practice performance indicators. This caused a disconnection between employee performance appraisal and compensation.

The Champion department also recognized the positive effect of a certain degree of "eating from one big pot". This department engaged in developing the business actively and grew its business volume effectively, partly due to its existing good client base and structure, at least in the eyes of the other departments, and therefore it was able to focus on individuals' behaviors in performance management without being compromised by a lack of business. The rationale of practicing some sort of pay egalitarianism is to maintain harmony within the department according to the department head. With abundant business projects that exceed the performance indicators, the Champion department was able to strike a healthy balance between equality and equity by managing employees' performance from a comprehensive set of factors. Here are the performance management activities summarized by the department head:

> *"…there will be a difference between employees; we have just talked about the surplus businesses that exceed the performance indicators by shareholders, which are up to the department to distribute. Then the department (I) will consider a few factors to distribute the surplus. Of course, an employee's position and its points [note: the points are decided by the company according to the level of a position to decide performance indicators for a department] determine his/her basic level of income. Under this condition, I will consider a few elements as index of adjustments, including workload (i.e., the annual revenue brought in), work quality, realization of receivables, work attitude, cost control,*

and ability to develop the business. Everyone has their own strength and characteristics, all of which will be considered to adjust how the surplus will be distributed to reward various behaviors. However, the adjustment won't be very big because we still need to maintain harmony as one team."

The department head further explained why these factors are important for performance management. For example, he/she emphasized the importance of teamwork, encouraging employees to cover for each other and be cooperative to colleagues and clients, which he/she categorized as work attitude. When it comes to cost control, he/she stressed the role of project planning by saying that *"[it's important] because we are to evaluate profitability. When a project is well planned, it probably takes 10 days for the field work; otherwise, 20 days may not be enough if it is not well planned"*. For the ability to develop business, the department head made it clear that:

"Business development objectives will not be assigned to lower-level employees [in my department]; however, if the client would like to renew a contract because of your good attitude or the good quality of your report, then you have improved customer retention, [which is part of business development]."

As mentioned above, one reason for the Champion department to keep a certain level of egalitarianism is to nurture harmony. Another reason is that it helps with leadership effectiveness, for example, motivating people to engage in non-billable work, to take less profitable projects, and so on. The department head described it like this:

"Eating-from-one-big-pot has its own benefits. For example, it makes it possible for those work that are necessary but cannot be charged from clients to be assigned to someone. Or, for those projects with very low margins, you can still find someone who would like to undertake it. If you distribute income strictly based on each person's earned revenue, then no one will want to take part in those work (which are non-billable or less profitable). This [pure pay-for-performance practice] is not conducive to the harmony of the team, and the service to customers will also be compromised."

The above has introduced the first activity of Facilitating Adaptability, i.e., sticking to pay egalitarianism. To summarize, the strategic intention of the 2017 Practice was to transform the old "eating from one big pot" performance culture into pay-for-performance. However, "eating from one big pot" remained to be one effective management measure for all departments to coordinate resources and balance conflict of interest. The role of pay egalitarianism (eating from one big pot) is a function of business sufficiency and leadership style in different departments. It was used to motivate people to engage in organizational citizenship behaviors in departments that had sufficient business; in departments that lacked business, it was used to meet employees' basic needs and to eliminate resentments. In those departments that could not provide employees with sufficient business, however, procedural justice could hardly compensate for distributive injustice. One common challenge was how to assign projects properly considering each project's characteristics. Solving this issue is key to improving the 2017 Practice. It seems that more sophisticated management practices are needed, for example, managing project hours in a systemic way. However, department heads did not show much interest in improving their management behaviors. And some department heads expressed their disapproval of sophisticated billable hour management that are commonly practiced in many professional service firms such as the Big Four accounting firms. For example, even the high performing departments are not a fan of this kind of management as shown below:

> *"I don't want to link employees' performance directly with their working hours. It will be good enough if they can complete a project in an efficient way. I don't want you to work too hard every day and won't be able to enjoy your personal life. That way just won't be sustainable."*

The second activity of Facilitating Adaptability, which has a downward impact and runs counter to the strategic design, is to develop employees' commitment and identification with the department not the company. This is actually a natural result of implementing the 2017 Practice given its design, in which individual employee's interest is tied with his/her department and the company looks more like a competitor than an employer in the eyes of employees. The company has no other effective means to influence an individual employee's interests except for dividing a portion of revenues that he/she has earned by engaging in a project work. Although the company remains the decision-making power in approving a department's proposal for promotion or pay raise, it is unable to do more than just approving what is proposed because it does not have concrete data on an individual's performance, nor can it coordinate labor mobility across departments. However, middle managers' behaviors, either intentional or unconscious, can have a significant impact on the locus of employees' commitment and identification. A department head's influence on employees' commitment and identification can be reflected in a few ways.

First, for those underperforming departments, the 2017 Practice could be used as a tool for department heads to ease employees' dissatisfaction and shift conflict away from the department to the company. By emphasizing the discourse that the company has taken away a big portion of business revenues from the department, department heads could obscure the cause of why some employees' income has been decreased. While it is not clear that middle managers have purposely influenced employees' sensemaking in that way, it is true that all interviewed employees felt strongly about the revenue-splitting percentage and emphasized that the company took away a percentage that is (much) bigger than the common practice in the industry. The typical expression is like: *"Other companies only charge XX%."* When asked to comment on the 2017 Practice, one employee subtly suggested that the percentage needs to be adaptive to the market change, by saying that:

> *"I think it needs to be looked at under the industry context. If the entire industry continues to expand its scale, then this kind of performance management is not a big problem. But now the industry is not very good, and then you ask everyone to develop the market, it won't be realistic."*

The feelings are real although a lower-level employee may be not capable to judge the fairness only by comparing numbers on the surface because each company has its own context. For example, what is covered behind the percentage is often different from one company to another. Given the design of the 2017 Practice, it is unlikely for department heads to purposely nurture employees' commitment to the company especially when they perceived that the rationale of the Practice was to shift risks to the department and secure gains for shareholders. This perception is reflected in one middle manager's comments, when answering how this Practice affected various stakeholders, saying that:

> *"My understanding is that the conflict has been shifted. It has been moved from the company level to the departmental level. Before, you were an employee of the company, no matter how much you earn, you would directly face the company's leader and ask, how did you make the decision on distribution and my income? How does it work now? If an employee is not happy with his/her income, he/she will ask the department head."*

Second, for those high performing departments, who are the direct beneficiaries of this Practice, they were very happy at the beginning; but over time they also started to wonder who has taken their cheese and if they should be better rewarded. This is especially true when high performers are not fully recognized, for example, when newly developed business was not differently rewarded. Moreover, there is no common ground to build up common identity at the company level. Instead, the design of the Practice created division between the company and the departments, and among the departments. One employee expressed his/her concern on how other departments' performance may affect their own. The interviewee rated the Practice as 6 points out of a full score of 10, with 1 being fully dislike and 10 being fully like the Practice. When asked where the spaces are for the remaining 4 points, the employee took a long silence and said:

> *"I think, it's about the [revenue-splitting] ratio; there have been very high turnover rate since I came. It should be related to the level of income. Another thing is, for those departments whose business performance is not very good, [they] should find a way to catch up. Otherwise, it will be affecting shareholders' benefits. In this case, I think, shareholders will compensate those loss from those [high performing] departments like ours."*

This interviewee's answer shows his/her speculation on the dynamic relationship among the company, high performing departments and underperforming departments. This kind of sensemaking has caused the estrangement between departments, as well as between a department and the Company, resulting in some employees being dissatisfied even though their income met their personal expectations.

To summarize, the 2017 Practice is not well designed to build up identification and commitment among employees with the Company. Despite the difference in how one department implemented the Practice (for example, some departments broke down the departmental performance indicators to individual employees and other departments did not), departments found a consensus in blaming the company. The Practice design partly shows how the traditional organizational culture and cohesion was eroded. When employees lose their identification with the Company, they are more likely to quit if they perceive unfairness within a department.

Despite departments' general reluctance and underperformance in business development due to obstacles of various sources, some middle managers took more proactive actions to grow the business. For example, some department heads communicated actively about prospective project opportunities with the TMT and negotiated a modified revenue-splitting ratio so that the project is doable in each party's eyes. This kind of activity falls under another category of middle managers' activities, Synthesizing Information, and this is the topic of the next section.

4.1.3.3. Activities of Synthesizing Information (Upward & Integrative)

Synthesizing Information is middle managers' upward influence that is integrative with a strategic design according to Floyd and Wooldridge's (1992) typology. As shown in **Table 1**, this kind of activities exhibited by department heads during the strategizing of the 2017 Practice include mainly two business management activities and two people management activities.

Business Management. Department heads actively interacted with the top management team to share information and give feedback regarding the implementation of the Practice in the hope of refining the Practice and, of course, improving their own performance and gains as well. Their efforts of influence focused on two areas: trying to change the revenue-splitting ratio both in general and for particular projects and calling for detailed rules for the Practice implementation. First, all department heads engaged in negotiations with shareholders about the revenue-splitting ratio since the Practice's inception, and it had been continuous as the performance indicators would be planned and renewed each year and the ratio was the most critical factor in it. However, despite departments' continuous suggestions, the Company did not agree to change the overall revenue-splitting ratio although it was open to discuss specific projects on a case-by-case basis. Second, all department heads hoped that the company could formulate detailed implementable rules to ensure that the strategic intention would be realized, on top of which are considerations of how to reward surplus of performance indicators, especially newly developed projects and clients, and how to, if possible, adjust the revenue-splitting ratio according to a project's characteristics. However, similar to the last suggestion, the Company was slow in responding to this request to develop refined implementation measures. These activities are integrative in nature because they aim to implement the Practice following its strategic concept, which is to turn a department into a profit center albeit gradually. A change in the ratio of revenue sharing may affect both parties' interest but does not change the strategic design of the Practice.

To influence shareholders' refinement of the 2017 Practice, the most commonly used reasons by middle managers were the changes in market conditions and the competitors' practices. For example, a lot more competitors entered the market shortly after the 2017 Practice due to deregulation as has been discussed in previous sections of this thesis. Therefore, it became harder to maintain the market share, and the average profitability of the industry was driven down by competition and price war. I will not repeat in detail here as the market conditions have been introduced in previous sections (for example, in External Environments and Internal Structures). Of course, the revenue-splitting ratio employed by other firms was also used to justify their arguments, not only by middle managers but also by lower-level employees. These factors and concerns were shared by all departments including high performing departments who benefited greatly from the new Practice.

Except for these common factors that affected all departments, some departments had their specific reasons to negotiate the ratio. The characteristic of a project was an important one. For example, the Doubter department has a high portion of large (or even huge) projects that last for a long cycle to serve. And it normally takes a long time to get a large contract. Before the deal, the project team may need to conduct some smaller and less (or not) profitable projects to build up their relationship with the client. Given this prolonged project cycle, the annual performance evaluation will not be able to capture a department's real performance if it takes the department a few years to reap a giant project. This is shown in the department head's comments:

> *"…for clients like XXX, our purpose at the early stage was actually to maintain the relationship. You don't have a choice when smaller projects have a higher cost structure at the beginning. The aim is for the big deal in the end, which may make up for all the previous costs. It is a long process. The client gets to know you better while you're doing [smaller but less profitable projects], and it may give you a big project later."*

Another project characteristic is its strategic value for the company or for one department. When a project is not very appealing in terms of the performance metrics (revenue and profitability) but is highly valuable from a long-term point of view (for example, it is in a sector where the company wants to expand its business), then from a departmental perspective, it is necessary to negotiate a better ratio with the company to undertake this otherwise unattractive project. When this happens, departments exhibited different attitudes toward this case-by-case negotiation practice. Some departments were happy with it and therefore kept active communications with the top management team. Others, however, preferred a universal ratio for all projects, if the ratio was revised to be more beneficial to the departments, and therefore were reluctant to initiate a ratio negotiation for a particular project. Nevertheless, being active in case-by-case negotiation is positively related to departments' performance in business revenues. Below I provide a few quotations to show how middle managers see this case-by-case negotiation practice differently. One department head recognized the positive effect of effective communication and interaction between the department and the company in implementing the Practice:

> *"There are interactions. There is also anxiety [for the department] in the process of completing the performance target. Some projects can be won due to various factors. There are times when I have to earn popularity at a loss. At this time, I have to report to the management. I will ask him/her if you want to take this project. If you want, you have to lower the profit metrics for me, otherwise I will not be able to take it. Because, after all, the biggest issue between my department and the company is that, if the gross profit level of a project is very low, but it is very important [to the company], then should I undertake it, should I follow up this client? This needs communication. Of course, shareholders have provided a pretty good interactive mechanism; that is, when they feel that the project must be won at all costs, even if it loses money, then its performance assessment, the assessment on its profit will be relaxed, even to the extent that the whole revenue of this project will be given to the department. Therefore, many projects are discussed on a case-by-case basis and there is flexibility… all in all, the management is still willing to look at departments' undertaking of these [special] clients and projects from the company level although the general principle will not change."*

The case-by-case negotiation practice was confirmed by another department head but with a less positive attitude, saying:

> *"Yes, there is such a situation [when ratio discussion needs to be undertaken case-by-case] ... our bidding projects of more than 500,000 need to be reported to the management. The CEO will make the decision after considering the project revenue and cost. If he/she wants to invest, he/she should make a decision [about the ratio] in advance. The company can share a part of [the loss or deficit], or you [i.e., the department] don't have to pay [the company] XX%, you only pay XX% or XX%. However, you can discuss about one project; you can't keep discussing for every project, can you?"*

Another department head shared why he/she was reluctant to engage in this case-by-case negotiation: *"If you go to the management to negotiate one project after another, it will look like you haggle over every ounce, being calculating and unwilling to make the smallest sacrifice."* Moreover, another department expressed his/her reserved opinion to this case-by-case negotiation practice with the logic being that not all departments (and their clients/projects) are suitable for a case-by-case negotiation and this individual solution will prevent issues from being solved systemically.

Another focus of middle managers' upward communication, second to the ratio negotiation, was to call for the introduction of detailed rules on implementing the Practice. Actually, the above-mentioned issues (systemic ratio adjustment vs. case-by-case negotiation) are all covered under this topic. The discourse of "we need more detailed implementation management measures" has become a way to show reserved opinions or disapproval in a general and implicit manner. What middle managers asked explicitly is that the company needs to clearly stipulate how newly developed business should be rewarded differently relative to projects allocated by the Company (shareholders) to departments. To justify their request, a few department heads claimed that the Company did not allocate the rewards as stipulated in the Practice document (i.e., the 2017 Performance Management Policy). There is no concrete evidence to show that the company did break its promise to reward outstanding performances, due to the limited access to data collection. However, the TMT did not directly clarify or deny this statement, despite the fact that this discourse had been used by middle managers to explain, at least partly, why business results had been less than optimal. The truth might be that some projects were rewarded accordingly, and others were not, or partially. On the other hand, the company did not punish sub-standard performances accordingly either. One department head's comment summarized it succinctly: *"It is because there is no way to enforce punishment, so there is no way to enforce rewards."*

Contents regarding the rewards on departments' good performance are stipulated in the 2017 Performance Management Policy. It says in Article 19:

> *"The company encourages each business unit to work hard to create benefits by increasing profit levels while achieving departmental revenue targets. If the department achieves excess gross profit on the basis of achieving the revenue target during the annual performance appraisal, the company will extract* ***part of*** *the excess gross profit to reward the department."*

and in Article 20:

> *"The company encourages all business departments to develop new customers and new projects in an orderly manner, and the company will reward such projects within 5% of the actual payment received. Special projects are reported to the company leaders in charge of the market for approval."*

As we can see from the wording of this document, ambiguous and imprecise terms are used to convey key messages. For example, "part of" the excess gross profit will be awarded to the department and "within 5%" of the received revenue of a newly developed project will be awarded to the department. The "within 5%" could be 4%, 2%, 0.5% or other ratios. The "part of" was later specified as 2%, according to some of the interviewees, and the 2% percentage applies to both rewards and punishments, both based on the performance objectives. However, the rewards and punishments regarding this 2% have not been strictly enforced, or to put it in other words, its incentive and deterrent effects are not strong enough. This is illustrated by one interviewee's observation. Below is an excerpt of the interview conversation between the researcher and one middle manager, where R represents the researcher and MM represents the interviewed middle managers:

R: Why would a department head like to promote an underqualified employee to a higher position when a higher position will result in more performance metrics being assigned to the department?

MM: More task objectives? Let it be. If you can't make it, you can't make it. I'm sure there are some [departments] who can't achieve the goal.

R: Just like that?

MM: Yes

R: Does this mean that the reward or punishment is not strictly enforced?

MM: The ratio of XX% is implemented strictly. But, for the 2% of penalty, let's say you have a gap of one million from the objective, then you get a penalty of twenty thousand, that's it.

R: 2% (of the gap) as a penalty.

MM: Yes, reward is also 2%, based on the excess part of your objective.

As we can see, one main issue of implementing the 2017 Practice resides in its ambiguity in enforcing rewards and penalties and the power of those reward and penalty measures, all of which seem to be a function of the TMT's determination in executing a real pay-for-performance practice. The consequences of being ambiguous and indetermined are significant. It makes it difficult to fully realize the Practice's incentive effect, although it may serve to provide flexibility for the company to manage uncertainties. Moreover, the 2017 Practice looks like each department and the company have a one-to-one contractual relationship. However, when the company sees all departments as one whole unit, which is counter to the Practice's strategic intention, probably to hedge on risks, then each department's performance metrics will very likely affect others' interests. This is especially true when the company is not enforcing rewards and penalties strictly, which serves as a foundation for the company to stick to "eating from one big pot" although probably in another form.

While all departments are expecting more detailed measures for implementation, what they are actually expecting is to see the company's determination in realizing an output-based differentiated pay-for-performance practice that is reasonably and systemically institutionalized. One department head's answer to the question of "what are the top things that need to be changed urgently to improve the Practice" is a good representation of the contents of what the middle managers mean by "detailed rules for implementing the Practice":

> *"What needs to be changed? At least, you need to distinguish projects according to their characteristics, such as size and sector, to differentiate the revenue-splitting ratio. We all know that the gross profit rate of large projects is low, and the gross profit rate of small projects is high. Another thing is, the source of customers/projects, some of which are developed by the department itself and some are allocated to departments by*

shareholders. There is no [extra] reward to [projects developed by the department]. It is unreasonable to take one single ratio [for all projects]. Moreover, it is too troublesome to negotiate the ratio with the boss case by case considering I have so many projects to handle. There should be some principles, even in broad strokes, as it may be impossible to analyze each specific project."

However, the company wanted to maintain flexibility. At the same time, the company did not have the ability to sort out and revise its strategies comprehensively and systemically, which is why it was constantly looking for external professional support.

People Management. Recall that in this section, the focus of the discussion is on middle managers' activities of synthesizing information (Floyd & Wooldridge, 1992), which refers to middle managers' upward influence that is integrative with the Practice's strategic intention. Department heads' people management activities are typically within their own departments, which is downward, and therefore, these activities do not fall under this category. However, middle managers indeed had upward communication with the TMT regarding people management issues, mainly about the need to coordinate people management activities and build up HRM infrastructures at the company level. As Floyd and Wooldridge's (1992) typology outlines, department heads' upward influence in ABC Company regarding HRM at the company level will belong to Championing Alternatives activities, which are divergent from the strategic design of the 2017 Practice. This is because the 2017 Practice aims to turn a business department into a profit center, where both people management and business management are designed to be planned and executed at the departmental level. In other words, providing HRM infrastructure and managing human capital at the company level is not a part of the strategic design of the 2017 Practice. This is the topic of the next section, Championing Alternatives activities.

4.1.3.4. Activities of Championing Alternatives (Upward & Divergent)

According to Floyd and Wooldridge's (1992) typology, Championing Alternatives refers to middle managers' upward influence that is divergent from the original strategic concept. In the case of strategizing the 2017 Practice in ABC Company, no obvious evidence was found to show that middle managers engaged in this type of activity directly or vigorously. However, the boundary between synthesizing information and championing alternatives activities is really blurred. With the right attitude and conditions, integrative activities can easily evolve to become divergent. In this section, I discuss some activities, when being explicitly proposed, that can be categorized as Championing Alternatives. These activities can help improve and/or transform the 2017 Practice to enable the company to get out of its strategic stalemate. These activities were shown by department heads to varying degrees according to evidence from the interviews, being either their open suggestions to the TMT or their reflections on the Practice. All of these activities belong to people management, while no business management activities were found to fall under the category of Championing Alternatives.

People Management. As shown in **Table 1**, all of these Championing Alternatives activities that are related to people management can be summarized as one request from department heads, i.e., expecting the Company to establish a complete HRM system at the company level. Department heads expressed clearly their need for professional HRM support and infrastructure at the company level either for the departmental management convenience or for the company's long-term development. While it was not very clear what an effective HRM system should look like to these middle managers, this HRM system was expected to be able to solve a few issues following the implementation of the 2017 Practice. According to the interviews, these HRM issues mainly include: (1) project staffing and labor mobility; (2) the integration of performance appraisal, promotion and compensation; (3) career planning and talent pipelines building; (4) reducing risks and administrative chores in personnel management.

The first expected function of the HRM system is to coordinate project staffing and labor mobility at the company level to make full and reasonable use of human capital. As discussed in previous sections, the performance of business departments on the two performance indicators (revenue and profitability) of the 2017 Practice varied widely. As a result, employees in different departments worked at various levels of workloads and got paid differently. This may seem fair because it embodies the idea of "the more you work, the more you get paid". However, this is actually not fair because some employees could not work at their full capacity just because the department did not have sufficient business. The direct consequence was a rising turnover rate and it was the most competent employees who were more likely to leave in this situation. At the same time, in those departments with sufficient projects, some employees had been overstretched, which was not sustainable in a long run. Therefore, it would be reasonable to assign those underworked employees to other departments' projects, which would benefit both the employees and the company. However, while this sounds reasonable in theory, department heads did not show great enthusiasm probably because they thought this was very difficult to realize. This is shown in my conversation with one interviewee. He/she was explaining how the size of a department could affect the efficiency of labor utilization. According to him/her, the economy of scale was hard to realize when his/her department size shrank because it became more difficult to coordinate staffing across various projects. When being probed on how this applies to mobilizing human capital across the whole company, for example coordinating staffing among departments, he/she said:

> *"...now this becomes a bit complicated, because after implementing this performance management, departments have shown different characteristics. For example, the XX department and the XX department mainly focus on projects in the finance sector, and they may not be interested in the projects we do at all. Their projects are characterized by light assets and short project cycle. Our projects, however, are the opposite; we're actually taking the risk and pressure [during the early stage of a project]. It is especially hard if you taste the bitter after the sweet. Another thing is that, because of this performance appraisal, departments have been differentiated [in pay level]. We will be relatively lower, and others will be higher. Tell me how to reassign the projects, how to balance [interests], this is not easy to rectify."*

Central staffing and human capital mobility can be realized at an even higher level, for example, between the headquarters and branch companies in many other cities. Again, this would be a multiple win for different parties if it was effectively managed through systemic HR planning and management. One department head shared his/her observations on how systemic human resource planning can benefit the headquarters, branch companies and project managers. Here is his/her logic:

> *"...another problem is that there are now some experienced project managers in branch companies who have reached a certain level and have no room for further advancement in the branch. I think the company [i.e., the headquarters] should have a policy to let the*

branch send these experienced project managers to the headquarters, so that the capacity of the headquarters to undertake business will also increase. Otherwise, these people will leave and go to competitors. To establish a formal mechanism so that a branch leader can recommend these talents to the headquarters when the branch has limited positions [due to limits in the amounts and types of projects]. This is also beneficial to the branch because the headquarters train project managers [for the branch], which extends these project managers' career development space, and these project managers will also be grateful to the branch's recommendations. This is also motivating to other project managers in the branch [because of a perceived bigger platform to develop one's career]. The current situation is that if there are individual project managers who want to come to the headquarters, the headquarters cannot accept them to avoid being accused by the branch of poaching talents. However, if there is a mechanism for the branch to actively send talents to the headquarters, the effect will be different."

While middle managers saw the benefits of central staffing but were a bit skeptical about its realization under the current Practice, the Director of the Board showed special interest in the idea of mobilizing human capital across departments during a meeting between the researcher and the TMT. This shows the TMT's openness to change the strategic design of the 2017 Practice. However, it was not clear to the top management team how to make this happen or what other alternatives were more appropriate. This actually reflects the lack of, and the need for, HRM capabilities at the company level.

The second expected function of the HRM system is to refine the overall employee performance appraisal practices by providing uniform HRM standards at the company level, integrating sub systems of performance management, recognizing non-billable work, and making reasonable connections among employee performance, promotion, and pay raise. To clarify the terms and their connotations of performance management practices in ABC Company, it is worthwhile to point out that the 2017 Practice and the annual employee performance appraisal are two different performance management systems. The 2017 Practice is designed to implement at the departmental level. Although the 2017 Practice does affect individual employees, its influence is mainly a function of how the department (head) connects the 2017 Practice metrics with individual employees' performance appraisal.

The annual employee performance appraisal is designed by the Company and implemented by a department to evaluate individual employees' performance. At the end of a financial year, the Company will organize the annual employee performance appraisal and then each department will conduct the appraisal and submit proposals on employee promotion and pay raise for the Company to approve. This annual employee performance appraisal had been practised before the inception of the 2017 Practice, and it was not revised when the 2017 Practice was introduced. While the annual employee performance appraisal was organized by the company and all departments had to implement it in the same format, the real contents assessed by each department was actually different. Some departments integrated the 2017 Practice financial metrics (i.e., the department's performance on the annual revenue and profit indicators allocated by the Company) into the annual employee performance appraisal and other departments did less so. Or put in another way, the result of the 2017 Practice financial metrics represented different weights within the annual employee performance appraisal among various departments.

The 2017 Practice stimulated the variation of employee performance appraisal practices in different departments because the Practice created a need and gave the authority to a department to customize its employee performance management activities. A department's customization in employee performance management was a function of various factors including the department's client/project structure, team structure, the department head's ability and motivation in business management and people management. Except for the influence of the 2017 Practice, the lack of concrete HRM standards at the company level was another major reason for the inconsistent employee performance management practices among various departments. Among these HRM standards, the most urgently needed are those concerning the appointment and promotion of employees according to some of the interviewed middle managers.

Most of the interviewed department heads expressed the concern that employees at the same level or position in different departments might have different levels of competencies and experiences due to varied departmental employee performance management practices. The employee performance appraisal has been organized annually by the Company by providing appraisal forms and timelines for departments to implement. However, the contents and processes of this employee performance appraisal are at a high level without being supported by a comprehensive HRM infrastructure/documents such as job descriptions and their detailed requirements for skills and experiences. The lack of a systemic HRM infrastructure is, at least partly, due to the fact that the Company does not have full time HR professionals, not to mention a HR team or department, to operate HR functions systemically and strategically. As described by some department heads, the employee performance appraisal practice was *"overly subjective without sufficient quantitative indicators to support the appraisal"*. Therefore, departments have a lot of leeway to manage employees' performance differently. And the 2017 Practice deteriorated the situation because the owner of employee performance management changed from the Company to the department despite the fact that the Company is still organizing the overall process, which becomes more like an administrative role. This situation was evidenced by one department head during the interview:

> *"…there is one issue now, I think, it's not because of this [2017 Practice]. Regarding employee promotion, the Company relies too much on a department's proposals. Although a department's proposal of employee promotion needs to be approved by the company to be in effect, it seems the company will approve all proposals. The company did not compare people in similar positions in different departments [when it comes to promoting employees] … [therefore] it does exist that, between departments, employees in the same position have different levels of competency."*

Without universal standards or requirements overseen by the Company, both premature and delayed employee promotion can occur in each department. While delayed promotion was one of the concerns of the TMT according to the researcher's meetings with the HR Head, one department head told the researcher that premature promotion was more the practice rather than delayed promotion. This is evidenced by one department head's comments:

> *"It's not that [referring to delayed promotion for the purpose of reducing the department's performance metrics], this kind of thinking is rather uncommon from department heads' perspective. It's just some colleagues joined the company at the same time. When it has reached a point of time, after a few years [when people will normally*

> *get promoted at this point], his/her competency hasn't reached the [expected/required] level, but he/she got promoted anyway."*

This also shows that the 2017 Practice's intention of pay-for-performance was not strictly implemented, and the interviewee's comments reflected his/her concern or criticism of this practice (i.e., premature promotion) by saying that *"there is someone you may have wanted to leave, [but now gets promoted]"*. The department head further explained his/her understanding of why some departments practiced premature promotion:

> *"…the motive? first of all, there are not many people in each department; maybe [the department head] has the need…wants to encourage him/her to grow a bit quicker. I think the original intention should be like this. However, the effect is different because, after getting promoted, his/her monthly fixed salary has been raised, which he/she is pretty happy with, and then he/she does not care much about the rest of the money [i.e., referring to the variable bonuses allocated at the end of the year]."*

Considering this phenomenon, we can find/speculate that the variable year-end bonuses do not have sufficient incentive power because it may represent a small percentage of the total pay. At least it is the case for this person in this department described by the interviewee. This is another good example that the *de facto* performance culture in practice was not really output based as the 2017 Practice expected. As departments have different practices in terms of whether tying one's total pay with his/her position closely, employees of different departments were affected differently, which caused inconsistent experiences across the company. In short, there was a disconnect between employee performance appraisal, promotion, and pay adjustment, especially in those departments that did not tie one's total pay with the employee's position.

Indeed, departments varied in how the annual employee performance appraisal outcomes were used in terms of their connection to pay raise or promotion. Most departments connected the annual employee appraisal results with employee promotion decisions, in which a promotion led to pay raise that was normally reflected in the fixed monthly salary. The results of financial metrics appraisal (at the department level, or at the individual level if applicable in a department) were normally realized by variable bonuses at the year end. Some other departments decoupled employee promotion and pay raise. In this case, some employees were promoted to a higher position after the annual employee performance appraisal, but their total annual income was not necessarily raised because their income was mainly, if not solely, tied with their financial metrics (i.e., the projects they had engaged in and the resulting revenues and profits).

Therefore, employees at the same level/position from different departments were not comparable in terms of competencies and total pay. When it comes to promotion practice, if an individual's income is tied with his/her position, then this department will have the motive to conduct premature promotion because on one hand, it can serve as a means to keep and motivate employees; on the other hand, although the raised employee position due to the promotion may cause a higher departmental financial metrics, the company is not likely to punish the department for its performance gap proportionately. If an individual's income is not tied with his/her position, then this department will have the motive to delay an employee's promotion because on one hand, this will reduce the department's financial metrics; on the other hand, it provides a reasoning, no matter whether or not it is reasonable, by saying that a promotion does not mean you are earning more.

The consequences of lacking comparable competencies among employees from various departments can be critical for the Company. For example, it may cause perceptions of unfairness especially among employees who join the company at the same time but in different departments. It also sets up barriers for mobilizing staff among various departments' projects. As discussed previously, mobilizing human capital across departments or even between the headquarters and branch companies is a great way to fully capture human potential benefiting both the company and individual employees. However, it will be hard to promote mobility without transparency and comparability in employee competencies. Another consequence is that an unfounded promotion decision will damage employee morale. While an unjustified non-promotion will demotivate people, a casual promotion without a sound basis will not necessarily motivate people but confuse them. One anecdote the researcher experienced may explain something about this. On the day I conducted some of the interviews, two employees I interviewed were informed by the HR Head a few hours before the interviews that they were promoted. According to my observations, they were more confused than excited. This event happened after one of the researcher's meetings with the TMT members, where the idea that employees were more identified with their departments than with the Company was discussed. This meeting might have worked as a trigger for the Company to act promptly to communicate a promotion decision directly with the relevant employees.

As discussed previously, what was exactly assessed in annual employee performance appraisal was different in various departments. Some department heads called for more specific and objective performance indicators by referring to current performance appraisal as a bit too subjective. Moreover, some departments brough up the issue of how to recognize non-billable work in performance appraisal in addition to quantifiable indicators such as revenues and profits. The 2017 Practice performance indicators are closely tied to work associated with billable hours charged to clients. However, as a professional service provider, ABC Company and its professionals need to engage in many necessary but non billable work to develop businesses and serve clients (e.g., Maister, 1993). Among those non-billable work, the interviewed middle managers mainly mentioned participating in external activities on behalf of the company, developing new hires, sorting out project working papers, and so on.

One department head shared his/her observations of how the 2017 Practice made the practice of developing others (especially new hires developed by project managers) important and problematic. During an interview, when talking about the comparability of competencies in similar positions across departments, the issue of developing new hires surfaced as described by one department head:

> *"Developing new people is now a problem. It can be troublesome in many aspects. New hires, especially new graduates, are not able to manage projects independently, but the Company will still assign performance indicators to the department because 'points' will be calculated according to a department's number of employees and their positions including new graduates hired. Therefore, other people need to cover the performance indicators for the new graduates when you still have to teach them how to do a project. However, the value of developing others cannot be recognized by the 2017 Practice indicators [as the work cannot be charged to clients]. There might be conflicts between a new hire and a project manager as the former may feel the income is not enough to cover high living costs in a big and expensive city despite hardworking and the latter may think*

> *that I'm sacrificing my time to teach you and you're still complaining. So, there is room to improve the performance management practice to solve this kind of issue."*

The interviewee also shared his/her experience of trying to solve this problem but failed to do so:

> *"...project managers are not motivated to engage in this kind of work [i.e., developing or mentoring new hires] ... When I was in another department before my current department was separated, I even created a measure to reward a mentor's work by attributing a portion of the apprentice's project revenue to the mentor. However, it was not really implemented because some others did not appreciate this practice."*

The consequence of lacking employee development activities such as mentoring is obvious as described by the interviewee:

> *"… for those newly hired graduates, if they don't have enough projects to do, and nobody teaches or mentors them, especially during the first three years, they won't develop good professional habits, and over time they will be unsatisfied and leave the company."*

Non-billable work at the department head level was exemplified by their activities that build the company's brand and reputation but that do not necessarily generate direct revenues. When asked if there were any advice on the strategizing of the 2017 Practice, one department head added:

> *"In addition, there are still things to consider in performance appraisal; that is, at our level [as a department head], for example, there are times we need to give speeches or trainings to local professional associations, state-owned enterprises, customers, colleges and universities. It is to disseminate some concepts of asset appraisal. The company's recognition of this kind of work is not directly related to performance appraisal. As a result, all our departments are busy earning money and are unwilling to do things like these. Just like the central state-owned enterprises, they will disclose their entire social responsibility activities in their annual reports. If we put too much emphasis on [financial] performance, people are not motivated to do these things; that is, there is no motivation or incentives. ... yes, there is a lack of more comprehensive non-financial indicators in the performance appraisal system, something like to increase the influence of our company in the industry by going out to speaking out for the company. This is not linked to the performance of a business department."*

The third expected function of the HRM system is to improve the career development planning of individual employees and the talent pipeline of the company (including differentiating career paths and drawing a roadmap to become a partner). The rising turnover was one of the major pain points for the ABC Company after its implementation of the 2017 Practice. Career planning at the individual level and organizational development at the Company level are necessary parts of the company's solutions to both people management and business management challenges. The inseparable relationship between people management and business management was summed up very well by one department head, who said that *"managing people well leads to well managed business"*. Another department head expressed exactly the same idea and added to it by saying: *"Managing people is managing business and managing people should go first."* Although department heads were well aware of the importance of managing people in managing business, their needs remained vague as to how the HRM system should function. According to the data collected through the interviews, middle managers expressed concerns about some existing phenomena and described an ideal state from a bystander's point of view, rather than demanded for concrete action plans for their company.

In the section below, I analyze the concerns regarding individual and organizational development from people at four levels: the assistants (i.e., new graduates with less than 3 years in the company), the project managers, the department heads, and the top management team.

At the most junior level, new graduates will normally take three years to be promoted as a junior project manager if they perform well enough. People at this level did not have strong feelings about the 2017 Practice because they joined the company after 2017 and had not experienced the change in performance management. Correspondingly, they also did not show as much identification with the company as those who had stayed with the Company for many years although the company's reputation and professionalism were one of the considerations in their job searching. Earning sufficient money to cover the high living costs in a big city is the paramount need for employees at this level.

When it comes to an individual's career development in the Company, it is a bit of a matter of luck depending on the employee's department, the employee's assigned projects, and the employee's project managers. As discussed previously, project managers did not have the motivation to spend time to mentor new graduates as mentoring was not officially evaluated and rewarded. Personal growth opportunities will affect one's career development in this Company and elsewhere, and therefore will cause people to stay or leave. Maintaining a balance between work and life is another factor that affects employees' turnover at this level. Below is an excerpt of the interview conversation between the researcher and one lower-level employee, where R represents the researcher and E represents the interviewed employee.

R: What are your expectations on career development?

E: *Continue to advance upward until I can manage a project independently*.

R: What appeals to you the most in this job?

E: *I chose this job mainly because it is related to my major. I studied asset appraisal at university. It's a match*.

R: So, you joined the company right after your undergraduate study?

E: *After my master's degree*.

R: Besides the match with your education, any other factors [that made you choose this company or this industry]?

E: *It's just that I think every sector is difficult nowadays, and I can't think of anything else I can do. If you can't do well with what you've learned in university, then it will be even more difficult to do other things. It's just that I'm pretty afraid of unfamiliar fields*.

R: To look at it in another way, are there anything you don't quite like in this job?

E: *What I hate is to travel for business. It's like, I can go for business trips; but if it's too long, something like for two months, it's really unbearable. Another thing is that you have to respond to customers as long as they look for you at every given moment [no matter if it's during work time or not]. However, there's no way [to solve this problem] when you do this kind of work.*

Indeed, this aspect is quite annoying. And then, when on a project, the client's time requirements are particularly tight. You have to work overtime often. There is nothing you can do about this either. It's just, there will be some negative emotions, and you need to digest it slowly. But, of course, you have the busy time, you also have times when you're relatively relaxed.

R: What kind of factors will make it likely for you to leave a job?

E: *Factors relating to family*.

R: Is it something irreconcilable?

E: *Because I am not a native [of this city]. I'm from XX province. In fact, I have been facing this dilemma recently.*

R: Will you think of going back to your home city for your job/career?

E: *Because you don't have the HUKOU [referring to an official citizenship status in the city], and it's not the case that the Company [and the current job] can assure me to survive in this city*.

R: Are there a lot of opportunities in your hometown?

E: *This is also a dilemma; that is, our industry has a lot of limitations. If you want to jump out [of this industry], it is not so easy to jump*.

The conversation above shows the uncertainty an ordinary employee faces and his/her ambivalence in making a difficult choice, if any, between career and life.

At the level of project managers (including both junior and senior managers), people may face similar issues as lower-level employees, such as work-life balance. What is different is that people at this level have accumulated enough experience and competency, which makes it easier for them to change jobs if they want to. Turnover intention and actual turnover are a function of a few factors including mainly the income level relative to one's needs, the perceived fairness in how one is paid, and the perceived career development opportunities in this company. Individual employees' needs for career achievement are also different. Here I present two conversations with two project managers from different departments to show what made them stay or leave the Company.

The first interviewee was from a department that performed quite well regarding the 2017 Practice performance indicators, and the project manager was also rather satisfied with his/her income. However, he/she did not show a lot of enthusiasm on career achievement or commitment with the Company or industry. Here below is an excerpt of the interview conversation between the researcher and the project manager, where R represents the researcher and PM represents the interviewed project manager who, at the time the interview was conducted, stayed with the company after the annual performance appraisal:

R: What do you think of your company's brand and professional image?

PM: *The brand and reputation are pretty good; otherwise, I wouldn't have stayed for this long*.

R: Could I say that they [brand and reputation] are very important to you?

PM: *It's not that they are very important [to me]; it's just that its risk management is pretty well done. The businesses are mainly with state-owned enterprises, which have less risks*.

R: How does this affect you actually?

PM: *Low-risk projects are much less likely to be regulated in the future*.

R: You must be a CPV (Certified Public Valuers) then.

PM: *Yes*.

R: What appeals to you the most to work here?

PM: *... how to say, something similar to what we have said*.

R: Could you summarize a bit?

PM: *It has good reputation in the industry, and clients are of good quality*.

R: What does this mean to you?

PM: *To me, it's good for my personal growth. Maybe when I first came, the income in this industry was still fine*.

R: How about now?

PM: *It's not clear to me what level it's at right now*.

R: When you said, "it was still fine", are you comparing with other industries?

PM: *To compare with other industries, and with my classmates in other industries*.

R: Any gaps to compare now?

PM: *Yes, there is a gap, but I know their industries have always been better than ours*.

R: What industries are they in?

PM: *Such as brokerage firms and law firms*.

R: What did you study in university?

PM: *I studied asset appraisal*.

R: Let's say, if your family or friends were looking for a job, would you recommend your company?

PM: *Probably not. I will certainly hope they go somewhere better*.

R: Such as?

PM: *Such as brokerage or law firms*.

R: How easy is it to change from your industry to those firms?

PM: *Probably not very*.

R: Except for income, anything else in your industry being attractive to you?

PM: *Not really, I guess*.

R: What are your expectations on career development?

PM: *I don't have very long-term plans. … it's really tiring. It's already tiring enough to be the head of the department, and then further up, it will be a shareholder. It feels everyone is having a hard life*.

R: Sounds like that's not something you're longing for.

PM: *You're right [with laughs].*

R: In your work, what can bring you joy or positivity?

PM: *Probably, a sense of accomplishment, such as completing a project, breaking through a time limit, or doing a project that I have never done before*.

R: Sounds like you actually crave for growth, but you don't want to be too tired at the same time.

PM: *Yes, that's it.*

R: Do you feel that your colleagues are already too tired?

PM: *Recently, a little, yes. We don't have cyclical peak- and off-season, but it's up to the department head to balance the pace. Some times are busier some times are more relaxed*.

R: If you are more tired, you will earn more money, right?

PM: *That's for sure. That's how you earn money*.

R: Will there be any colleagues who wanted to be more tired [i.e., work harder] but could not have the opportunity to do so?

PM: *No, there is not [in my department].*

R: How about in other departments?

PM: *It's not clear to me for other departments*.

R: What kind of factors will make it likely for you to leave a job?

PM: *One is that there is a better job opportunity outside. Another will be when my income has reached a ceiling or when it starts to decline*.

R: When you said a better job, what are the criteria?

PM: *The environment is better, the ceiling is a little higher, or it is not so tiring. It's just the input-output ratio*.

Another interview conversation took place between the researcher and one project manager who was assuming an important management role in his/her department. His/her role was rather unusual because it was a new department that focused on international businesses. Thanks to his/her overseas background, this project manager took half of his/her time to serve clients and the other half to develop the team that mainly consisted of overseas graduates.

Contrary to the first project manager, this interviewee showed great ambition and enthusiasm in his/her career development. He/she provided interesting ideas showing the challenges and opportunities to attract, motivate and retain (young) talents in the asset appraisal industry and in ABC Company. Here below is the conversation where R represents the researcher and PM represents the interviewed project manager.

R: Just now you mentioned that being young, such as around their 30s, does not mean that they are inexperienced. Then, from another perspective, do young people think that older people's knowledge and experience are already outdated?

PM: *Um…, to be fair, not so much. However, I personally think it's a good thing to have that kind of thinking, because it represents vigor. This is what we need and hope for. Because our department is supported by the company, and we will not be able to match the performance of Department XX and Department XX even after ten-year's hard work. Therefore, we need to have this kind of new experience to create new things. This is the premise for our future development. If you follow the old path, you will have little motivation. Simply put, we will not be able to keep those employees who have overseas educational backgrounds. Therefore, for our department, we need and believe in new experience, which is very important*.

R: So, if you could describe your experience [of working here] in one or two sentences, how would you describe it?

PM: *It's really tiring, but it's worth it*.

R: Where is the tiredness?

PM: *Long hours and stressful work*.

R: I'm trying to understand. You seem to be trading time for space [of career development].

PM: *You're right*.

R: So, what are your expectations in your career?

PM: *In fact, I don't have a very clear career goal. On the personal side, of course, the higher the income, the better. In addition, I hope that I will be able to "cash" my human capital immediately in the market, say, if something happens to the company. This is a purely personal idea. So, when it comes to work, I hope that new people [in my department] can develop quickly. So, in addition to the advancement in position and income, the sense of personal achievement [coming from developing those overseas graduates] is also something I value a lot*.

R: For the 2017 Practice, how much do you support it with 10 being a full support?

PM: *If I put myself in the company's shoes, I give it a score of 7.5 to 8 out of 10*.

R: Where is the space that can be improved, the 2-2.5 points?

PM: *I think, the biggest, the core issue is how to realize succession of the young to the old. Anyway, there is a phenomenon in our company, that is, young people, when approaching their late thirties and about forties, their turnover rate is pretty high. … In our industry, after you have grasped the entire business logic, there are still many options outside for your career development. Moreover, at a certain stage, you can no longer be promoted [here]*.

R: The succession between the old and the young that you are talking about, it seems it's also an issue of developing employees and building up talent pipelines.

PM: *Yes, yes, it's not to let the old go down, but how to let the young come up. Well, it shouldn't be an individual, it should be a new group, such a group may be two or three people, it may be half a department, it may also be a department. [This group should] have the motivation and drive. You know, this industry itself, asset appraisal is at the bottom of the chain of financial services, [which is less attractive than other industries in this chain]. Therefore, [it is necessary to] have people see a clear path [in career development] by managing the career planning and generational successions*.

R: So, it's about career development space and path.

PM: *Yes. I didn't see my path clearly until after changing several departments [in this company]*.

R: How motivating can it [i.e., career planning and development] be? If you consider the income level at the same time; say, if the income is not so satisfactory, but after three or five years, he/she can have a clear expectation of personal growth and career development, do you think this incentive is strong enough?

PM: *Well. I personally feel that I will not use this kind of incentive. What you just said is more like an incentive for newcomers. When I was a newcomer, I thought the same as I do now. I don't think this incentive is useful, because the asset appraisal industry is at the bottom of the food chain [referring to the chain of financial services], and there are too many things that look shiny up on it. So, it is not tempting to put such a thing in our place. Auditing, investment banking, funds, brokerage, trusts, and a series of these glittering things. Therefore, for new employees, such incentives are a bit too laborious. Moreover, the most difficult thing to enforce this is that the middle level is not willing to implement it even though a policy is rather easy to make. [They will say that] I'm already busy enough at work, and why am I doing this. I think that's a big problem. In my case, I am trying hard to develop people now. In fact, I really pay a lot for this, and one day I feel that these people can no longer be cultivated, and I will choose to give up. It's not that I'm not responsible; but my energy is limited as I'm getting older. Therefore, this kind of incentive is not really meaningful to young people, and it is also difficult to apply*.

R: So, based on this current situation, the industry is not attractive enough, what are the means to retain and motivate employees?

PM: *What I often say to our department employees is that the financial industry is a high-income industry, but there can only be one in ten people there. The incentive is not to become the fourth and fifth out of the nine people, with a little more income than other people; instead, it is to become the one person. I think it's about really being the backbone of a company, and that's probably the biggest motivator. This is also a personal aspiration for myself. After staying up to that point and becoming that one [of ten], his/her income will not be a question of 50% raise or doubling, but of several times. So, I think this incentive is more realistic*.

R: So, in your expectation, the income of a department, equivalent to the income of an average employee, will be doubling significantly.

PM: *More than doubling*.

R: Then, can I understand that your short-term goal is to become the head of a department?

PM: *I have that expectation, and I believe that over time I can do it. My personal expectations are based on the current team as a whole. As a founding employee, I now spend 50% of my time not doing specific projects, and I believe I will be able to monetize this 50% of my work [i.e., referring to the time spent on managing and developing people which is not billable to clients]. Then this part of the monetization will have more value than the original part [referring to the work he/she would have done if he/she had not engaged in the people management work]*.

R: It's only a matter of time.

PM: *Yes, if it's not possible here, you can always benefit from this kind of investment elsewhere*.

R: This is an investment in yourself.

PM: *Yes, it is*.

Comparing the two interviews, the two project managers showed sharp differences in their career development expectations. While the first interviewee was quite indifferent about his/her career development (in this company), the second expressed strong ambition and entrepreneurial spirits. What made the first interviewee stay was mainly money. On the contrary, what motivated the second interviewee was the platform and the opportunities it provided to create something for him/herself. In either case, it is challenging for the Company to retain them because, according to the interviewees, a clear promotion path in the Company seems not enough to motivate and retain young talents as the asset appraisal industry is less attractive than other professional service firms.

At the level of department heads, their career development related concerns mainly cover the areas of differentiated career paths (e.g., the distinction of client-serving and non-client-serving positions), the company's form of organization, and the possibility of becoming a partner. For example, one interviewed department head's comments reflected the connections of these major concerns for higher level positions. When asked what the challenges in people management are, the interviewee explained why a clear career path was important like this:

> *"…one more thing, as we know, it is people that serve clients and it is people that develop markets; then, I think, our company should have a better plan in building up talent pipelines. [This is] because some are suitable for developing the markets, some are suitable for doing management, and others are suitable for delivering projects. This kind of clarity [in career path] is lacking. Although we have promotion policies, the paths are not very clear. If you look at an accounting firm, one will have an expectation to become a partner. Our company, however, is still a limited liability company; we have no partners. In this case, one does not feel much difference whether he/she is a project manager or a senior manager."*

This comment conveys rich information that is closely related to the crux of ABC Company's management problems in implementing the 2017 Practice. A few implications can be inferred. First, under the 2017 Practice, a department head is expected to grow the business and a person who is not capable of this role is better to be removed from this position. If the Company has a separate career path that recognizes people's professional expertise and does not require a business development role, then the problem is solved. Second, the current hierarchy of positions is not motivating enough to employees because the difference between project managers and senior managers is minor. The main reason is believed to be the lack of an opportunity to become a partner. This clearly shows department heads' expectations of becoming a partner, especially when the role of business development is emphasized under the 2017 Practice. Third, as ABC Company is still organized as a limited liability company, department heads will reasonably expect to become shareholders, if not partners, if they grow business and operate a profit center. Therefore, department heads' career development and role clarification are very important. This issue was brought up by most of the interviewed department heads although in different ways. Department heads also shared the view that the gap in middle-level talent is a serious problem for the company, which is consistent with the ambitious project manager's observation on the issue of generational succession.

At the company level, the top management team seemed to be open to various options although they did not show specific preferences. One major concern for the TMT was the company's form of ownership and organization. Actually, ABC Company has been considering in recent years what ownership and organizational form will be the most appropriate for its long-term development, especially when facing challenges from both the market and the talent sides.

Before the 2017 initiative, the company encouraged all employees to engage in business development activities, known as the idea of *"developing business by all"*. When business development is broadly defined, it covers various activities including serving current clients well to generate new projects with old clients. When it comes to developing new clients from scratch, the difficulty increases exponentially. It takes careful weighing of cost and benefit for a manager to engage in this activity. Lacking a clear incentive logic and mechanism, this all-employee marketing strategy failed to deliver the company's ambitious goal until the 2017 Practice officially came into force. The 2017 Practice is a continuation of this strategic intention with clearer rules of the game. However, the 2017 Practice did not work as well as expected either, and the TMT was wondering if the ownership and organization forms limited people's motivation and engagement.

To choose an organization form, it seems that the TMT of ABC Company has a misunderstanding of partnerships in professional service firms because they think that the form of a limited liability company is more instrumental to ensuring the quality of valuation practices. Partnerships, however, are understood by them as a group of people who get together to make money regardless of professional quality and reputation. This misunderstanding is mainly due to the short history of partnerships in China. Unlike in western countries, where professional service firms are normally partnership firms (Greenwood & Empson, 2003), the form of partnerships in Chinese professional service firms has existed only for about two decades. Although partnership firms have begun to appear in the asset appraisal industry, about ten years later than Chinese law firms and accounting firms, the real spirit of partnerships is still rare in Chinese professional service firms because even the most advanced forms of partnerships are a product of government driven transformation from limited liability companies rather than a result of organic growth. When professional service firms in the western world are moving toward a corporate logic of governance, many Chinese partnership professional service firms are still struggling with creating and implementing a "one firm" strategy, in which universal professional standards and management practices are promoted among all partners and offices. The limited knowledge on partnerships also leaves the Company with one less option.

The fourth expected function of the HRM system is to leverage HR expertise to mitigate risks and reduce the administrative work of business departments. As discussed in previous sections, the ABC Company did not have full-time HR professionals and HRM related work mainly included personnel management activities, such as paying salaries and signing job contracts, which were all carried out by people from the Department of Administration. The HR Head was responsible for designing and organising the implementation of annual employee performance appraisal. This work only stopped at the level of distributing performance appraisal notices and forms and collecting and reporting the results provided by the departments. In short, the HRM infrastructure was weak in both staffing and capacity to design overall HRM strategies and practices. During the interviews, middle managers clearly expressed their needs for professional HR support, although their focus varied with some hoping it to solve systemic issues and others expecting it to handle pragmatic problems.

When asked if there were any challenges in people management, one department head expressed his/her need for HR support to facilitate labor mobility:

> *"Now when we're recruiting staff, there will be some referrals. Sometimes, some people turn out not to be so suitable after coming in although the interview went OK. So, how to make a job adjustment at the company level is a problem. Right now, once an employee joins, he/she will be staying in your department whether or not they are competent. As long as you sign the labor contract, it will be very troublesome. So, the company does not have a good policy in this regard…. One thing is the entry, and the other is the exit. Once someone enters a business department, there is no way I can get him/her to leave. [We need to think] if it's possible to transfer him/her to another department because he/she may fit into other functional or administrative positions when he/she is not good at serving clients."*

This is another example of mobilizing human capital but for a different reason. This rationale is to put the right people into the right position. For example, if one employee is not suitable for a role of serving clients, he/she may be reallocated to another role such as in a support department if you want to keep him/her in the company. At the very least, the business department expects that there will be HR professionals to fire people properly to avoid potential risks in the employment relationship.

Despite the consensus on the need to have professional HRM standards and support at the company level, middle managers were quite conservative when it came to establishing an HR team to build up HRM infrastructure. Department heads showed various attitudes although nobody objected to the idea. Some strongly suggested establishing an HR department to systematically improve HRM practices such as performance management. Some thought that one HR professional would be enough as the company was not that big in size. Others did not care much about it as long as the costs were borne by the company. When asked if it is necessary to establish an HR team, one department head said: *"My understanding is that there should be a full-time HR to do this, but a team is not necessary, because our company is not that big."* However, the Company did not respond actively to departments' request for HRM support. When asked why the Company was reluctant to establish an HR Department or hiring a full-time HR professional, one department head answered in a half joking half serious tone: *"Is it because of the cost? Or some other reasons. Or maybe, it's a concern that an HR department won't have* *enough work to do?"* Another department head confirmed the Company's reluctance by expressing his/her disappointment:

> *"… one more thing is the need for more professional HRM. … there must be professional high-end HR people who are familiar with the characteristics of this industry. We made this proposal several years ago, constructive suggestions. I have stopped suggesting this for a few years because I think the leaders all know about it whether you mention it or not."*

So far, I have introduced all people management related activities that represent middle managers' upward influence that is divergent from the strategic intent of the 2017 Practice, that is, Championing Alternatives activities. These activities are grouped into one category, that is, the request to establish a complete HRM system at the company level. It is important to note that this "request" was more implied than explicitly requested. Therefore, based on the evidence from interviews, these activities are not true Championing Alternatives, as these ideas were not presented purposefully and systematically to modify or replace the 2017 practice or parts thereof.

Business management. Similar to the people management activities, there was little evidence that middle managers attempted to exert upward and divergent influence on business management activities. However, some department heads did touch on some areas that can serve as a basis for Championing Alternatives. One is a call for long-term motivating mechanisms, and another is a call to align business activities with the company's culture and history. While these ideas were at odds with the 2017 Practice, they remained idiosyncratic amid the continued and overwhelming support for the pay-for-performance principle among other middle managers.

4.1.3.5. Summary of Middle Managers' Activities in Strategizing 2017 Practice.

To summarize middle managers' activities in strategizing the 2017 Practice, using Floyd and Wooldridge's (1992) terms as shown in **Table 1**, department heads exhibited more downward than upward influence. Within those downward activities, department heads' influence was generally more divergent than integrative in nature. That is, Facilitating Adaptability activities were practiced more than Implementing Deliberate Strategy activities. There were exceptions of course, for example, the Champion Department whose major activities were characterized as Implementing Deliberate Strategy outperformed all other departments regarding the 2017 Practice performance metrics. It seems clear that there is a positive correlation between one department's Implementing Deliberate Strategy activities and its performance. The key differentiator of performance was department heads' engagement and outcome in business development. All underperforming departments undertook a variety of Facilitating Adaptability activities in order to maximize the department's interests under their respective conditions. It is impossible to draw causal conclusions between one department's Implementing Deliberate Strategy activities and its performance as reverse causation may also be true.

Department heads' upward influence was mainly Synthesizing Information activities while Championing Alternatives activities were almost absent. In Synthesizing Information, all departments agreed that the revenue-splitting ratio should be adjusted to be more beneficial to departments and detailed implementation rules and guidance should be made and implemented. What differed between departments was their varied level of acceptance of the case-by-case negotiation approach between the department and the Company when undertaking a project. The

Champion department's excellent performance can be partly attributed to the department head's active communication with the TMT. Although Championing Alternatives activities were not obvious, the Doubter department, compared to other departments, experienced clear and stronger inner conflicts between the pay-for-performance culture of the 2017 Practice and the Company's traditional family-like culture and professionalism values. This inner conflict may have weakened the psychological contract, which can partly explain the department's underperformance.

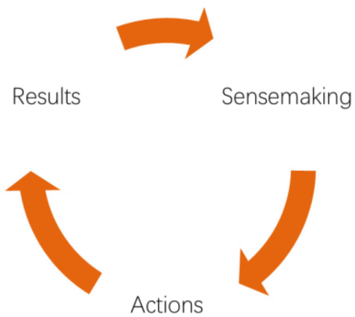
Overall, middle managers' activities were more divergent than integrative assuming that the strategic intent of the 2017 Practice was to build up a real output-based pay-for-performance culture to promote sustainable development. As Kehoe and Han's (2020) review of line managers' involvement in HRM claims, department heads are capable of exerting their agency to shape both the process and the content of HRM practices. In the terms of Kehoe and Han's (2020), when implementing the 2017 Practice, middle managers practiced mostly "translating" behaviors (i.e., refining the HR practice according to local condition), some "implementing" behaviors (i.e., enacting the HR practice as espoused) and few "adapting/introducing" behaviors (i.e., explicitly modifying or replacing the HR practice).

In the following sections, I explain how and why middle managers' strategizing activities unfolded through a series of phases and processes. In Section 4.1.3, I quoted extensively from the interviewees in order to make my points in their own words. Many of these quotations are long, and some are in the form of complete dialogues. The aim is to restore as much of the interviews as possible so that readers can understand the context and make his or her own analysis and judgments. In the following "How" and "Why" sections of this thesis, I am going to minimize the use of quotes to avoid repetition and maintain parsimony. A table of illustrative quotes is provided in Appendix D to showcase those typical ideas that are relevant to the strategizing processes emerged from interviews.

4.2. STRATEGIZING PROCESSES: HOW THE 2017 PRACTICE WAS ENACTED OVER TIME

Since its inception in 2017, the then-new Practice of performance and remuneration management had gone through ups and downs throughout the ABC company and witnessed sharp contrast in outcomes among departments. Along the way, the top management team (TMT) had been exploring ways to improve the Practice, but no major changes had been made. When the researcher started this case study in 2021, the ABC Company was still actively looking for external support to improve the Practice or find an alternative to it. How had the 2017 Practice been enacted by various organizational actors over time to result in the outcome in 2021? From interviewing department heads (the middle managers in this case study), top management team members and lower-level employees, I identified four major processes. In each process, there was one major theme (although some other themes could co-exist), around which various actors' (mainly middle managers') sensemaking, actions and results of those sensemaking and actions interact with each other to drive how the processes unfold and evolve. As illustrated below in **Figure 1**, one process consists of iterative interactions between players' sensemaking, actions and their results regarding the targeted theme(s). One's sensemaking affects actions because it influences one's attitude and motivation toward an issue. Various actions derived from differing attitudes and motivation lead to different results, which further impacts sensemaking. This process can go on continuously.

Figure 1: ***Three-Factor Process Model***

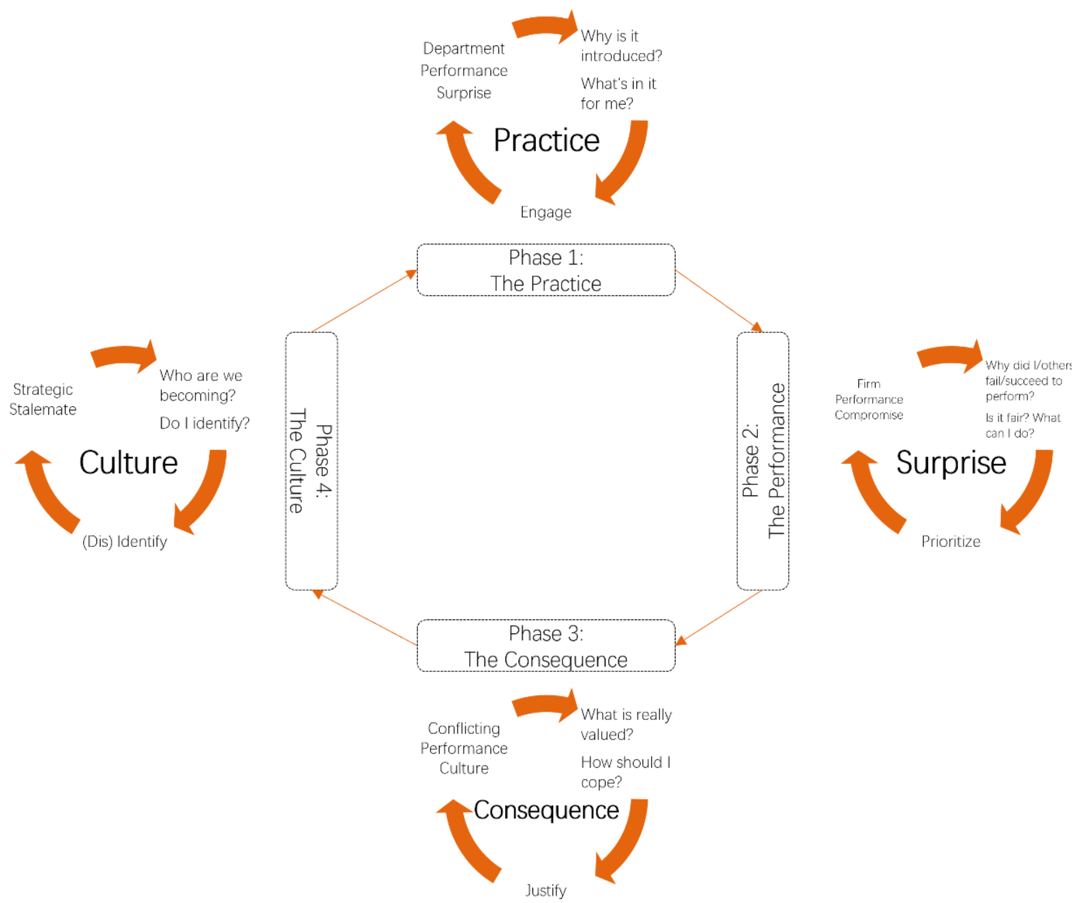


Adding time as an extra dimension, I found that these processes generally unfold in a time sequence. I therefore label them according to the phase in which they happen, for example, Phase-1 process. In each of these phases, strategy practitioners' sensemaking and doing reinforce each other to drive the strategizing processes to evolve over time. As shown below in **Figure 2**, the focus of thinking and doing in each phase shifts from the 2017 Practice itself in Phase-1 to the performance gap and polarization in Phase-2, to the performance evaluation and management practices in Phase-3, and finally to the varied perceived performance cultures in Phase-4. At the end of Phase-4, identification and commitment are shaken and the company comes to a strategic stalemate in terms of what to do with the Practice.

Figure 2: ***Triggers (Themes) of Four-Phase Sensemaking Processes***

Focusing on various themes in each phase, strategy practitioners ask different questions to themselves and to each other, and take corresponding actions. These social construction activities result in new contexts from which new theme(s) emerge to become the target of sensemaking and acting for the next phase(s). This is illustrated in **Figure 3** below. In the following section, I introduce these processes one by one.

Figure 3: ***The Four-Phase Processes of Strategizing the 2017 Practice***



4.2.1. Phase 1: Short Honeymoon: From Excitement to Ambivalence

The Phase-1 process started from the initiation of the 2017 Practice. The Practice itself became the target of sensemaking and action. The key questions for department heads (being middle managers) and others of which to make sense are "why is the practice introduced?", "what's in it for me?", and "what can I do?". At the beginning of this phase, the top management team (TMT) and department heads achieved a high level of strategic consensus (Bourgeois, 1980; Kellermanns et al., 2005) acknowledging that it was necessary to change the performance and remuneration management practice at the time to reward people differently according to their contributions. The consensus was at a high level because the details were not yet clear to the departments when they agreed that a strategic change in performance management was beneficial to all, including the firm, the departments and individual employees. As a result, departments agreed on the need for change, and showed enthusiasm and engagement at Phase-1, trying to enact the Practice and to meet the performance metrics.

The initiation of the 2017 Practice was rather smooth according to all the department heads interviewed who were fully supportive at the time seeing the reform as a natural move following the company's growth strategy under a changing environment. As one department head pointed out, it was actually the departments that first communicated with the top management team about the concern of losing talents due to the misalignment of pay and performance. This concern was shared by all departments and perceived as the major rationale to reform the performance and remuneration management system. This understanding was nicely summarized by another department head:

> *"The introduction of this Practice [is because] the company wanted to make its pay management more reasonable. Under the original method, we obviously didn't know how much money we earned and how it was decided. It was like 'eating from one big pot'. …it is tied a little bit with the projects you are doing this month and this year. However, it is not clear how they are connected and to what extent. It's vague. It's just like we passively accept what we're paid. Of course, the company was growing rapidly in those years, and you could see that everyone's income was going up, so it wasn't a big problem. However, since 2017, or 2016, it has been found that the company's revenue did not increase or increased slightly. If employees' income increases slowly or even decreases, people, especially those with high competencies, will be lost to other firms because it's very easy for them to find jobs in the market. Losing these people will have a very big impact on the company, such as on client relationship and collaboration with external experts. In addition, when individual income and project income are not connected, people will not have the cost awareness. We didn't have the awareness to control costs in the company. When competition is getting more intense, our charging power is getting weaker, and business revenues cannot grow at a high speed or even stagnate, it's necessary to reform the compensation system. I think it will have a positive impact on both shareholders and employees."*

A few factors contributed to this agreement at the early stage. **First**, there was a well-recognized problem termed by interviewees as "eating from one big pot (吃大锅饭)". It was believed that a new performance management system, based on the principle of "more pay for more work" was needed to solve this problem. When asked what the fundamental goal of the Practice was, one department head answered:

> *"In my opinion, the purpose was to make an adjustment to the old system of the original environments, hoping the firm grow bigger and stronger in the end for sure. As for the people, they would be paid more if they contribute more. When the firm grows, individuals also grow; when an individual grows, the firm grows as well."*

The term of "eating from one big pot" has deep cultural roots, and before China's reform and opening up, it was typically used to criticize the inefficiency and bureaucracy of state-owned enterprises in the era of the planned economy. The discourses of breaking "eating from one big pot" and realizing "more pay for more work" are still often used in Chinese organizations to justify performance management initiatives and they are generally considered legitimate. **Second**, during a time of leadership succession, middle managers and employees were expecting some strategic moves by the new leadership team. This factor was mentioned by those older department heads and not by relatively younger ones. One interviewee introduced the background of the 2017 Practice like this:

> *"Generally speaking, two or three years before 2017, the founder and then Director of the Board stepped down and took a back seat. We had fewer people before, and everyone's performance was very clear to the management's eyes and minds. We did not have clear clauses [in performance management]; that is, it was vague to us what each one did and how each performed. [This Practice] was to quantify [performance] and connect it with pay and promotion."*

This attitude shows the departments' readiness and openness to change in performance management under historical contexts. **Third**, under the 2017 Practice, departments are empowered by the authorities to make key decisions on business management and people management, which used to be centralized at the firm level. This is not only extrinsically motivating with financial incentives but also intrinsically motivating with more opportunities for department heads to exercise power and entrepreneurship. **Fourth**, optimistic assumptions about the market outlook and lack of policy details led to the consensus. This 2017 Practice aims to boost revenues and profits by aligning company growth and personal gains assuming a growing market size and share. This rosy picture was not questioned too much because of historical success and momentum. Moreover, the 2017 Practice was as simple as a 4-page document when it was announced, which lacked important details to guide its implementation. No immediate behavior change was required or perceived because the Practice was not specific enough, either for business management or for people management, either at the department level or at the firm level. Lack of details and clarity worked in a way to delay further sensemaking.

Due to these reasons, the 2017 Practice was positively perceived at the beginning. This can be explained by Nishii et al.'s (2008) concept of HR attribution, which claims that employees make attributions on why a company adopts an HR practice, and this attribution will impact their attitudes and behaviors, and then organizational performance. They identify a typology of five HR attribution dimensions, that is, a company adopts an HR practice either for improving service quality, or for enhancing employee well-being, or for cost reduction, or for exploiting employees, or for union compliance. Their work therefore emphasized the distinction among intended, actual and perceived HR practices. In Nishii and colleagues' typology of HR attribution, the rationale of 2017 Practice was interpreted as both aiming for cost reduction and for employee well-being under an increasingly competitive market. As a result, middle managers at the beginning were positive and cooperative in developing the business, managing projects and motivating employees to realize the assigned annual financial objectives.

After all, the 2017 Practice was a product of the top management team's response to the departments' concern of losing talents when their good performances are not fully recognized by differentiated rewards. This early-stage involvement played an important role in the department heads' sensemaking in subsequent processes. This is reflected in the department heads' consistent appreciation of the principle of pay-for-performance and the necessity of making strategic change in performance management even though their perception of the rationale of the 2017 Practice changed over time and varied from one another. For example, some perceived the rationale mainly as seeking a win-win development while others saw it as shifting issues downward to departments, as has been discussed in previous sections and evidenced with quotations. In fact, the 2017 Practice worked well at the beginning in that some incompetent employees left the company, which is part of the Practice's aims. The problem is that high performers also started to leave in a later stage. That is why I call this phase a short honeymoon.

The strategic consensus at Phase-1 was achieved at a relatively superficial level because it was triggered mainly by the excitement derived from envisioned rising personal gains in money and power brought by the new game rule of how to share costs and profits between the company and departments. This positivity did not last very long when the business results failed to meet the ambitious business goals and rewards did not proportionately recognize contributions in the eyes of the department heads. One year after the implementation of the Practice, the company's annual revenue did not meet the ambitious goals. Growth stagnated with zero increase two years later and revenues decreased slightly on the third year. The size of businesses or the rate of business growth did not support the incentives envisioned by the 2017 Practice to be realized. The compromised business results were attributed to both internal and external factors. External factors prevented the company from realizing its ambitious expansion plan. For example, governmental regulations made state-owned enterprise clients highly sensitive to price. A growing number of competitors started a price war, and this hindered growth. Moreover, ABC Company received two administrative punishments by the governments. This harmed the company's reputation and further affected its business development. Internally, the company's successful history did not provide middle managers enough opportunities to sharpen their skills in business development and project management because their traditional roles were mainly to serve clients and deliver appraisal reports as professionals rather than entrepreneurs.

Therefore, the outcome of the Phase-1 process was a surprise in departments' performance relative to the Practice performance metrics because most of the departments failed to meet their goals. However, there were indeed winners of the new Practice, although few, exceeding the performance objectives and receiving personal gains as a result. This was another surprise to other underperforming departments. This polarization in business performance and personal income was disturbing for a company who had a long history of egalitarian culture. This surprise triggered another round of sensemaking and (inter)acting among various players, especially middle managers, although the focus and the tone had changed.

4.2.2. Phase 2: Parochial Adaptation: From Interest Convergence to Divergence

The Phase-2 process of enacting the 2017 Practice was a continuation of the Phase-1 process. While the Phase-1 process was driven mainly by optimism, the Phase-2 process was captured by skepticism. A new wave of sensemaking started when department heads had a chance to evaluate their departments' performance relative to the performance indicators and those of their peers', especially when being surprised by the sheer contrast in performance. Key questions in middle managers' minds were "Why did I/others fail/succeed to meet the performance indicators?", "What's in it for me?", "Is it fair?", and "What can I do about this?".

While performance polarization triggered Phase-2 sensemaking, the Practice itself remained to be one major focus of sensemaking in addition to the varied performance among departments. The outcome of sensemaking at this phase was the emerging/changed perception of organizational justice and its consequent effects on middle managers' emotion, motivation and ownership in enacting the 2017 Practice (e.g., Cropanzano et al., 2007; Greenberg, 1990). As a result, most department heads became disengaged compared to Phase-1 and adapted their activities in business management and people management to maximize the departmental interests according to their performance conditions. Business performance at the firm level was therefore compromised.

Comparing to the strategic consensus across departments at Phase-1, the Phase-2 process was characterized by confusion caused by the sheer contrast in performance between departments. Consequently, the high performing and under-performing departments differed in their attitudes toward the Practice and its implementation. Out of the two performance indicators, revenue and profitability, some departments could perform well on both indicators, some on only one, and others on neither of them. Overall, more than half of the departments failed to fulfill both objectives. The firm also failed to achieve its annual growth goals since implementing the Practice.

For example, one department rose as a superstar. This department overfulfilled both the revenue and the profit indicators. As a result, the department head and all employees were rewarded with a significant pay raise. The department head shared the story confidently:

> *"This Practice has been in effect for three years so far. Our department is a beneficiary of this Practice, from which the income of myself and the employees in my department has increased significantly. To implement this Practice, a department needs to meet the performance evaluation indicators assigned by the company, the first and the most important one is business revenue, and another less important one is profit. Employees' income will be guaranteed when these two indicators are achieved. The excess of the objectives will be distributed to employees as bonuses. It is up to the department to allocate the amount of the bonuses to individuals according to its own method. Of course, this amount will eventually be approved by the company. Generally, the proposal will not be revised, and the company will respect the department's opinion. That is to say, if you can fully complete the objectives assigned by the company and exceed the quota, the excess part will basically belong to the employees of the department. Our department has been doing well in the past three years. We have achieved an excess level of more than 30% in each year. The profits formed from the extra revenue were all given to the department. Therefore, we appreciate this Practice a lot."*

Employees in this department were motivated to work more and better and managers found it easier to lead the team. The department head described it as a virtuous cycle since *"now people are willing to do tasks that no one wanted to do before. I can motivate them by saying that we should do a better job when we're earning more than others"*. Therefore, the business success and personal gains reinforced this department's support for the new Practice. Looking to the future, the department head claimed during the interview that *"this reform should have been enacted long ago"* and *"we should continue to do the right thing"* implying that underperformance in other departments is not a legitimate reason to change the 2017 Practice.

In contrast to high-performers' continued positivity for this Practice, under-performers began to reevaluate the implications of implementing this Practice. Reflecting on their own business performance, under-performing departments started to emphasize structural factors that were previously neglected or downplayed. According to the interviews, a few issues were brought up to explain the unsatisfactory performance and/or sharp difference in performance between departments relative to the two performance indicators.

First, the market became more competitive when the number of competitors increased significantly due to the deregulation. This made business development more difficult, and the industry became less profitable in general. The problem was worsened by major clients' policy of "letting the lowest bidder win the business". This view was shared by all interviewees including the heads of high-performing departments and the TMT as evidenced by the interviewee quotes provided in previous sections. The annual performance objectives, however, were decided by the Company based on historical data despite of the environmental change, according to one interviewee. The same logic was also applied to imply that the revenue-splitting ratio did not reasonably reflect the market change. In short, the objectives were perceived by many department heads as unrealistic or a mission impossible, in one interviewee's word *"objectives above the ceiling"*. This perception prevented them from making efforts to achieve the goals.

Second, there were two cases of administrative punishments to the company by regulatory authorities, which were considered to have negatively affected the firm's reputation and increased the difficulty for business development. Although this appears to be a legitimate explanation, this factor seems to be avoided by high-performing departments and the TMT while under-performing departments emphasized its negative effect. When asked how the department has performed against the two indicators under the 2017 Practice, one department head brought this up:

> *"There were some specific conditions, special events that actually had an impact [on performance] in the past few years. It's about this industry. We have done a lot of various types of projects, ... after doing so many, there will be some cases of administrative punishments. This will affect some of our company's original operations such as market plans. If there was no such things that happened, I think everyone should be continuing to move forward now. But now it is not as good as originally expected because of these events. It affected business development. Moreover, it takes a great deal of effort to communicate with some clients on this [explaining what happened and that it was actually not as serious as it sounded]."*

Third, departments differed a lot in their client bases and project characteristics. One major difference is that some departments have developed a set of clients/projects that are asset-heavy (e.g., those in the petrochemical industry) while some other departments became more asset-light (e.g., those in the financial sector). Asset-heavy projects/clients are regarded as more time consuming and more complicated to manage because of their large volume of fixed assets. In other words, projects in some industries tend to be more profitable for ABC Company than those in other industries. Moreover, traditional asset-heavy clients have matured, providing less new business than those asset-light clients. Clients were traditionally assigned to departments by the Company (shareholders), and differences in client characteristics (such as industry or types of business) among departments were reinforced over time due to an agglomeration effect. This client structure had been formed before 2017 and no special consideration or action was taken when implementing the 2017 Practice. All clients/projects are regarded as equal when the two performance indicators are created each year by the Company. As one department head described:

> *"Clients are directly distributed by shareholders. As I said just now, the company has been in business for more than 20 years, and there were more or less client tendencies [for each department]. For example, if one department has more clients/projects in the finance sector, then those types of businesses will naturally tend to be assigned to the*

same department……Actually, the distribution of clients was completed before 2017; the purpose was to have both shareholders and departments maintain customer relationship and service. When we started to implement the 2017 Practice, there was some fine-tuning in client distribution, but no major change was made."

The previous quote reflected one department's approval of the Practice regardless of the historical background of client distribution, implying that working (improving) on the client base and structure should have been done by each department long before the 2017 Practice was enacted. From a different perspective, another department head explained how client/project characteristics affected the achievement of the two performance indicators:

"Take our department as an example, there are many petrochemical and mining companies, and generally speaking, in cyclical industries. As we provide transaction and M&A (merger and acquisition) services, this kind of enterprise will be affected by the industry cycle. We were at the best time some years ago, when the business volume was more than sufficient. Another factor, except for the industry cycle, is regulations. As we [i.e., our department] serve the mining sector quite a lot. The state is strengthening the governance over the mining areas, including coal mines. I remember it's in Inner Mongolia, it is required to examine transactions backward for 20 years, [which increases our workloads significantly]. This is the influence of the entire business structure, which requires you both to maintain old clients and develop new clients because the business volume is not sufficient. The pressure is great. How to put it, there are some contradictions in the process of breaking the bottleneck and growing, and there is some intertwining of good and bad."

However, some departments disagreed on the extent to which the client structure affected a department's business performance, although they also acknowledged the differences in client bases between departments. For example, one department head expressed the opinion that there is no such thing as a good or bad client yet acknowledged that some projects are more profitable than others, by referring to the Company's standpoint:

"Yes, some are more profitable than others……In fact, as for the client, our philosophy is, a client is not either good or bad (in quality). Of course, it may be that the shareholders have brainwashed us [so that I think this way]. There is no good or bad client. Everyone knows about (doing business with) the central state-owned enterprises. Providing appraisal services to them will deal with the property rights office or the finance department. The person in charge there may be replaced after three years, five years, two years or even one year. It's not like us having stayed here [i.e., ABC Company] for 20 years. In fact, the quality of the client depends on your maintenance and service. Of course, there are exceptions, but in general, I personally think that there is no good or bad client. It is about your service in the end. Because central state-owned enterprises are not like private enterprises; they operate under the guidance of the SASAC (State-owned Assets Supervision & Administration Commission) and the Ministry of Finance. Of course, some central state-owned enterprises operate better [than others]; but in fact, it has nothing to do with this; there is no good or bad client."

Fourth, most of the interviewed department heads expressed the idea that they did not feel comfortable with developing new businesses, especially with state-owned enterprises. That was an indirect admission that they did not feel competent for this role. At the same time, they emphasized that their role was traditionally that of a professional to execute projects and serve clients, and they did not have opportunities to hone business development skills. They saw business development as a professional skill and argued that it would take a long time to develop it. Therefore, they claimed that the right thing to do was to *"have professionals take professional roles"*.

At Phase-2, departments had more information and experience to facilitate their sensemaking on their performance (difference) and the Practice itself. Although no interviewees said explicitly that it was not fair, the real message conveyed was the perception of organizational injustice or unfairness (e.g., Cropanzano et al., 2007; Greenberg, 1990). The crux of the problem was defined by most middle managers as it was the different conditions that led to different performances between departments. While the 2017 Practice was designed to promote output-based pay by providing equal opportunities for each department and individual to enjoy "working more and getting paid more", most departments felt that they did not have equivalent conditions to perform and deliver results. Facing this perceived distributive unfairness, department heads' first reaction was to negotiate the revenue-splitting ratio with the company referring to the changes in market conditions and other firms' practice (e.g., a higher department-to-company ratio). In fact, discussions on the ratio had been the main theme throughout the implementation of the 2017 Practice. However, the TMT did not respond with a revised uniform ratio; instead, the ratio of specific projects could be negotiated on a case-by-case basis. As a result, procedural justice would be negatively perceived as the shareholders did not take into account the extra information and argumentations from the perspective of the departments. At the same time, the concern around favoritism was likely to come into play under this case-by-case negotiation practice. This concern can be reflected by one department head's perception of status:

> *"This result [in performance] has to be considered in light of the history and situation of a department. It is relatively divided [among departments], good and bad [performance]. The good is [because of] the inheritance of the department history; [it's] just like the central army and the local army. You know what I mean? That is, the main force and the non-main force are not the same. The inheritance of history includes client accumulation and business development momentum. It will be relatively easier if you have that; of course, the dedication of the department head is a plus."*

When client characteristics were referred to as business development conditions, the asset-heavy projects were believed to have both pros and cons. While those asset-heavy clients offered potentially huge projects, the long business development cycle would have adverse short-term impact on a department's performance. The 2017 Practice did not recognize this situation and the negative consequences fell on the department. The ambivalence was shown in one department head's observations:

> *"Once a project is heavy on assets, its assets are so large and so are its investments, something like 10 billion or hundreds of billions. No matter how you get the deal, even with a low-price bidding at the beginning; as long as the projects have come into a virtuous cycle [through early service and relationship building], it can be very profitable. If you don't do this, you don't do that, you'll have nothing to do, and there will be no chance for bigger projects at all."*

The perception of unfairness further triggered middle managers' sensemaking of the Practice's rationale and its implications to them (as individuals and as the heads of a business department), which prompted them to use various coping strategies in implementing the Practice. At the later stage of Phase-2, department heads started to adapt their behaviors in business management and people management after evaluating, retrospectively and prospectively, their own ability, motivation and opportunities (e.g., historical conditions such as the client base) in achieving the annual performance objectives. While the engagement was strengthened for high performers, underperformers became disengaged. The disengagement was reflected by the fact that the departments' dedication shifted to maximizing their own interests regardless of the Practice's deliberate goal to realize paying for performance. In Section 4.1.3., I discussed department heads' activities in enacting the 2017 Practice by applying Floyd and Wooldridge's (1992) typology. Within the four types of middle managers' influence in strategy processes, Facilitating Adaptability activities (which are downward influence and divergent from the Practice design) can best reflect department heads' disengagement in implementing the Practice as it was intended. I will not repeat the details here. Instead, I just briefly review some key points below to refresh our memories and help with understanding.

Department heads took various strategies to cope with the new Practice's demands and the consequences of their performance gaps. Underperformers chose to prioritize performance indicators based on the perceived abilities and benefits. For example, one department could maximize their departmental utility by managing effectively the profitability indicator and neglecting the business revenue indicator. The reason is that it is much easier and less risky for most departments to just manage current projects assigned by the company, making it more efficient and profitable, than to develop new business. This is especially the case when there is no clear policy stipulating how much additional rewards will be given to one newly developed project compared with the standard revenue-splitting ratio between the company and the department. It is just not motivating for department heads to develop new business if the rewards are not much bigger than simply delivering an existing project. Following this line of thinking, departments could also manage the company's expectations of its business development activities, in terms of the assigned annual revenue task objectives, by streamlining the team structure as the performance objective was determined by the overall seniority of department members. When the business volume was not sufficient for all members to fully perform, projects were assigned to employees within the department on an egalitarian basis to balance each person's income. As a result, high performers' income was not sufficiently differentiated from that of underperformers because underperformers were assigned projects that could have been assigned to those high performers.

To summarize, the initial enthusiasm for the 2017 Practice returned to calm at Phase-2. While middle managers were still supporting the principle of pay-for-performance (or a contribution-based distribution), they started to scrutinize details of the 2017 Practice design such as its rationale, feasibility and fairness. The Phase-2 strategizing process was characterized by an increased awareness of cost control and of the conflict of interest between the company and departments. While high-performers continued to engage in implementing the Practice, most departments underperformed and adapted their management activities to prioritize the department's interest. As a result, the Company failed to achieve its business goals due to the underperformance of departments. However, the consequences of underperformance were not as serious as it could or should be. Similarly, high performers were not rewarded as much as they should have been according to the pay-for-performance principle of the Practice design. This triggered another round of sensemaking on what was really valued in the Company, which drives the strategizing processes into Phase-3.

4.2.3. Phase 3: Reluctant Settlement: From One Big-Pot Eating to A Few Smaller-But-Still-Big-Pot Eating

The Phase-3 sensemaking was triggered by the Company's performance management practice regarding its recognition of departments' performances, good or bad, relative to the expected performance metrics according to the 2017 Practice. To be specific, the focus of Phase-3 sensemaking became the consequences of high-performance and under-performance in the Company's subsequent performance management activities. It was quite surprising in the eyes of middle managers that the principle of pay-for-performance was not strictly enforced. That is, neither under-performers were disciplined, nor were high-performers rewarded accordingly. This realization made middle managers reexamine the prospects of the 2017 Practice and wonder "What is really valued now?". If the middle managers' Facilitating Adaptability activities in Phase-2 was a last resort, in Phase-3, those adaptive activities (which might be beneficial to a department but not to the Company in enacting the Practice) became a matter of course. Once a deviant practice was justified in the minds of middle managers and was *de facto* accepted by the Company's performance management, local performance management activities in each department were institutionalized over time. Therefore, the 2017 Practice's strategic intent to create a pay-for-performance culture was realized only in a few high-performing departments, and many departments regressed to varying degrees to pay egalitarianism. Even in the high-performing departments, a certain level of pay egalitarianism was also appreciated and applied to maintain harmony and motivate people to engage in non-billable work, according to the interviews. Now I briefly discuss how performance management at the company level caused the co-existence of conflicting performance cultures in various departments.

As discussed in Section 4.1.3 and in the Phase-2 process, departments took on various adaptive activities to strike a balance between the performance expectations set by the 2017 Practice and their performance conditions (such as their ability, motivation and opportunities to deliver performance). As illustrated in **Table 1**, these Facilitating Adaptability activities of business management were mainly exemplified in middle managers' inaction in developing new business and reluctance in embracing an efficiency-oriented project management. In terms of people management, department heads chose to stick to, or fall back on, pay egalitarianism. At the same time, departments fostered employees' identification with the department, not the company.

The Company's reaction to departments' performance (culture) had a significant impact on middle managers' ensuing behaviors. These deviant behaviors could have been temporary if they had been disciplined accordingly and promptly. However, the Company took a laissez-faire approach to managing departments' performance and its treatment of departments' performance was egalitarian in nature. For high-performing departments, the Company provided rewards according to the Practice design. However, businesses that were newly developed by departments were not rewarded differently in part because of the lack or vagueness of the reward fulfillment rules in the 2017 Practice. Another reason was the lack of funding sources for the Company to redeem rewards because the Company decided to ease the punishment to those underperforming departments to maintain their motivation. As introduced in the previous sections, this dynamic was well explained by one interviewed department head, namely that there is no way to punish and no way to reward.

This egalitarian response of the Company obscured the rationale of the Practice and the company's determination in establishing a real pay-for-performance culture. Ambiguity nurtures sensemaking, and sensemaking changes or strengthens behaviors. When performance management is not strictly enforced according to the deliberate design of the Practice, people turn to their comfort zones. The Company's reaction was further utilized by underperformers to make sense of, and justify, their compromised performance. For example, it became reasonable and legitimate not to meet the performance metrics by using the discourse that the external environment had changed, and that the performance objectives were not realistic anymore. For the high performance of a few departments, it was mainly attributed to their beneficial client/project structure accumulated due to the historical success of the company. By this reasoning, underperforming departments found a way to justify their underperformance. Consequently, those adaptive activities in business management and people management were also justified. For example, to maximize departments' utility, department heads would prioritize managing project profitability to developing the business, and they would also practice premature or delayed employee promotion. To address the problem of the insufficient business volume, pay egalitarianism became the fall back because in the end this was consistent with the company's history and culture if no other better options were available.

High-performing departments, on the other hand, continued to promote the pay-for-performance practice although a certain level of pay egalitarianism was also applied to maintain harmony within the department. While high performers were rather happy with what they had achieved, they felt the obligation to justify their gains over others, seeing the performance polarization and income differentiation between departments, and they were concerned that the pay-for-performance Practice might be changed considering that it did not work well in many other departments. This concern was exemplified in one department head's reasoning that we should stick to doing the right thing and the underperformance (of some departments) does not prove that the Practice is wrong. In addition, high-performing departments were especially eager to see more concrete rules in implementing the Practice to recognize outstanding performances. In particular, it was expected that newly developed business would be rewarded fully and differently as they reflected the real entrepreneurship that the new Practice was trying to encourage.

Thus, despite the reluctant and tentative settlement with the surprising performance and its management, both high-performing and under-performing departments were uncertain about the future of the 2017 Practice and where the company was going. This can be explained by the concept of the HRM system strength. Bowen and Ostroff (2004) introduced the construct of "strength of the HRM system" by extending Mischel's (1973) concept of "strong situation" in which people share a common understanding of their environment and the expected behaviors and their corresponding consequences. A strong HRM system is believed to strengthen the link between HRM and firm performance because individual human capital join together to form a synergetic force (Bowen & Ostroff, 2004; Ostroff & Bowen, 2016). According to Ostroff and Bowen (2016),

> *"The process mechanisms of a strong HRM system are nine features, grouped into three attributional meta-features: (1) distinctiveness (visibility, understandability of practices,*

relevance of the practices to strategic and individual goal achievement, and legitimacy of authority of the HR function), (2) consistency (instrumentality by establishing cause-effect relationships, validity of practices, and consistency in messages across employees), and (3) consensus (agreement among message senders and fairness of practices), which work in concert to deliver the larger HR message." (p. 197)

In the case of implementing the 2017 Practice in ABC Company, the intended pay-for-performance culture by the 2017 Practice is not a strong HRM system because it lacks consistency and consensus although the distinctiveness is quite obvious. In other words, the signals conveyed by implementing the Practice were confusing considering the varied practices among departments in business management and people management and the Company's compromise in disciplining and rewarding performance.

To summarize, at Phase-3, the early-stage consensus on aiming for a pay-for-performance culture turned ambiguous mainly because departments' local adaptation behaviors and their underperformances were treated by the Company in an egalitarian way, through which the Company achieved short-term stability at the sacrifice of the pay-for-performance principle. As a result, in the departments with insufficient business, while pay-for-performance might be practiced for specific projects, the overall performance management returned to pay egalitarianism. In the departments with sufficient business, a pay-for-performance culture was successfully established as intended by the 2017 Practice, but other departments more or less retreated to old values in performance management (i.e., pay egalitarianism), mainly due to an insufficient business volume. Therefore, the outcome of the Phase-3 process was the co-existence of two conflicting performance cultures. The once eating-from-one-big-pot became eating-from-a-few-smaller-but-still-big-pot.

4.2.4. Phase 4: Strategic Stalemate: Back to The Drawing Board Wondering Who We Are Becoming

The Phase-4 process began when middle managers started to seriously consider the questions of "Who are we becoming?" and "Do I identify?", which was triggered by seeing the conflicting performance cultures form within and across departments. Middle managers vacillated between the two conflicting practices and logics. The outcome of this kind of sensemaking and doing would be the changed commitment, identification and turnover intention at the individual level. At the firm level, the Company was stuck in a dilemma wondering what to do next with the 2017 Practice in particular and the performance management in general.

The co-existence of both pay-for-performance and pay egalitarianism was mainly caused by the insufficiency in absolute business volume at the company level and the imbalance between departments. The Company was counting on the principle of pay-for-performance to boost business growth. However, when revenue objectives could not be met, due to either external or internal factors, pay egalitarianism became the only solution to retaining and motivating people. Severe penalties to underperformers would not necessarily grow more business but would make more people leave, resulting in a shrinking business scale. However, the co-existence of the two conflicting performance cultures created an identity crisis at all organizational levels. I will explain below how this identity crisis was exemplified at each level.

For lower-level employees (including project managers), they did not have strong commitment or identification with the company. Their commitment was more to their career development and income. Therefore, the decision was easy to make for them when it came to turnover. They would quit whenever they had a better job opportunity or when they perceived systemic distributive unfairness. This was reflected in the rising turnover, with the majority of departing employees being high performers coming from underperforming departments. In high-performing departments, new issues emerged as well. With continuous growth in business volume, employees felt overstretched, and the department heads faced new challenges to motivate people, for example, how to maintain work-life balance. Facing the polarization in pay across departments, the game winner felt the need to justify themselves by working harder. At the same time, they started to see the received rewards as disproportionate, especially considering the newly developed business.

For department heads, it was much more difficult to change their jobs than those lower-level employees considering their age, career stage, current position and status, and alternative external opportunities. Department heads' identity crisis came from various sources. The first issue is about the sense of competency and self-esteem. This was especially true for the underperforming department heads. All department heads used to be well-respected professionals in the Company and that is why they were promoted to that position. Now under the 2017 Practice, many of them felt the feelings of incompetence and frustration, although their underperformance was not financially penalized to the degree that it could or should be. Doubting whether they were assets or liabilities to the Company would affect their identification and commitment. Even for the high-performers, they were also lacking the sense of certainty and belongingness because it was clear that their practices were not yet the norms in the company.

The second issue is about role conflicts. Traditionally, growing the business was not part of the role of department heads, therefore they lacked the ability, motivation and opportunity to perform that role. In addition, taking into account the career development of department heads, the next step would be to become a partner or shareholder. The emergence of partnerships in other professional service firms also provided room for middle managers to imagine and expect. In this case, role conflicts became especially evident when department heads were expected to grow new business without being shareholders or partners, as they might wonder "If I should grow the business, am I an employee or a business owner?". The third issue is about professional identity. Traditionally, the ABC Company had been the benchmark in the industry for its professionalism and reputation. The governance logic was based on professionalism, which was also consistent with its pay egalitarianism. However, the 2017 Practice was based on a corporate logic that emphasizes efficiency over quality. This potential conflict also caused discomfort for these CPVs (Certified Public Valuers) when they started asking "Am I a professional or a businessperson?". The last issue is about the locus of commitment and identification. All department heads had worked for ABC Company for many years. Their identification with the company was attached to their experience with the company that was embedded in the organizational history and culture. Now the culture was changing, and the future was still uncertain. During the interviews, almost all of the interviewed department heads mentioned loyalty by saying *"as a veteran employee for many years, my loyalty is definitely there"*, and when discussing the future of the 2017 Practice, the most common expression was that *"I am definitely supportive of this Practice [mainly referring to the principle of pay-for-performance]. The key was that some detailed rules were needed at the time of implementation"*. This emphasis on loyalty is a good example of middle managers' confusion on identification and commitment. While commitment was emphasized, the locus of commitment became obscured. When those feelings of professionalism, competence and pride faded over time, there was no concrete substitutes for them after the 2017 Practice was implemented, which had shaken the traditional culture and values. Not knowing what or who to be loyal to can be scary.

For the Company, the situation became a strategic stalemate because it was stuck in a dilemma about what to do with the 2017 Practice. If it continued to implement the 2017 Practice, most departments would not be able to meet the performance metrics, and the company could not achieve its business goals either. If it stopped to implement the 2017 Practice, the Company saw no better alternatives to it on the one hand; on the other hand, those departments who had benefited from the Practice would not be happy. As discussed in previous sections, it is really difficult to refute the argument that the company should keep doing the right thing and some departments' underperformance cannot prove that the Practice is wrong.

According to the department heads' suggestions to improve the Practice during the interviews, there are probably two measures that the Company can take to mitigate the problem. The first is to mobilize human capital across departments to ensure that employees have equal opportunities to take part in projects. The second is to shuffle the client/project structure of each department to adjust its average project "quality". However, both measures will be difficult to realize for the company. The company lacks HRM infrastructure to manage labor mobility at the company level. This has been discussed in previous sections. Since the client/project structure has been established over a long history, the adjustment of clients between departments will be resisted not only by the departments that benefit from the existing structure, but also by the clients. Similarly, the company also lacks the capacity and infrastructure to manage clients and projects systematically.

As a result, the Company vacillates between pay-for-performance and pay egalitarianism hoping the market will turn good so that the future becomes clearer. Again, one of the TMT members' comments well summarizes the 2017 Practice implementation: *"We have no means to address those underperforming departments."* When it comes to improving or replacing the 2017 Practice, the Company has no idea what to do or has no determination in taking more risks to make a change. However, the consequences can be serious. When traditional culture and values are shaken and new ones are not well established, people's identification and commitment will be affected, and the perception of person-organization fit will become more salient and further lead to turnover intention and actions.

To conclude, middle managers typically went through the processes of strategizing the 2017 Practice over four phases. At Phase-1, department heads experienced a shift from excitement to ambivalence when the positive prospects of the Practice were met by performance gap and polarization. At Phase-2, departments deviated from the Practice design to prioritize the department's interests by adopting various business and people management strategies when seeing a divergence of interests between the department and the Company. Through Phase-3, departments reverted to pay egalitarianism to varying degrees to address the problem of insufficient business when seeing that the pay-for-performance principle was not strictly enforced by the company. At Phase-4, when two conflicting performance cultures were seen to exist side by side and the future remained unclear, department heads experienced a crisis of identification and commitment. At the same time, the Company came to a strategic stalemate not knowing what to do with the 2017 Practice.

To facilitate a holistic understanding of the four-phase processes, I summarize all elements of each phase below in **Table 2**, in which the triggers of sensemaking, themes of sensemaking, key questions for sensemaking, outcomes of sensemaking, following actions, results of actions, and relevant theories are listed altogether. It is worthwhile to point out that the themes of sensemaking in previous phases are very likely to remain in later phases as well. For example, the rationale and prospects of the 2017 Practice remained to be one of the sensemaking targets for all phases. Moreover, although the model claims a circular relationship among Sensemaking, Actions and the Results of Actions, it is important to acknowledge that the "Results of Actions" are not fully due to middle managers' actions because structures may also play a part, possibly a bigger part.

The last thing to emphasize about the model is that the four-phase processes are not linear in time but iterative instead. At a given time, people may stay in various phases of this model, and therefore different processes may co-exist in the Company or one business department because people experience these processes at their own pace and through their own paths. Furthermore, when people enter a new phase, they may revise their previous sensemaking due to exposure to new information and experience. For example, a key event, such as the Doubter department securing a deal for a huge project after following up a client for a long time, may greatly change its perception of the Practice. Nevertheless, while perceptions and behaviors at earlier phases may be transitory when experiences were not consistent enough, shared perceptions developed over time when continuous sensemaking and sensegiving reinforced each other within one whole department or the whole company.

The coexistence relationship of processes in the four phases is illustrated in **Figure 4** below. The four-phase circular processes show how the ABC Company had been trapped in a cycle of strategic stalemate, in which the Company is unable to design and implement an appropriate organization form and performance management practice due to its confusion in the logic of governance and control, its lack of HRM infrastructure, its historical burden and the volatile external environment.

Table 2: ***The Four-Phase Processes of Strategizing the 2017 Practice***

	Phase-1 Process	Phase-2 Process	Phase-3 Process	Phase-4 Process
Trigger of Sensemaking	2017 Practice	Surprise & polarization in performance	Inconsistency in performance management (i.e., compromised consequences)	Varied & conflicting performance cultures
Themes of Sensemaking	2017 Practice (rationale & prospects)	Performance variance 2017 Practice (rationale & prospects)	Inconsistency in performance management Performance variance 2017 Practice (rationale & prospects)	Performance cultures Inconsistency in performance management Performance variance 2017 Practice (rationale & prospects)
Key Questions for Sensemaking	Why is it introduced? What's in it for me? What can I do?	Why did I/others fail/succeed to perform? What's in it for me? Is it fair? What can I do?	What is really valued? What's in it for me? What can I do? How should I cope?	Who are we becoming? What's in it for me? Do I identify? What can I do?
Outcomes of Sensemaking	Temporary strategic consensus	Change in perceived fairness Affected emotion, motivation & ownership	Change in perception of (expected) performance culture	Change in identification and commitment
Following Actions	Engage in Practice implementation to achieve firm goals	Disengage from firm goals to engage in department interests by local adaptation	Justify local adaptations to return to comfort zone	Vacillate between conflicting practices & identities
Results of Actions	Surprise & polarization in performance	Compromised firm performance Weakened consequences	Local performance culture institutionalized with coexistence of conflicting performance cultures	Identity crisis Strategic stalemate
Theoretical Foundations	HR attribution	Organizational justice HR attribution	HRM strength; Organizational (un)change	Logic of governance Management control Person-Organization fit

Figure 4: Co-Existing Four-Phase Processes of Strategizing the 2017 Practice

4.3. WORKING MECHANISMS: WHY THE STRATEGIZING PROCESSES UNFOLDED THIS WAY

The strategizing of the 2017 Practice unfolded under layers of environmental conditions, from the macro industrial and institutional environments to organizational culture and identity, corporate governance, organizational capabilities, and employee motivation and commitment. Complications from implementing the 2017 Practice were mainly manifested in decreasing morale, compromised performance and rising turnover rate. In short, the diversified needs and expectations at various organizational levels were not reasonably met. Although the Company had been trying to improve the Practice or find effective alternatives, problems remained and tended to deteriorate. This disappointment was perfectly summarized by one of the TMTs' comments: *"…the Company has no means to address the underperforming departments."* Despite all the problems with implementing the 2017 Practice, going back to old practices seemed to be more difficult as the 2017 Practice had transformed people's mindsets and behaviors in ABC Company.

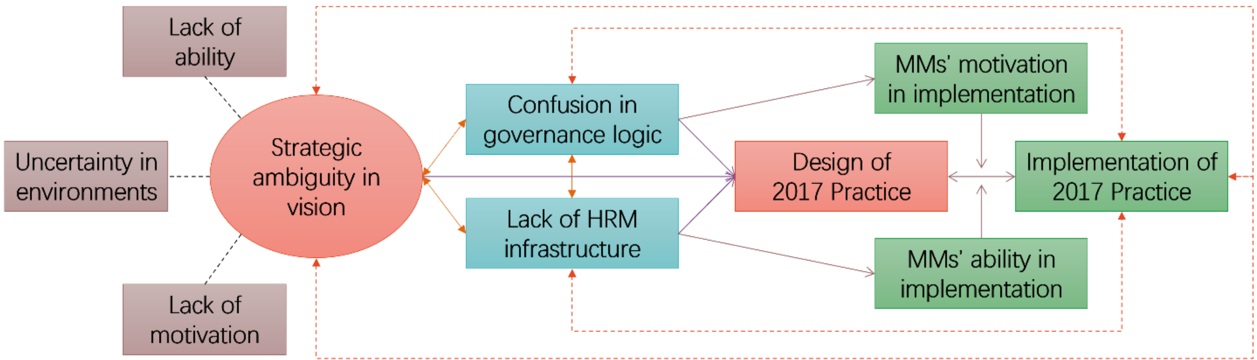
This situation of getting caught in a dilemma appears to be caused by implementing the 2017 Practice. However, the systemic reason is that the company is unable to design and implement a successful organizational change in performance management. Due to the lack of HRM and organizational development capabilities, the contents of the 2017 Practice were improperly designed and the implementation processes were poorly managed. This inability is rooted in the company's historical success and cultural inertia, which made building an inspiring vision and organizational development capabilities irrelevant or non-urgent. The company's strategic ambiguity in vision both leads to, and is caused by, its confusion in governance logics and its lack of HRM infrastructures.

The consequences of being weak in integrating people management and business management with an inspiring vision have been magnified when the external environment deteriorated. When the 2017 Practice was initiated to cope with market demands, the strategic ambiguity or indetermination allowed departments leeway to enact the 2017 Practice in a way that maximized their utility at the department level and then use various sensemaking and discourses to justify their behaviors. Consequently, two conflicting performance cultures coexist, which leads to conflicts and identity crisis. Lower-level employees, especially high performers, will lose motivation and commitment, and choose to leave when they perceive injustice in pay and/or opportunities.

The current situation of strategizing the 2017 Practice at ABC Company resembles a strategic stalemate, where the feedback from the issues in the implementation cannot be feedforwarded to refine the Practice, due to the Company's inability to design and drive a successful change. However, this can also be a necessary stage in gaining momentum for a breakthrough, through which key stakeholders get to understand to determine their vision, goals, and to develop necessary infrastructures and capabilities. The positive side of implementing the 2017 Practice is that the Company has gained a better understanding of its strengths and weaknesses. Breakthroughs can be made when the Company determines its goals and path, makes necessary investments in people management, and is ready to endure temporary pains.

In this section, I discuss the working mechanisms, as illustrated below in **Figure 5**, that caused the compromised performance in implementing the 2017 Practice.

Figure 5: ***Working Mechanisms of Strategizing the 2017 Practice***



As shown in **Figure 5**, there are a few mechanisms that best explain the root causes of ABC Company's challenges in improving its performance by implementing new HRM strategies such as the 2017 Practice. These working mechanisms are best represented as four mismatches: (1) between the company's goals and the strategy design, (2) between the strategy and human capital (including both ability and motivation), (3) between the organization and the strategy, and (4) a mismatch between sensemaking and sensegiving.

4.3.1. A Mismatch Between the Company's Goals and the Practice's Design

This mechanism is about the instrumentality of the 2017 Practice design to the company's long-term development goals. What are the company's long-term development goals? It is actually not very clear. The case study shows that it is this strategic ambiguity in vision that both directly and indirectly contributed to the fact that the design of the 2017 Practice does not serve the company's sustainable growth and development well.

The 2017 Practice's unique focus on financial indicators is one example of the direct effect caused by the lack of a clear vision. It is not realistic to design a balanced scorecard without crystal visions (Kaplan & Norton, 1996; 2005). The lack of an inspiring vision affected the Practice contents indirectly because it nurtured a confusion in governance logic and a lack of HRM infrastructure. Without clarity in governance logics and HRM infrastructure, it is not feasible to design a performance management system that integrates effectively business management and people management and aligns personal development and organizational development. This strategic ambiguity in vision is due in part to the lack of ability, motivation and opportunity for strategic management by the senior management. The uncertainty in environments, such as the market competition and governmental regulation, makes it difficult for the Company to commit to risky strategic change. This is exacerbated by the fact that the senior management team does not have sufficient experience in strategic planning and their motivation to take risks is minimized given their age and stage of career.

Although there is no explicit statement of the company's vision and development strategy, the goals of the company are implied from the 2017 Practice contents: business growth at the company level and personal gains at the individual level. These goals are implied because the logic of how the company growth and personal gains are realized is not well articulated, communicated or understood. The way the 2017 Practice serves the goals of the company's growth and personal gains is based on one assumption, which is that, facing the financial incentives offered by the Practice design, people will be willing to take full advantage of opportunities to develop the business and manage profitability to maximize their financial gains, and they are capable to make things happen. This is a typical assumption of scientific management which ignores the wide range of human needs beyond monetary benefits.

Evidence from interviews with participants at various organizational levels show that this assumption is not valid. Most department heads see themselves as professionals whose main role is to serve clients by managing projects and delivering reports. They did not have enough opportunities to acquire business development skills as growing the business was not traditionally included in their role expectations. Facing this new role expectation, though implied by the new Practice, most department heads are reluctant to engage in business development activities or to invest in improving relevant skills. The motivation to engage in business development activities is partly a function of individual abilities or departmental foundations on developing new business. The typical discourse of active business developers is that *"it is not realistic to rely only on a few shareholders to grow business and the company"*, and for the majority of others, they believe that *"developing the business should be handled by professionals who have relevant skills"* just like asset appraisal needs to be conducted by Certified Public Valuers (CPVs). In addition to capabilities and role identification factors, department heads' disengagement from business development activities is reinforced by the design of the Practice, which is reflected in two aspects.

First, the company's benefits and those of a department are not aligned when a project is valuable to the company but not attractive to a department. The top management team, as shareholders, represents the company and sees the business revenue indicator as more important than profitability indicator for the company's long-term success because the volume of business builds up the company's market position, brand and reputation. For department heads, however, the profitability of projects is more important because it has a more direct impact on individuals' personal income. What the 2017 Practice does is that it secures shareholders' (or the company's) interest by stipulating a fixed percentage of a project's revenue to be shared between the company and a department no matter how profitable a project is. In short, the risk of managing costs is shifted to the departments. Therefore, department heads are not motivated to engage in projects with slim margins no matter whether one project has strategic value for the company in the long run.

This behavior can be well explained by expectancy theory (Vroom, 1964) and equity theory (Adams, 1963) as department heads understand that business development activities do not secure a deal and some projects are not worth their input (efforts). When this happens, shareholders complain that department heads are not active in business development and department heads complain that the company takes away too much of a project's revenue. Middle managers' focus of attention, therefore, shifts from achieving performance objectives to negotiating the revenue-splitting ratio. Departments, both under-performers and high performers, have achieved consensus on this belief that the company takes too large a portion of project revenues. Consequently, a more important factor, role identification, is neglected. That is, the justification of expecting department heads to develop new business, when they are not shareholders or partners, is not well scrutinized. I will discuss this issue in more details in another mismatch.

Second, the Practice provides room for department heads to prioritize the profitability indicator over the business revenue indicator so that one department head may be satisfied with the department's overall performance without striving for the maximization of their utility, which is countering the assumption of the Practice design. Departments are able, if they so wish, to purposefully influence the annual revenue objectives assigned by the company by streamlining its team combination in terms of position levels because lower positions entail less revenue tasks. These behaviors have important implications for lower-level employees. For example, one department may deliberately manipulate its employee promotion practices such as delaying or setting stricter standards for promotion because the lower the average position one department has the less revenue objectives will be assigned to it by the Company. Although department heads denied the ubiquity of this kind of behavior during the interviews, it was indeed one concern of the TMTs. When a department head chooses satisfactory rather than ideal objectives, the business volume normally does not provide sufficient opportunities to meet each member's needs both from a financial reward and from a career development perspective. This is demonstrated by one employee's comments saying, *"The manager won't assign you projects anymore when he/she thinks you have done more or less enough."* This simple statement plus his/her tone and facial expressions of disappointment tells that he/she wanted to do more projects but did not have the opportunity. It is obvious that the department head and the employee defined the term "enough" differently. The way the employee was describing it shows that it was not a one-time event, but a common practice in the department, and he/she believed that this would continue to be the norm in the future. When this happens, the assumption of the Practice design, that each department will fully leverage its human capital to develop the business so as to maximize departmental and personal gains, is undermined. The 2017 Practice fails to consider this situation and the Company has no other organizational systems available to mitigate this issue. This is evidenced again by one of the TMT members' comments that *"we have no means to address those underperforming departments"*.

To summarize, flaws in the 2017 Practice design have prevented the Company from achieving its goals. Strategically, the Practice considers performance management in isolation focusing only on financial measures such as revenue and profit while neglecting the long-term sustainable development of the company. Tactically, the 2017 Practice measures performance at the department level and a department has been given the authority to make key decisions on managing business and people. However, those company-level goals, such as market position and reputation, organizational justice and identification, organizational culture and development, and so on, are disconnected with those financial measures that depend on departments' performance. This misalignment of rights and responsibilities at different levels makes the company lose control of key decisions, such as engaging in business development and mobilizing human capital at the company level, and this impacts its overall objectives.

4.3.2. A Mismatch Between Strategy and Human Capital

This mechanism is about the implementation of the 2017 Practice, which has been compromised due to the company's inability to cultivate and mobilize the required human capital. The original intention of initiating the 2017 Practice was to change the performance culture from pay egalitarianism (e.g., Morand et al., 2020), called by interviewees as "eating from on big pot", to pay-for-performance (e.g., Beer et al., 2004; Bonner & Sprinkle, 2002), aiming to differentiate rewards based on employees' outputs to motivate and retain talents. At the same time, of course, the company's business volume and overall profitability are expected to grow while individuals and departments are incentivized to make extra efforts.

However, this strategic intention was not fully realized partly because the company's human capital and HRM infrastructure did not support its implementation effectively. As the backbone of the Practice's implementation, middle managers' ability both in business development and in project management were not sharpened sufficiently because business development and cost control were not high priorities when the external environment was favorable. Lack of capabilities also demotivated department heads to engage in implementation efforts. The company's inability to mobilize human capital at the company level further undermined its goal in establishing a pay-for-performance culture. Efficiency is hard to achieve without free movement of human capital across projects among departments. This is especially true when business volume in each department is imbalanced resulting in employees being overstretched in some departments and underutilized (and therefore underpaid) in others. This situation is evidenced by one department head's comment:

> *"I understand that the full utilization of human resources in the company is still lacking. Some people are highly able, but when the business volume of some departments is not full, he/she may become redundant. The income is not high, and then he/she may quit. However, how to reasonably make full use of the company's human resources, I feel that there is no such mechanism. We generally don't use people from other departments, or very rarely. Then some may be very busy while others may have nothing to do…. yes, it's not that I'm not capable, it's because there is no business in the department. If this situation is temporary, it's ok; if it's always like this, I will leave."*

The obstacle of human capital flow is caused both by the company's weakness in HRM infrastructure (e.g., the lack of HRM professionals and the inconsistent competency requirements and promotion practices) and by the Practice design (e.g., performances are measured at the department level). All department heads interviewed explicitly expressed their expectations to get professional HRM support from the company. For example, they expect the company to establish uniform job appointments and promotion standards so that the competencies of same position occupants in different departments are comparable. However, the company did not respond to this feedback accordingly. The lack of HRM infrastructure and other relevant supporting management systems make human capital sub-optimally utilized at the company level.

The unsuccessful implementation of the Practice was not only due to its design but also due to the TMT's reluctance to strive for a full pay-for-performance system. This reluctance was especially true when some must assume negative consequences to make real change happen. Thinking of the Practice design, decision-making authority is given to the department while consequences of underperformances is mainly felt at the company level. This issue has been discussed in the first mismatch mechanism. Another issue of the design is that the incentives under the Practice seem to be insufficient to encourage department heads to step out of their comfort zones to meet performance indicators. For example, the Practice stipulates that a 2% reward will be given to departments who exceed the performance objectives (based on realized revenues), and similarly a 2% penalty will be given to those who fail to achieve objectives. On the one hand, the 2% may not have enough stimulating power; on the other hand, all realized revenues are equally regarded no matter if they are sourced from existing clients/projects or newly developed clients/projects. The latter issue has major implications because whether newly developed clients/projects are rewarded differently is the second key issue, after the revenue-splitting ratio, of which middle managers make sense and to which they give sense to the TMTs. Department heads believe that newly developed projects by a department deserve more rewards, reflected either in a higher percentage of revenue assigned to the department or in more than a 2% reward. This feedback was not addressed systemically by the Company although it could be negotiated based on a case-by-case approach.

More importantly, this 2% incentive, positive or negative, was not strictly executed. Underperformers were not fully punished, nor were high performers rewarded fully according to the Practice design, at least not proportionately. One department head summarized this phenomenon concisely: *"Without penalties, you get no sources for rewards."* However, the compromise from the Practice owner (the company) further undermined middle managers' motivation to make efforts to develop new businesses as the pain was softened. As discussed in the previous section, the 2017 Practice aims to boost company growth assuming departments are willing and able to achieve annual performance objectives both in revenue and profitability. This logic of the Practice design was broken in two folds. On the one hand, the consequences of performance deficits were shared by all including the company and high performers. On the other hand, the foundation of creating a pay-for-performance culture was eroded.

To summarize, the unsatisfactory implementation of the 2017 Practice can be attributed to the design problems of the Practice and the company's inability to mobilize organizational human capital, which can be explained by the lack of HRM infrastructure and the confusion in governance logic. Both the TMT's hesitation in "rewarding high-performance and punishing underperformance" and middle managers' reluctance in developing the business can be explained, at least partly, by the confusion in governance logic, which may cause role conflicts and identification problems. This is the main topic of the next mismatch mechanism.

4.3.3. A Mismatch Between Strategy, Identity, and Organization

This mechanism is about the relationship among managing business and managing people, in which the form of organization and control defines people's identity that further prescribes how they think and act to enact strategies to meet business objectives. The 2017 Practice can be regarded as a control system in managing performance and remuneration. Its design is based on a corporate logic and output control. The issues here are twofold. First, the commercial logic of control and governance is difficult to implement in professional service firms given its characteristics. Second, even though commercial output control systems may work well in some professional service firms, the HRM and other management infrastructure at ABC company do not support it to conduct the sophisticated "scientific management".

According to Management Control Theory, there are three typical control mechanisms, output control, process control, and input control, which can be used individually or in combination (e.g., Frey et al., 2013). The 2017 Practice is a typical output control mechanism. Output control manages countable output indicators but does not pay attention to the activities or processes that contribute to the expected outputs. An output control mechanism is appropriate to use when the work outputs are observable, measurable and attributable, and when it is hard to explain the cause-and-effect relationship between inputs and outputs (e.g., Eisenhardt, 1985; 1989c; Ouchi, 1977).

In the case of ABC Company's 2017 Practice, while the performance indicators are measurable, what they measure cannot reflect what and how work is actually performed. The problems of this Practice's output-based performance management (based on business revenue and profitability indicators) are reflected in a few aspects. First, the causal link between employees' input and output is not clear according to these performance indicators. For example, a project team may spend a lot of time and effort on a project, but the revenue and profit of the project may be marginal because of the characteristics of the project. It is very difficult to judge how many hours are needed to complete one project, and an individual/department does not always have an option to decide whether or which projects to undertake. Therefore, while the Company created measurable indicators, the disconnection between inputs and outputs will demotivate employees' effort and cause their perception of unfairness. Second, employees have no full control on their inputs, even though the input-output link is created, to contribute to the outputs measured as performance indicators. For example, when the business volume is not sufficient in each department, employees do not have equal or enough opportunity to meet the performance indicators.

One may argue that it is reasonable to measure performance using the revenue and profitability indicators at the department level (or the firm level) because this motivates the department heads to grow the business and improve project profitability. And the performance evaluation of individuals is not necessarily based on these performance indicators only. However, the conditions in ABC Company do not support this rationale for two reasons. First, the role expectation of business department heads to be responsible for growing business is confusing when they are neither partners nor shareholders. ABC Company is a limited liability company with a few top management team members as shareholders. None of the department heads is a shareholder. Given this form of ownership and organization, it is difficult for current shareholders to recognize the necessity to invite new shareholders and dilute their shares when the asset appraisal business relies more on human and social capital rather than monetary capital. In traditional professional partnerships firms (e.g., Greenwood et al., 1990), it is clear to professionals that in order to become a partner, one needs to develop competencies in all those areas of grasping technical expertise, serving clients, leading a team and developing business, to meet performance expectations (e.g., Maister, 1993). An up-or-out system is often deployed to reinforce this control by internalized professionalism and identity. This is not the case for ABC Company, where people have been historically treated as professional employees and they are neither capable nor willing to grow business for the company. Second, most departments and ABC Company do not have the capability to design and implement a scorecard based comprehensive performance management system to balance the over emphasis on financial indicators, which is at odds with the nature of professional work. As an exception, the Champion department considered a comprehensive set of factors to evaluate individual employees' performance. However, most departments' employee performance appraisal was closely tied to the Practice's financial indicators. Therefore, this becomes a vicious cycle if middle managers (department heads) are not expected and/or motivated to grow the business. When a department does not have sufficient business volume, it is more likely to focus the evaluation of individual performance on outputs (financial indicators). And then people are more likely to be unhappy when their inputs cannot be reflected in their outputs or when they do not a have fair chance to exert input.

Professional service firms are indeed using more commercial logics and financialization means in management control. However, the performance indicator focuses on one's input, for example, a professional's billable hours and time utilization. As shown by Alvehus and Spicer's (2012) study of a Big Four accounting firm who used billable hours to measure and control employee performance, this kind of control is effective because professionals regard their billable hours as an investment in career development which can be harvested either in this firm or elsewhere. In the case of ABC Company, while an output-based performance management (especially when the output indicators are revenue and profit) is not suitable for the nature of professional work, it takes necessary resources and infrastructures to design and implement an input-based performance management. A few conditions are necessary to effectively manage professionals' time utilization. First, the business volume should be sufficient so that individuals' time utilization will not be negatively affected just because there are no projects for them to do. Second, there should be a systematic management of client and/or project database so that each project's characteristics are available for decision makers. In any case, project characteristics should not affect individuals' performance indicators to be fair. Third, project managers should understand the characteristics and requirements of a project, as well as the competence level of project members, so as to better understand the input-output relationship.

These conditions are not present in ABC Company due to its organizational history and culture. Actually, department heads, during the interviews, expressed their disapproval and unwillingness to manage billable hours as the Big Four firms are doing. This is evidenced by one department head's comment:

> *"In fact, the billable hours in the Big Four are also reported [by a human]. One may work 15 hours a day, but the project manager may let him/her report 10 hours. It will be adjusted according to the project revenue. Of course, I also hope to have data of working hours. But the Big Four have hundreds of years of experience and have more human resources to help them do these things. But we don't have that. In fact, what I hope the most is that you can complete the project without working overtime. I don't want to tie your performance and your working time so directly. It would be nice as long as you can complete the project work efficiently. I don't want you to work very hard every day without having a personal life."*

Similarly, some department heads believe that it is impossible to conduct profitability analysis for each project. In short, the design of the 2017 Practice is a misalignment between the nature of professional work and how work and people are organized and evaluated. The company failed to find a management philosophy and practice to align organizational development and personal development and then cultivate identification and commitment.

4.3.4. A Mismatch Between Sensemaking and Sensegiving

This mechanism is about the role of organizational communication when enacting an organizational change. Despite its flaw in design, the ABC company could have better managed the communication to facilitate the implementation of the 2017 Practice even though it is not able to successfully revise the Practice design based on feedback. The communication in the strategizing processes of the 2017 Practice was a typical example of fragmented sensemaking (Maitlis, 2005), through which department heads actively gave sense to experiencing the new Practice within their own departments and among department heads, but no intentional coordination was organized at the company level. While restricted sensemaking (in which the top management leads the process and solicits input from other stakeholders when they see it as necessary) is found to be the major style of organizational sensemaking (Maitlis & Christianson, 2014), this is not the case when the 2017 Practice was implemented in ABC Company.

Department heads actively developed various discourses to give sense to the TMT and lower-level employees, which can be mostly reflected in their Synthesizing Information and Facilitating Adaptability activities (Floyd & Wooldridge, 1992). For example, underperforming departments provided a few reasons to explain why they failed to meet the performance objectives as have been discussed in previous sections. First, the performance metrics were created based on the historical data which is not realistic anymore. Second, competition increased substantially because of deregulation and the resulting increased competitors in the industry. This made it more difficult to get a deal and the profitability was also driven down. Third, administrative penalties given to the company made it more difficult to develop business because these incidents raised concerns among existing and potential clients. Fourth, current client/project structure was different among departments and that served departments differently in growing business. For example, asset-heavy projects took a long cycle to strike a deal and deliver results, and they were less profitable than asset-light projects. Fifth, developing business, especially with state-owned enterprises, took particular skills and resources, which was not suitable for everyone. This was because of middle managers' lack of ability, motivation and opportunity in business development due to the Company's history, culture and organization.

The above reasons were used by department heads to actively negotiate the revenue-splitting ratio between the company and the department. Other firms' practice in revenue-splitting was also used to justify their negotiation. Department heads had high consensus that the revenue-splitting ratio should be revised, and the Company should lower the *"administrative fee"* in the departments' words. The language people are using, such as *"administrative fee"*, has significant symbolic implications showing people's status of identification and commitment. This sense of being overcharged *"administrative fee"* was also highly shared among lower-level employees. Another thing on which all department heads agreed was their request for a set of detailed rules to facilitate the implementation of the Practice, especially in rewarding newly-developed projects differently. Some department heads also claimed that performance rewards and penalties were not fulfilled accordingly, and this dampened people's motivation and engagement in business development.

Facing various formal requests and informal grapevines on the revenue-splitting ratio, the Company did not send a clear message to justify or clarify its decision, nor did it make major changes to the Practice. In fact, the Company could have better promoted its Practice with more active sensegiving. For example, the Company is different from other firms because it has better brand, reputation, professional support, quality and risk control, all of which warrant higher management costs. Actually, one interviewed employee claimed that one of the factors that made him/her stay at ABC Company was the lower risk of legal liability because of its good quality and risk control. However, the Company did not actively engage in the departments' sensemaking processes to coordinate meaning construction. This insufficient communication from the Company's side was reflected in one department head's comment:

> *"There are basically two [governance] models in this industry. Our company takes a corporate management model. Other firms take an internal partnership management*

model. Because of the different management models, the concept of cost between each other is definitely different. But an ordinary employee does not understand what the difference is in each other's cost concept. So, this ratio issue actually relates to the company's organization form. A corporate management model is better to ensure quality and it is definitely a good thing in the long run. As for how much room for cost compression remains, only the bosses know better." [Note: this internal partnership organization form is not real partnerships in its legal status. The position of a partner is solely for the purpose of management].

Moreover, what the Company did or did not do conveyed a louder message. As discussed in previous sections, neither penalty for poor performance nor reward for good performance was fulfilled to the extent prescribed by the Practice. This performance management practice from the Company's side signaled an important message to departments making people wonder if the Company was serious in promoting a pay-for-performance culture. Or it could be understood that there would be indeed room to lower the "administrative fee". Or that the Company had no means to address poor performance and they had an option not to implement the Practice.

As a result, sensemaking permeated within and across departments and the Company did not try to actively organize the process and integrate various discourses into a coherent meaning construction. This lack of communication and coordination caused the co-existence of conflicting performance cultures and weakened the HRM strength. The consequences can be serious as the conflicting performance cultures caused an identity crisis and then loss of identification and commitment.

This issue looks like a communication problem. However, what is more important is that the Company needs to know what to communicate and how to communicate. When the Company lacks a vision and capability in integrating business management and people management to drive an organizational change in performance management, it will be very difficult to escape the past when the present faces an uncertain future.

CHAPTER FIVE: GENERAL DISCUSSION

In this Ph.D. research, I conducted a single case study with a Chinese asset appraisal company (i.e., ABC Company) to examine how one new HRM practice (i.e., the 2017 Practice) had been enacted by middle managers (i.e., business department heads in ABC Company). In the "What" part of the case study findings (Section 4.1), the external environment, internal structures and middle managers' activities were introduced. To present what middle managers did to enact the 2017 Practice, Floyd and Wooldridge's (1992) typology of middle management involvement in strategy was applied. It was found that middle managers exhibited more Facilitating Adaptability activities and no Championing Alternative activities. It is consistent with other strategy and HRM studies indicating that middle managers or line managers play important roles not only in the process but also in the content of the (HRM) strategy. In the "How" part of the case study findings (Section 4.2), the four-phase processes were identified and introduced where middle managers' sensemaking, actions, and the results of thinking and doing interact with each other to drive the strategizing processes to evolve. In the "Why" part of the case study findings (Section 4.3), four mismatches were analyzed to explain why the Company came to a strategic stalemate after a few years of implementation of the 2017 Practice. Various current theories are applied and discussed to analyze the strategizing processes and working mechanisms of the 2017 Practice, mainly including HR attribution, organizational justice, HRM strength, management control and governance, and the ability-motivation-opportunity framework.

In the case study, the focal strategy is one HRM strategy, the context is in a professional service firm in China, and it is examined from middle management and Strategy-as-Practice perspectives. This combination of research question, context and theoretical perspectives provides a good opportunity for knowledge dissemination and creation across fields. In the following sections, I discuss its practical implications, theoretical implications and limitations, and the future research directions before a brief conclusion is drawn.

5.1. PRACTICAL IMPLICATIONS

This research taps into a pervasive management problem: HRM strategies and practices are normally designed by HR professionals and are often not successfully implemented as intended by business line managers. Line managers normally think that HRM is not their job or responsibility and therefore lack ability, motivation and commitment to HRM activities. Another issue is the gap between strategy formulation and implementation (Beer et al., 1984; Fombrun et al., 1984; Kaufman, 2015). Sometimes, HRM strategies may be formulated by senior management teams alone, leaving both HR managers and line managers with the role of sole implementers. At other times, HRM strategies are designed by the HR department for line managers to implement. Unfortunately, the well-intended HRM strategies often result in compromised outcomes either due to design flaws in strategy contents, ineffective implementation, lack of timely adjustment, or due to a combination of these factors (e.g., Nishii & Wright, 2008; Trullen et al., 2020; Wright & Nishii, 2013). In (HR) management practice, as in research, a lot of attention is given to strategy contents and much less is known about what individual practitioners actually do with strategies. To understand this important and overlooked problem, the current research examines individual activities within organizational practices that aim to enact HRM strategy under the HR-line manager partnerships. Therefore, this research sheds light on HRM and general management practices in a few ways.

First, this study has important implications for strategic HRM and people management in a broad sense because it aims to study the dynamics of what various practitioners do to enact HRM strategies, why they do so, and how. This emphasis on individual activities, while considering the broader context of organizational practices, acknowledges both the role of human agency and the role of structures in HRM strategizing processes. This highlights the fact that successful formulation and implementation of HRM strategies depend on practitioners' sensemaking of the focal strategy and its environment, which is one key driver of their motivation and actions. Understanding this contingent and dynamic nature of strategy processes requires organizations to pay attention to the micro side of strategizing by respecting individuals' needs and managing individuals' sensemaking and sensegiving activities explicitly. In the case of ABC Company's 2017 Practice, department heads learned to adapt their activities to optimize their individual or departmental interests within the limits of their own ability and motivation relative to the demands of the 2017 Practice and the internal and external environments in which the Practice was implemented. Contrary to the adaptability of middle managers, ABC Company did not take timely steps to either refine the Practice or remove the human and/or structural barriers to its effective implementation.

Second, this study also provides insights on how to integrate business management and people management to enhance organizational capability and competitive advantage. Business management and people management are traditionally separated in part because a functional structure has been the dominant organizing form in business history, and it shapes our understanding of the relationship between managing business and managing people. This separation may be reasonable when the business environments are static, strategy processes are linear, and the interests of various players are uniform. However, these premises do not hold nowadays, and involving line managers in HRM is one strategic move to reorganizing an organization. This study examines one specific HRM strategy and it pays equal attention to the context in which this specific strategy is enacted. One context of importance is the general situation of an HR function's role in its organization and its way to connect with business activities and people from business units. Understanding the act of involving line managers in HRM as a strategic change to reorganize the business gives an organization a holistic view on how to enact HRM strategies through line managers' hands. That is, the goal should be to create a mentality of sustainable organizational development that nurtures HRM strategizing processes rather than to focus narrowly on specific strategies. This organizational development mentality integrates growing business and growing people, which is the source of **dynamic capabilities** (Eisenhardt & Martin, 2000; Teece et al., 1997) at the organizational level. When this is well done, an organization will be more likely to act faster, adapt more easily, and perform better in an era of rapid change. Without a fine alignment between individual development and organizational development, it is difficult to retain and motivate people. This is shown in ABC Company by the rising turnover in lower-level employees and the demotivation in middle managers. In order to motivate people, the company needs to have a clear vision in how to systematically develop people who will, in turn, develop business. When the market condition changed dramatically, ABC Company was hit hard by the stagnant business growth, which undermined the foundation of the 2017 Practice. This shows the necessity to create a long-term sustainable mechanism to integrate business development and people development not only for the 2017 Practice but for the organizational development in general. Specifically, the Company needs to carefully design its form of ownership, whether it chooses partnerships or corporation, and clearly communicate key messages to all employees, such as who is expected to grow business and when, who can own the firm and at what conditions, and how to systematically develop and plan for relevant capabilities and opportunities.

Third, this study shows that it is important to design and implement strategic practices in a way that fits with a company's internal systems, structures and human capital. One company cannot assume that people are willing and able to deliver results no matter what it takes as long as there are enough incentives available. This is exemplified by the case of the ABC Company's 2017 Practice. It assumes that department heads will do their best and will be finally able to meet the performance objectives when the incentives are provided. It turns out that this is not true. Middle managers chose suboptimal solutions that suited their individual and environmental conditions. In the context of professional service firms, it is especially important to choose an appropriate logic of governance and control that is suitable for professional work, and to design a clear road map for professionals' career development. Although a commercial logic may work well in professional service firms, it takes sophisticated skills and resources to manage it well. HRM infrastructure and capabilities are key in promoting an organizational change. In the case of implementing the 2017 Practice in ABC Company, the company does not have the capacity to promote a new strategy that is inconsistent with its culture and history. Therefore, the Company needs to invest in its human capital, and to make this happen, it probably needs to first invest in its HRM infrastructure.

Given the above, I make a few recommendations to ABC Company based on the findings of the case study of its 2017 Practice. These recommendations have the potential to enable the Company to break through its strategic stalemate for a long-term sustainable development. These principles are equally applicable to the people management practices for similar professional services firms, especially for those firms that once succeeded primarily through favorable market conditions and are now under pressure to improve efficiency and effectiveness through more systemic strategic management practices.

First, the output-based pay-for-performance design of the 2017 Practice is difficult to implement, although it is not impossible, to evaluate professionals' performance fairly. One prerequisite for successful implementation of this design is that everyone involved should have fair opportunities to perform against the expected indicators. This condition was not available at ABC Company as the business volume in each department was insufficient for each employee to work at their full capacity. The perceived unfairness by lower-level employees caused decreasing motivation and performance and increasing turnover. For department heads, while it is arguably reasonable to expect them to develop enough business for each employee in their department, unfairness was also perceived because they were neither partners nor shareholders, they did not have enough opportunities to hone their relevant skills as business development was not traditionally part of their roles, and each department had different conditions for business development such as client and project characteristics. Therefore, the first priority should be to remove unfairness that is embedded in the Practice design if the Company is to continue its output-based pay-for-performance design. To enhance fairness, it should above all ensure that human resources can be mobilized freely across departments. In addition, project and client management (including the undertaking and staffing of projects) should also be centrally coordinated by the Company to avoid adverse effects on the performance evaluation of professionals and/or departments due to the characteristics of the project itself.

Second, an input-based pay system is the common practice for most professional service firms including the Big Four accounting firms, and it seems fair for ABC Company to evaluate the performance of all employees below the level of department heads based on their input (i.e., their working hours). The logic is that the nature of the employment relationship is that professionals sell their time and skills to the employer in return for payment. The employer is responsible to develop sufficient business for employees, and employees are responsible for working enough hours for the employer to serve clients and deliver results at the required level of quality. An employee's high performance is recognized through promotion, which naturally leads to a salary increase. However, it requires systematic management philosophy, methodology and tools (such as IT systems) to effectively manage employees' working hours. For example, how to allocate people to various projects, how to plan and recognize a professional's billable hours for a certain piece of task or a project, how to report, review and approve working hours, and how to evaluate employees' performance in a project and give feedback, and so on. ABC Company lacked this kind of management infrastructure and mentality, which makes it equally challenging to replace the current output-based pay with an input-based pay. At the department head level, it is reasonable to add a certain percentage of output-based performance indictor such as business revenue and project profitability. However, this role expectation should be based on mutual consensus, meaning that department heads should have an option to decide whether or not to take this role and consequently are rewarded differently from other employees. These conditions should be communicated and agreed upon before one takes this position. It should be managed as a process of career development and leadership pipeline management. Professionals should understand, years before they are promoted to this level, what the requirements are to be promoted as a partner or invited to become a shareholder. Typically, to become a partner or enter a similar role, professionals need to show their technical expertise and experience, capabilities and achievements in serving clients, developing teams and growing business. This is new to ABC Company because its early success was largely due to beneficial market conditions and its emphasis was mainly on excellent client service. At times of high industry growth, the Company did not see the need to invest in long-term organizational development, and individuals did not have opportunities to hone a comprehensive set of competencies. As the market conditions change and business development becomes increasingly important, a systemic management practice that integrates developing people and developing business becomes not only important but essential.

Third, the ABC Company needs to invest in human capital and HRM infrastructure to improve its strategic planning capabilities and management effectiveness. Having strategic management capabilities to constantly diagnose and refine strategies is much more important than finding "the best practice" to solve all problems in one shot. The Company did not have a HRM team despite being one of the market leaders. The lack of professional HRM may have been the main reason for a flawed design of the 2017 practice, which did not fit well with its internal and external conditions. Recruiting HRM teams/professionals and then developing comprehensive competencies among the whole workforce should be viewed as a strategic investment rather than an expenditure. The top management team was aware of problems in the design of the 2017 Practice, and that was why they kept looking for "better practices". However, the TMT was not sufficiently aware of the serious consequences of the company's lack of talents and capabilities in strategic management. The strategic stalemate in which the ABC Company found itself was actually a natural result, where various players reached an equilibrium of interests through compromise and the Company was unable to lead a successful change by fine-tuning its strategic design and/or taking short-term losses for long-term gains. Firms also need to understand that it takes time to develop human capital and dynamic capabilities at the organizational level and having HRM talents is the first step. Another important issue related to this is the role that the HR function/professionals play in strategic management. When HR professionals are not involved in strategic management processes, it is difficult to really integrate business management and people management strategically.

Finally, the Company needs to figure out a transitionary plan after it makes important strategic decisions such as its form of ownership (partnerships vs. corporation), performance management and compensation system (input-based vs. output-based), and its investment in human capital and HRM infrastructure. As previously discussed, no matter which strategic direction the Company chooses, the key factor is the Company's dynamic capabilities in (re)designing and delivering its strategic initiatives. It may take a few years to build up these capabilities, and the revised Practice needs to take this into consideration. The implementation of the 2017 Practice has disproved the assumption that department heads would be willing and able to achieve the performance indicators under the incentives of the 2017 Practice. The positive side of an unsuccessful implementation of the 2017 Practice is that people are now more aware of what the company lacks most, and for which role each person is best suited. This will provide an enabling environment for further change initiatives. It will also be critical to provide a transitional phase and/or plan for those who are already in the department head position so that they can develop relevant capabilities for the newly defined and clarified role expectations (e.g., business development) or find alternative career paths/positions that best suit their competencies and expectations. The Company can also take advantage of this period to recruit or develop the most required competencies and talents for key positions such as a department head. In short, the Company should decide its strategic direction as soon as possible and develop a feasible step-by-step implementation plan according to its existing human capital rather than endlessly wavering between two conflicting strategic directions.

5.2. THEORETICAL IMPLICATIONS

This research studies an HRM practice in a Chinese professional service firm from middle management and Strategy-as-Practice perspectives. It covers various research streams in one research context and therefore provides good opportunities to integrate diverse points of view to synthesize insights. Specifically, the theoretical implications are reflected in six aspects.

First, this study's dual focus on HRM strategy practices and praxis is relatively new to the strategic human resource management research. It emphasizes strategy practitioners' agency in influencing both the strategy process (i.e., the *how* of strategy) and content (i.e., the *what* of strategy) throughout the iterative strategizing processes (both planning and implementing), which is different from Strategic HRM research's typical focus on organizational systems (e.g., Steffensen Jr et al., 2019). The case study of ABC Company's 2017 Practice shows that middle managers (department heads) were indeed not simple implementers of the Practice; rather, they exerted a significant influence on what practices were actually implemented, and, to a large extent, the executed practices were divergent from the strategic intent of the Practice. This study's focus on the activities of strategy practitioners (what people actually do with strategies) brings the "practice turn" (e.g., Giddens, 1984; Whittington, 2006) for strategic HRM research, an area that should pay more attention to individual behaviors but has not yet started to do so. The emphasis on valuing what actually takes place in real work, as in Strategy-as-Practice research, deserves to spread all over the management field. Moreover, this kind of examination answers the call to study "the interplay between line managers' downward, lateral, and upward HRM influences and the horizontal and vertical fit of HR systems across organizational levels and over time" (Kehoe & Han, 2020, p. 125).

Second, this study examines business line managers' involvement in HRM strategy processes. It has implications for HR Devolution research because HR devolution normally assumes that HRM infrastructure is readily available and that HRM strategies are well designed for business line managers to implement. However, this is not true in the case of implementing the 2017 Practice in ABC Company. The Company does not have full-time HR professionals and expects line managers to take on people management roles without any professional support nor explicit training. It is true that managing people and teams is an important competence and role expectation in order to advance one's career in a professional service firm, for example to become a partner. However, professional service firms in mainland China were first established as affiliates to governmental organizations. As business development was never an issue at their early stage, their growth was not following the logic of developing people first and then people are able to develop more business. After about three decades of development, Chinese professional service firms are facing increasing competition for clients and talents, which makes developing business and developing people equally important. The situation is that most professional service firms lack HR professionals and HRM infrastructure, and business middle managers lack people management skills. It will be an interesting research area to study how HR Devolution can be realized when a company has nothing to devolve to line managers and still expects them to deliver HRM responsibilities. This applies to many organizations around the world that do not have a well-established HRM infrastructure and a properly designed HRM strategy, including large organizations in transition economies like ABC Company, as well as start-ups and SMEs in developed countries.

Third, this study extends Strategy-as-Practice research into the HRM field to examine the doing of HRM strategies. This is an answer to the call to explore "alternative contexts" for Strategy-as-Practice research (e.g., Balogun & Rouleau, 2017) because it examines the strategizing of HRM strategies under the general context of involving line managers in HRM. This context captures the intersection of business management and people management, which has rarely been studied. Moreover, this study explores the embeddedness of contexts where individual players constantly make sense of, and act on, individually and collectively, a specific HRM strategy within the routinized HRM practices context that can evolve under the influence of intra- and extra-organizational forces (either micro or macro). This is rather rare in the extant Strategy-as-Practice research, where the majority focuses on individual activities despite calls to examine the interconnections of micro and macro factors (e.g., Seidl & Whittington, 2014; Vaara & Whittington, 2012; Whittington, 2006). This study responds to this call by examining the focal HRM strategy under a web of internal and external environmental factors at various levels. For example, at the individual level, people's ability, motivation and needs are analyzed. At the organizational level, the Company's history and culture, HRM infrastructure, project/client characteristics and structure, and the forms of organization and ownership are all examined. At the industry level, market trends, competitors' behaviors, and the professional identity relative to other similar professions are all important to the strategizing of the 2017 Practice. At the institutional level, legal and governmental regulations are also important forces shaping how the 2017 Practice is formulated and implemented. All of these factors interact to form an embedded context in which key strategy practitioners make sense of, and act on, the focal HRM strategy. The study of strategic HRM processes in a multi-level dynamic context is an important contribution to both Strategy-as-Practice and HRM research.

Fourth, this study also contributes to sensemaking research. The case study shows that future-oriented prospective sensemaking plays an important role in strategy processes. In ABC Company, department heads' sensemaking about the rationale of the 2017 Practice, the polarization of performance, the consequences of the high performance or underperformance, and the conflicting performance cultures was continuous and evolving, and many times these meaning construction activities were based on middle managers' forecast of the future according to their past experience. According to Weick's (1995), sensemaking has seven key characteristics including that sensemaking is retrospective. In recent years, researchers started to pay attention to the prospective side of sensemaking; however, empirical evidence in this regard is still limited. Moreover, the case study also proves the importance of sensegiving (e.g., Gioia & Chittipeddi, 1991) in strategy processes. The top management team at ABC Company failed to effectively influence middle managers' sensemaking and meaning construction regarding the 2017 Practice's content and process. On the contrary, department heads actively engaged in the meaning construction process by providing various discourses to claim that the performance objectives were unrealistic in changed market conditions, the revenue-splitting ratio was unfairly unfavorable to the departments compared to other firms, middle managers did not have opportunities to hone their abilities in business development, and so on. As a result, the implementation of the 2017 Practice ended up with the co-existence of two conflicting performance cultures, the intended pay-for-performance and the traditional pay egalitarianism. Along these lines, the last concept of relevance, namely sensebreaking, also deserves more research. For ABC Company, its implementation of the 2017 Practice entered a strategic impasse with two conflicting performance cultures coexisting. While the traditional pay egalitarianism is still largely practiced, it became more of a last resort when its value foundation was undermined by the introduction of the 2017 Practice. As the 2017 Practice is further revised, it will be interesting to examine how old systems of meaning are broken down and new meanings and beliefs are constructed.

Fifth, this research provides empirical evidence for a configurational approach to management practices, especially for professional service firms. A configurational approach (e.g., Meyer et al., 1993) takes a holistic view and examines how order emerges from the interaction of parts in a whole as it believes that different combinations of parts will result in different chemical effects. In the case of ABC Company, various factors interacted with each other that led the implementation of the 2017 Practice to a strategic stalemate. However, it is hard to pinpoint which factor was the most important or in which order certain elements should be added to or removed from the current formula because of the complex interaction effect of various factors. This proves the importance of organizational capabilities in strategic management both for business management and people management. One company needs to be able to cultivate visions, identify problems, create strategies and solutions, implement strategic plans and deliver results, and revise strategies in a timely manner and continuously. Therefore, more research is needed to examine the strategy formulation and implementation of professional service firms in transition economies, such as ABC Company. In these firms, HRM infrastructure is normally weak, but they are influenced by concepts and practices from the more developed economies in Western countries. The internationalization of professional service firms, at least in China, is behind other multinational enterprises. How HRM practices are supportive of business strategies in professional service firms, and how HRM function evolves to meet new challenges are interesting questions to answer.

Sixth, the final contribution of this research is that it delves into the richness of the Chinese context. Most research on SHRM, to date, has been conducted in the Western developed countries. As the second largest economy in the world, China, like other fast-growing transition economies, has not received a commensurate degree of attention in SHRM studies. This situation is even more evident for research on professional service firms. Cooke at al.'s (2021) review of SHRM research in the Chinese context found that, since 2016, there had been a rapid increase in the number of publications in two major HRM journals, namely *Human Resource Management* and *Human Resource Management Journal*. However, among these articles on SHRM in the Chinese context, 88% were empirical, of which 80% were quantitative. Among the empirical studies, 86% were based on a single level analysis and only a small percentage of the quantitative studies covered the institutional context. Therefore, Cooke and colleagues (2021) suggest that "SHRM research being conducted in China needs to pay more attention to contextual factors instead of simply adopting existing approaches that have evolved in other cultures" (p. 89). Adopting a qualitative and grounded theory approach, this case study of ABC Company's 2017 Practice has captured a wide range of factors specific to the Chinese context, at individual, departmental, organizational, industry and institutional levels. These internal and external contextual factors played an important role in shaping how and why the Practice was formulated, understood and implemented. The role of these contextual elements in the strategizing processes is also analyzed in depth, mainly by presenting direct quotes from interviewees. For example, various environmental factors, such as the characteristics of the asset appraisal industry/profession, the governmental regulations, and the change in work attitude and work centrality of the younger generation of the Chinese workforce are all examined to explain the strategizing processes of the 2017 Practice. This kind of research that taps into the Chinese context at such a rich level is still rare to date. In fact, it is very difficult, in mainland China, to get organisations or subject matter experts interested and committed to participating in research projects when they do not see the direct benefits to themselves of doing so.

5.3. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This research adds value to both practice and research in strategic (HR) management areas because it examines an empirical context that captures rich and dynamic management activities and integrates various theoretical perspectives. However, it has its limitations due to the limit of research time, resources and data access. Before briefly listing the future research directions in this section, I first present the limitations of this research in four areas.

First, the scope of data collection is relatively limited. Department heads as middle managers in this case study are the major source of information. The HR Head (as one member of the TMT) helped to select four department heads to take part in interviews. Four represents about half of the number of business departments that implemented the 2017 Practice. It perhaps would have been better to interview the heads of all departments to fully understand the characteristics of each department and the views of those in charge. However, the HR Head selected the participants on purpose with each of them having representative characteristics in terms of their performance in realizing the 2017 Practice. As the Company had a strong desire to improve the

Practice and it was the HR Head that contacted the researcher first for the collaboration, it can be reasonably assumed that the HR Head would choose the right representatives to take part in the interviews. Nevertheless, due to the limited number of interviewees, it is possible that the data collected could not reflect the complete picture. To mitigate this problem, the interviews were deliberately designed to be long and in-depth with each lasting about two hours. The interview questions were also adjusted according to the last interviewee for the next to crosscheck the interviewees' answers and my understanding. This cross verification was also done by interviewing TMT members and lower-level employees and having meetings with the TMT and subject matter experts (subject to the assurance of confidentiality). This cross-level sampling is highly recommended by middle management researchers to build multilevel theory (Wooldridge et al., 2008).

Second, similar to the last point, the company was reluctant to share some key sensitive information. It was clear that the Company preferred to communicate more sensitive information gradually when further progress was made in the collaboration. In this case, an action research method (e.g., Eden & Huxham, 1996; Reason & Bradbury, 2001) would have been helpful to win the company's commitment so that it would be willing to share more information. Due to time and resource constraints, an action research methodology was not possible with this case study.

Third, the research is retrospective, and it would be better to continue the research with a longitudinal design. When the interviews were conducted in 2021, it is possible that I only captured a snapshot of a long story that has been going on. Sensemaking is a major factor in the strategizing processes of the 2017 Practice, but sensemaking is constantly socially constructed and one event may change the whole dynamics. Although I have considered this characteristic to formulate the four-phase processes, it would be helpful to follow up with the processes at various points in time.

Fourth, as the principal researcher, I used to work in an accounting firm as an HR director, and my personal experience may have influenced how I access and analyze the data. I am aware of this potential influence and have tried to mitigate potential bias due to this reason. I kept my interview questions open and flexible and deliberately treated all information equally. I crosschecked ideas with different interviewees and discussed key background information with subject matter experts. When reporting data, I tried to use direct quotes from the interviewees to communicate the research findings.

In conjunction with the above discussions about this study's implications, strengths and limitations, here below I conclude this section by highlighting a few key areas for future research on SHRM.

First, HRM research can benefit a lot from paying more attention to the role of human agency in enacting HRM strategies and practices. This is consistent with other researchers' call to put management back into human resource management (e.g., Steffensen et al., 2019). This "practice turn", where strategy practitioners' *praxis* that is conditioned within its *practices* is emphasized, should be welcomed in the HRM field, just like what the Strategy-as-Practice perspective did to the strategy process research.

Second, research related to HR devolution can be extended by considering a broader context. The terms "HR devolution" implies a power relationship and process in which the roles of managing people are transferred from more capable HR professionals downward to business line managers who are then equipped with a set of well-designed HRM practices and tools. However, this assumption is not always true as shown by the case study of ABC Company. Some organizations may have a very weak HRM infrastructure and want line managers to take on HRM roles. In other organizations, business line managers may be very effective in people management due to their experience in managing projects, in which managing people is a necessary part. The former situation is often found in start-ups and small and medium-sized enterprises, as well as in transition economies. The latter situation often occurs in professional service firms, where the challenge is to coordinate idiosyncratic people management activities in different units, despite their effectiveness, at the firm level to form a consistent one-firm policy. Therefore, more research is needed to tap into these various contexts. A more practical research question could be "how HRM functionality evolves in an organization over time to support its business growth and organizational development". The focus should be ideally on the integration of people management and business management, rather than being constrained by the current terminology, such as HR department or function, and its implied labor division and boundaries. This focus enables an organization to remain agile and avoid becoming bureaucratic over time.

Third, in order to fully examine the interaction of *praxis* and *practice* in (HR) management, future research can take an action research method to solve real problems for participating organizations. Action research can secure the commitment of participating organizations and get full access to data. This provides researchers with opportunities to examine the implementation of (HRM) strategies in real-world contexts that are often complex, test the validity and practicality of their theorizing and suggestions by receiving real-time feedback, and to revise their theorizing and testing to make a real impact.

5.4. CONCLUSIONS

This research examines what middle managers do to enact one new performance management practice in a Chinese asset appraisal company, and how these activities and processes unfold within internal and external environments to result in specific outcomes.

Applying Floyd and Wooldridge's (1992) typology of middle management involvement in strategy, middle managers are found to exhibit more Facilitating Adaptability activities, some Synthesizing Information and Implementing Deliberate Strategy activities, and no Championing Alternative activities. In other words, middle managers' activities were more divergent than integrative assuming that the strategic intent of the 2017 Practice was to build up a real output-based pay-for-performance culture to promote sustainable development. As indicated in Kehoe and Han's (2020) review of line managers' involvement in HRM, department heads are capable of exerting their agency to shape both the process and the content of HRM practices. In the terms of Kehoe and Han's (2020), when implementing the 2017 Practice, middle managers practiced mostly "translating" behaviors (i.e., refining the HR practice according to local condition), some "implementing" behaviors (i.e., enacting the HR practice as intended) and few "adapting/introducing" behaviors (i.e., explicitly modifying or replacing the HR practice).

Middle managers typically went through the processes of strategizing the 2017 Practice over four phases. At Phase-1, department heads experienced the shift from excitement to ambivalence when the positive prospects of the Practice was met by performance gap and polarization. At Phase-2, departments deviated from the Practice design to prioritize the department’s interests by adopting various business and people management strategies when seeing a divergence of interests between the department and the Company. Through Phase-3, departments reverted to pay egalitarianism to varying degrees to address the problem of insufficient business when seeing that the pay-for-performance principle was not strictly enforced by the company. At Phase-4, department heads experienced a crisis of identification and commitment when seeing two conflicting performance cultures coexist and the future remaining unclear. At the same time, the Company came to a strategic stalemate not knowing what to do with the 2017 Practice.

There are four working mechanisms that can explain why the strategizing of the 2017 Practice in ABC Company came to a strategic stalemate with a compromised performance and the co-existence of two conflicting performance cultures, both pay-for-performance and pay egalitarianism. These working mechanisms are best represented as four mismatches: (1) between the company’s goals and the strategy design, (2) between the strategy and human capital (including both ability and motivation), (3) between the organization and the strategy, and (4) a mismatch between sensemaking and sensegiving.

This Ph.D. research aims to identify and describe middle managers’ activities to enact one HRM strategy (the 2017 Practice) and their processes, and to explain their working mechanisms. This case study did not aim to identify or test “best practices”, or to provide the right answer to the examined problems. This is consistent with the research question and its theoretical foundations, including the realized strategy, Strategy-as-Practice, and a configurational approach to management practice, all of which emphasize the ideas that (1) what people do is more important than what the strategy plans; (2) the realized strategy emerges from the interaction between human actions and their contexts; and (3) the result of the interaction is dynamic, nonlinear and even unpredictable. This case study supports these ideas. The findings of the case study show that (HRM) strategies need to be designed and implemented in a way that fits their individual, organizational and institutional conditions. Attention should be paid not only to strategy contents but also to strategy processes and key players’ activities because strategy practitioners, especially middle managers, are able to exert human agency to shape what is actually implemented and how.

Therefore, it is advisable for strategy practitioners to focus more on developing dynamic capabilities to navigate change in real time, rather than obsessing over developing the perfect strategy or plan. To develop human capital and organizational dynamic capabilities, it takes a holistic view and systems thinking (Zhang & Boies, 2018) to integrate people management and business management, and it should be done organically from the outset as an organization evolves.

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APPENDICES

Appendix A: Interview Questions (for Middle Managers)

1. What is your opinion on the performance management practice that started in 2017 (including its content and implementation; for example, the reasons for launching, the expected goals, the effectiveness of the implementation process and outcome, etc.)?
   - 1.1. Since the introduction of the 2017 Practice, if you could describe your experience in one or two sentences, how would you describe it?
   - 1.2. At the beginning of the introduction of the 2017 Practice, how much did you personally support the Practice (1 represents the least; 10 represents the most)? Why?
   - 1.3. Do you still remember the overall process of launching this Practice (for example, how was it communicated at different levels within the company)?
2. If the 2017 Practice is analyzed in a larger context, how did the internal and external environmental factors of the company affect its formulation and implementation?
   - 2.1. Were there any key events that had a key impact?
   - 2.2. If possible, can you draw a timeline for me, listing the key turning points and events, explaining why they happened and what impact they had?
   - 2.3. How are these events related?
   - 2.4. Do you have any memorable experiences personally? What did you do?
3. To summarize briefly, what do you think were the main factors that led to the development of the Practice and its current results?
   - 3.1. Why?
   - 3.2. How did they work?
4. How has the promotion of the 2017 Practice affected different stakeholders?
   - 4.1. How has this affected your attitude and behavior in enacting the Practice?
   - 4.2. Why?
5. How would you define and describe your role throughout the process (for example, policy maker, executor, or something else)?
   - 5.1. How do the communication and interaction between the "maker" and "implementer" of the Practice affect the outcome and process of enacting the Practice?
   - 5.2. How has this affected your attitude and behavior in enacting the Practice?
   - 5.3. Why?
   - 5.4. In your company, what kind of approaches and procedures do you think are most effective (for example, top-down or bottom-up or other) in formulating and implementing strategic management practices like the 2017 Practice? Why?
6. How would you define and describe your company's organizational culture? How does this relate to performance management?
   - 6.1. How does the organizational culture affect the enactment of the 2017 Practice?
   - 6.2. How has this influenced your attitude and behavior in enacting the Practice?
   - 6.3. Why?
7. How would you define and describe your company's brand and professional image (in the eyes of clients, peers and employees)? How does this relate to performance management?
8. To sum up, what factors have influenced your attitude and behavior in participating in enacting the 2017 Practice?

9. How much would you support adjusting and refining the existing Practice? Why?
10. Do you have any specific suggestions for adjustment or refinement of the existing Practice?
    10.1. What main goal do you hope to achieve?
    10.2. Can you list the three areas most in need of change?
    10.3. Are there principles or content that must be maintained?
11. In your opinion, what is the relationship between people management and business management in asset appraisal organizations?
    11.1. How do you evaluate the work on people management in your company?
    11.2. Are there any issues or challenges in your department in terms of people management?
12. How is individual employees' performance appraisal conducted in your department?
    12.1. What is the specific content and process?
    12.2. Where is the difficulty?
    12.3. How do you understand the fairness of performance appraisal?
    12.4. How do you ensure that the work of employees in your department is evaluated objectively and fairly?
    12.5. Does this have anything to do with the 2017 Practice?
13. In your opinion, what was the most important factor that made your company succeed in the market? What is the biggest challenge for the future? What about at your departmental level?
14. The last question, to enact similar management practices in your company in the future, what suggestions do you have for different stakeholders?

Appendix B: Interview Questions (for Top Management Team Members)

1. How do you evaluate the performance management practice that started in 2017 (including its content and implementation)?
2. If the 2017 Practice is analyzed in a larger context, how did the internal and external environmental factors of the company affect its formulation and implementation? Were there any key events that had a key impact?
3. How has the implementation of the 2017 Practice affected different stakeholders? How did this situation affect your decision-making?
4. As (one of) the decision-makers, how determined were you to introduce this Practice? On a scale of 1-10 (1 being the least determined; 10 being the most), what would it be? Why?
5. If you consider adjusting or refining the existing Practice, how determined are you? Why?
6. If changes are to be made to the current Practice, what are your main goals? Can you list the three areas that most need to be changed? Are there principles or content that must be maintained?
7. In your company, what kind of approaches and procedures do you think are most effective (for example, top-down or bottom-up or other) in formulating and implementing strategic management practices like the 2017 Practice? Why?
8. In your opinion, what is the relationship between people management and business management in asset appraisal organizations? How do you evaluate the work on people management in your company?
9. How would you define and describe your company's brand and professional image? How does this relate to performance management?
10. How would you define and describe your company's organizational culture? How does this relate to performance management?
11. In your opinion, what was the most important factor that made your company succeed in the market? What is the biggest challenge for the future?
12. I have covered all my major questions, do you have anything to add, or any other thoughts/questions you want to share?

Appendix C: Interview Questions (for Lower-Level Employees)

1. Could you introduce how is your work performance evaluated at the department and/or company level?
   1.1. What are the specific content and procedures?
   1.2. Are you satisfied with the process and outcome (Is it fair? Does it meet your expectations)? Why?
   1.3. Do you have any suggestions?
2. What is your opinion on the performance management practice that started in 2017 (including its content and implementation; for example, the reasons for launching, the expected goals, the effectiveness of the implementation process and results, etc.)?
   2.1. Do you remember the overall process of launching this Practice (how did you start to feel that something was going on)?
   2.2. If you could describe your experience in one or two simple sentences, how would you describe it?
   2.3. How much do you personally support this Practice (1 being least support; 10 most)? Why?
   2.4. Do you have any memorable experiences/events personally? what did you do?
3. In your opinion, what are the main factors that determined the process and outcome of implementing this Practice? Why?
4. How has the promotion of the 2017 Practice affected different stakeholders? How has this affected your work attitude and behavior?
5. How would you define and describe your company's organizational culture? How has this affected your work attitude and behavior? Why?
6. How would you define and describe your company's brand and professional image (in the eyes of clients, peers and employees)? How has this affected your work attitude and behaviour? Why?
7. What attracts you the most to work for your company?
8. Would you recommend your relatives and friends to work for this company? Why?
9. What are your career development expectations?
10. What factors might have prompted you to leave your job?
11. Finally, do you have any expectations and suggestions for the company?
12. I have covered all my major questions. Do you have anything to add, or any other thoughts/questions you want to share?

Appendix D: Illustrative Quotes for the Four-Phase Processes of Strategizing

Four-Phase Processes of Strategizing	Illustrative Quotes
Phase 1 Short Honeymoon: From Excitement to Ambivalence	▪ The company wanted to make its pay management more reasonable. Under the original method… It was like "eating from one big pot". …it was tied a little bit with the projects you are doing this month and this year. However, it was not clear how they are connected and to what extent. It was vague. ▪ When individual income and project income are not connected, people will not have the cost awareness. We didn't have the awareness to control costs in the company. When competition is getting more intense, our charging power is getting weaker, and business revenues cannot grow at a high speed or even stagnate, it's necessary to reform the compensation system. I think it will have a positive impact on both shareholders and employees. ▪ Two or three years before 2017, the founder and then Director of the Board stepped down. We had fewer people before, and everyone's performance was very clear to the management's eyes and minds. We did not have clear clauses [in performance management]; that is, it was vague to us what each one did and how each performed. [This Practice] was to quantify [performance] and connect it with pay and promotion. ▪ The purpose was to make an adjustment to the old system of the original environments, hoping the firm grow bigger and stronger in the end for sure. As for the people, they would be paid more if they contribute more. When the firm grows, individuals also grow; when an individual grows, the firm grows as well. ▪ The contrast [between gain and loss] is sharp. There are two extremes. People who are really not competent have left, and so have those who are really talented. This has enhanced mobility, and I think our company's data in recent years has reflected it. For those high performers who left, they have higher expectations either for pay or for growth. ▪ I am definitely supportive of this Practice [mainly referring to the principle of pay-for-performance]. The key was that some detailed rules were needed at the time of implementation. ▪ The company encourages each business unit to work hard to create benefits by increasing profit levels while achieving departmental revenue targets. If the department achieves excess gross profit on the basis of achieving the revenue target during the annual performance appraisal, the company will extract part of the excess gross profit to reward the department.

Phase 2 Parochial Adaptation: From Interest Convergence to Divergence	▪ Our department is a beneficiary of this Practice, from which the income of myself and the employees in my department has increased significantly. To implement this Practice, a department needs to meet the performance evaluation indicators assigned by the company… The excess of the objectives will be distributed to employees as bonuses. It is up to the department to allocate the amount of the bonuses to individuals according to its own method. Of course, this amount will eventually be approved by the company. Generally, the proposal will not be revised, and the company will respect the department's opinion... Our department has been doing well in the past three years... Therefore, we appreciate this Practice a lot. ▪ This reform should have been enacted long ago… We should continue to do the right thing. ▪ This result [of performance] has to be considered in light of the history and situation of a department. It is relatively divided [among departments], good and bad [performance]. The good is [because of] the inheritance of the department history; [it's] just like the central army and the local army. You know what I mean? That is, the main force and the non-main force are not the same. The inheritance of history includes client accumulation and business development momentum. It will be relatively easier if you have that; of course, the dedication of the department head is a plus. ▪ As we provide transaction and M&A (merger and acquisition) services, this kind of enterprise [in cyclical industries] will be affected by the industry cycle... Another factor, except for the industry cycle, is regulations…. The state is strengthening the governance over the mining areas, including coal mines. I remember it's in Inner Mongolia, it is required to examine transactions backward for 20 years, [which increases our workloads significantly]. This is the influence of the entire business structure, which requires you both to maintain old clients and develop new clients because the business volume is not sufficient. The pressure is great. ▪ [This Practice] has an impact [on the work attitude and motivation of individuals]. In a one-size-fits-all situation, (its impact is great). In the very difficult times of my department, the Company took a one-size-fits-all approach. It's true that it can't give you another set of indicators either. As a result, we often find ourselves assigned objectives that are above the ceiling. We are on the first floor and the performance indicators are on the second floor. This demotivates people. There is no way to deliver it. This means that it doesn't make any difference to people's income improvement whether you are working 100% or 70% or 80%. ▪ In this situation [when the goal is really hard to accomplish], it's hard to move forward. The pressure all becomes my own. In fact, it has to do with the identification with the corporate culture we mentioned earlier. When facing a dilemma, if I break down

	performance indicators to employees, say I tell them that this is your tasks [regarding revenue and profit] and you have to accomplish them. They are willing to accomplish the tasks and they are also capable, but they will ask where is the business (source)? [Things got worse] due to governmental regulatory penalties. These things are beyond our control as middle managers, right? We have to develop enough business [to achieve these performance metrics]. ▪ My understanding is that the conflict has been shifted. It has been moved from the company level to the departmental level. Before, you were an employee of the company, no matter how much you earn, you would directly face the company's leader and ask, how did you make the decision on distribution and my income? How does it work now? If an employee is not happy with his/her income, he/she will ask the department head.
Phase 3 Reluctant Settlement: From One Big-Pot-Eating to a Few Smaller-But-Still-Big-Pot-Eating	▪ In that department, the department head will tell you what you will get when the project is completed at the very beginning of the project. They have done more detailed work than us (in objective management). ▪ If an employee has outstanding ability and the project that he/she is responsible for is difficult to manage, his/her income can be higher than that of the department leader. I will not necessarily earn more than him/her just because my position is higher than him/her. ▪ I will make differentiated allocation of departmental income considering employees' workload, work quality, fee collection, work attitude, cost control, business development ability, etc. ▪ Regarding assessing employees' performance, it's up to each department. In our department, it's just to assign performance metrics [according to departmental metrics], and then follow up, one project after another. Make dynamic adjustments to performance indicators every month and ask each person to compare [their performance with the indicators]. The most direct indicator is revenue collected…other indicators will be [mainly] cost budget. ▪ Performance appraisal is just according to projects [they have done] … I do not break down performance metrics. I don't need to give them an objective. Even though you assign one, it will not necessarily be completed. And the projects are supposed to come from you [i.e., the department head], right?... I just tell you that you will get more money if you do more projects. My income distribution is directly and strongly linked to the projects you do. So, if you say that you don't want to make so much money, it's okay, then you can do less. ▪ Business development objectives will not be assigned to lower-level employees [in my department]; however, if the client would like to renew a contract because of your good attitude or the good quality of your report, then you have improved customer retention, [which is

	part of business development]. ▪ So, once you start to calculate, there will be some frictions, contradictions, or disputes, although not necessarily confrontational. This kind of interaction somehow affected the enthusiasm of department heads... They want to complete the performance objectives, and if the performance exceeds the target, they will ask whether the extra effort has been rewarded accordingly. However, the 2017 Practice has only high-level principles and lacks detailed rules for implementation. In this case, it will be unavoidable to negotiate with the management when it comes to rewarding specific projects, and once conflicts of interest are in place, it's likely that each party emphasizes its own perspectives. ▪ We should not only talk about performance; we need to talk about motivation at the same time. ▪ In performance appraisal, we assess contributions to the company in terms of the business volume. However, the culture of our company has formed under such a system [with an emphasis on quality]. It has an inertia, so sometimes I'm confused. What do you do with this kind of thing, maybe young people can accept it easily, but it's hard for our generation. ▪ Company leaders always say that we do not give priority based on seniority, but in fact, it does exist sometimes. ▪ "Eating-from-one-big-pot" has its own benefits. For example, it makes it possible for those work that are necessary but cannot be charged from clients to be assigned to someone. Or, for those projects with very low margins, you can still find someone who would like to undertake it. If you distribute income strictly based on each person's earned revenue, then no one will want to take part in those work [which are non-billable or less profitable]. This [pure pay-for-performance practice] is not conducive to the harmony of the team, and the service to customers will also be compromised. ▪ I don't want to link employees' performance directly with their working hours. It will be good enough if they can complete a project in an efficient way. I don't want you to work too hard every day and won't be able to enjoy your personal life. That way just won't be sustainable. ▪ Another thing is, for those departments whose business performance is not very good, [they] should find a way to catch up. Otherwise, it will be affecting shareholders' benefits. In this case, I think, shareholders will compensate those loss from those [high performing] departments like ours. ▪ Without penalties, you get no sources for rewards.
Phase 4 Strategic Stalemate: Back to The Drawing	▪ We all know that the gross profit margin of the industry is declining year by year, which is caused by competition… After the deregulation, many real estate companies, [who were not allowed to

Board Wondering Who We Are Becoming	conduct asset appraisal business before the deregulation], now also do appraisal business. In addition, no special verification is required anymore to engage in securities market related businesses. ▪ But in recent years, the social status [of a CPV] is not particularly high… They think [that our work is subjective and] we can give a valuation as we wish... To order the importance [of the three elements], social recognition is the most important, income is the second, and work-life balance is the third… Some people will put income first. ▪ Some departments are not active or responsive to business opportunities even under the Company's recommendation. ▪ We have no means to address those underperforming departments. ▪ We're too harmonious, not wolfish enough. Adhering to quality first is indeed a bit of a disadvantage under the current market conditions, but we have no plans to change. ▪ When you earn the same level of revenue, your gross profit will be lower [comparing with those who conduct less procedures]. But you do not have an option... The market basically does not allow you much brand premium… But we cannot lower our quality just because of that. Because you want a long-term development, you must have credibility. The credibility is reflected in the quality of your reports. Therefore, it is definitely no problem to emphasize quality; the question is whether there is a more efficient way to achieve this goal. ▪ It's not realistic to rely only on shareholders to develop businesses. ▪ Developing businesses should be handled by professionals who have relevant skills. ▪ In my opinion, the difficult point is to balance project assignment, giving which project to whom…the fairness in project assignment? It is hard to answer; if the measures at the company level are not fair, then those at the department level would be definitely unfair. I can only choose to think it is fair at the company level. ▪ Other companies only charge XX% [administrative fee]. ▪ Some people are highly able, but when the business volume of some departments is not full, he/she may become redundant. The income is not high, and then he/she may quit. However, how to reasonably make full use of the company's human resources, I feel that there is no such mechanism. We generally don't use people from other departments, or very rarely. Then some may be very busy while others may have nothing to do. ▪ One more thing is the need for more professional HRM. … there must be professional high-end HR people who are familiar with the characteristics of this industry. We made this proposal several years ago, constructive suggestions. I have stopped suggesting this for a few years because I think the leaders all know about it whether you mention it or not. ▪ It is because there is no way to enforce punishment, so there is no way to enforce rewards.

	▪ We need to distinguish projects according to their characteristics, such as size and sector, to differentiate the revenue-splitting ratio. We all know that the gross profit rate of large projects is low, and the gross profit rate of small projects is high. Another thing is, the source of customers/projects, some of which are developed by the department itself and some are allocated to departments by shareholders. There is no [extra] reward to [projects developed by the department]. It is unreasonable to take one single ratio [for all projects]. ▪ After implementing this performance management, departments have shown different characteristics… Their projects are characterized by light assets and short project cycle. Our projects, however, are the opposite; we're actually taking the risk and pressure [during the early stage of a project]. It is especially hard if you taste the bitter after the sweet… departments have been differentiated [in pay level]. We will be relatively lower, and others will be higher. Tell me how to reassign the projects, how to balance [interests], this is not easy to rectify. ▪ As we know, it is people that serve clients and it is people that develop markets; then, I think, our company should have a better plan in building up talent pipelines. [This is] because some are suitable for developing the markets, some are suitable for doing management, and others are suitable for delivering projects. This kind of clarity [in career path] is lacking. Although we have promotion policies, the paths are not very clear. If you look at an accounting firm, one will have an expectation to become a partner. Our company, however, is still a limited liability company; we have no partners. In this case, one does not feel much difference whether he/she is a project manager or a senior manager.